



TRADE TALK

FALL EDITION 2011

Reporting on CIBC Mellon initiatives and developments within the securities industry

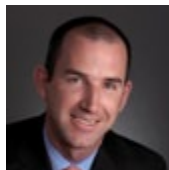
What's Inside?



[A message from our CEO:](#)

[The true north, strong and profitable](#)

Canada, it would seem, is hot. In a year rocked by ongoing market volatility and a European tour of sovereign debt crises, the Canadian economy has stood out as the good-news story. So now the media wants to know 'what's the secret?'



[Securities Lending market update](#)

The closing days of summer are a good time to look forward at what's expected this fall in securities lending markets. Our Fall securities lending market update reviews changes in borrower demand and how these can drive revenues in calendar 2012.



[The Three "R"s](#)

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[Basel III: update and implications to Canadian investors](#)

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- Tom Monahan, president and chief executive officer



A message from our CEO: The true north, strong and profitable

Canada, it would seem, is hot. In a year rocked by ongoing market volatility and a European tour of sovereign debt crises, the Canadian economy has stood out as the good-news story. So now the media wants to know 'what's the secret?'

There are several factors that have combined to help propel our economy past its peer countries; the employment rate remains higher than most OECD nations, our budgetary position is among the world's strongest, and our government retains its triple-A credit rating. Prudent regulation, strong fiscal and monetary policies and historically high commodity prices are also attracting significant foreign investment. CIBC Mellon is also doing well in the fundamentals. In addition to winning new business on the domestic front, many of the global financial institutions turning to Canada have chosen CIBC Mellon as their Canadian asset servicing partner.

CIBC Mellon is a strong, stable and growing institution that, like Canada, is outperforming its peers. In fact, we have surpassed \$1 trillion in assets under administration, meaning we now service approximately one third of all investable assets in Canada. We take great pride in providing clients with exceptional service, outstanding operational execution, and a very proactive approach to governance and risk management.

In much the same way it would be un-Canadian to become overly boastful about the country's economic performance, it would be foolish to ignore what's on the horizon. Euro-zone debt crises, ongoing geopolitical risk and the possibility of the U.S. slipping into a recession pose serious potential risks. Case in point: for the first time since the Great Recession, Canada saw its economy shrink in the second quarter at an annualized rate of 0.4 per cent. As the Globe and Mail reported on September 1, 2011..."It's a sign that Canada, envied by many countries as a bastion of stability since the financial crisis, is not immune to external economic malaise."

While uncertainty may be the new normal for global capital markets, CIBC Mellon has always had a proven risk and governance culture. As a result, we have consistently maintained excellent tier 1 capital ratios and superb credit ratings.

The stars (and maple trees) aligned for Canada in other ways this year. For the first time since its inception, the Sibos conference will take place in Toronto. We will welcome the world's pre-eminent financial organizations from September 19-23. CIBC Mellon, CIBC and BNY Mellon will be on site, each hosting a booth with a full complement of experts.

I'm looking forward to welcoming you to our stable corner of the world at Sibos.



Tom Monahan
president and chief executive officer

A handwritten signature in black ink, appearing to read 'Tom'.

[BACK TO COVER](#)



Jeffrey Alexander
director, capital markets



Securities lending market update

The closing days of summer are a good time to look forward at what's expected this fall in securities lending markets. In the Summer 2011 edition of Trade Talk, we examined changes in the supply side of our business – specifically, how changes in asset allocation at funds and plans result in changes to revenue. Now, we will turn to changes in borrower demand and how these can drive revenues in calendar 2012.

On the back of Muddy Waters' report on Sino-Forest (which currently looks to be more accurate than many top managers would have predicted), there has been a significant uptick in borrower interest in many foreign-listed Chinese companies. While this includes many reverse-takeover listings on exchanges like the TSX, it also includes American Depository Receipts (ADRs). Chinese ADR's have become a significant revenue-driver in lending markets, with very interesting supply/demand characteristics. On one hand, the share prices of select well-managed companies may be overly depressed and present worthy buying opportunities. On the other hand, issues with transparency and reporting accuracy continue at many companies. Until there is a greater certainty around access to reliable information, we expect to see these opposing pressures continue to create borrower demand for Chinese companies.

