REPORTING ON CIBC MELLON INITIATIVES AND DEVELOPMENTS WITHIN THE SECURITIES INDUSTRY

Trade Talk

CIBC MELLON

FALL 2010

IN THIS ISSUE...

Tom Monahan

A message from our CEO

A growing number of global financial institutions and governments are looking to invest north of the 49th parallel. It is well-recognized that Canada has abundant natural resources and a strong banking sector, which are drawing investment allure from those whose investment strategies are geared towards these areas.

But where do you start if your institution is new to the Canadian market or is looking at growing its investments in the country?

Partnering with an asset servicing provider with deep knowledge of the Canadian marketplace could be an important first step in the process.

In addition to our global reach, CIBC Mellon's superior scale in Canada has helped us develop a rich understanding of the Canadian economic landscape, market regulations and of global financial institutions' needs throughout the country. Employees from all levels of our company are active members of regulatory and industry associations, including CDS Clearing and Depository Services Inc., Canadian Securities Administrators, and the Investment Industry Regulatory Organization of Canada.

We are actively focused on being global financial institutions' strategic partner in Canada, and providing them with the latest industry insights so they are better equipped to enter the market and grow their business here.

For example, we recently had the honour of hosting the 2010 visiting group from China's State Administration of Foreign Exchange delegation, to share our Canadian market insights.

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A message from our CEO (cont'd)

We regularly make personal visits to our clients and foreign institutions overseas to share the latest developments in our businesses and in our markets, and we use our global scale to bring the world's latest thinking and innovative ideas to our clients.

On this note, we are excited to participate once again at the Sibos conference in Amsterdam this October. We look forward to seeing our clients and to building more relationships with representatives from institutions across the globe as their trusted partner in Canada.

I wish everyone attending a successful and productive conference.

Tom Monahan, president and chief executive officer

Bernanke to the rescue

U.S. Federal Reserve Chairman Ben Bernanke appears set to push ahead with the start of the next round of quantitative easing (QE) – "printing" more money to buy bonds and lower yields in the process. Given all of the recent hooplah that has accompanied that growing expectation, a few rounds of QE by the U.S. Federal Reserve would seem to be the cure for everything from the stock market, the bond market, commodity prices and maybe the common cold, for that matter.

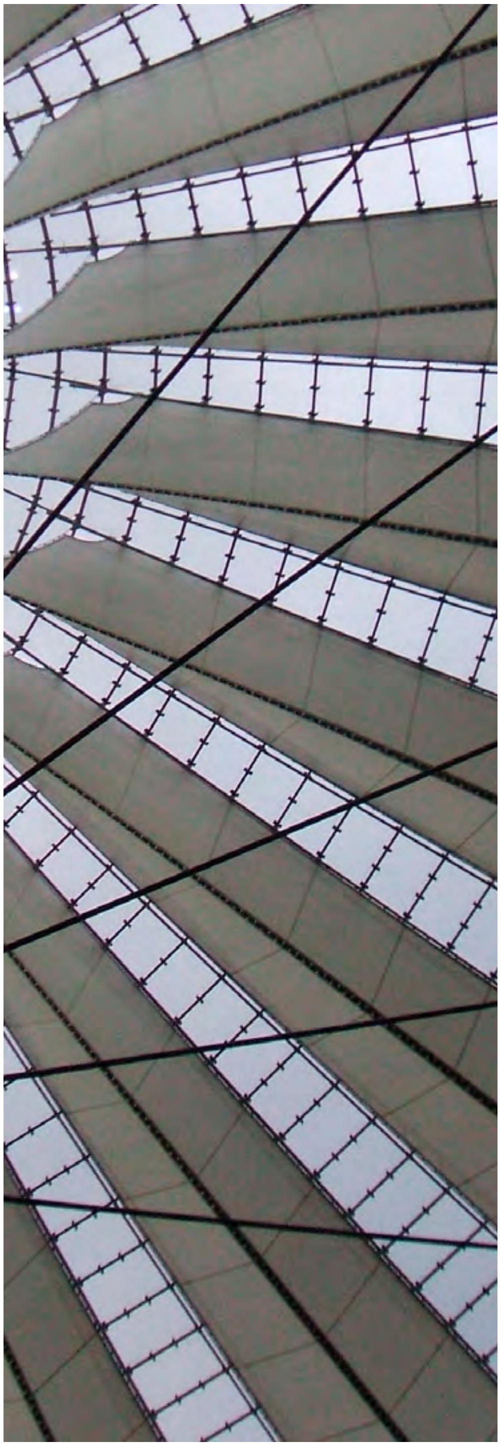
That said, the historical track record with this tool is quite limited. Japanese quantitative easing a decade ago did serve to lower short-to-mid-term yields, mostly by cementing expectations that overnight rates would stay grounded at zero, but the impact on growth was less clear. Quantitative easing played a salient role in ending the U.S. Great Depression, albeit after an extreme drop in the money supply.

