

CIBC MELLON



BNY MELLON



# *Stability, Resilience and Innovation: Canada in Focus*

## Sibos 2020 Feature Article for Asset Servicing Times

NOVEMBER 2020



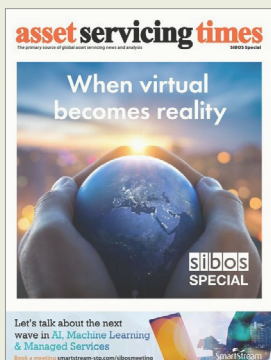


**BY LLOYD SEBASTIAN**

**Vice President,  
Global Financial Institutions**

Lloyd Sebastian is Vice President, Global Financial Institutions at CIBC Mellon. Lloyd is responsible for the overall direction and service delivery for Canadian custody and clearance for CIBC Mellon's Global Financial Institutions segment. Lloyd has more than 30 years of financial services experience, particularly in the areas of client service and relationship management, business development, operations, risk management and strategic initiatives.

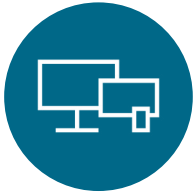
This article originally appeared in the **2020 SIBOS special edition of Asset Servicing Times**.



As we connect with global market participants virtually at Sibos 2020, Canada continues to hold a strong position among institutional investors on the world stage, showcasing the strength of our six big banks, sophisticated pension managers, leading asset managers, growing insurance sponsors and other financial market stakeholders.

Canada's financial sector is characterized by robust and mature markets, marked by stability and transparency, proven infrastructure and efficient settlement mechanisms and an effective regulatory environment. Also central to this confidence is a culture of participants' prudent risk management and innovation. For global financial institutions and investors that wish to capitalize, Canada makes a strong argument.

Global investors into Canada continue to recognize the country's many advantages, including our highly-skilled, well-educated and diverse workforce, status as a hub for technological innovation and advanced infrastructure. According to The Economist Intelligence Unit, Canada retains first place in its [regional rank](#) of G7 countries for the best business environment. Indeed, Canada offers an array of [incentive and support programs](#) to enable global investment, including an Accelerated Investment Incentive, Strategic Innovation Fund and an Innovation Superclusters Initiative to name a few.



#### TECHNOLOGICAL ADVANCEMENTS

Toronto, Canada is home to [MaRS](#), North America's largest urban innovation hub. MaRS is a launchpad for startups, a platform for researchers and a home to innovators.

In alignment with this year's Sibos theme, driving the evolution of smart finance, Canada's financial industry is seeking continuous improvement while augmenting technology and data.

Payments Canada is marching ahead with its multi-year journey to [modernize Canada's core payments infrastructure](#). Its vision is to build a modern payments system that is fast, flexible, secure and promotes innovation. As such, the platform for Canada's [large value transaction system \(LVTS\)](#) is targeted to be migrated over to its replacement, Lynx in Q3 2021. This upcoming change should enhance the SWIFT processing of payments and benefit processing for participants as Lynx will be a true real-time gross settlement system, helping to enhance the speed and efficiency of clearing Canadian dollar payments. Lynx will be capable of processing the [ISO 20022](#) global financial messaging standard, enabling the clearing and settlement of data-rich payments among financial institutions worldwide.

Efforts are underway by TMX-CDS for the [Post Trade Modernization \(PTM\) Project](#), a new technology platform for Canadian market infrastructure. It is designed to deliver an integrated technology platform for the TMX-CDS systems, including: clearing, settlement, depository, corporate actions, and improved security standards, while driving greater efficiency, flexibility and responsiveness. Canadian Depository for Securities (CDS) will continue to engage participants, such as through industry committees and working groups, which CIBC Mellon actively participates on. Implementation of the PTM Project is scheduled for Q4 2021.

For many institutional investors, technology is viewed as a range of solutions and expertise rather than a single choice imposed by a vendor. In keeping with our global enterprise, CIBC Mellon is enabling an [open architecture strategy](#) designed to provide institutional investors with the flexibility to choose best-in-class systems for their investment activities and capture insights from a wide variety of data sources. The support of robust analytical tools can also be beneficial on the front lines of risk management. An open architecture model can even pave the way for a gradual transition for asset owners and asset managers alike to evolve their operational model.

On September 15, 2020, Canada's Office of the Superintendent of Financial Institutions (OSFI) [launched a three-month consultation](#) with the publication of a discussion paper, "[Developing financial sector resilience in a digital world](#)" and [an infographic](#) that identifies five focus areas that can contribute to the effective management of third-party risk. OSFI's paper highlights risks arising from rapid technological advancement and digitalization, as these trends impact the stability of the Canadian financial sector. OSFI notes that the pace of change has only sped up since the pandemic began.




