ASSOCIATION FOR FINANCIAL PROFESSIONALS

Underwritten by PNC

CASH AND TREASURY MANAGEMENT
COUNTRY REPORT

CANADA

Executive Summary

Banking

The Canadian central bank is the Bank of Canada / Banque du Canada. The bank is based in Ottawa and its authority derives from the Bank of Canada Act.

Canada does not apply central bank reporting requirements.

Resident entities are permitted to hold fully convertible foreign currency bank accounts domestically and outside Canada. Non-resident entities are permitted to hold fully convertible domestic and foreign currency bank accounts within Canada.

Canada has 35 domestic banks and 21 subsidiaries of foreign banks that are permitted to offer the full range of wholesale and retail banking services. There are also five cooperative credit associations that are federally regulated. In addition, 32 foreign banks have established branches in Canada.

Payments

Canada's two main interbank payment clearing systems are LVTS and ACSS.

The most important cashless payment instruments in Canada are electronic credit transfers in terms of value and card payments in terms of volume. Although their usage is falling, checks remain an important form of payment. The increased use of electronic and internet banking has led to a growth in the use of electronic payments such as electronic credit transfers and direct debits. Card payments have increased steadily, especially in the retail sector.

Liquidity Management

Canadian-based companies have access to a variety of short-term funding alternatives. There is also a range of short-term investment instruments available.

Cash concentration is the more common technique used by Canadian companies to manage company and group liquidity. Of the available techniques, zero-balancing is the most commonly used.

Notional pooling is available in Canada, although only between accounts held by entities with the same beneficial ownership. Non-resident accounts can be included on this basis.

Trade Finance

Canada is a member of the North American Free Trade Association (NAFTA). As such, it has free trade arrangements with Mexico and the US.

PNC's International Services

PNC can bring together treasury management, foreign exchange, trade finance and credit capabilities to support your international needs in a coordinated and collaborative way.

International Funds Transfers

International Funds Transfers to over 130 countries in USD and foreign currency can be accessed through PINACLE®, PNC's top-rated, online corporate banking portal.

Multicurrency Accounts

Set up demand deposit accounts that hold foreign currency instead of U.S. dollars. These accounts offer a simple and integrated way to manage and move money denominated in more than 30 currencies, including offshore Chinese Renminbi. You can easily view deposit and withdrawal details through PINACLE.

PNC Bank Canada Branch ("PNC Canada")

PNC Bank, through its full service branch in Canada, can help you succeed in this important market. PNC Canada offers a full suite of products including payables, receivables, lending, and specialized financing to help streamline cross border operations.

Multibank Services

PNC's Multibank Services provide you with balances and activity for all your accounts held with PNC and other financial institutions around the world. PINACLE's Information Reporting module can give you a quick snapshot of your international cash position, including USD equivalent value, using indicative exchange rates for all your account balances. You can also initiate Multibank Transfer Requests (MT101s), and reduce the time and expense associated with subscribing to a number of balance reporting and transaction systems.

Establish accounts in foreign countries

Establishing good banking relationships in the countries where you do business can simplify your international transactions. PNC offers two service models to help you open and manage accounts at other banks in countries outside the United States.

- PNC Gateway Direct comprises an increasing number of banks located in many European countries and parts of Latin America. PNC's team will serve as a point of contact for setting up the account helping with any language and time barriers and will continue to serve as an intermediary between you and the bank you select. You can access reporting and make transfers via PINACLE.
- PNC's Gateway Referral service can connect you to a correspondent banking network that comprises more than 1,200 relationships in 115 countries.

Foreign Exchange Risk Management

PNC's senior foreign exchange consultants can help you develop a risk management strategy to mitigate the risk of exchange rate swings so you can more effectively secure pricing and costs, potentially increasing profits and reducing expenses.

Trade Services

PNC's Import, Export, and Standby Letters of Credit can deliver security and convenience, along with the backing of an institution with unique strengths in the international banking arena. PNC also provides Documentary Collections services to both importers and exporters, helping to reduce payment risk and control the exchange of shipping documents. We assign an experienced international trade expert to each account, so you always know your contact at PNC and receive best-in-class service. And PNC delivers it all to your computer through advanced technology, resulting in fast and efficient transaction initiation and tracking.

Trade Finance

For more than 30 years, PNC has worked with the Export-Import Bank of the United States (Ex-Im Bank) and consistently ranks as a top originator of loans backed by the Ex-Im Bank both by dollar volume and number of transactions.[1]

Economic Updates

Receive regular Economic Updates from our senior economist by going to pnc.com/economicreports.

(1) Information compiled from Freedom of Information Act resources.

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Financial Environment

Country Information

Geographical Information

Capital	Ottawa
Area	9,984,670 km^2
Population	35.6 million
Official languages	English, French
Political leader	Head of state — Queen Elizabeth II (since February 6, 1952), represented by Governor General Julie Payette (since October 2, 2017) Head of government — Prime Minister Justin Trudeau (since November 4, 2015)

Business Information

Currency (+ SWIFT code)	Canadian dollar (CAD)
Business/Banking hours	09:30–17:00 (Mon–Fri)
Bank holidays	2018 — December 25, 26 2019 — January 1, 2, April 19, May 20, June 24, July 1, September 2, October 14, November 11, December 25, 26 2020 — January 1, 2, April 10, May 18, June 24, July 1, September 7, October 12, November 11, December 25, 28 Source: www.goodbusinessday.com.
International dialing code	+ 1

CANADA

Country Credit Rating

FitchRatings last rated Canada on July 20, 2018 for issuer default as:

Term	Issuer Default Rating
Short	F1 +
Long	AAA
Long-term rating alert	Stable

Source: www.fitchratings.com, November 2018.

Economic Statistics

Economics Table

	2012	2013	2014	2015	2016
GDP per capita (USD)	52,167	51,805	50,201	43,194	41,995
GDP (CAD billion)	1,818	1,879	1,976	1,986	2,027
GDP (USD billion)	1,819	1,825	1,787	1,552	1,524
GDP volume growth* (%)	+ 1.7	+ 2.2	+ 2.6	+ 0.9	+ 1.5
BoP (goods, services & income) as % GDP	– 3.4	– 3.0	– 2.1	– 3.0	– 3.2
Consumer inflation* (%)	+ 1.5	+ 0.9	+ 1.9	+ 1.1	+ 1.4
Population (million)	34.87	35.23	35.59	35.94	36.29
Unemployment (%)	7.3	7.1	6.9	6.9	7.0
Interest rate (local currency MMR)† (%)	1.00	1.00	1.00	0.63	0.50
Exchange rate‡ (CAD per USD)†	0.9992	1.0298	1.1061	1.2791	1.3254

	2017		2018		
	Q4	Year	Q1	Q2	Q3
GDP per capita (USD)	–	45,112	–	–	–
GDP (CAD billion)	–	2,144	–	–	–
GDP (USD billion)	–	1,652	–	–	–
GDP volume growth* (%)	+ 2.9	+ 3.0	NA	NA	NA
BoP (goods, services & income) as % GDP	–	– 2.8	–	–	–
Consumer inflation* (%)	+ 1.8	+ 1.6	+ 2.1	+ 2.3	+ 2.7
Population (million)	–	36.62	–	–	–
Unemployment (%)	5.5	6.3	6.2	NA	NA
Interest rate (local currency MMR)† (%)	NA	0.50	NA	NA	NA
Exchange rate‡ (CAD per USD)†	1.271	1.298	1.265	1.291	1.307

*Year on year. †Period average. ‡Official rate.