When the Fed bought bonds in 2009, the decline in yields was very short lived, since a general turn in market sentiment that spring sent stocks and bond yields soaring almost as soon after. Much of that was due to relief that the banking system appeared to be stabilizing. Estimates are that buying another, say, half trillion in Treasuries might lower 10-year yields by a quarter point, roughly what they already declined in the month following the first hints that the Fed was leaning that way.

Of course, the very act of adding to its balance sheet would signal to markets that the U.S. central bank is a long way from raising the overnight federal funds rate. That in itself could keep medium-term yields low, helping growth in the process, and encouraging investors to buy higher-yielding assets and equities. U.S. QE also helped buttress our call that the Bank of Canada would take a long pause on rate hikes. A combination of US QE and Canadian rate hikes would send the Loonie through the stratosphere, adding an additional unwelcome dose of policy tightening.

Longer-term, QE is not a positive for those buying Treasuries or Canadian bonds alongside the Fed's purchases. At some point, if QE actually works to restore growth and elevate inflation expectations, bond yields will rise, and the Fed will let that happen if growth is making a come-back. Dividend-yielding stocks therefore look to be an attractive substitute, particularly since history shows that reliable dividend payers tend to outperform the broader equity market the most during periods in which economic growth is sub-two per cent.

By Avery Shenfeld, managing director and chief economist, CIBC World Markets
October 13, 2010



Economic update

We continue to expect a broad sustained global economic expansion over the next several years with the fastest growth in those countries in the strongest financial position (largely in the developing world) and the slowest growth likely in those countries with a debt hangover (largely in the developed world). The fundamental trend of rising global productivity and incomes due to wider dispersion of modern technology should persist. Because there is likely to be only a gradual decline in high unemployment in the debt hangover countries, we expect rising trade tensions, but not a full-scale “jobs trade war.” Consumers in the developed world overshot their debt capacity in the last cycle and the result should be relatively sluggish growth in developed world consumption. Slow growth in developed-world incomes and in debt-financed consumption is consistent with only moderate growth in developing country exports to developed countries, now that the initial rebound from the recession lows has already occurred. Fortunately, many of the developing countries are in a strong financial position and have substantial policy flexibility. In addition, persistently low real interest rates (interest rates relative to inflation) in the U.S. and core Europe should underpin the orderly deleveraging of those regions. Policy is powerful and cyclical policy is stimulative in most major countries.

At the beginning of the current global economic recovery, there was a period of rapid industrial production growth as the global and U.S. economies shifted from severe inventory liquidation to normal inventory increases in line with rising final sales. We interpret the slowing of global industrial production over the course of this year as a normal cyclical deceleration as the inventory cycle matures. We expect sustained expansion in most countries over the next several years, with substantial differences in the pace of growth.

