

# Trade Talk



SPRING 2010

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Tom Monahan

## A message from our CEO

On April 1, 2010, the sale of our corporate trust business to BNY Mellon, our U.S. parent company, officially closed.

I believe that this is a strong step forward in strategically aligning CIBC Mellon around its asset servicing business, and I would like to highlight a few specifics about the transaction.

“Corporate trust” refers to our debt trusteeship offering and its related services provided through CIBC Mellon Trust Company. Overall, this part of our business was a small one (representing less than four per cent of our total revenue).

When the merger between Mellon Financial Corporation and The Bank of New York occurred in 2007, the only overlap between the two companies in Canada was the corporate trust businesses of CIBC Mellon and BNY Mellon. Since the merger it has been our intent to streamline these businesses under one provider. Given BNY Mellon’s position as the leading provider of corporate trust services in the world, and its long-term relationship as one of our parent companies, BNY Mellon’s acquisition of our debt trusteeship offering is the natural strategic move to streamline these services in Canada.

The CIBC Mellon joint venture between CIBC and BNY Mellon remains very strong. Bob Kelly, chairman and chief executive officer of BNY Mellon, reinforced its strengths in an interview with the Business News Network’s Howard Green shortly after the corporate trust transaction took place. Gerry McCaughey, president and chief executive officer of CIBC, recently cited the CIBC Mellon joint venture as an example of how CIBC has been able to grow its business during his remarks to shareholders at CIBC’s annual general meeting.

## A message from our CEO (cont'd)

The sale of our corporate trust services business allows us to further focus on delivering a market-leading asset servicing experience for our clients.

We are ramping up our asset servicing client information sessions and looking at new and innovative ways to provide you with the latest insights on industry trends and developments. We are exploring new products that can help increase your productivity. Delivering exceptional support remains the backbone of our client service approach and we are dedicated to continually strengthening our service levels to meet your evolving needs.

These are exciting times for CIBC Mellon and for you, our valued clients. We look forward to continuing to working closely with you to help you achieve your growth objectives.

A handwritten signature in black ink, appearing to read "Tom", with a horizontal line underneath.

*Tom Monahan, president and chief executive officer*

# CIBC Mellon's readiness for G-20 Summit

This upcoming G-20 Summit is being hosted in the Metro Toronto Convention Centre on June 26 & 27. The theme of Toronto's Summit is "Recovery and New Beginnings" and the G-20 members will focus on topics including recovery from the financial crisis and will work collaboratively to implement initiatives from past Summits aimed at sustaining growth.

Although the G-20 will be an exciting time to showcase Canada's leadership on the world stage, significant crowds are expected to gather which will bring heightened security in the downtown core during this time.

As a CIBC Mellon client, you can be confident that our people, systems and technologies will be well-prepared for this event. We have developed comprehensive G-20 Summit readiness and business recovery plans focused on ensuring that we continue to deliver the high level of service and operational excellence that you expect from CIBC Mellon during the weeks surrounding the G-20.

Our preparations for the G-20 include:

- A G-20 planning team that is preparing all areas of our company.
- A dedicated G-20 information centre to help every CIBC Mellon employee clearly understand how to maintain high service levels and security during the Summit.
- Additional onsite security at our Toronto offices.
- Full redundancy capability from our offsite business continuity and backup processing centre - which includes workstations exclusively reserved for our use 24/7 and direct links to BNY Mellon processing centres, CIBC systems, the Canadian Depository for Securities and all third-party providers - in addition to our five offices in other Canadian cities which have the capabilities to conduct certain critical business functions.
- Recovery tests and exercises to further prepare our people, systems and third-party providers to respond rapidly and effectively during unforeseen situations.
- A communication process that will be followed to direct critical communications to clients and business partners as necessary.

If you have any questions about our business continuity programs or our G-20 Summit preparations, please contact your relationship manager or client services representative.

*By James Dennison, vice president and chief risk officer, risk management*





## How far, how fast?

An upgraded outlook for the Canadian economy this year, with real growth of roughly 3 per cent including a brisk first half, has made the resumption of interest rate hikes this summer appear to be an odds-on bet. So, now the issue for investors isn't when, but how far and how fast the Bank of Canada will go.