Source: *International Financial Statistics*, IMF, November 2018.

Sectoral Contribution as a % of GDP

Agriculture – 1.7%

Industry – 28.1%

Services – 70.2% (2017 estimate)

Major Export Markets

USA (76.4%), China (4.3%)

Major Import Sources

USA (51.5%), China (12.6%), Mexico (6.3%)

Political and Economic Background

Economics

Interest Rate Management Policy

Canada's interest rate is set by the Bank of Canada, which sets a target for the overnight rate. Its main objective is to maintain price stability, defined by the goal of keeping inflation near 2%, which is the mid point of the Bank's 1–3% target range. Any changes to the official target overnight rate are announced by the Bank of Canada on eight "fixed" dates throughout the year.

Foreign Exchange Rate Management Policy

Since September 1998, the Bank of Canada has had a policy of non-intervention in the foreign exchange market. The value of the CAD in the international market is determined by supply and demand. The Bank of Canada is, however, permitted to intervene unilaterally or in concert with other central banks to manage the CAD exchange rate relative to other currencies in periods of international crisis.

Major Economic Issues

Canada's economy is the tenth largest in the world and Canadians enjoy one of the highest per capita incomes. Canada's economy has grown through the exploitation of its vast reserves of natural resources, notably oil, gold, diamonds, uranium, timber, fish and agriculture, although today 70% of GDP is generated by the services sector.

Canada's trade links with the USA have always been an important determinant of economic growth. Links between the two countries have deepened with the emergence of the North American Free Trade Association (NAFTA). However, there remain some tensions between the two partners, especially over the question of subsidies for some American farmers and the applications of tariffs on Canadian softwood exports. Canadians are also concerned over the environmental impact of certain American activities, especially oil exploration in Alaska and the Arctic Ocean.

After a period of recovery from the effects of the global economic downturn, economic growth slowed to 1.7% in 2012 as business investment and exports fell, but strengthened to 2.2% in 2013 and 2.6% in 2014. Growth decelerated again to 0.9% in 2015, reflecting the impact of the steep drop in the price of oil, one of the country's top exports. GDP expanded by 3% in 2017, the fastest pace since 2011 and up from 1.5% in 2016, driven mainly by household spending. In October 2018, the Bank of Canada forecast GDP growth of 2.1% for both 2018 and 2019.

In September 2015, the government announced a CAD 1.9 billion budget surplus for the 2014-2015 fiscal year. A year earlier than expected, this represented an end to a period of deficits which started in 2007-2008. However, after just one year in surplus, the new Liberal government announced a CAD 1 billion deficit for 2015-2016, due to increasing program spending. The deficit widened to CAD 17.8 billion in 2016-2017. In February 2018, the Liberal government announced its third federal budget, including a deficit projection of CAD 19.4 billion for 2017-2018, falling to CAD 18.1 billion in 2018-2019, and down to CAD 12.3 billion by 2022-2023. The Liberals claim their budget will boost productivity and meet the challenges of an aging population by increasing the participation of women in the workforce in sectors ranging from science to skilled trades. In October 2018, final figures released for the 2017-2018 fiscal year indicated that the budget deficit for the year was CAD 19 billion, down from the previous projection of CAD 19.4 billion.

Domestic inflation stood at 2.2% in September 2018, down from 2.8% in the previous month, and within the central bank's 1–3% target range. Unemployment stood at 5.9% in September 2018, down from 6% in the previous month. It remains an important issue, especially in the relatively poorer Atlantic Provinces.

Politics

Government Structure

Canada is a federal constitutional monarchy.

The national government is based in Ottawa.

Queen Elizabeth II is the head of state, but exercises limited executive power. A governor-general is appointed by the monarch to represent her, on the advice of the prime minister.

There are ten provinces and three territories. The provinces derive their power from the 1867 Constitution Act, whereas the territories derive their power from the federal government. All 13 provinces and territories have an administration headed by a premier, who is usually the leader of the party with the most seats in the provincial or territorial legislative assembly. The monarch also appoints a lieutenant-governor as her representative in each of the provinces.

Executive

At national, or federal, level, the executive is headed by the prime minister and his cabinet. The prime minister forms a government with the support of the House of Commons (see Legislature, below) but is officially appointed by the governor-general.

The current majority administration is headed by Prime Minister Justin Trudeau, of the centrist Liberal Party.

Elections to the House of Commons must be held at least every five years. The most recent elections were held on October 19, 2015. According to the terms of the Canada Elections Act, which was passed in 2007 and introduced fixed elections, there will be an election on October 21, 2019 (although the Act does not prevent an early dissolution of Parliament).

Legislature

At national level, the legislature has two houses.

The 338-member House of Commons (Chambre des Communes) is directly elected at least every five years.

The 105-member Senate (Senat) is appointed by the governor-general (on advice from the prime minister). Once appointed, members serve until their 75th birthday.

International memberships

Canada is a member of the North American Free Trade Association. It is also a member of the Commonwealth of Nations, the Organization for Economic Cooperation and Development (OECD), the Bank for International Settlements, the G-7, the North Atlantic Treaty Organization and the World Trade Organization. It has observer status at the Council of Europe.

Major Political Issues

Canada is a federal state in which power is divided between the national (or federal) government based in Ottawa and provincial and territorial governments. Although technically the federal government has no control over the range of issues preserved for the provinces, such as health care, it is able to exercise influence through transfer (or equalization) payments designed to boost the income of the poorer provinces. Although there is a perennial debate over the respective roles of the federal and provincial governments, the position of Quebec, and its French-speaking majority, is less prominent an issue at present.

In October 2015, the centrist Liberals, under Justin Trudeau, won a convincing majority in the federal elections, bringing to an end the nearly 10-year tenure of Conservative Prime Minister Stephen Harper. The Liberals took 185 of 338 seats, as Canadians voted for change amid a weakening economy. Mr Harper stepped down as leader of the Conservative party, which took 100 seats in the October elections. The left-leaning New Democratic Party (NDP) suffered major losses, slumping to 42 seats and losing their status as the Official Opposition to the Conservatives. Mr. Trudeau and the rest of the Cabinet were sworn in on November 4, 2015.

Mr. Trudeau, the son of late Prime Minister Pierre Trudeau, has pledged to cut income taxes for middle class Canadians while increasing them for the wealthy, run annual deficits for three years to invest in infrastructure and help stimulate the economy, repair Canada's relations with the US government, withdraw Canada from the combat mission against Islamic State militants, and tackle climate change. Mr. Trudeau remains a relatively popular Prime Minister but his approval rating has dropped recently.

In May 2017, the Conservatives elected Andrew Scheer as their new leader and the leader of the Opposition, replacing Stephen Harper. With the election of Jagmeet Singh, a former criminal defense lawyer, as the new head of New Democratic Party in October 2017, the stage has been set for Canada's 2019 federal election.

Taxation

Resident/Non-resident

Corporations are deemed resident in Canada if incorporated in Canada.

A company incorporated outside Canada may nevertheless be considered to be resident in Canada if its central management and control are located in Canada. As central management and control are normally exercised by the directors, a company is generally considered resident where its directors meet.

Tax Authority

Canada Revenue Agency (CRA) and provincial authorities.

Tax Year/Filing

The income tax fiscal period of a company is selected in its first year and cannot exceed 53 weeks. Once a fiscal period is selected for income tax purposes, it cannot be changed without permission from the Canadian tax authorities. Whereas taxpayers normally select an income tax fiscal period that coincides with the financial statement fiscal period, this need not be the case.

The corporate tax return should be filed within six months of the end of the taxation year.

