Note 3: Securities

Changes in Accounting Policy

During October 2008, the CICA issued amendments to Handbook section 3855 "Financial Instruments – Recognition and Measurement", section 3861 "Financial Instruments – Disclosure and Presentation" and section 3862 "Financial Instruments – Disclosure". The amendments permit, in rare circumstances, certain reclassifications of non-derivative financial assets from the trading category to either the available-for-sale or held-to-maturity categories. It also permits the reclassification of certain available-for-sale loans to loans and receivables.

We elected to transfer securities from trading to available-for-sale for which we had a change in intent caused by current market circumstances to hold the securities for the foreseeable future rather than to exit or trade them in the short term. In accordance with the amendments, we elected to recognize the transfers at the fair value of the securities on August 1, 2008. A continuity of the transferred securities is as follows:

(Canadian $ in millions)	
Fair value of securities as at August 1, 2008	$ 2,078
Net (sales) purchases	(52)
Fair value change recorded in Other Comprehensive Income	(183)
Other than temporary impairment recorded in income	(29)
Impact of foreign exchange	141
Fair value of securities as at October 31, 2008	$ 1,955

As of the reclassification date, effective interest rates on reclassified trading assets ranged from 2% to 17%, with expected recoverable cash flows of $2.2 billion. Ranges of effective interest rates were determined based on weighted-average rates of the portfolios transferred.

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 accumulated other comprehensive income (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 whose sale is restricted are 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.

During the year ended October 31, 2008, we designated bonds purchased to support our Municipal Tender Option Bond Program as trading securities under the fair value option. These bonds would otherwise be accounted for as available-for-sale securities with unrealized gains and losses recorded in Other Comprehensive Income. In managing this program, we enter into derivatives to hedge against changes in the fair value of those bonds that arise due to changes in interest rates. Electing the fair value option for the bonds better aligns the accounting result with the way the program is managed. The impact of recording the bonds as trading securities was a decrease in non-interest revenue, trading revenues of less than $1 million for the year ended October 31, 2008. The bonds were sold in September 2008.

Securities in our insurance subsidiaries that support our insurance liabilities were designated as trading securities under the fair value option on adoption of the standard on November 1, 2006. Since the actuarial calculation of insurance liabilities is based on the investments supporting them, electing the fair value option for these investments better aligns the accounting result with the way 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, 2008 was $28 million ($30 million in 2007). The impact of recording these as trading securities was an increase in non-interest revenue, insurance income of less than $1 million for the year ended October 31, 2008 (decrease of $1 million in 2007).

Securities

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

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 or losses on the sale of these securities in our Consolidated Statement of Income in trading revenues (losses).

Available-for-sale 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.

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 (losses), other than trading as they occur.

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

Impairment Review

We review available-for-sale securities and investments where we exert significant influence, but not control, 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, 2008, we had available-for-sale securities with unrealized losses of $352 million (unrealized losses of $48 million in 2007). 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, 2008 or 2007, was greater than 10% of our shareholders' equity.

Included in other securities are investments where we exert significant influence, but not control, of $995 million and $962 million as at October 31, 2008 and 2007, respectively.

Fair Value Measurement

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. These estimation techniques include discounted cash flows, internal models that utilize observable market data or comparisons with other securities that are substantially the same.

In limited circumstances, we use internal models where the inputs are not based on observable market data. Sensitivity analysis for the most significant items valued using internal models without observable inputs is described below.

Within available-for-sale securities as at October 31, 2008 was $625 million of Apex Trust ("Apex") mid-term notes ("MTNs") with a face value of $815 million (see Note 9). The valuation of these MTNs has been determined by management based on expected discounted cash flows. The determination of the discount rate used in the discounted cash flow model has the most significant impact on the valuation of the MTNs and is impacted by changes in credit spreads and the ratings of the underlying credit default swaps. The impact of assuming the discount rate increased or decreased by 50 basis points would result in a change in fair value of $(14) million and $14 million, respectively. The impact on income for the year ended October 31, 2008 related to changes in the fair value of our investment in Apex MTNs was a charge of $190 million before tax.

A third party holds its exposure to the Apex MTNs through a total return swap with us. The valuations of this swap and the related underlying MTNs have been determined by management based on expected discounted cash flows. The determination of the discount rate used in the discounted cash flow model has the most significant impact on the valuation of the swap and underlying securities and is impacted by changes in credit spreads and the ratings of the underlying credit default swaps. The impact of assuming the discount rate increased or decreased by 50 basis points would result in a change in fair value of $(7) million and $8 million, respectively. The impact on income for the year ended October 31, 2008 related to changes in the fair value of the swap and underlying MTNs was a charge of $120 million before tax.