There's only one argument we can see for a steep climb in interest rates, namely, that rates are starting from record low levels, leaving a lot of work to do to return to even neutral yields. It's indeed likely that at some point overnight rates in the coming cycle will be back to at least 4 per cent. But against that one dimensional case for a rapid run-up are many more good reasons why the Bank of Canada should, and will, opt to break it to us gently in terms of the pace of rate hikes ahead.

First, there's the fact that the U.S. Federal Reserve remains on hold for an "extended period" that could stretch into early 2011. Pushing the Canada-U.S. rate spread too wide risks sending the Canadian dollar to record heights and crushing manufacturing in the process. And if the Fed isn't in a hurry, maybe that tells us something about the risks that Bernanke and his team still see in the global outlook.

Second, there's still a decent cushion against inflation from a still-high unemployment rate and lots of idle capacity, as well as from the dampening impact of a strong Loonie on import prices.

Finally, there are other forces that will help take the place of rate hikes in moderating growth and preventing an inflationary overheating. Both a 2011 tightening of fiscal policy in Canada and abroad, and sterner global regulations on bank capital and leverage, will create economic headwinds next year. Record levels of household debt relative to income also mean that each rate hike will bite much harder on Canadians' spending power than in the past.

Add it all up, and we don't see overnight rates going any higher than 2.5 per cent through 2011. That's still a far cry from where we are now, and the bond market will sell off anticipating something worse as the first hikes hit.

But for equity markets, a soft climb in rates shouldn't prove too problematic. History shows that in the vast majority of cases, the first six months after the Bank of Canada starts raising rates equity markets show decent returns on stocks, helped by the associated climb in earnings during that stage of the cycle.

*By Avery Shenfeld, managing director and chief economist, CIBC World Markets Inc.  
May 10, 2010*



# Economic update

We expect a sustained global expansion at a real GDP growth rate of 4 per cent to 4.5 per cent for both 2010 and 2011, with financially strong countries leading and “debt hangover” countries growing more tentatively. We continue to expect the U.S. economy to grow at about a 3 per cent to 4 per cent pace in 2010 and 2011. The financial crisis and recession generated a downside synchronization of the world’s economies and now the resulting policy stimulus has generated an upside synchronization of the world’s economies. The dramatic upward shift in the economic consensus over the last year is illustrated by the rise in IMF forecasts in its World Economic Outlook between the April 2009 issue and the April 2010 issue, with the estimates for real GDP growth in 2010 rising from 1.9 per cent to 4.2 percent for the world economy, rising from 4.0 per cent to 6.3 per cent for the emerging and developing economies and rising from zero to 3.1 per cent for the U.S. economy.

The strongest economies in 2010 and 2011 should be those with three characteristics: (1) public policy which places the highest priority on economic growth relative to other objectives, (2) no significant debt overhang and (3) rising productivity of the workforce due to the diffusion of modern technology and business practices. This would include some of the largest emerging market countries.

*By Richard B. Hoey, chief economist, BNY Mellon  
April 28, 2010*

*This report represents the general economic overviews of Mr. Richard Hoey, chief economist, BNY Mellon, and does not constitute investment advice, nor should it be considered predictive of any future market performance.*

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# Spotlight on Pan Asian securities lending conference with Rob Chiuch

Earlier this spring, Rob Chiuch, executive director and head of trading, global securities lending at CIBC Mellon and president of the Canadian Securities Lending Association (CASLA), represented CASLA at the seventh annual Pan Asian Securities Lending Association's (PASLA) conference in Hong Kong.

The conference provided an opportunity for securities lending experts and industry participants from around the world to share best practices and provide their perspectives on many issues that the industry faces in today's markets, ranging from risk, reward, liquidity and taxes, and the challenges facing the financial industry in the future.

Rob participated in a securities lending expert panel discussion with representatives from PASLA, the Australian Securities Lending Association (ASLA), the Risk Management Association's Committee on Securities Lending (RMA) and the International Securities Lending Association (ISLA).

In this article, Rob discusses highlights of the conference, the expert panel and his thoughts on CASLA and current market situations.

## **What were some of the important topics discussed at the conference?**

Some discussions that were particularly noteworthy included an International Organization of Securities Commissions (IOSCO) update on financial market regulation. Market participants and regulators shared views on supervision, regulatory coordination, pending rules and legislation. More specifically, there appeared to be general consensus (consistent with a more global view) regarding heightened sensitivity around issues including contract performance, stress testing, counterpart selection and evolving settlement procedures.