Federal and provincial tax authorities require monthly or other periodic installment payments on account of the current year tax liability.

Final tax payments generally are due within two months of year-end.

Consolidated returns are not permitted; each corporation is required to file a separate return.

Corporate Taxation

Residents are taxed at the federal and provincial/territorial levels on their worldwide income. Certain income of controlled foreign affiliates is taxed on an accrual basis. Taxation also can arise in respect of investments in certain non-resident trusts and offshore investment funds. Non-residents are taxed on certain types of Canadian-source income.

Tax can be imposed by both the federal and provincial governments. In two provinces (Quebec and Alberta), the provincial corporate income tax system is administered by the province, whereas in the other eight provinces and three territories (the participating provinces), the federal government (through the CRA) administers both the federal and provincial corporate income tax systems.

Companies resident in Canada are taxable on their worldwide income. Credit against Canadian tax is given for certain foreign taxes.

General business income and M&P business income are taxed federally at the same rate of 15%.

A federal small business rate of 10% is available on the first CAD 500,000 of active business income earned by a Canadian-controlled private company (CCPC), provided the income is earned from an active business in Canada. Income in excess of CAD 500,000 is subject to federal tax at the general business income rate.

Provincial income tax rates vary, and provincial income taxes are not deductible for federal income tax purposes. The provincial general corporate tax rates for the various provinces and territories range from 11.5% to 16%. Small business and M&P rate reductions are available in some provinces. Only the province of Ontario levies a corporate minimum tax.

No surtax is levied.

The taxation of dividend income is dependent on the status of both the dividend recipient and the dividend payer.

Dividends received by private corporations from a taxable Canadian corporation or a corporation resident in Canada are deductible in computing corporate income tax. However, dividends from non-connected corporations are subject to an additional tax, which is refunded when the corporation pays out taxable dividends to its shareholders.

Dividends received from a foreign company generally are subject to tax, but deductions are available in respect of dividends from foreign affiliates. Where the payer is not a foreign affiliate, a credit for withholding tax generally is available.

Dividends received by public corporations from a taxable Canadian corporation or a corporation resident in Canada are deductible for corporate tax purposes. Dividends received from a foreign company are subject to tax, but deductions are available in respect of dividends from foreign affiliates. Where the payer is not a foreign affiliate, a credit for withholding tax generally is available.

Dividends received by Canadian corporations from foreign affiliates are exempt if paid from exempt surplus, and are taxable with deductions for underlying foreign tax and withholding tax if paid from taxable surplus. Exempt surplus generally relates to active business income earned by an affiliate resident in, and carrying on an active business in, a country with which Canada has signed an income tax treaty. Dividends from affiliates located in non-treaty countries that enter into a tax information exchange agreement with Canada also may qualify as paid from exempt surplus. A new category of 'hybrid surplus' (effective retroactively as from August 19, 2011) relates to certain capital gains realized by foreign affiliates. Dividends from hybrid surplus are 50% taxable.

Canadian public and private corporations are required to track dividends paid out of general and low-rate income pools, as this determines the availability of enhanced tax credits for Canadian-resident individuals.

Certain types of passive income earned by certain foreign companies with Canadian shareholders may also be subject to Canadian income tax on a current year basis in the hands of the Canadian shareholders.

A refundable investment tax credit (ITC) of up to 35% of qualified expenditure on scientific research and experimental development is available for an eligible Canadian-controlled private corporation (CCPC). A non-refundable ITC of up to 15% is available for a CCPC when it is not eligible for the refundable ITC and for a non-CCPC. Provincial incentives also are available.

A federal production tax credit for qualified Canadian labor expenditure incurred for an accredited production of films and videotapes also is available. The provinces offer similar incentives.

Foreign non-business and business income tax paid in another country may be credited against Canadian tax on the same profits, but the credit is effectively limited to the amount of Canadian tax otherwise payable on the foreign business income. Excess foreign business income tax paid that cannot be claimed may be carried over on a per-country basis and applied against foreign business income of other years. The excess credit may be carried back three years and carried forward ten years. Excess foreign non-business income tax may be claimed as a deduction in computing income.

Trading losses may be carried back for three years and carried forward for 20 years. Capital losses may be carried back for three years and carried forward indefinitely.

Advance Ruling Availability

Subject to specific exclusions, the federal tax authorities will issue an advance income tax ruling to taxpayers, which is a written statement on how they will apply a particular section of the tax law to a definite transaction that has not yet occurred. Once issued, the ruling is binding, provided all the facts, which remain confidential, have been presented by the taxpayer to the tax authorities.

Stamp Duty

There is no stamp duty in Canada.

Withholding Tax (Subject to Tax Treaties)

Payments to:	Interest	Dividends	Royalties/Fees	Branch Remittances
Resident corporations	None	None	None	NA
Non-resident corporations	25%	25%	25%	25%

Generally, there is no withholding tax on payments made to Canadian resident companies.

A 25% withholding tax is usually imposed on the gross Canadian-sourced income paid or credited to non-residents.

Rates may be reduced under applicable tax treaties to as low as 5% for dividends, 0% for interest and 0% for some types of royalties.

The withholding tax rules apply to interest, dividends, rental payments, royalties or similar payments, including guarantee fees and management fees. Exemptions are allowed for management fees paid on account of services provided in the ordinary course of business of a non-resident and provided that the participants are dealing at arm's length.

Transfer Pricing

When a taxpayer enters into transactions to buy or sell goods or services with a non-arm's length non-resident, the price charged should be the price that would have been set between persons dealing at arm's length. If the price charged differs from an arm's length price, upward or downward adjustments will be made to ensure the price charged reflects an arm's length price. Proper documentation must be maintained to support the transfer pricing methodology used. If contemporaneous documentation is not prepared, penalties may apply if adjustments exceed specified amounts.

Thin Capitalization

Thin capitalization rules apply to Canadian-resident corporations and partnerships of which the Canadian corporation is a member, to restrict the deduction of interest paid on debts, including trade debts, payable to non-resident shareholders holding 25% or more of any class of shares of the Canadian company (owned directly or cumulative with related parties), where the ratio of debt to equity held by related non-residents exceeds 1.5:1. Any disallowed interest is deemed to be a dividend, subject to withholding tax of 25% (generally reduced under most treaties).

Controlled Foreign Companies

Canadian residents must pay Canadian income tax on a current basis to the extent of their share of foreign accrual property income (FAPI) earned by a controlled foreign affiliate. The definition of "controlled foreign affiliate" is broad, and an anti-avoidance rule may apply if shares are acquired or disposed of and the principal purpose is to avoid this status.

Anti-avoidance

These are numerous anti-avoidance rules to address specific perceieved abuses and a general anti-avoidance rule (GAAR), which is meant to be an all-encompassing anti-avoidance rule where no specific rule applies.

Disclosure Requirements

Canadian corporations, trusts and individuals that hold or acquire investments outside of Canada are required to report any holdings that are in excess of CAD 100,000 to the Canadian tax authorities on an annual basis. In addition, Canadian corporations, trusts and individuals are required to report to the Canadian tax authorities any transfers or loans made to, distributions received from or indebtedness to a non-resident trust.

A non-resident that disposes of or plans to dispose of taxable Canadian property is required to disclose this to the CRA before or within ten days of the disposition, subject to a possible exception for treaty-protected property (notification within 30 days of the disposition).

A person who sells tax shelters is required to register for an ID number, provide investors with tax shelter ID numbers and statements and file an annual information return disclosing certain information about the persons who have invested in those tax shelters.