By Richard B. Hoey, chief economist, BNY Mellon
October 6, 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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FATCA: New U.S. tax rules compel disclosure of U.S. account holder information to the IRS

The U.S. government has passed new tax rules that compel non-U.S. financial institutions and other entities to document and disclose information about their U.S. account holders to the U.S. Internal Revenue Service (IRS) or face a 30 per cent withholding tax. These new rules are intended to help the U.S. government better assess the income and value of U.S. persons' foreign holdings for the purposes of collecting income tax.

These new U.S. tax rules were passed under the Foreign Account Tax Compliance Act (FATCA), which was enacted into law on March 18, 2010 as part of the Hiring Incentives to Restore Employment Act (HIRE Act). The rules are contained in a newly-introduced Chapter 4 of the IRS code, which comes into effect on January 1, 2013.

New requirements under FATCA

FATCA requires non-U.S. financial institutions and non-financial entities to identify their U.S. account holders or owners, and disclose this information to the IRS. Organizations that refuse to participate in the program or disclose U.S. account holder or owner information to the IRS will generally be subject to a 30 per cent withholding tax on:

- Certain U.S.-source income
- The gross proceeds from the sales of securities that could pay U.S. source interest or dividend payments

Notice 2010-60: clarifying the intentions of FATCA

On Aug. 27, 2010, the U.S. Treasury and the IRS issued Notice 2010-60, Notice and Request for Comments Regarding Implementation of Information Reporting and Withholding Under Chapter 4 of the Code. This Notice defines the intentions of the IRS and provides the general framework for the new tax rules.

The Notice contains five sections:

1. **Payments on grandfathered debt obligations**

   FATCA does not require deductions or withholding on payments for any debt obligation that is not treated as equity for U.S. tax purposes and is outstanding on March 18, 2012, or from the gross proceeds of any disposition of such an obligation.

2. **Definition of a foreign financial institution**

   A "financial institution" is defined in the U.S. Internal Revenue Code along three categories:

   - Institutions accepting deposits in the course of banking or similar business
   - Institutions holding financial assets for the accounts of others
   - Institutions engaging primarily in the business of investing, reinvesting, or trading in financial assets

   Non-U.S. institutions falling into these categories are considered foreign financial institutions (FFIs). The Notice provides further information on financial institutions and about different types of FFIs, including participating FFIs, non-participating FFIs, excluded FFIs and deemed-compliant FFIs.

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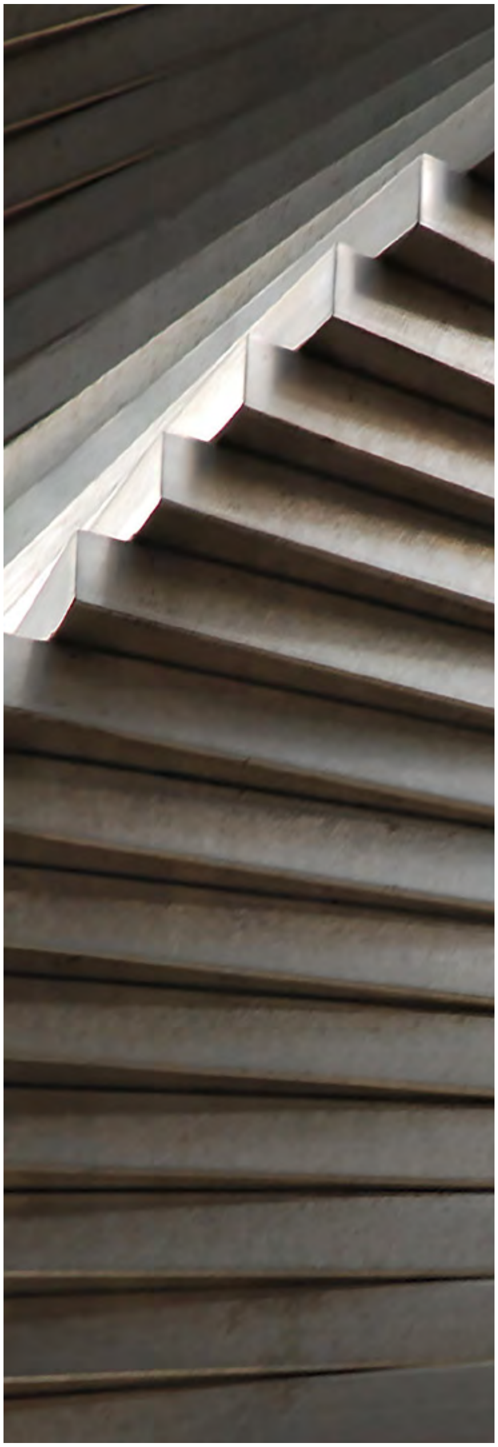