Of particular concern was the emerging rush to global legislative changes and potential misalignment between jurisdictions. It's clear that alignment of objectives and good communication between stakeholders has never been more important.

## **What was the benefit of gathering international securities lending associations together?**

This conference provided a forum for industry leaders across the world to meet and discuss best practices, learn from one another's experiences and build relationships between participants that will encourage future collaboration. CASLA (the first Canadian organization of its kind) was able to showcase itself as an advocate in the Canadian marketplace. It provided a great opportunity to showcase our mission of ensuring the long-term viability of the Canadian securities lending industry.

# Spotlight on Pan Asian securities lending conference with Rob Chiuch (cont'd)

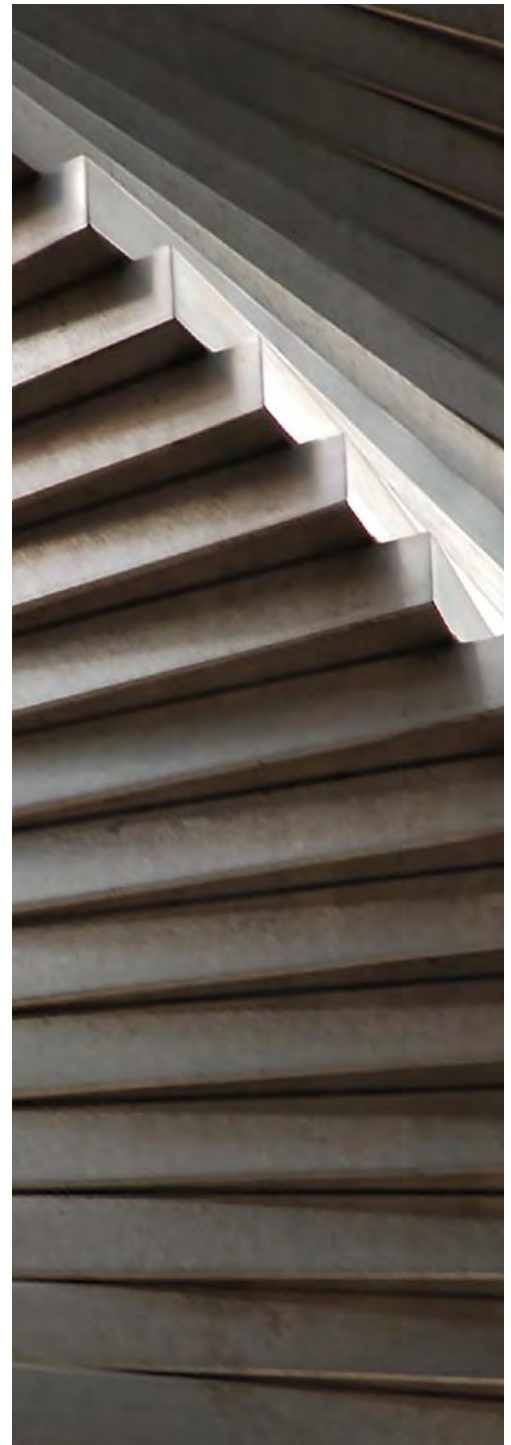
It also gave us the opportunity to highlight CASLA's organizational model. CASLA took a new approach by deliberately seeking out a wider breadth of indirect industry representation for its executive and sub-committee members, with the intent of finding a greater and more robust span of expertise and viewpoints. CASLA includes external professionals in the legal, tax and regulatory fields. Our approach to creating an association in this fashion was well-received among the other established securities lending associations, and some shared an interest in following this model in the future.

## **What specific observations and projections did the panel speak to?**

There was general consensus that Pan Asian markets are rebounding, with growing evidence that participants are again expanding their programs. There are signs of life in initial public offerings, mergers and acquisitions, product development, capital spending and hiring - in many cases geared at least in part towards China.

The velocity of legal and regulatory change in global capital markets businesses implies a growing complexity that highlights the need for education and transparency. All panellists shared views that media and politics cannot be ignored. The need for associations to align globally and coordinate their efforts in a clear and thoughtful way could not be overstated. Last but not least, it was a proud moment when the moderator highlighted Canada as, currently, one of the best performing securities lending markets in the world - a notion with which I do not disagree.