The province of Quebec and the federal government have introduced measures, including disclosure requirements and additional penalties, to combat what is perceived to be aggressive tax planning.

Property Taxes

Local governments collect property taxes. Rates vary based on the classification of the properties. Property taxes are generally based on the assessed value, which is derived from current market conditions and may be determined according to different methodologies depending on the province.

This tax is deductible in calculating the corporate tax liability.

Land Transfer Taxes

All provinces and cities levy taxes on the transfer of land. The tax rates vary depending on the jurisdiction, and when combined in the cities of Toronto and Montreal, the rate is as high as 4%. Outside of these cities, the rate is as high as 2%. Other provinces levy only a document registration fee.

Capital Tax

Historically, various provincial governments imposed an annual tax on Canadian companies and the capital used by foreign companies attributable to a Canadian PE. There is no federal capital tax.

All provinces have eliminated provincial capital taxes.

However, a number of provinces and the federal government do impose a capital tax on financial institutions. The territories do not impose this tax.

Notional Cash Pooling

Canada does not have specific income tax provisions regarding notional cash pooling arrangements. Accordingly, the Canadian income tax implications are determined by applying general Canadian tax rules to the legal nature and effect of the transactions entered into by the various parties to the notional cash pooling arrangement.

The Canadian tax implications to the group companies participating in the notional pooling arrangements can vary, depending on the specifics of the contractual relationship between group companies. Factors such as which companies bear credit risk, whether assets (i.e. cash and securities) have been pledged or cross-guarantees have been provided, and the ability of participants to borrow absent the arrangement, need to be considered.

If the arrangement is viewed as intra-group lending/borrowing, the tax implications discussed in the sections on cash concentration and zero/target/threshold balancing should be considered.

If the Canadian participants are required to pay interest to a related non-resident participant under the arrangement, Canadian non-resident withholding tax may apply, subject to tax treaty relief. If interest owing to a related person remains unpaid two taxation years after the end of the taxation year in which the interest was incurred, the amount of interest may be included in the Canadian payer's taxable income, unless an election is made to deem the interest paid, thereby triggering any withholding tax obligation.

Transfer pricing issues should be considered regarding the allocation of any resulting interest benefit, services fees or guarantee fees.

Cash Concentration and Zero/Target/Threshold Balancing

Companies will need to consider the tax consequences of the Canadian thin capitalization and transfer pricing regimes. Under Canada's thin capitalization regime, deductions for interest considered paid to related non-residents may be restricted (see section on Thin capitalization). Interest paid to related non-residents should be determined using arm's-length principles under Canada's transfer pricing regime.

Where a Canadian company is effectively considered to have made a loan or an advance to a related foreign company, if certain conditions are met, the amount of such loan or advance may be considered a constructive dividend subject to Canadian withholding tax. A 'Pertinent Loans or Indebtedness' exemption is available and, if elected, would ensure that a qualifying loan is respected as such. However, the Canadian debtor company must report an amount of interest income on the loan, whether or not the debt is actually interest-bearing at a rate that is not lower than the prescribed rate (currently 5%). This election is only available for debts that arose after March 28, 2012.

Interest payments to non-residents of Canada may be subject to withholding tax.

Interest receipts by a Canadian resident are subject to Canadian income tax.

Tax Treaties / Tax Information Exchange Agreements (TIEAs)

Canada has exchange of information relationships with 118 jurisdictions through 94 double tax treaties and 24 TIEAs (www.eoi-tax.org, February 2018).

Financial Transactions / Banking Services Tax

Canada has no specific financial transactions and/or services taxes applicable to services, loans, money transfers, letters of credit and/or foreign exchange.

Sales Tax

A federal value added tax (goods and services tax (GST)) is levied on the provision of most goods and services in Canada (including intangibles and real property).

The province of Quebec levies a value added tax (Quebec sales tax (QST)) on the provision of most goods and services in Quebec. The QST generally is harmonized with the GST, but it is administered separately by the province.

The provinces of New Brunswick (NB), Nova Scotia (NS), Prince Edward Island (PEI), Newfoundland (NL) and Ontario (ON) have a fully harmonized sales tax (HST) with the federal government under a single federal administration (the provincial sales tax (PST) regime still applies only to certain insurance premiums in ON).

The provinces of British Columbia (BC), Saskatchewan (SK), and Manitoba (MB) levy and separately administer a more traditional single-incidence retail sales and use tax on the provision (or use) of most goods and certain services in the specific province.

The federal GST rate is 5% and the HST rate is 13% for goods and services supplied in the province of ON, and 15% for the provinces of NL, NS, NB and PEI. The QST rate is 9.975%. The PST general rates are as follows: BC, 7%; SK, 6%; and MB, 8%. Only the 5% GST is levied in Alberta and the territories.

GST/HST registration generally is required for every person engaged in a commercial activity in Canada. Registration is not required for small suppliers (i.e. persons who have under CAD 30,000 in worldwide taxable sales) or non-residents of Canada who do not “carry on business” in Canada. QST registration generally is required for every person engaged in a commercial activity in Quebec, but is not required for small suppliers or non-residents of Quebec who do not “carry on business” in Quebec. The vendor registration rules for each PST province vary, and some provinces have “reach out” provisions to require registration by out-of-province vendors selling taxable property into the province.

Business License Fees

Various provinces and municipalities impose business license fees that depend on the type of business and the location in which it is carried on.

Capital Gains Tax

Gains and losses on the disposition of capital property are subject to federal and provincial taxes, but only on 50% of the gains and losses. Capital losses may generally only be deducted against capital gains. Any excess in the year may be carried back three years or carried forward indefinitely to be offset against future capital gains.

The untaxed portion of a capital gain (net of capital losses) of a Canadian private corporation can be distributed tax free to a Canadian resident shareholder.

The tax on a portion of capital gains may be deferred on disposals where all or part of the proceeds are payable after the end of the year.

Payroll and Social Security Taxes

Newfoundland, Manitoba, Quebec, Ontario, Nunavut and the Northwest Territories impose payroll taxes ranging from 1.95% to 4.3% of the annual gross wages, salary and other remuneration paid by an employer. Such taxes are generally deductible for income tax purposes.

Both the employer and the employee are required to make employment insurance and government pension plan contributions, with the amount based on the employee's earnings.

Workers' compensation schemes are administered provincially. Generally they are mandatory for certain industries, and voluntary for others. Employers make monthly contributions per employee.

All tax information supplied by Deloitte Touche Tohmatsu and Deloitte Highlight 2018 (www.deloitte.com).

Cash Management

Banking System

Banking Regulation

Banking Supervision

Central bank

The Canadian central bank is the Bank of Canada / Banque du Canada. It was established in 1934 as a private institution, and was nationalized in 1938 as a Crown corporation. The bank is based in Ottawa and its authority currently derives from the Bank of Canada Act.

Within Canada, it is the banker to the federal government and to other banks; it issues currency, manages the country's monetary reserves and supports Canadian government economic policy. It also manages the operations of the country's clearing systems.

Other banking supervision bodies

Bank supervision is performed by the Office of the Superintendent of Financial Institutions.

Central Bank Reporting

General

Canada does not apply central bank reporting requirements.

What transactions – listed

NA

Whom responsible

NA

Additional reporting for liquidity management schemes

NA

Exchange Controls

Exchange structure

Canada has a free floating exchange rate structure. The value of the CAD is determined freely in the foreign exchange market, based on supply and demand.

Classification

Canada's currency is classified as unitary.

Exchange tax

There is no exchange tax.

Exchange subsidy

There is no exchange subsidy.

Forward foreign exchange market

There are no restrictions on forward foreign exchange markets.