FATCA: New U.S. tax rules compel disclosure of U.S. account holder information to the IRS (cont'd)

3. **Documentation of accounts**
   FFIs that enter into an agreement with the IRS must identify accounts as either U.S. accounts or non-U.S. accounts. The Notice provides the required timelines for submitting documentation about U.S. accounts and outlines the differing rules for documenting accounts held by individuals versus accounts held by institutions. The Notice also outlines the differing rules for pre-existing accounts versus those opened after the date that a participating institution's FFI agreement with the IRS becomes effective.

4. **Reporting of information about U.S. account holders**
   The IRS will create a new form for the annual, electronic reporting of information about U.S. account holders, including:
   - Identifying information for the U.S. account holders
   - Account numbers
   - Account balances and gross receipts
   - Gross withdrawals

   To eliminate duplicate reporting, the Notice states that the U.S. Treasury and the IRS intend to require that the participating FFI with the more direct relationship with the investor shall report the information to the IRS.

5. **Comments are requested by November 1, 2010**
   The Notice requests comments regarding more than 20 different topics under FATCA including verification procedures and audit for FFIs, how to address long-term account holders who do not want to disclose the identification of their underlying clients, and the application of Chapter 4 to U.S. non-financial entities. The Notice solicits written comments by November 1, 2010.

How is CIBC Mellon responding?

CIBC Mellon has assembled a cross-functional project team to plan our FATCA implementation. We have begun educating our staff about these new tax rules and communicating the impact of these changes to our clients. We continue to monitor FATCA-related developments on an ongoing basis, and we are working with industry groups and the IRS to understand the impact of the proposed legislation.

More information

For more information regarding FATCA or Notice 2010-60, please visit the IRS website at the following address: http://www.irs.gov/irb/2010-37_irb/ar06.html

By Simon Lee, C.A., CPA, CFP, TEP, assistant vice president, tax
Simon is a CPA registered in the State of Michigan

Pension benefit payment survey: Acting on your feedback

In May 2010, nearly 300 pension plan sponsors and third-party benefit administrators completed CIBC Mellon's semi-annual pension benefit payments survey. Respondents commented on their needs as retirement providers and on CIBC Mellon's pension benefit products and services.

As in previous years, respondents were very positive about CIBC Mellon's client service levels:

- 95 per cent of respondents rated their service quality during day-to-day contact as excellent or good.
- 96 per cent of respondents rated the benefit payment team as excellent or good.
- 96 per cent of respondents rated our overall benefit payment services as excellent or good.
- 99 per cent of respondents would recommend CIBC Mellon's benefit payment services to prospective clients.

Plan sponsors, administrators and consultants were also very pleased with the Pensioner Information Network (PIN), CIBC Mellon's online information portal for benefit payment information:

- 90 per cent of respondents found CIBC Mellon's online tools useful in assisting them with day-to-day activities.
- 72 per cent of respondents rated CIBC Mellon's online tool for reporting and inquiries as the best in the industry.