Within available-for-sale securities as at October 31, 2008 was $187 million of third-party asset-backed commercial paper ("ABCP") with a face value of $325 million. The valuation of this ABCP has been determined by management based on expected discounted cash flows and expectations of the probability of restructuring the vehicles in accordance with the Montreal Accord versus the liquidation value. The determination of the discount rate used in the discounted cash flow model has the most significant impact on the valuation of the ABCP and is impacted by changes in credit spreads and the expected rating of the new notes. The impact of assuming the discount rate increased or decreased by 50 basis points would result in a change in fair value of $(5) million and $5 million, respectively. This third-party ABCP was transferred from trading to available-for-sale securities in accordance with the change in accounting policy decribed above. For the year ended October 31, 2008, $14 million before tax was recorded in Other Comprehensive Income and for the nine months ended July 31, 2008 $70 million before tax was recorded in income related to declines in the fair value of this investment.

Within derivative assets and derivative liabilities as at October 31, 2008 was $1,250 million and $52 million, respectively, related to the mark-to-market of credit default swaps and total return swaps on structured products. The valuation of these derivatives has been determined by management based on estimates of current market spreads for similar structured products. The impact of assuming a 10 basis point increase or decrease in that spread would result in a change in fair value of $(10) million and $10 million, respectively. The impact on net income for the year ended October 31, 2008 related to changes in the fair value of these derivatives was a loss of $43 million before tax.

(Canadian $ in millions, except as noted)	Term to maturity					2008	2007
	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	**$ 10,024**	**$ 1,421**	**$ 1,721**	**$ 616**	**$ 1,445**	**$ 15,227**	$ 9,493
Canadian provincial and municipal governments	**574**	**496**	**774**	**1,280**	**1,257**	**4,381**	3,971
U.S. federal government	**5,875**	**2,013**	**17**	**37**	**1,595**	**9,537**	701
U.S. states, municipalities and agencies	**–**	**7**	**7**	**43**	**68**	**125**	106
Other governments	**20**	**154**	**10**	**–**	**–**	**184**	872
Mortgage-backed securities and collateralized mortgage obligations	**–**	**–**	**–**	**3**	**–**	**3**	–
Corporate debt	**7,479**	**1,716**	**1,623**	**1,740**	**4,952**	**17,510**	31,436
Corporate equity	**–**	**–**	**–**	**3**	**19,062**	**19,065**	24,194
Total trading securities	**23,972**	**5,807**	**4,152**	**3,722**	**28,379**	**66,032**	70,773
Available-for-Sale Securities							
Issued or guaranteed by:							
Canadian federal government							
Amortized cost	**51**	**910**	**2,227**	**–**	**–**	**3,188**	927
Fair value	**51**	**922**	**2,247**	**–**	**–**	**3,220**	927
Yield (%)	**2.51**	**3.98**	**3.69**	**–**	**–**	**3.75**	4.31
Canadian provincial and municipal governments							
Amortized cost	**2**	**2**	**287**	**–**	**–**	**291**	1
Fair value	**2**	**2**	**286**	**–**	**–**	**290**	1
Yield (%)	**2.64**	**4.85**	**3.62**	**–**	**–**	**3.62**	6.30
U.S. federal government							
Amortized cost	**2,077**	**–**	**–**	**179**	**–**	**2,256**	1,518
Fair value	**2,078**	**–**	**–**	**191**	**–**	**2,269**	1,523
Yield (%)	**0.42**	**–**	**–**	**4.62**	**–**	**0.75**	4.13
U.S. states, municipalities and agencies							
Amortized cost	**3,275**	**3,228**	**–**	**399**	**1,173**	**8,075**	8,681
Fair value	**3,278**	**3,231**	**–**	**405**	**1,180**	**8,094**	8,684
Yield (%)	**3.56**	**3.77**	**–**	**5.69**	**5.67**	**4.06**	5.00
Other governments							
Amortized cost	**36**	**31**	**40**	**2**	**–**	**109**	96
Fair value	**35**	**32**	**41**	**2**	**–**	**110**	96
Yield (%)	**4.63**	**4.17**	**4.38**	**4.80**	**–**	**4.41**	4.27
Mortgage-backed securities and collateralized mortgage obligations – Canada (1)							
Amortized cost	**–**	**–**	**10,956**	**–**	**–**	**10,956**	8,882
Fair value	**–**	**–**	**11,043**	**–**	**–**	**11,043**	8,902
Yield (%)	**–**	**–**	**4.15**	**–**	**–**	**4.15**	4.75
Mortgage-backed securities and collateralized mortgage obligations – U.S.							
Amortized cost	**61**	**53**	**19**	**318**	**421**	**872**	368
Fair value	**61**	**53**	**19**	**317**	**424**	**874**	362
Yield (%)	**3.85**	**4.01**	**5.15**	**4.66**	**5.17**	**4.82**	4.62
Corporate debt							
Amortized cost	**893**	**1,535**	**1,937**	**791**	**419**	**5,575**	4,675
Fair value	**718**	**1,463**	**1,928**	**792**	**419**	**5,320**	4,672
Yield (%)	**3.32**	**5.13**	**1.40**	**4.50**	**4.61**	**3.42**	3.74
Corporate equity (2)							
Amortized cost	**77**	**120**	**160**	**70**	**487**	**914**	817
Fair value	**77**	**114**	**158**	**71**	**475**	**895**	843
Yield (%)	**4.93**	**5.60**	**4.86**	**2.49**	**1.44**	**2.99**	4.27
Total cost or amortized cost	**6,472**	**5,879**	**15,626**	**1,759**	**2,500**	**32,236**	25,965
Total fair value	**6,300**	**5,817**	**15,722**	**1,778**	**2,498**	**32,115**	26,010
Yield (%)	**2.53**	**4.20**	**3.74**	**4.73**	**4.58**	**3.70**	4.58
Other Securities							
Cost	**85**	**56**	**100**	**912**	**838**	**1,991**	1,494
Fair value	**85**	**56**	**100**	**912**	**838**	**1,991**	1,494
Total cost or amortized cost of securities	**$ 30,529**	**$ 11,742**	**$ 19,878**	**$ 6,393**	**$ 31,717**	**$ 100,259**	$ 98,232
Total fair value of securities	**$ 30,357**	**$ 11,680**	**$ 19,974**	**$ 6,412**	**$ 31,715**	**$ 100,138**	$ 98,277
Total by Currency (in Canadian $ equivalent)							
Canadian dollar	**15,815**	**4,744**	**18,824**	**4,368**	**14,888**	**58,639**	57,206
U.S. dollar	**14,242**	**5,860**	**589**	**1,675**	**16,649**	**39,015**	35,947
Other currencies	**300**	**1,076**	**561**	**369**	**178**	**2,484**	5,124
Total securities	**$ 30,357**	**$ 11,680**	**$ 19,974**	**$ 6,412**	**$ 31,715**	**$ 100,138**	$ 98,277