Capital flows

There are some controls on inward direct investment. These apply to strategic sectors of the economy, including banking and finance, broadcasting and telecommunications, energy, fishing and transportation.

Loans, interest and repayments

There are no controls on the provision of loans by commercial banks.

Royalties and other fees

There are no restrictions.

Profit remittance

There are no restrictions on the remittance of profits into or out of Canada.

Bank Account Rules

Resident entities are permitted to hold fully convertible foreign currency bank accounts domestically and outside Canada.

Non-resident entities are permitted to hold fully convertible domestic and foreign currency bank accounts within Canada.

Anti-money Laundering and Counter-terrorist Financing

- Canada has implemented anti-money laundering and counter-terrorist financing legislation (the Proceeds of Crime (Money Laundering) and Terrorist Financing Act of 2001, as amended, most recently in 2017; the Cross-border Currency and Monetary Instruments Reporting Regulations 2002; the Regulations Amending Certain Regulations Made under the Proceeds of Crime (Money Laundering) the Terrorist Financing Act and the Freezing Assets of Corrupt Foreign Officials Act 2011).
- A Financial Action Task Force (FATF) member, Canada observes most of the FATF-49 standards.
- Canada is also a member of the Caribbean Financial Action Task Force (CFATF) (as a Co-operating and Supporting Nation), the Asia/Pacific Group on Money Laundering (APG) (as an observer jurisdiction), the Council of Europe MONEYVAL Select Committee (as an observer jurisdiction) and the Organisation of American States/Inter-American Drug Abuse Control Commission (OAS/CICAD).

- Canada has established a financial intelligence unit (FIU), the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), which is a member of the Egmont Group.
- Account opening procedures require formal identification of the account holder and third parties. Formal identification is also required for corporate clients and directors including beneficial owners of companies and trustees.
- Financial institutions are required to conduct ongoing due diligence.
- All credit and financial institutions have to identify clients for transactions such as depositing funds, buying life insurance or buying a money order.
- Individuals making occasional wire transfer transactions exceeding CAD 1,000 must identified.
- Financial institutions must identify account holders when issuing travellers' cheques or money orders exceeding CAD 3,000.
- Financial institutions in the broadest sense are required to report suspicious transactions and attempted suspicious transactions within 30 days of its detection to FINTRAC.
- All large cash transactions and cross-border movements of currency and monetary instruments, as well as electronic fund transfers exceeding CAD 10,000 made in a single or series of linked transactions within 24 hours, must be recorded and reported to FINTRAC.
- All records must be kept for at least five years.

Data as at February 2018.

Banking Sector Structure

Major Domestic Banks

Bank	Total assets (USD million) August 31, 2018
The Toronto-Dominion Bank	1,019,180
Royal Bank of Canada	1,017,330
The Bank of Nova Scotia	748,114
Bank of Montreal	592,862
Canadian Imperial Bank of Commerce	468,407
Desjardins Group	223,975*
National Bank of Canada	205,847
HSBC Bank Canada	80,257

* June 30, 2018

Sources: Office of the Superintendent of Financial Institutions and www.accuity.com.

Overall Trend

Canada has 35 domestic banks and 21 subsidiaries of foreign banks that are permitted to offer the full range of wholesale and retail banking services. There are also five cooperative credit associations that are federally regulated. In addition, 32 foreign banks have established branches in Canada (28 full service branches and four lending branches). There are also 21 foreign bank representative offices.

There are five main domestic banks, providing the full range of banking services to corporate clients – Bank of Montreal, Bank of Nova Scotia (Scotiabank), Canada Imperial Bank of Commerce (CIBC), Royal Bank of Canada and Toronto Dominion Bank. In addition, many of the major international cash management banks operate in Canada and also provide banking services to corporate clients.

The main domestic banks have all established a presence outside Canada, notably in the US, as well as in Latin America and the Caribbean.

Canadian banks have taken advantage of their relative strength to acquire assets from troubled US firms over the past several years. They have been involved in about USD 28 billion of announced acquisitions since 2010, including purchases by Bank of Montreal, Toronto-Dominon Bank and Canadian Imperial Bank of Commerce.

Although Canadian banks have taken sizeable writedowns on their exposure to the US sub-prime housing market, they were relatively unscathed by the global financial crisis; in 2015, they were rated the soundest in the world for the eighth consecutive year by the World Economic Forum. In 2018, Canadian banks were ranked the second soundest in the world, behind Finland’s.

Payment Systems

Overview

Canada's two main interbank payment clearing systems are LVTS and ACSS.

The Large Value Transfer System (LVTS) is the country's real-time settlement system, used for high-value and urgent electronic payments. It is operated by Payments Canada (formerly the Canadian Payments Association (CPA)).

In June 2016, the Canadian Payments Association (CPA) changed its name to Payments Canada.

Also operated by Payments Canada, the Automated Clearing Settlement System (ACSS) is the country's main retail payments clearing system. It is used to process bulk electronic payments as well as CAD-denominated checks. The US Dollar Bulk Exchange system (USBE) is a parallel system to the ACSS. USD-denominated checks and electronic payments (AFT credits and debits) can be settled via correspondent banks in New York using the USBE.

Payments Canada has announced plan to develop three new payment systems as part of its multi-year modernization program. The new systems will operate under an enhanced risk, regulatory and rules framework. As part of the plan, Payments Canada will build a new payments infrastructure where the three new systems will coexist and complement each other.

Lynx, a high-value system, will replace the existing real-time settlement system LVTS. It will be built to support the international payment messaging standard ISO 20022 and allow for future migration to this standard.

The Settlement Optimization Engine (SOE), a batch payment system for the clearing of low-value, non-urgent electronic and paper-based payments, will replace the existing ACSS and USBE. Automated Fund Transfers (AFT) will be enhanced by migrating to the ISO 20022 standard, an additional exchange window and faster funds availability.

Real-Time Rail (RTR), a real-time payment system, will be able to process payments in real-time 24 hours a day, seven days a week. It will serve as a platform for future innovation, supporting the development of new services. Phase 1 of the RTR project is to be implemented in 2019. The subsequent phases are expected to be delivered in 2020 and beyond.

The names SOE and RTR are being used for project delivery purposes and will be changed.

High-value

Name of system	Large Value Transfer System (LVTS)
Settlement type	Real-time settlement
Settlement cycle	Payments are settled on a same-day basis with immediate finality.
Links to other systems	NA
Payments processed	High-value and urgent electronic payments
Currency of payments processed	CAD
Value and other limits to processing	There are no value thresholds.
Operating hours	00:30 to 19:30 ET
System holidays	2018 — December 25, 26 2019 — January 1, February 18, April 19, May 20, July 1, August 5, September 2, October 14, November 11, December 25, 26 2020 — January 1, February 17, April 10, May 18, July 1, August 3, September 7, October 12, November 11, December 25, 28
Cut-off times	Customer payments = 18:00 ET
Participants	17 direct and approximately 65 indirect participants
Access to system	Banks connect via the SWIFT FIN Y-Copy service. Payments are submitted using SWIFT standard message types (MT 103 or MT 205). A private Direct Network is used used primarily for non-payment messaging. This network can also be used to submit payments (transfers equivalent in purpose to the MT 205) in contingency situations.
Future developments	Payments Canada has announced plans to develop a new real-time settlement system. The new system, called Lynx, will replace the existing LVTS system. Phase I of Lynx will be delivered in 2020. Subsequent phases, including the adoption of the international payment messaging standard ISO 20022 standard, will be implemented in future phases beyond 2021. This project is part of the Payments Canada's multi-year strategy to upgrade the national payment system infrastructure.