Most importantly for CIBC Mellon, respondents identified several opportunities for us to further enhance our products and services, and we will be making a number of improvements based on this feedback. For example, respondents were very interested in seeing PIN's online reporting capabilities expanded, with 62 per cent indicating they would prefer to receive monthly reports electronically. PIN users can currently schedule a wide variety of online reports on a daily, weekly or monthly basis, and we'll be introducing new and expanded reports to give clients the option of going fully paperless in the future.

PIN users can also look forward to a number of other improvements based on client feedback, as we will be:

- Revamping the online experience to make PIN even easier to use
- Introducing new format options (including .csv, .xls and .txt.) to give users greater flexibility when downloading reports
- Deploying new learning tools and tutorials to help users take full advantage of PIN's capabilities

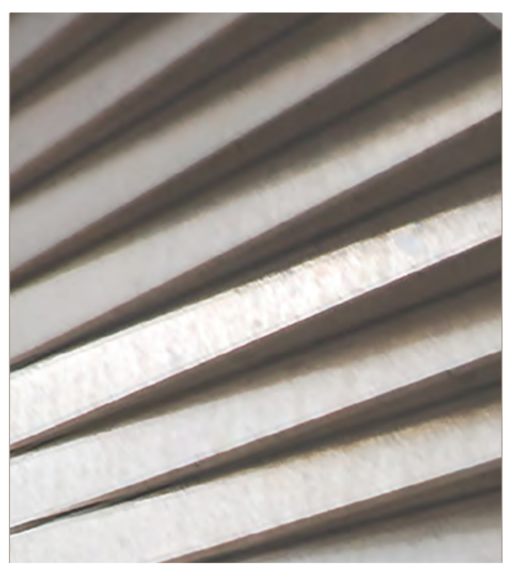
Thank you again to everyone who completed our survey. Your feedback will help us continue to improve the products and service levels that make us your #1 provider of pension benefit payment services.

By Laura Barker, assistant vice president, pension benefit operations

Based in London, Ontario, CIBC Mellon's pension benefits group provides administration and processing services for more than 540 pension plan sponsors representing more than 300,000 pensioners.

CIBC Mellon's Pensioner Information Network (PIN) is an easy-to-use, time-saving tool that gives clients instant access to the information they need. PIN helps clients respond to pensioner inquiries, check when payments were made, generate reports to reconcile monthly payrolls and do much more.

To learn more about CIBC Mellon's pension benefit systems, contact your benefit payment specialist or relationship manager.



Q&A
HST administration, accounting and elections

On July 1, 2010, the new harmonized sales tax (HST) came into effect in Ontario and British Columbia. The HST requires a number of changes to tax-filing practices among certain financial institutions, pension plans and some trusts.

In this Q&A, Peter Maden, vice president, institutional and pension accounting, answers common HST-related questions for our pension clients and outlines how CIBC Mellon is supporting them in complying with new HST rules.

HST administration and CIBC Mellon

Q: What is CIBC Mellon doing to assist clients with the HST changes?
A: Our team is working with clients to support the HST election process, and we are providing clients with the information they need to complete HST returns via our accounting reports, such as identifying HST paid with respect to plan expenses incurred during the year.

Q: How will CIBC Mellon process HST expenses?
A: HST applied to expenses will be processed separately on the accounting platform so it can easily be identified and transferred to clients' HST returns.

