Note 3: Securities

Changes in Accounting Policy

On November 1, 2006, we adopted the CICA's new accounting requirements for securities. The new rules required us to classify securities, other than trading securities, as held-to-maturity or available-for-sale.

(a) Available-for-Sale Securities

Available-for-sale securities are measured at fair value with unrealized gains and losses recorded in other comprehensive gain (loss) on available-for-sale securities in our Consolidated Statement of Changes in Shareholders' Equity until the security is sold, or if an unrealized loss is considered other than temporary, the unrealized loss is recorded in income. Gains and losses on disposal are recorded in our Consolidated Statement of Income in securities gains (losses), other than trading. Interest income earned and dividends received on available-for-sale securities are recorded in our Consolidated Statement of Income in interest, dividend and fee income, securities. We have not classified any of our securities as held-to-maturity. Available-for-sale securities where there is no quoted market price, including securities whose sale is restricted, will continue to be recorded at amortized cost.

The new rules do not affect accounting for our merchant banking investments or investments in corporate equity where we exercise significant influence, but not control. These are recorded as other securities in our Consolidated Balance Sheet.

On November 1, 2006, we remeasured our available-for-sale securities at fair value, as appropriate. A net unrealized gain of $3 million was recorded in opening accumulated other comprehensive income on available-for-sale securities.

(b) Fair Value Option

The new rules allow management to elect to measure financial instruments that would not otherwise be accounted for at fair value as trading instruments, with changes in fair value recorded in income provided they meet certain criteria. Financial instruments must have been designated on November 1, 2006, when the new standard was adopted, or when new financial instruments were acquired, and the designation is irrevocable.

Securities in our insurance subsidiaries that support our insurance liabilities have been designated as trading securities under the fair value option. Since the actuarial calculation of insurance liabilities is based on the recorded value of the securities supporting them, recording the securities at fair value better aligns the accounting result with how the portfolio is managed. On November 1, 2006, we remeasured these securities and the net unrealized loss of less than $1 million was recorded in opening retained earnings. The fair value of these securities as at October 31, 2007 was $30 million. The impact of recording these as trading securities was a decrease in non-interest revenue, insurance income of $1 million for the year ended October 31, 2007.

During the year ended October 31, 2006, we changed our accounting policy for recording securities transactions in our Consolidated Balance Sheet. We now record securities transactions on the date the transaction settles. Previously, we recorded securities transactions on the date we agreed to enter into the trade. We restated prior years' financial statements to reflect this change. The impact of this change on our Consolidated Balance Sheet as at October 31, 2006 was a decrease in trading securities of $1,896 million, a decrease in other assets of $6,618 million and a decrease in other liabilities of $8,514 million.

On November 1, 2004, we adopted the CICA's new accounting requirements applicable to our merchant banking subsidiaries. The new rules require these subsidiaries to account for their investments at fair value, with changes in fair value recorded in net income. Previously, these subsidiaries accounted for their investments at cost. The impact on our Consolidated Statement of Income, including the initial adjustment to fair value on November 1, 2004, was an increase of $50 million in non-interest revenue, securities gains, other than trading, an increase in income taxes of $18 million and an increase in net income of $32 million for the year ended October 31, 2005.

Securities

Securities are divided into four types, each with a different purpose and accounting treatment. The four types of securities we hold are as follows:

Available-for-sale securities (previously investment securities) consist of debt and equity securities. Available-for-sale securities include securities that may be sold in response to or in anticipation of changes in interest rates and resulting prepayment risk, changes in foreign currency risk, changes in funding sources or terms, or to meet liquidity needs.

Trading securities are securities that we purchase for resale over a short period of time. We report these securities at their market value and record the mark-to-market adjustments and any gains and losses on the sale of these securities in our Consolidated Statement of Income in trading revenues (losses).

Merchant banking investments are securities held by our merchant banking subsidiaries. These subsidiaries account for their investments at fair value, with changes in fair value recorded in our Consolidated Statement of Income in securities gains, other than trading as they occur.

Merchant banking investments are classified as other securities in our Consolidated Balance Sheet.

Loan substitute securities are customer financings, such as distressed preferred shares, that we structure as after-tax investments to provide our customers with an interest rate advantage over what would be applicable on a conventional loan. These securities are accounted for in accordance with our accounting policy for loans, which is described in Note 4.

Impairment Review

We review available-for-sale and other securities at each quarter end to identify and evaluate investments that show indications of possible impairment. An investment is considered impaired if its unrealized losses represent impairment that is considered to be other than temporary.

In determining whether a loss is temporary, factors considered include the extent of the unrealized loss, the length of time that the security has been in an unrealized loss position, the financial condition and near-term prospects of the issuer, and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. If the decline is considered to be other than temporary, a write-down is recorded in our Consolidated Statement of Income in securities gains (losses), other than trading.