Low-value

Name of system	Automated Clearing Settlement System (ACSS)
Settlement type	Deferred net settlement
Settlement cycle	Payments are usually settled on a next day basis. Payments Canada introduced a two-hour funds availability option for automated funds transfers (AFTs) in October 2018.
Links to other systems	NA
Payments processed	Low-value and non-urgent electronic credit transfers (Automated Funds Transfer (AFT) credits and AFT debits), checks and other paper instruments. EDI, POS and automated banking machine transactions.
Currency of payments processed	CAD
Value and other limits to processing	The maximum threshold for checks, bank drafts and other paper items is CAD 25 million.
Operating hours	07:00 to 05:30 ET
System holidays	2018 — December 25, 26 2019 — January 1, February 18, April 19, May 20, July 1, August 5, September 2, October 14, November 11, December 25, 26 2020 — January 1, February 17, April 10, May 18, July 1, August 3, September 7, October 12, November 11, December 25, 28
Cut-off times	NA
Participants	12 direct and approximately 120 indirect participants
Access to system	NA
Future developments	Payments Canada has introduced new AFT rules as part of its modernization program. The new rules, which came into effect in September 2018, combined with the introduction of a two-hour funds availability option for automated funds transfers in October 2018, enable new features such as same-day payroll, expedited bill payments and faster settlement of invoices. Payments Canada has also announced plans to develop a new batch payment system. The new system, called SOE, will replace the existing ACSS and USBE systems. The SOE project will be implemented in three phases. Phase I, which will involve the development of an "ACSS like" replacement is scheduled for early 2021. Phases II and III will be implemented in 2021 or beyond. This project is part of the Payments Canada's multi-year strategy to upgrade the national payment system infrastructure.

Payment and Collection Instruments

Overview and Trends

The most important cashless payment instruments in Canada are electronic credit transfers in terms of value and card payments in terms of volume. Although their usage is falling, checks remain an important form of payment. The increased use of electronic and internet banking has led to a growth in the use of electronic payments such as electronic credit transfers and direct debits. Card payments have increased steadily, especially in the retail sector.

Statistics of Instrument Usage and Value

	Transactions (million)		% change	Traffic (value) (CAD billion)		% change
	2016	2017	2017/2016	2016	2017	2017/2016
Checks	502.7	324.5	– 35.5	2,465.0	1,621.9	– 34.2
Debit cards	5,428.0	5,784.0	6.6	222.0	242.0	9.0
Credit cards	4,502.6	4,952.8	10.0	444.5	502.8	13.1
Low-value credit transfers	1,350.5	1,381.7	2.3	2,723.0	2,959.8	8.7
High-value credit transfers	8.6	9.1	5.8	44,161.6	44,069.6	– 0.2
Direct debits	825.9	871.9	5.6	695.3	748.8	7.7
Total	**12,618.3**	**13,324.0**	**5.6**	**50,711.4**	**50,144.9**	– 1.1

Source: *CPMI - Red Book statistical update*, November 2018.

Paper-based

Checks

The use of checks has been in decline in favor of electronic payment instruments. However, checks remain popular, especially with small companies and consumers.

Most checks are processed through ACSS, although checks with a value above CAD 25 million must be processed as electronic items in LVTS.

After a series of amendments to Payments Canada (formerly the CPA) rules, banks can create and use image-based, fully MICR-encoded documents known as “Return Replacement Documents” (RRDs), to return some dishonored items more quickly. Check images can also be transmitted directly to data centers, where the checks can then be printed as “Clearing Replacement Documents” (CRDs) and cleared as paper items to the drawee. Banks may also make proprietary bilateral arrangements to exchange check images for the purpose of clearing and settlement and corporate customers to transmit deposits data directly to their financial institutions. There is no need for bilateral arrangements to allow for the electronic exchange of images between banks.

Some Canadian banks have developed applications allowing account holders to remotely deposit checks into their bank accounts using a smartphone or tablet. In order to deposit a check directly into a bank account, clients have to take a picture of the front and back of the cheque with their mobile devices and send the images electronically. Once the bank receives a picture of a check from a mobile phone, it creates a document to clear the check.

USD-denominated checks deposited at a bank in Canada can be processed through USBE for settlement across accounts held at correspondent banks in New York.

Electronic

Credit Transfer

Credit transfers are increasingly used in Canada and are becoming the main form of payment instrument used by large companies to pay suppliers and salary payments. They are also used to make treasury, tax and benefit payments.

Interac's e-Transfer platform support real-time payments across interoperability to more than 250 financial institutions in Canada and supports real-time payments across a wide range of use cases, including Person-to-Person (P2P), Person-to-Business (P2B), Business-to-Person (B2P) and Business-to-Business (B2B). The service is able to process payments 24 hours a day, seven days a week.

In October 2015, Interac launched a new service called e-Transfer bulk disbursement, which allows businesses to send payments to multiple recipients at once, eliminating the need to issue, track or reconcile checks or handle cash payments. No bank account information is required for payment. Beneficiaries receive an e-mail notification and after answering a security question, they are able to deposit funds directly into the CAD account of their choice. Currently, six financial institutions (ATB Financial, DirectCash Bank, RBC, Scotiabank, TD and BMO) offer the service to their business customers.

High-value

High-value and urgent credit transfers are processed through LVTS. Customer payments must be submitted by 18:00 ET to be settled on a same-day basis. All payments settled through LVTS are made with immediate finality.

Cross-border payments can be settled using correspondent banks or via internal networks of international banks.

Low-value

Non-urgent and low-value credit transfers, known as Automated Funds Transfer (AFT) credits, are processed through ACSS. Most payments are processed to be settled within two days. These are primarily used for supplier payments and payroll.

Payments Canada has introduced new AFT rules as part of its modernization program. The new rules, which came into effect in September 2018, combined with the introduction of a two-hour funds availability option for automated funds transfers in October 2018, enable new features such as same-day payroll, expedited bill payments and faster settlement of invoices.

USD-denominated AFT credits can be processed through USBE for settlement across accounts held at correspondent banks in New York. USD-denominated credit transfers from the USA to Canada can be made via the US FedACH's FedGlobal Canada service (also known as Canada Connection). Funds are available to the Canadian beneficiary denominated in CAD or USD a same- or next-day basis, depending on the type of transaction.

Direct Debits

All direct debits must be pre-authorized (PADs) and are primarily used for regular utility payments. As well as regular payments, one-off debit transactions, which must also be pre-authorized, can also be effected.

Direct debits are processed through ACSS as AFT debits for settlement on a next-day basis.

USD-denominated AFT debits can be processed through USBE for settlement across accounts held at correspondent banks in New York. The US FedACH's FedGlobal Canada Service offers banks based in the USA the option of sending ACH debits to Canada.

Payment Cards

The use of payment cards continues to increase in Canada, especially among retail consumers, and corporate cards are available through some banks.

Visa, MasterCard and American Express are the main credit card schemes in Canada.

Interac is the main debit card scheme operating in Canada. Debit cards supporting both Visa and Interac networks are also available. Domestic transactions made via these cards are processed through the Interac system, with online and international transactions processed via the Visa network.

Canada is gradually migrating towards EMV-compliant chip technology for both debit and credit cards. All Interac's POS transactions have been chip-enabled since October 2016. Since January 2013, magnetic stripe debit card transactions have not been accepted at Interact ATMs.

By the end of 2017, there were approximately 28.8 million debit cards and 77.5 million credit cards in circulation in Canada.