Solar energy stocks have also generated significant borrower interest. Companies like First Solar and Sunpower have underperformed the market since hitting 52-week highs earlier in 2011, and have attracted significant demand from borrowers. For long-managers that believe solar energy stocks have long-term growth potential, this scenario may present good buying opportunities, but in the face of global market uncertainty we have seen short-term price pressure. Sunpower saw particularly strong activity as a result of being a tender-offer target of Total SA, who picked up 60 per cent of the outstanding shares.

There has also been hype in the initial public offering (IPO) space, with LinkedIn being a good, high-profile example. As with merger/acquisition demand, IPO demand from borrowers usually stems from an expectation that after the hype dissipates, it's not uncommon to see pull-back: many companies fall back in line with the original issue price. Our borrower clients often look to stock up on shares in anticipation of a price contraction as markets rationalize the value of the original IPO.

With the stable-market demand we spoke to in the last issue (CAD Bonds, index equities, global equities, and so forth), "specials" like Chinese companies, solar stocks and IPO stocks can drive significant lending returns for the funds that hold them. In short, the long-term bias of investment manager teams can be augmented by taking into account the short-term directional views of the opposite side of the market.

BACK TO COVER



CIBC Mellon



The Three “R”s

Schools stress the three Rs, but investors hope to avoid a different three Rs—three possible routes to recession. First on the list would be to find out that we are already in a recession. Canada may already be halfway there after Q2 GDP posted a small decline, and the US first half wasn’t much better.

July gains in consumption and industrial production made a convincing case that the American economy rebounded from a weak June. But the early news for August featured a flat payrolls report, suggesting that Q3 growth will be tepid if still positive. Canada’s exports recovered in July, pointing to better news for a sector that was at the core of the Q2 decline. So at this point, odds are that we’re not already in recession, but still too close for comfort.

The second “R” to avoid is one rooted in a European sovereign debt shock. Europe and Greece need to at least tie up the loose ends in their debt deal. A larger stability fund, less of a fantasy than a move to joint borrowing under a “Eurobond,” could shore up confidence in other sovereigns.

Failing that, there is still a “Plan B” to prevent a global contagion, in which the European Central Bank (ECB) would provide enhanced liquidity, and national governments equity for solvency, to buttress banks shouldering sovereign debt losses. Rate cuts from the ECB and a further tumble in the euro would also provide a growth boost, and the central bank does appear to be moving away from its uber-hawkish tone.

The third “R” route is closer to home, in American fiscal policy. Obama needs to get passage of most of his jobs bill to prevent a growth-crushing combination of higher taxes and expiring unemployment benefits from taking hold. Republicans aren’t yet tipping their hand on where they stand on some of the details of the President’s plan, but there are at least some encouraging signs that its tax elements will be looked on favourably.

With the benefit of extended stimulus, the US might eke out roughly 2 per cent growth next year, not enough to lower the unemployment rate, but far better than a renewed recession. If so, stocks will recover some of their lost ground, and bonds could face a token hike or two from the Bank of Canada late in 2012. But there’s clearly enough risk to justify a somewhat defensive portfolio. Pessimists are often pleasantly surprised; optimists are frequently disappointed. We’ll be watching political developments in the US and Europe with a close eye to judge who will get the unexpected news this time.