*By Rob Chiuch, executive director and head of trading, global securities lending*



# Realizing value in asset servicing

Memories of the credit crisis will not fade quickly. Events in 2008 shook the financial system to its core and have raised fundamental questions about the ability of market participants to quantify, predict, and control risk.

Pension funds are now repositioning themselves to reduce risk and volatility and sponsors are seeking to insulate themselves from market shocks in the future. Asset servicing providers (commonly known as custodians) are well-positioned to assist pension funds in this process, by offering:

- Greater insight into a fund's investment performance and risk
- Services to monitor investment mandate compliance
- Transparency and return enhancement opportunities in securities lending

## **De-risking Plans**

Pension funds are also repositioning themselves for the future by taking another look at their long-term investment strategies. Shifts in asset allocation will bring some important asset servicing implications.

For instance, if a fund changes investment managers, pension funds can reduce trading costs and operational risk by using a transition management service. Certain transition managers can also help funds when they need to liquidate pools of distressed securities or achieve synthetic exposure to a market when an outright sale is impractical.

Pension funds will also make greater use of derivatives and alternative investments as they manage volatility and seek non-correlated market returns. Asset servicing providers are developing new capabilities that can help them control counter-party and other operational risks in derivative transactions.

Unfortunately, the demand for stronger governance is driving up administrative complexity at a time when pension funds face intense cost sensitivity. After all, pension fund executives are making crucial investment decisions and need to reduce their administrative workload.

Asset servicing providers are in a good position to help pension funds owing to their sustained focus on operational excellence, processing scale, and continuous investment in best-in-class systems. There is much discussion about impending regulatory change in the wake of the credit crisis and this will also increase workloads for pension funds.

Pension funds can assess their provider's ability to respond to regulatory change by investigating how they are responding to changes such as IFRS. Asset servicing providers are stepping up to support pension funds as they seek a new balance of risk and return. The industry is increasingly supporting entry into new asset classes, controlling administrative costs, optimizing returns, and providing insightful analysis.

As they seek to enhance returns, funds need providers that can help them administer and monitor all asset classes including alternatives. They must also actively monitor and maximize their available cash resources by looking for real-time cash reporting or other tools that help them manage cash.

## Realizing value in asset servicing (cont'd)

They are also looking to protect themselves against currency risks by hiring overlay managers or by entrusting the administration of these programs to their asset servicing provider.

### **Securities Lending Turns Corner**

In 2008, there was uncertainty and loss throughout the securities and investment industry. At the time, securities lending garnered some negative attention through the temporary (and possibly misdiagnosed) restrictions on short selling and the Lehman Brothers bankruptcy that triggered the industry's first borrower default.

By contrast, 2009 brought a growing sense of confidence in securities lending. It had proven itself to be a professional, secure, and well-managed industry which is dedicated to enhancing transparency for sponsors. There were two key developments:

- The industry formed the Canadian Securities Lending Association (CASLA) to advocate for industry participants including pension funds. CASLA's mission is to enhance transparency, promote awareness of the benefits of securities lending, ensure a secure and efficient marketplace, and promote greater cooperation between market participants and regulators.
- In its December 2009 Financial System Review, the Bank of Canada identified securities lending as a small but important "core funding market." As such, it provides "essential funding liquidity to financial institutions and market-makers, the key providers of liquidity to the financial system."

### **Shining A Light**

Transparency in securities lending is crucial as pension sponsors manage enterprise-wide risk. They must have open communication with their agent lenders to fully understand how the program is managed for value creation and risk reduction.