Debit card payments are cleared through ACSS. Credit card payments are processed through the card issuing network.

ATM/POS

There is an increasing use, in particular of POS terminals. At the end of 2017, there were approximately 1.42 million POS terminals and 70,000 ATMs in Canada.

There are two main types of ATMs in Canada: full service ATMs and white label machines. Full service ATMs offer cash withdrawal services as well as banking services including deposits, balance reporting and funds transfers. White label machines offer basic cash withdrawal services.

Interac (Interac Cash) offers the main nationwide network for shared ATM and POS transactions in Canada. ATMs are owned individually by banks or independent ATM deployers. They are linked through the ATM network Interact, which has more than 80 members.

Electronic Wallet

There has been no nationwide electronic money scheme launched in Canada.

Pre-paid gift/store cards are widely available.

Banks offer pre-paid stored value cards. Theses cards can be reloaded and used to effect payment up to the value stored on the card.

Contactless card technology is available in Canada.

Interac Flash is a contactless enhancement of Interac Debit that allows cardholders to make low-value retail payments by waving their cards in front of a contactless reader. Interac Flash enabled debit cards are currently issued by over 100 financial institutions, including Scotiabank, Royal Bank of Canada, TD Canada Trust and Sunova Credit Union.

Visa payWave and MasterCard PayPass allow cardholders to pay with cards or mobile devices with built-in near field communications (NFC) technology by waving them over a supporting reader.

The mobile payment schemes Samsung Pay, Google Pay and Apple Pay are also available. They all support Interac Debit.

Mobile payment services such as Zoompass, are also available.

Liquidity Management

Short-term Borrowing

Overdrafts

Bank overdrafts are available for both resident and non-resident companies up to agreed credit limits often within annual lines of credit. These are legally repayable on demand or at short notice. Companies commonly use bank overdrafts for the flexibility and convenience that they provide. Overdrafts may be unsecured, secured or guaranteed, depending on the borrower's creditworthiness.

Depending on the borrower's creditworthiness, banks charge interest at a margin over or under the prime lending rate which follows on the central bank's overnight rate.

Bank Lines of Credit / Loans

Resident and non-resident entities can arrange short-term bank loans and revolving lines of credit denominated in local and foreign currencies.

The average tenor is between three and six months.

Banks charge interest at a margin over or under the prime lending rate for CAD-denominated loans and advances, or against other benchmarks, such as LIBOR, for foreign currency loans and advances.

Fees are also payable and have generally replaced compensating balances.

Trade Bills – Discounted

Banks do not usually discount trade bills.

Factoring

The full range of factoring services is available in Canada, including credit insurance.

Factoring is almost always disclosed to the debtor, who usually directly pays the factoring company.

Commercial Paper

Many large Canadian corporations are domestic commercial paper (CP) issuers denominated in Canadian and US dollars. Paper is mostly issued on a discount basis and backed by commercial banks' stand-by credit lines.

CP ranges from one day to one year, but the average tenor is usually one month.

Paper is mostly sold through dealers, although some large issuers place their CP directly with investors.

CP programs of under one year are not required to be registered with securities' commissions.

Bankers' Acceptances

Bankers' acceptances (BAs) are commonly used because of their low cost compared to other funding sources. They are mostly denominated in CAD, but can be USD.

BAs are usually arranged for 30–90 days, but can extend up to a year.

Banks charge stamping fees when accepting bills.

Supplier Credit

Open account trading is the most common form of domestic trade. Payment terms vary between industries and on the credit strength of the buyer.

Intercompany Borrowing, including Lagging Payments

There is nothing to stop inter-company borrowing within Canada.

Canadian groups are permitted to establish intracompany loans, but are subject to thin capitalization rules (see tax section) on loans from offshore companies, which can also be subject to withholding taxation (see tax section).

Short-term Investments

Interest Payable on Bank Account Surplus Balances

Interest-bearing current, or checking, accounts are available to both resident and non-resident entities.

Demand Deposits

Interest-bearing demand, or sight, deposit accounts are available to both resident and non-resident entities.

Time Deposits

Time deposits are popular short-term investment instruments in Canada. Banks offer them for terms from overnight to five years, although terms of up to 12 months are most common. Short-term deposits (with a maturity of less than five years) are guaranteed up to CAD 100,000, as long as the deposit holder is a member of the Canada Deposit Insurance Corporation (CDIC).

Certificates of Deposit

Certificates of deposit (CDs) are issued as Guaranteed Investment Certificates (GICs). They are issued for terms from one month to five years. GICs pay a fixed or floating interest rate, depending on the issuing bank.

Treasury (Government) Bills

Treasury bills (T-bill) are issued by the Canadian federal government as well as by the provincial governments. T-bills are issued with a variety of maturities, although the most common is three months. There is a secondary market for federal government T-bills.

Commercial Paper

Commercial paper is commonly used as an investment instrument by Canadian companies. Commercial paper is issued by larger Canadian companies, local government institutions and mortgage lenders, in maturities ranging between overnight and one year, with a minimum value of CAD 100,000.

Canadian companies can invest in US commercial paper (USCP). Issuers usually have a published credit rating and issue USCP for maturities under 270 days in USD.

Money Market Funds

Money market funds are commonly available to Canadian companies, often through automated transfers from bank accounts overnight.

Repurchase Agreements

Overnight repurchase agreements (repos) are a popular short-term investment instrument in Canada.

Bankers' Acceptances

Banker's acceptances are a common short-term investment for Canadian companies. Most have maturities that range from one day to three months, although they can be issued for up to a year. They are sometimes known as Bearer Deposit Notes, if issued by a bank.

Liquidity Management Techniques

Cash Concentration

Cash concentration is the more common technique used by Canadian companies to manage company and group liquidity. Of the available techniques, zero-balancing is the most commonly used. Additionally, some banks also now provide domestic multibank liquidity management services, using AFT credits and debits and LVTS electronic transfers to effect the interbank transfers.

Non-resident accounts held by entities with the same beneficial ownership can usually participate in a cash concentration structure with resident accounts.

Credit balances on cash concentration structure header or master accounts are usually swept to an overnight deposit account or money market fund.

Cross-border cash concentration structures are common between accounts held in Canada and the US. These operate in both CAD and USD, but cross-currency concentration is not common.

Notional Pooling

Notional pooling is available in Canada, although only between accounts held by entities with the same beneficial ownership. Non-resident accounts can be included on this basis.

A number of Canadian banks also provide interest compensation structures. These operate in a similar way to notional cash pools.

Trade Finance

General Rules for Importing/Exporting

Canada is a member of the North American Free Trade Association (NAFTA). As such, it has free trade arrangements with Mexico and the US. Canada has also signed free trade agreements with Chile, Colombia, Costa Rica, the European Free Trade Association (EFTA), Honduras, Israel, Panama, Peru and Jordan.

It also signed a free trade agreement with South Korea in September 2014. This agreement came into force on January 1, 2015.

Canada is negotiating similar agreements with the Caribbean Community (CARICOM), El Savador, Guatemala, Nicaragua, the Dominican Republic, Singapore, India, Japan and Morroco, and is negotiating the expansion and modernization of its free trade agreement with Costa Rica. In July 2015, Canada announced the conclusion of an expanded and modernized free trade agreement with Israel. In July 2016, Canada and Ukraine signed a free trade agreement (CUFTA), which came into force in August 2017.