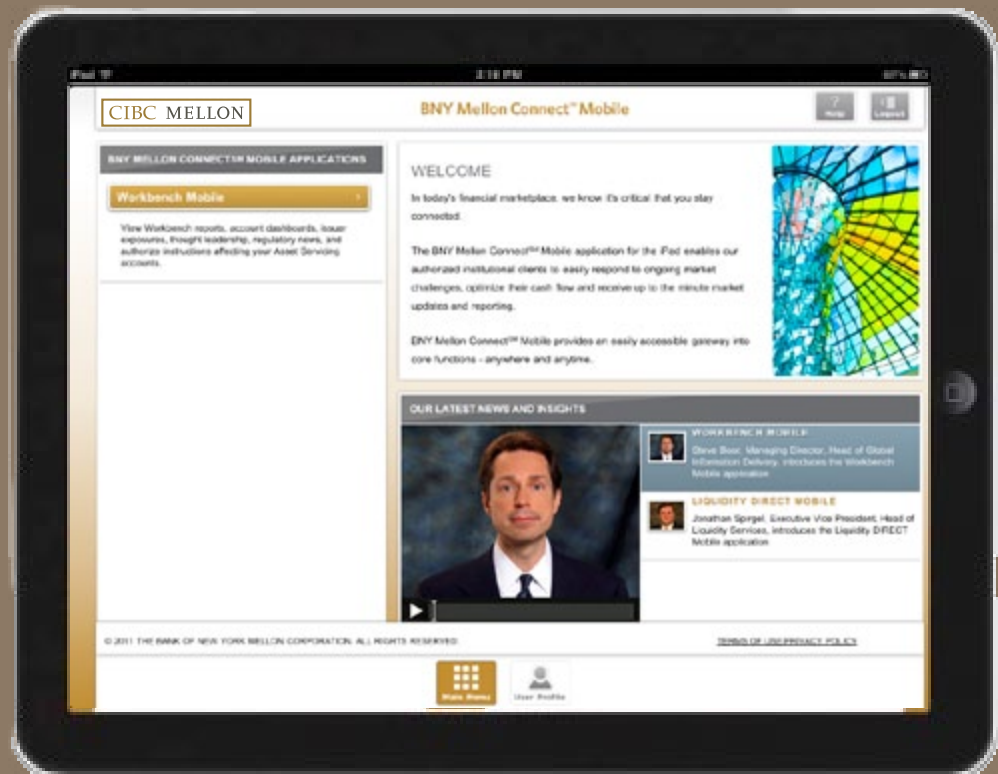
September 9, 2011

Avery Shenfeld, managing director
and chief economist,
CIBC World Markets

[BACK TO COVER](#)

“Now through the new Workbench Mobile app, CIBC Mellon’s clients can use an iPad to easily view and monitor account investment information, performance data, industry news updates, and more.”

- Kathy Kenny, assistant vice president, product management information delivery



Now available: WorkbenchSM Mobile for your iPad[®]

As part of our ongoing commitment to provide clients with leading-edge technology that will help them manage and grow their business, CIBC Mellon is pleased to announce the Canadian release of Workbench Mobile for the iPad[®]. This new app enables our institutional clients to authorize instructions and securely view key reports and account information while on-the-go. Registered CIBC Mellon Workbench users can download Workbench Mobile at the App Store through the BNY Mellon ConnectSM Mobile portal.

Now through the new Workbench Mobile app, CIBC Mellon's clients can use an iPad to easily view and monitor account investment information, performance data, industry news updates, and more. Features include:

- **Recent reports** - view Workbench reports run over the past 10 days in PDF format
- **Dashboard** - drill-down into account valuation changes and chart by manager, asset type, currency, country or security
- **Lookup** - investment accounting clients can view portfolio/issuer exposure across accounts and asset classes
- **Instructions** - available for those custody clients who manage cash and authorize cash transactions through Workbench
- **Media room** - view updates on industry regulations and thought leadership

Client benefits of Workbench Mobile for the iPad include:

- **Flexibility** to access and manage investment information anywhere, anytime.
- **Speed** in accessing information while on-the-go can contribute to accelerated decision making and help you achieve desired business results.
- **Security** built-in through a multi-factor authentication environment.

In launching the iPad version of Workbench Mobile in Canada, CIBC Mellon worked closely with and leveraged the strength of our parent, BNY Mellon, a global leader in investment management and investment services. BNY Mellon became the first global custodian to provide reports and information to clients via a mobile app when it introduced Workbench Mobile to its clients in July 2011.