As at October 31, 2007, we had available-for-sale securities with unrealized losses of $48 million. As at October 31, 2006, we had investment securities with unrealized losses of $57 million. The majority of unrealized losses resulted from increases in market interest rates and not from deterioration in the creditworthiness of the issuers. Management has determined that the unrealized losses are temporary in nature.

We did not own any securities issued by a single non-government entity where the book value, as at October 31, 2007 or 2006, was greater than 10% of our shareholders' equity.

Included in other securities are investments where we exert significant influence, but not control, of $962 million and $937 million as at October 31, 2007 and 2006, respectively.

Fair Value

For traded securities, quoted market value is considered to be fair value. Quoted market value is based on bid prices, where available. For securities where market quotes are not available, we use estimation techniques to determine fair value. Estimation techniques used include discounted cash flows, internal models that utilize observable market data or comparisons with other securities that are substantially the same.

In the following tables, we report current-year amounts for available-for-sale securities that have been measured at fair value. These securities were previously classified as investment securities in 2006 and were recorded at cost or amortized cost. Merchant banking investments and investments in corporate equity where we exercise significant influence, but not control, which were previously classified as investment securities in 2006, are now classified as other securities. Securities in our insurance subsidiaries that support our insurance liabilities, which were previously classified as investment securities in 2006 and recorded at amortized cost, have been designated as trading securities under the fair value option.

(Canadian $ in millions, except as noted)	Term to maturity					2007	2006
	Within 1 year	1 to 3 years	3 to 5 years	5 to 10 years	Over 10 years	Total	Total
Trading Securities							
Issued or guaranteed by:							
Canadian federal government	$ 1,972	$ 2,825	$ 2,097	$ 364	$ 2,235	$ 9,493	$ 5,496
Canadian provincial and municipal governments	683	524	380	1,217	1,167	3,971	2,851
U.S. federal government	92	355	24	19	211	701	2,045
U.S. states, municipalities and agencies	–	–	–	–	106	106	135
Other governments	–	39	82	710	41	872	717
Corporate debt	16,061	3,187	2,038	3,334	6,816	31,436	21,588
Corporate equity	–	–	–	3	24,191	24,194	18,988
Total trading securities	18,808	6,930	4,621	5,647	34,767	70,773	51,820
Available-for-Sale Securities (1)							
Issued or guaranteed by:							
Canadian federal government							
Amortized cost	229	499	98	101	–	927	589
Fair value	229	499	98	101	–	927	589
Yield (%)	4.35	4.39	4.22	3.94	–	4.31	4.30
Canadian provincial and municipal governments							
Amortized cost	1	–	–	–	–	1	3
Fair value	1	–	–	–	–	1	3
Yield (%)	6.30	–	–	–	–	6.30	4.37
U.S. federal government							
Amortized cost	282	741	170	321	4	1,518	1,898
Fair value	282	743	173	321	4	1,523	1,879
Yield (%)	3.53	4.09	4.48	4.57	4.77	4.13	4.30
U.S. states, municipalities and agencies							
Amortized cost	3,991	1,703	1,078	275	1,634	8,681	7,810
Fair value	3,992	1,708	1,080	276	1,628	8,684	7,800
Yield (%)	4.86	5.29	3.90	5.79	5.63	5.00	3.75
Other governments							
Amortized cost	37	39	7	13	–	96	106
Fair value	37	39	7	13	–	96	107
Yield (%)	3.73	4.63	4.17	4.80	–	4.27	4.06
Mortgage-backed securities and collateralized mortgage obligations — Canada (2)							
Amortized cost	–	–	8,882	–	–	8,882	–
Fair value	–	–	8,902	–	–	8,902	–
Yield (%)	–	–	4.75	–	–	4.75	–
Mortgage-backed securities and collateralized mortgage obligations — U.S.							
Amortized cost	9	105	–	30	224	368	465
Fair value	9	103	–	29	221	362	455
Yield (%)	4.57	3.93	–	3.66	5.08	4.62	4.47
Corporate debt							
Amortized cost	1,670	1,188	1,703	77	37	4,675	2,395
Fair value	1,670	1,184	1,706	75	37	4,672	2,398
Yield (%)	3.76	4.82	3.02	3.19	2.19	3.74	3.35
Corporate equity							
Cost	25	234	163	130	265	817	900
Fair value	25	235	165	139	279	843	990
Yield (%)	5.71	5.56	4.64	3.31	3.23	4.27	4.42
Total cost or amortized cost	6,244	4,509	12,101	947	2,164	25,965	14,166
Total fair value	6,245	4,511	12,131	954	2,169	26,010	14,221
Yield (%)	4.48	4.85	4.42	4.55	5.22	4.58	3.84
Other Securities (1)							
Cost	–	–	–	849	645	1,494	1,414
Fair value	–	–	–	849	645	1,494	1,414
Loan Substitute Securities							
Cost	–	–	–	–	–	–	11
Fair value	–	–	–	–	–	–	11
Total cost or amortized cost of securities	$ 25,052	$ 11,439	$ 16,722	$ 7,443	$ 37,576	$ 98,232	$ 67,411
Total fair value of securities	$ 25,053	$ 11,441	$ 16,752	$ 7,450	$ 37,581	$ 98,277	$ 67,466
Total by Currency (in Canadian $ equivalent)							
Canadian dollar	14,202	5,654	12,919	3,314	21,117	57,206	30,666
U.S. dollar	10,637	4,557	2,358	2,227	16,168	35,947	32,102
Other currencies	214	1,230	1,475	1,909	296	5,124	4,698
Total securities	$ 25,053	$ 11,441	$ 16,752	$ 7,450	$ 37,581	$ 98,277	$ 67,466