In October 2015, Canada and 11 other Pacific Rim countries announced the conclusion of a regional, Asia-Pacific trade agreement, known as the Trans-Pacific Partnership (TPP) Agreement. After a period of uncertainty, following the US President Trump's decision to sign an executive order withdrawing the USA from the Trans-Pacific Partnership (TPP) trade pact on January 23, 2017, the remaining 11 countries announced on January 23, 2018 that they would go ahead and sign an amended agreement in Chile in March 2018. The agreement, which has been renamed the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP), was signed on March 8, 2018 and will be open to other countries to join in the future.

In October 2016, Canada signed the Comprehensive Economic and Trade Agreement (CETA) with the European Union (EU), which came into force in September 2017.

In October 2018, the USA, Canada and Mexico announced an agreement on a revised trade deal that could replace NAFTA. The new deal, called United States-Mexico-Canada Agreement (USMCA), is due to be signed by the end of 2018. It is expected that the USMCA will enter into force by the end of 2019, following ratification by all three legislatures.

In June 2018, the US government imposed a 25% tariff on imports of steel and a 10% tariff on imports of aluminum from a group of countries, including Mexico and Canada, claiming that such imports are a threat to national security. The Canadian government has retaliated by imposing tariffs on a range of consumer goods and steel imports from the US.

Imports

Documentation Required

Imports will normally need to be accompanied by a commercial invoice or Canada Customs invoice, a cargo control document, a bill of lading and a packing list. A certificate of origin may also be required.

Import Licenses

The Canadian government publishes a list of items that require import licenses. These include some strategic items, certain endangered species, some drugs, some agricultural products and natural gas.

Import Taxes/Tariffs

Most imports into Canada do not attract import taxes or tariffs. When applied, import tariffs are usually low. The highert rates are applied on certain overquota, supply-managed agricultural imports, primarily poultry, eggs, and dairy products. Higher-than-average rates are also applied products such as textile, clothing, footwear and ships. Imports from certain developing countries attract tariffs according to the General Preferential Tariff and Least Developed Country Tariff regimes. In the case of the least developed nations, imports may be free from tariffs.

Financing Requirements

There are no particular financing requirements for imports.

Risk Mitigation

Canada does not operate a national risk mitigation program for importers.

Prohibited Imports

Canada prohibits imports in line with UN Security Council resolutions. The Canadian government publishes a list of prohibited imports.

Exports

Documentation Required

Exports need to be accompanied by an export declaration. The declaration can be done through the Canadian Automated Export Declaration (CAED) system or the G7 Electronic Data Interchange (EDI) Export Reporting system. It can also be done through a B13A paper form, although the Canadian Border Service Agency (CBSA) has begun to phase out this manual reporting form. A commercial invoice and a customs declaration are advisable.

Proceeds

There are no restrictions on the use of export proceeds.

Financing Requirements

There are no particular financing requirements for exports.

Export Licenses

The Canadian government publishes a list (the Export Control List) that details which items require export licenses. In addition, any items subject to international controls, as well as some strategic and agricultural items, require export licenses.

Export Taxes/Tariffs

Canada does not usually levy taxes or tariffs on exports. There is a levy on the export of some tobacco products.

Risk Mitigation

Canada has a state-owned export credit agency (Export Development Canada) that provides a range of export credit and credit insurance to Canadian exporters. Insurance is available up to a maximum 90% of total loss. A separate state-owned agency, the Business Development Bank of Canada, provides export financing to small and medium-sized Canadian exporters.

Prohibited Exports

Canada prohibits exports in line with UN Security Council resolutions and other international agreements. The Canadian government's Area Control List details countries to which Canadian exports are subject to government control.

Information Technology

Electronic Banking

Canadian companies use a wide range of electronic banking services, from daily transaction and balance reporting, to some domestic and international payment initiations. Although there is no bank-neutral electronic banking system, all the major Canadian and international banks provide their own proprietary electronic banking platforms, most of which facilitate multibanking through the use of common standards.

Internet banking is commonplace among larger companies, with usage growing among smaller companies and retail consumers. Larger companies are also able to collect check payments over the internet, using check imaging programs. Enhanced e-commerce services are also available via the use of EDI, which is at similar levels to that in the US.

Payments Canada (formerly the Canadian Payments Association (CPA)) is coordinating the adoption of the international payment messaging standard ISO 20022. Over time, this project will enable straight through processing and electronic invoicing. Phase 1 of the project, including the development of ISO 20022 for AFT, LVTS and EDI payments, ran from February 2013 to February 2015. Phase 2 will focus on the multi-year implementation of the new standard in Canada. In April 2016, ISO 20022-enabled messages and rules for AFT were made available for implementation in the market. AFT payments should be transitioned to ISO 20022 by the end of 2019.

External Financing

Long-term Funding

Bank Lines of Credit / Loans

Banks provide term credit facilities and loans generally for up to five years.

Interest charged is at an agreed margin over the prime lending rate, which closely follows the central bank's overnight rate.

Mortgage real estate loans are available. Loans to foreign owned companies in Canada often need parental support, from letters of support to full guarantees, depending on the creditworthiness of the company and its history.

Leasing

Motor vehicles and IT equipment are often leased.

Bonds

With little or no national and provincial government borrowing, companies have been used to having easy access to the Canadian bond market, which is large, highly developed and provides the full range of bonds.

Most issues are rated by one or more credit rating agencies.

Bond pricing is based on comparable Canadian government bonds.

Bonds are issued through securities dealers.

Public bond issues require a prospectus which needs regulator approval. 'Shelf' registrations are allowed.

Foreign-issued Canadian dollar bonds (Maple bonds) have grown in popularity following the abolition of restrictions on their holding by Canadian pension funds.

Larger Canadian companies often make issues in the US markets. Approved Canadian registration is valid for US issues.

Private Placement

The Canadian private placement market mirrors that in the US and is accessible to foreign-owned Canadian companies. Private placements do not have to be registered, but must be placed by registered dealers.

As in the public debt markets, Canadian companies regularly make private placement issues in the US.

Asset Securitization / Structured Finance

Mortgages are the most securitized asset.

The abolition of the federal capital tax and its phasing down by provincial governments has reduced companies' needs to remove assets from their balance sheets through securitized debt issues.

Government (Agency) Investment Incentive Schemes / Special Programs or Structures

Resource-rich Canada is well acquainted with non-recourse or partial recourse project financing deals.

Despite some public opposition, there has been some significant private financing (via debt issues financed by tolls) of infrastructure projects in Canada, especially the building of new, or upgrading of existing, highways.

Useful Contacts

National Treasurers' Associations

The Association for Financial Professionals of Canada — www.afponline.ca

Treasury Management Association of Canada — www.tmac-toronto.ca

National Investment Promotion Agency

Invest in Canada — www.investincanada.gc.ca

Central Bank

Bank of Canada / Banque du Canada — www.bankofcanada.ca

Supervisory Authority

Office of the Superintendent of Financial Institutions — www.osfi-bsif.gc.ca

Payment System Operators

Canadian Payment Association — www.cdnpay.ca

Interac Association — www.interac.ca

Banks

Bank of Montreal — www.bmo.com

Canadian Imperial Bank of Commerce — www.cibc.com

Royal Bank of Canada — www.royalbank.com

Scotiabank — www.scotiabank.com

Toronto Dominion Bank — www.td.com

Stock Exchanges

Bourse de Montréal — www.m-x.ca

Toronto Stock Exchange — www.tsx.com

Ministry of Finance

Department of Finance Canada — www.fin.gc.ca

Ministry of Economy

Industry Canada — www.ic.gc.ca

Chamber of Commerce

Canadian Chamber of Commerce and Industry — www.chamber.ca

Bankers' Association

Canadian Bankers' Association — www.cba.ca