In response to client feedback, plans are now under way to add even more features to Workbench Mobile. Enhanced features will be delivered automatically to all registered Workbench users through the App Store. In addition to this, the existing app will be optimized for the iPhone and other handheld and mobile devices.

For more information, contact the CIBC Mellon Workbench support team at 416-643-5360 or workbench@cibcmellon.com or your CIBC Mellon relationship manager at 416-643-5000.



Kathy Kenny, assistant vice president,
product management
information delivery

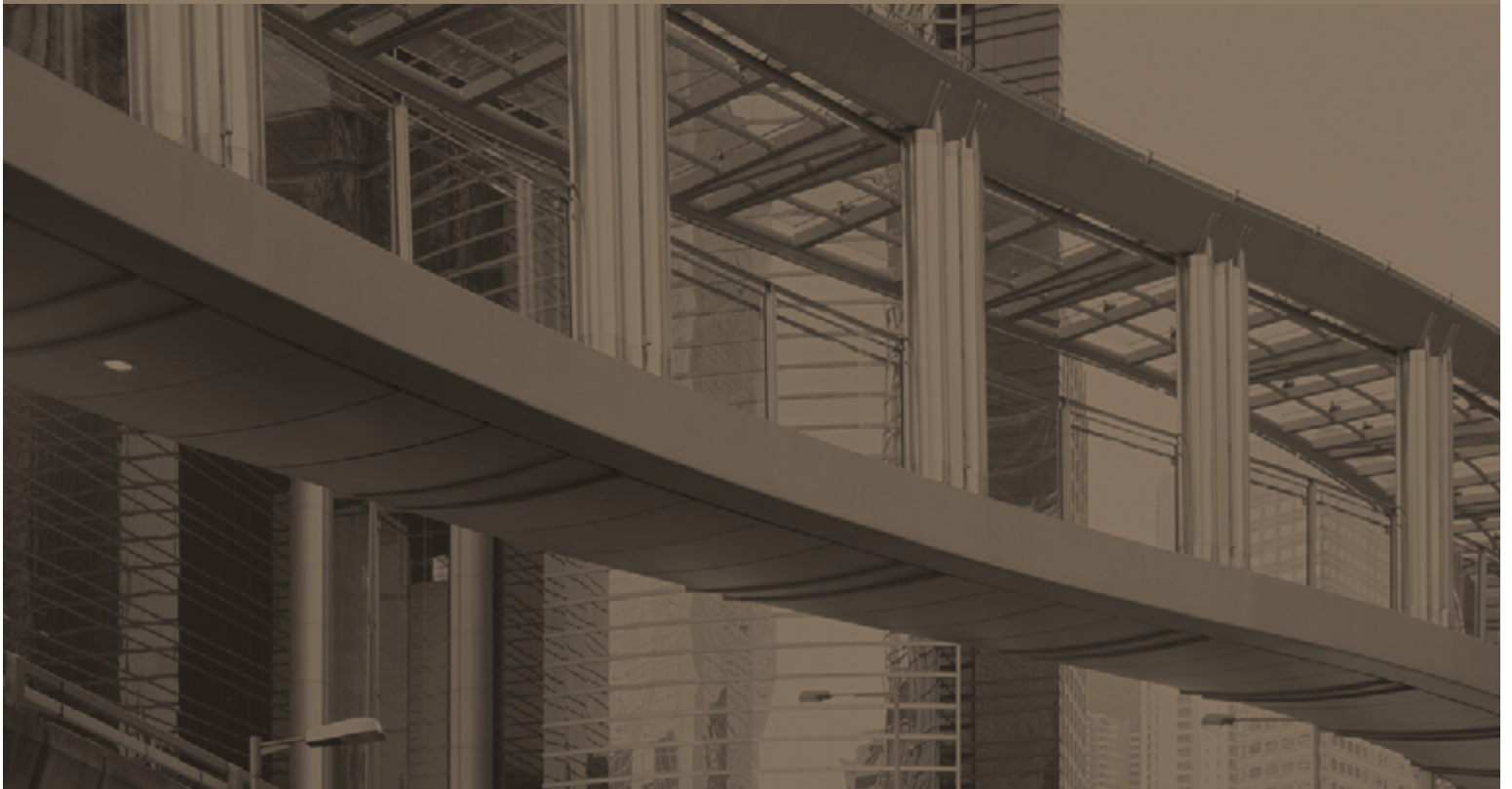
How to access the Workbench Mobile app

1. Visit the App Store and download the BNY Mellon ConnectSM Mobile portal application. It's the only app you need to install from the App Store.
2. Once installed, tap on the app and sign in using your Workbench User ID and password.
3. Complete the one-time registration process.
4. If you are an authorized user of CIBC Mellon Workbench and you do not see Workbench Mobile listed in the BNY Mellon Connect Mobile Applications section, please contact CIBC Mellon Workbench support at 416-643-5360 or workbench@cibcmellon.com.

[BACK TO COVER](#)

“As Basel III evolves, CIBC Mellon will be ready with sophisticated technology and asset servicing solutions to help meet the changing information needs of our clients in Canada and abroad.”

- David Linds, senior vice president,
business development and
relationship management



Basel III: update and implications to Canadian investors

Across the globe, organizations are beginning to react to the new, more stringent regulations required as a result of the incoming Basel III international regulatory standards for bank capital adequacy and liquidity. Firms in all sectors of the financial services industry are looking closely at the new capital requirements and working to understand the impact of the redefinition of capital and how best to achieve and maintain the minimum requirements. Canadian regulators, working closely with the Basel Committee and the Bank for International Settlements, are looking to Canadian financial institutions to act responsibly and continue making prudent decisions.

Upcoming changes

On December 16, 2010, the Basel Committee on Banking Supervision released the text of the Basel III rules and the results of its Quantitative Impact Study. It is within this text that specifics around what types of assets are to be included and excluded from common equity calculations and what will be the minimum capital and liquidity ratio standards that financial institutions must maintain. This was an important next step in the adoption and implementation of Basel III capital and liquidity standards globally.