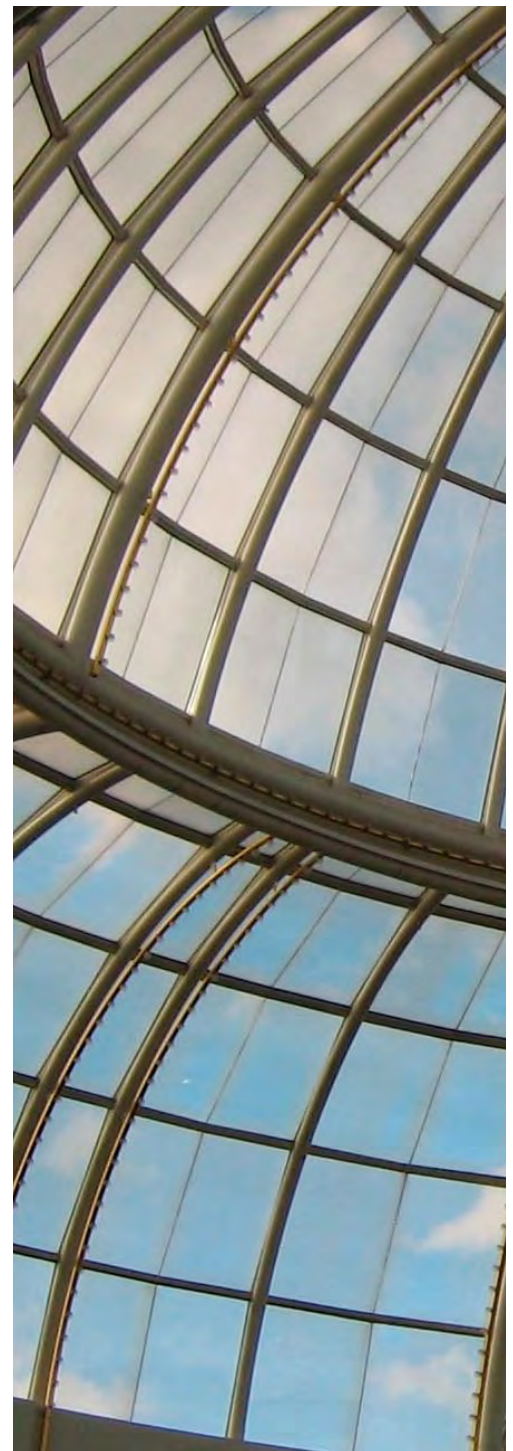
We predict that the use of cash collateral will grow in Canada in coming years as sponsors seek greater returns. Although cash collateral is relatively new to many Canadian plans, it is the most popular form of collateral used around the world.

Cash collateral provides sponsors with opportunities to earn incremental income, beyond the intrinsic value of each loan, through reinvestment of cash collateral. Pension funds should look for conservatively managed programs, with strong risk management practices and a strong performance track-record throughout the credit crisis.

Pension funds are working very closely with their corporate parents, investment managers, and consultants to help them solve long-term strategic issues and to deliver against the growing liabilities of an aging workforce. Asset servicing providers are valuable partners that are helping pension funds to reduce the noise generated by greater administration, control operational risk and cost, and meet their long-term growth objectives.

*By David S. Linds, senior vice president, business development and client relationship management*

*\* Reprinted with permission from Benefits & Pensions Monitor, February edition*



# Highlights from the 2010 Workbench user forum

In mid-April, CIBC Mellon hosted its spring 2010 Workbench user forum breakfast session at the TMX Broadcast Centre in Toronto. The forum focused on a presentation of the Workbench roadmap and a summary of the results from our 2009 Workbench user survey.

The forum also provided users with valuable tips and information on how they can enhance their Workbench experience.

Steve Boor, managing director of global information delivery products at BNY Mellon Asset Servicing, kicked off the session with highlights of upcoming enhancements to the Workbench web-based reporting platform. This includes improvements to the report menu (new custom binders for managing your favourite reports) and delegated user administration which will allow clients to request new users online and assign accounts without having to contact CIBC Mellon for support.

Steve demonstrated a new “interactive reporting” feature live on the Workbench site. This is scheduled for release later this year and it will give users the ability to customize their reports with functions such as customized columns, drill-down charts, search and sort capability along with custom Adobe Acrobat (PDF) and Microsoft Excel (XLS) output formats.

We would like to thank our clients who responded to our Workbench client user survey which we conducted last fall. Your participation provided us with strong feedback for how we can enhance our support services. We took the opportunity to share some of the survey results during the forum:

- Training in the use of our applications is considered to be very important to users. Based on this feedback we are offering more targeted and timely sessions – both onsite and via WebEx.
- Clients also told us that call-answer performance is critical and we are in the process of upgrading our equipment and procedures to provide an even better service.

The morning wrapped up with some live Workbench demonstrations on a variety of topics of interest and with a networking and Q&A session with our client managers and support staff. The session was well received by those in attendance.

For more information about specifics discussed at this event or to learn how you can enhance your Workbench experience, please contact your relationship manager or the Workbench support desk.

*By Jim Atkinson, assistant vice president, client integration solutions*



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