(1) Classified as investment securities in 2006.
(2) These amounts are supported by guaranteed mortgages.

Yields in the table above are calculated using the cost or amortized cost of the security and the contractual interest or stated dividend rates associated with each security adjusted for any amortization of premiums and discounts. Tax effects are not taken into consideration.

The term to maturity included in the table above is based on the contractual maturity date of the security. The term to maturity of mortgage-backed securities and collateralized mortgage obligations is based on average expected maturities. Actual maturities could differ as issuers may have the right to call or prepay obligations. Securities with no maturity date are included in the over 10 years category.

Unrealized Gains and Losses

(Canadian $ in millions)	Available-for-sale and other securities			2007	Investment and other securities			2006
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Issued or guaranteed by:								
Canadian federal government	$ 927	$ –	$ –	$ 927	$ 589	$ –	$ –	$ 589
Canadian provincial and municipal governments	1	–	–	1	3	–	–	3
U.S. federal government	1,518	6	1	1,523	1,898	–	19	1,879
U.S. states, municipalities and agencies	8,681	20	17	8,684	7,810	15	25	7,800
Other governments	96	–	–	96	106	1	–	107
Mortgage-backed securities and collateralized mortgage obligations – Canada (1)	8,882	20	–	8,902	–	–	–	–
Mortgage-backed securities and collateralized mortgage obligations – U.S.	368	–	6	362	465	1	11	455
Corporate debt	4,779	18	21	4,776	2,485	4	1	2,488
Corporate equity	2,207	29	3	2,233	2,224	91	1	2,314
Total	$ 27,459	$ 93	$ 48	$ 27,504	$ 15,580	$ 112	$ 57	$ 15,635

(1) These amounts are supported by guaranteed mortgages.

Unrealized Losses

(Canadian $ in millions)	Available-for-sale securities in an unrealized loss position for			2007	Investment securities in an unrealized loss position for			2006
	Less than 12 months	12 months or longer	Total		Less than 12 months	12 months or longer	Total	
	Gross unrealized losses	Gross unrealized losses	Gross unrealized losses	Fair value	Gross unrealized losses	Gross unrealized losses	Gross unrealized losses	Fair value
Issued or guaranteed by:								
Canadian federal government	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Canadian provincial and municipal governments	–	–	–	–	–	–	–	–
U.S. federal government	1	–	1	301	15	4	19	899
U.S. states, municipalities and agencies	11	6	17	2,453	8	17	25	4,717
Other governments	–	–	–	56	–	–	–	67
Mortgage-backed securities and collateralized mortgage obligations – Canada (1)	–	–	–	–	–	–	–	–
Mortgage-backed securities and collateralized mortgage obligations – U.S.	–	6	6	253	–	11	11	368
Corporate debt	20	1	21	1,411	1	–	1	286
Corporate equity	2	1	3	86	–	1	1	30
Total	$ 34	$ 14	$ 48	$ 4,560	$ 24	$ 33	$ 57	$ 6,367

(1) These amounts are supported by guaranteed mortgages.

Income from securities has been included in our consolidated financial statements as follows:

(Canadian $ in millions)	2007	2006	2005
Reported in Consolidated Statement of Income:			
Interest, Dividend and Fee Income			
Trading securities	$ 1,631	$ 1,789	$ 1,340
Available-for-sale securities (1)	1,439	369	490
Other securities (1)	83	–	–
	$ 3,153	$ 2,158	$ 1,830
Non-Interest Revenue			
Available-for-sale securities (1)			
Gross realized gains	$ 212	$ 137	$ 142
Gross realized losses	(18)	(12)	(16)
Other securities, net realized and unrealized gains	70	29	50
Impairment write-downs	(18)	(9)	(11)
Securities gains, other than trading	$ 246	$ 145	$ 165
Trading securities, net realized and unrealized gains (losses)	$ (38)	$ 305	$ 222
Total income from securities	$ 3,361	$ 2,608	$ 2,217

(1) Classified as investment securities in 2006 and 2005.