The Canadian perspective

Mark White, Assistant Superintendent of the Office of the Superintendent of Financial Institutions (OSFI) in Canada, has outlined several key components of the Canadian banking system that, in combination, helped sustain the stability of the financial industry. These included:

- A healthy economic and policy backdrop
- A robust and flexible financial regulatory framework
- Effective supervision
- Generally prudent practices of Canadian financial institutions.

Though Canada fared well during the 2008 market crisis, it is important to be an active participant in these reforms. As a G20 member, Canada sees the importance of being “prepared to fight the next war, not the last” and understands “that a more stable global system is in everyone’s interests.”

The message consistently expressed by members of the Basel Committee on Banking Supervision is one of collaboration and monitoring. As the new framework is implemented throughout the global financial services community, deliberate assessments and revisions are planned. At CIBC Mellon, we continue to monitor the progress of the Basel Committee. As Basel III evolves, we will be ready with sophisticated technology and asset servicing solutions to help meet the changing information needs of our clients in Canada and abroad.



David Linds, senior vice president, business development and relationship management

Visit the Knowledge Leadership section of our website

[Download the full Basel III update](#)



BACK TO COVER



Vivian Law, manager,
internal audit

A new independent assurance report on CIBC Mellon’s internal controls that impact client financial reporting

In order to align with new Canadian and international assurance engagement standards, CIBC Mellon is replacing the Section 5970 audit report with a new “Service Organization Control Report.” This new report will cover the 2011 calendar year, and will be made available to all CIBC Mellon clients and their auditors.

Background

Since 2006, the Canadian Institute of Chartered Accountants Section 5970 report (The Auditor’s Report on Controls at a Service Organization), has been the standard in Canada for service organizations like CIBC Mellon in providing an independent audit report to clients and clients’ auditors on controls that impact financial reporting processes. The Section 5970 standard will be replaced by the new Canadian Standard on Assurance Engagements 3416 (CSAE 3416), Reporting on Controls at a Service Organization, effective for reporting periods ending on or after December 15, 2011.