## CANADIAN TAX UPDATES

On April 20, 2020, the Canada Revenue Agency released its revised guidance on the [Foreign Account Tax Compliance Act](#) (FATCA) and the [Common Reporting Standard](#) (CRS), respectively. The revised guidance has the potential to impact Canadian financial institutions' and/or their clients' operations, reporting and tax compliance programs. For example, there are new penalties listed in the respective FATCA and CRS revised guidance if a Canadian financial institution fails to obtain a self-certification when required on or after January 1, 2021. The revised FATCA guidance contains some modifications, including for obtaining self-certifications upon account opening, and for reporting undocumented accounts.

In response to challenges related to the COVID-19 pandemic, [Canadian tax authorities](#) developed some significant tax measures to support Canadians and businesses. For instance, for FATCA and CRS information returns, the filing deadlines for Part XVIII (FATCA) and Part XIX (CRS) returns were extended to September 1, 2020. In addition, no penalty will apply for failure to obtain a self-certification on financial accounts opened before January 1, 2021.

A key aspect of global investing is navigating [the various tax rules and regulatory requirements across foreign markets](#). It is very important for foreign investors to perform a periodic review of the tax requirements with their tax advisors, custodian and other stakeholders as the existing tax rules and requirements keep changing. New tax regulations and requirements are released by the tax authorities in different jurisdictions periodically that may impact both existing investors and new investors. A strong asset servicing provider works to adjust processes in response to global regulatory and industry changes and their potential implications to the local market.



Canada continues to hold a strong position among institutional investors on the world stage, showcasing the strength of our six big banks, sophisticated pension managers, leading asset managers, growing insurance sponsors and other financial market stakeholders.



Global investors into Canada continue to recognize the country's many advantages, including our highly-skilled, well-educated and diverse workforce, status as a hub for technological innovation and advanced infrastructure.



#### CANADA'S REGULATORY ENVIRONMENT

Canada's regulatory structure is relatively complex, consisting of provincial regulators, federal regulators and industry self-regulatory organizations. Jurisdictions participating in the Cooperative Capital Markets Regulatory (CCMR) System [continue to work together towards implementation](#) of the CCMR, with the overall goal of modernizing Canada's capital markets, making them more competitive and better protecting investors. Participating jurisdictions of this long-term initiative are reviewing timelines for the launch of the Cooperative System to support a smooth and secure transition for market participants.

As part of global financial institutions' phasing-out of the London Interbank Offered Rate (LIBOR), and other unsecured interest rates, various regulatory authorities have announced [support in favour of rates based on actual underlying transaction rates](#). As of June 15, 2020, the Bank of Canada (BoC) has taken on the role of publishing the latest data for the Canadian Overnight Repo Rate Average (CORRA), Canada's replacement rate. According to the BoC, CORRA measures the cost of overnight general collateral funding in Canadian dollars using Government of Canada treasury bills and bonds as collateral for repurchase transactions. The Bank provides Canada's risk-free benchmark rate to users and data distributors [on its website](#).



#### CANADIAN PENSION INDUSTRY TRENDS

Canada's pension plans have a long history of leadership in alternative and private investment and with incorporating responsible investment strategies and environmental, social and governance factors — with a progressively prominent role in the global investment community — and their style is increasingly recognized globally as “the Canadian model.” An important aspect that distinguishes Canadian investors from others in the pension space is a strong capacity for innovation and dexterity.

There is growing interest from asset owners in establishing direct investment plans, and even evolving into asset managers themselves, merging in other smaller plans, managing funds on behalf of other plans as well as other institutional investors. Canadian plans have a stronger focus on direct and co-investment strategies than most other institutions. Canadian institutions are already among the world's most admired and influential and they appear set to retain that status in the years to come.



## THE CANADIAN MARKET AMID A GLOBAL PANDEMIC

Canada's financial markets shared in the significant disruption triggered by the global COVID-19 pandemic. The market correction that followed from the onset of COVID-19, during the peak period of March 2020, saw tremendous volatility and extremely high volumes of investment operations. This came in concert with profound operational transition which saw financial institutions adapting and expanding remote work environments and business continuity actions, while also handling an unusually high spike in volume.

Canada also shared the experience of unprecedented measures in response to the crisis. Canadian governments at the federal and provincial level stepped in with an array of relief measures to support individuals, businesses and the broader economy through the pandemic while working to "flatten the pandemic curve."