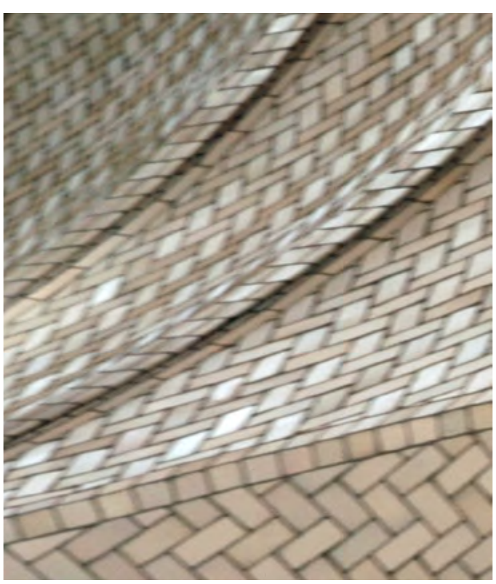
Q: Will CIBC Mellon be completing HST returns for clients?
A: CIBC Mellon does not have access to all the information required to complete the returns (e.g. beneficiary records that would be required to determine the correct HST attribution formula or data on deemed supplies made by the employer to the plan under the recently-passed Jobs and Economic Growth Act). As a result, CIBC Mellon is unable to complete HST returns on behalf of plan administrators.

Q: Can CIBC Mellon incorporate special accounting needs into accounting reports?
A: Yes. We can work with clients to incorporate their requirements into our accounting reports. As an example, we can accrue any HST receivable from the Canada Revenue Agency (CRA) if the client provides us with their "net" rate or we can cash account for the HST on a received basis. Please contact your relationship manager to discuss any special accounting needs.

SLFIs and HST accounting

Q: What are SLFIs and how are they defined?
A: Selected listed financial institutions (SLFIs) are defined under the federal Excise Tax Act and generally include banks, insurance companies and securities dealers that operate in an HST province and any other province. However, SLFIs can also include investment plans (e.g., mutual fund trusts, registered pension plans, deferred profit sharing plans, employee benefit plan trusts, pooled fund trusts, unit trusts and retirement compensation arrangements) that have both participants or plan members resident in an HST province as well as participants or plan members in any other province.

Q: How are SLFIs required to account for HST?
A: SLFIs are generally required to account for HST using the special attribution method (SAM) formula. In some cases, an SLFI may be required to be registered for HST. As there may be certain benefits associated with registration, SLFIs may wish to register voluntarily (e.g. in order to be able to make certain HST elections, investment plans that are SLFIs will need to be registered for HST). We recommend that clients consult their tax advisors for guidance regarding their specific situation.



Q&A
HST administration, accounting and elections (cont'd)

Q: What is the SAM formula?
A: The SAM formula is designed to calculate the amount of the provincial component of HST for which SLFIs (including investment plans that have participants or plan members in an HST province and any other province) are liable.

The SAM formula is:

$$\text{Net unrecoverable GST paid} \times \text{provincial allocation} \times \frac{\text{provincial rate}}{\text{GST rate}} - \text{provincial component of HST paid}$$

We encourage clients to contact their tax advisors to determine the specific SAM formula to use when calculating their HST payments.

Q: Are there any exemptions from the new HST rules?
A: Yes. There are exemptions for plans with unrecoverable GST of less than $10,000 in the immediately preceding financial year.

Q: If my primary business location is a non-HST province (e.g. Alberta) do I still have to register for HST and file returns?
A: If you are an investment plan that has participants or plan members in any non-participating province as well as any other HST province (such as Ontario or B.C.) you may wish to be registered for HST and file returns. Under certain circumstances, you may even be required to be registered for HST and file returns.

Q: If my primary business location is Ontario and I have only a handful of beneficiaries living in a non-HST province or another HST province, do I still need to apply the SLFI rules?
A: Yes. Investment plans with one or more beneficiaries in a participating province and a non-participating province will need to apply SLFI rules.

Q: How do I register for HST with the CRA?
A: If you are not already registered for a business number, complete CRA Form RC1 E (09) (Request for a Business Number or BN). Registration for a business number should be considered registration for HST by the CRA. Once the business number has been obtained, CRA Form RC1A E (09) (Business Number (BN) - GST/HST Account Information) should be completed. Where a fund manager or pension plan administrator wishes to register more than one investment plan, consolidated registration may be available to register the group under one single registration number. We encourage clients to contact their tax advisors to determine what registration process would be appropriate under the particular circumstances.