Rationale for the change

Similar to the International Financial Reporting Standards (IFRS), the International Federation of Accountants (IFAC) issued International Standard on Assurance Engagements (ISAE) No. 3402 in response to the growing need among companies and institutional investors worldwide for uniform reporting standards for service organizations. As a result, new standards aligned with ISAE 3402 were issued in both the U.S. and Canada:

Previous Standard	Corresponding New Standard
Statement on Auditing Standards (SAS) No.70	Statement on Standards for Attestation Engagements (SSAE) 16
CICA Section 5970	Canadian Standard on Assurance Engagements (CSAE) 3416

Key changes

The new standards have a number of similarities to their predecessors; they enable CIBC Mellon to provide clients and their auditors with assurance that internal controls at CIBC Mellon that could impact clients’ financial reporting, have the necessary design and operating effectiveness to achieve the controls’ stated objectives.

Continued on page 11

[BACK TO COVER](#)

A new independent assurance report on CIBC Mellon's internal controls that impact client financial reporting (Cont'd)

In alignment with the new standards, CIBC Mellon's new report will also provide assurance that:

- The descriptions in the report present the system fairly.
- Relevant details on any changes have been included.
- The controls have been suitably designed.
- The controls operated effectively during the reporting period.

The new SOC1 report

CIBC Mellon clients will receive a Type 2 Service Organization Control Report ("SOC1") report which is in accordance with both CSAE 3416 and ISAE 3402 standards. The first SOC1 report will cover a 12-month period from January 1, 2011 to December 31, 2011. Subsequent reports will be provided twice annually. The release dates will be communicated separately.

Use of the new report

The SOC1 report continues to be an auditor-to-auditor communication, and is not intended for other purposes. As a result, distribution of the SOC1 report is limited to CIBC Mellon clients and their auditors.

CIBC Mellon's controls must be evaluated in conjunction with an evaluation of the client's own internal controls as it is not feasible for the control objectives relating to transaction-processing to be solely achieved by CIBC Mellon. Pensioners or fund unitholders should not use CIBC Mellon's new SOC1 report as a substitute for the audited financial statements of pension plans or investment funds, nor should it be used to evaluate the internal controls of investment managers, fund companies or other third parties.

As with the Section 5970 report, CIBC Mellon's internal audit group continues to assist our independent external auditors as required to produce the new SOC1 report.

For more information, please contact your relationship manager.

[BACK TO COVER](#)

About CIBC Mellon

CIBC Mellon currently services approximately 33 per cent of Canadian assets. Our client base is comprised of approximately 1,100 relationships representing 1,000 domestic clients and more than 80 foreign financial institutions; total assets under administration were more than CA\$1.1 trillion, as at June 30, 2011.

Our clients include Canadian pension funds, investment funds, corporations, government, insurance companies, foreign insurance trusts, foundations and foreign financial institutions whose clients invest in Canada. We work in partnership with our clients to increase operational efficiencies, manage risk, and increase performance.

Built on the strengths and traditions of our two parent companies: Canadian Imperial Bank of Commerce (CIBC) and The Bank of New York Mellon Corporation (BNY Mellon), CIBC Mellon strives to design and deliver reliable asset servicing solutions to institutional investors operating in Canada. We first began offering asset services to institutional investors in 1996, when CIBC joined forces with Mellon Financial Corporation (Mellon) to form a 50/50 joint venture—CIBC Mellon Global Securities Services Company. On July 1, 2007, Mellon—our U.S. parent company—merged with The Bank of New York Company Inc. to form the 11th-largest financial services company in the world. As a result of this merger, BNY Mellon is now the global leader in asset servicing with more than US\$26.3 trillion in assets under custody and administration.

For further information about CIBC Mellon, please visit cibcmellon.com.

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➤ A BNY MELLON AND CIBC JOINT VENTURE COMPANYSM

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