The Bank of Canada (BoC) reduced its benchmark lending rate through a series of rate cuts during March 2020 in response to the pandemic. Other stabilizing measures were also launched by the BoC in order to support and uphold the stability and functioning of Canada's financial system. For example, the BoC [established several large-scale asset purchase programs](#) to help increase liquidity. With those measures, Canada's financial system remained stable during the height of volatility and continues to properly function in the "new normal."

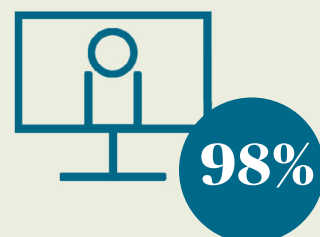
From a market infrastructure perspective, our CDS central securities depository temporarily closed its window services for physical securities processing on March 19, 2020, in consideration of the states of emergency declared by several Canadian provincial jurisdictions in response to COVID-19, though the CDS business continues to remain fully operational. The window services will remain closed until further notice. CDS continues to monitor the current situation and they will provide an update to participants at the appropriate time. Amid this closure, CIBC Mellon - and some other local providers - continue to accept physical settlements and deliveries. Canada's industry associations and regulators have taken the view that short-selling is part of the sophisticated market. Unlike some other jurisdictions that decided to ban short-selling outright or on certain asset classes temporarily, Canadian regulators did not seek to ban short-selling during the extreme market volatility experienced in March of this year, when the pandemic was first declared.

Federal financial services regulator, OSFI continues to publish [FAQs for each sector that it oversees](#) that addresses common questions on OSFI's COVID-19 related regulatory adjustments, which are designed to support the financial and operational resilience of federally regulated financial institutions and private pension plans, contributing to the stability of the Canadian financial system.

OSFI announced on August 31, 2020 that it is [unwinding some of the temporary measures](#) put in place at the start of the global pandemic. In addition to lifting the temporary freeze on portability transfers, OSFI plans on gradually phasing out the special capital treatment of loan and insurance premium payment deferrals that was provided to banks and insurers. Further, OSFI notes that institutions and private pension plans have demonstrated their resilience and continue to adapt their risk management tools, operations, and processes to the current environment.



The Canadian market is buoyed by its strength, stability and transparency and Canada still holds on to its fundamental character for which it is recognized globally.



CIBC Mellon responded to the pandemic by rapidly transitioning more than 98% of its workforce to remote arrangements – a stance we intend to maintain through 2020 as we deliver on obligations.

## LOCAL PRESENCE MATTERS

Global investors into Canada should expect on-the-ground expertise, dependable execution and local knowledgeable insights, with notifications on key changes and local regulations in Canada, and clarification on documentation requirements to help navigate the complexities of the Canadian marketplace.

Global investors and market participants in Canada continue to focus on risk mitigation measures, new technology and modern architecture. The Canadian market is buoyed by its strength, stability and transparency and Canada still holds on to its fundamental character for which it is recognized globally. While 2020 has been a challenging year for markets, investment operations and for many individuals, market participants and stakeholders have worked hard to deliver on the fundamental themes that distinguish Canada: confidence, stability and innovation. We will continue to welcome the world (virtually) as global investors recognize the Canadian market opportunity.



## For more information

Contact Lloyd Sebastian at 416-643-5437, your Relationship Executive, Service Director or Corporate Communications at [corporate\\_communications@cibcmellon.com](mailto:corporate_communications@cibcmellon.com) or call us at 416-643-5000.

**CIBC MELLON**

➤ A BNY MELLON AND CIBC JOINT VENTURE COMPANY<sup>SM</sup>

[www.cibcmellon.com](http://www.cibcmellon.com)

©2020 CIBC Mellon. CIBC Mellon is a licensed user of the CIBC trade-mark and certain BNY Mellon trade-marks, is the corporate brand of CIBC Mellon Trust Company and CIBC Mellon Global Securities Services Company and may be used as a generic term to reference either or both companies.

 **BNY MELLON**

[www.bnymellon.com](http://www.bnymellon.com)

©2020 The Bank of New York Mellon Corporation. All rights reserved.

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may be used as a generic term to reference the corporation as a whole and/or its various subsidiaries generally. Products and services may be provided under various brand names in various countries by duly authorized and regulated subsidiaries, affiliates, and joint ventures of The Bank of New York Mellon Corporation. Not all products and services are offered in all countries.

BNY Mellon will not be responsible for updating any information contained within this material and opinions and information contained herein are subject to change without notice.

BNY Mellon assumes no direct or consequential liability for any errors in or reliance upon this material. This material may not be reproduced or disseminated in any form without the express prior written permission of BNY Mellon.



[www.cibc.com](http://www.cibc.com)

The CIBC logo is a trademark of CIBC, used under license. All other trademarks are owned by their respective trademark owners.