HST elections with the CRA

Q: What is the difference between registering for HST and making the accounting elections for HST?
A: Registration for HST is required depending on the activities of a taxpayer. In general, investment plans are not required to register. Note that regardless of registration status, SLFIs are still required to account for the provincial component of HST.

Although an SLFI may not be required to be registered, in order to be able to make certain elections to account for the provincial component of HST, an SLFI will be required to voluntarily register for HST.

Q: What is the reporting entity election?
A: Where a reporting entity election is filed between the administrator of an investment plan and the trustee of the investment plan, the administrator will assume the responsibility for filing HST returns on behalf of the investment plans.

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Q: What is the consolidated filing election?
A: Rather than file separate returns for each investment plan for which an administrator is responsible, the consolidated filing election allows a single return to be filed for the consolidated group. A detailed record of the calculations for each member of the consolidated group would have to be maintained in the administrator's records. For example, a sponsor with multiple trusts could submit a single consolidated filing taking into account one trust which owes tax to the CRA and others which are due refunds.

Q: What is the tax transfer election?
A: The tax transfer election allows any adjustments for the provincial component of HST required by investment plans to be transferred to the administrator of the investment plan. Clients may wish to consider with their tax advisors whether filing the tax transfer election would provide any cash flow benefits in certain circumstances as the charges from the administrator to the investment plan would now be net of any adjustment (in the case of an adjustment requiring a refund) that would otherwise have been payable to the investment plan by the CRA following the completion and submission of the annual return. Unless the tax transfer election is filed without the reporting entity election, the tax transfer should apply to all charges to the investment plan, including charges from the plan manager or administrator as well as third party charges. Clients should contact their tax advisors to assist with specific details for their plans.

Q: Would I have to make an election on behalf of an elected master trust?
A: If the master trust is considered an investment plan (which includes unit trusts and pooled fund trusts), the master trust would need to consider the application of the new HST rules including the availability of any elections.

Q: Has the CRA released an election form or set any deadlines for filing?
A: The CRA recently made available the formal election forms, which can be found under the "Recently Added Forms and Publications" section of the CRA website (http://www.cra-arc.gc.ca/menu/NEW-e.html). Clients must complete and return the election in the prescribed format even if a letter of election has previously been submitted. We will contact our trustee clients shortly regarding completion of the new election forms.

The CRA has indicated it will accept elections submitted after July 1, 2010, and has not yet specified a deadline for submissions.

Pension plan GST/HST rebates

Q: In January 2007, proposals were announced for a new GST rebate for pension plan trusts. What is the latest position on these proposals?
A. The rules for pension plan rebates are contained in the Jobs and Economic Growth Act, which received Royal Assent on July 12, 2010. In October 2010, the CRA issued a technical information bulletin, Notice 257 - The GST/HST Rebate for Pension Entities, which discusses the detailed rebate rules along with consideration of the draft Selected Listed Financial Institutions Attribution Method Regulations released on June 30, 2010. This notice is available on the CRA website at http://www.cra-arc.gc.ca/E/pub/gi/notice257/

If you have any additional questions about how CIBC Mellon can support your organization please contact your relationship manager.

We recommend that you consult your tax advisors regarding the registration for HST, the filing of annual returns, the filing of any elections with the Canada Revenue Agency (CRA) and to ensure that you have a good understanding of how the new HST rules apply to your organization. The information in this article is of a general nature and is not intended to address the circumstances of any particular entity. Although we endeavour to provide accurate and timely information, we cannot guarantee that it is accurate on the day you receive it or that it will continue to be accurate in the future. You should not act on such information without appropriate professional advice after a thorough examination of your situation.

"We are actively focused on being global financial institutions' strategic partner in Canada, and providing them with the latest industry insights so they are better equipped to enter the Canadian market and grow their business here."

- Tom Monahan
president and chief executive officer, CIBC Mellon

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