(1) These amounts are supported by guaranteed mortgages.
(2) For preferred shares, term to maturity is based on dividend reset dates. For other equities, term to maturity is assumed to be over 10 years unless specified otherwise.

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			2008	Available-for-sale and other securities			2007
	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	**$ 3,233**	**$ 31**	**$ –**	**$ 3,264**	$ 927	$ –	$ –	$ 927
Canadian provincial and municipal governments	**291**	**–**	**1**	**290**	1	–	–	1
U.S. federal government	**2,256**	**13**	**–**	**2,269**	1,518	6	1	1,523
U.S. states, municipalities and agencies	**8,075**	**37**	**18**	**8,094**	8,681	20	17	8,684
Other governments	**109**	**1**	**–**	**110**	96	–	–	96
Mortgage-backed securities and collateralized mortgage obligations – Canada (1)	**10,956**	**87**	**–**	**11,043**	8,882	20	–	8,902
Mortgage-backed securities and collateralized mortgage obligations – U.S.	**872**	**7**	**4**	**875**	368	–	6	362
Corporate debt (2)	**5,896**	**41**	**296**	**5,641**	4,779	18	21	4,776
Corporate equity (2)	**2,539**	**14**	**33**	**2,520**	2,207	29	3	2,233
Total	**$ 34,227**	**$ 231**	**$ 352**	**$ 34,106**	$ 27,459	$ 93	$ 48	$ 27,504

(1) These amounts are supported by guaranteed mortgages.

(2) Included in unrealized losses are losses of $169 million in corporate debt and $14 million in corporate equity related to securities transferred from trading effective August 1, 2008.

Unrealized Losses

(Canadian $ in millions)	Available-for-sale securities in an unrealized loss position for			2008	Available-for-sale securities in an unrealized loss position for			2007
	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	**1**	**–**	**1**	**–**	–	–	–	–
U.S. federal government	**–**	**–**	**–**	**718**	1	–	1	301
U.S. states, municipalities and agencies	**18**	**–**	**18**	**4,963**	11	6	17	2,453
Other governments	**–**	**–**	**–**	**28**	–	–	–	56
Mortgage-backed securities and collateralized mortgage obligations – Canada (1)	**–**	**–**	**–**	**–**	–	–	–	–
Mortgage-backed securities and collateralized mortgage obligations – U.S.	**3**	**1**	**4**	**391**	–	6	6	253
Corporate debt	**290**	**6**	**296**	**2,299**	20	1	21	1,411
Corporate equity	**33**	**–**	**33**	**109**	2	1	3	86
Total	**$ 345**	**$ 7**	**$ 352**	**$ 8,508**	$ 34	$ 14	$ 48	$ 4,560

(1) These amounts are supported by guaranteed mortgages.

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

(Canadian $ in millions)	2008	2007	2006
Reported in Consolidated Statement of Income:			
Interest, Dividend and Fee Income			
Trading securities	**$ 1,459**	$ 1,631	$ 1,789
Available-for-sale securities	**1,682**	1,439	369
Other securities	**65**	83	–
	$ 3,206	$ 3,153	$ 2,158
Non-Interest Revenue			
Available-for-sale securities			
Gross realized gains	**$ 99**	$ 148	$ 137
Gross realized losses	**(106)**	(16)	(12)
Other securities, net realized and unrealized gains	**16**	132	29
Impairment write-downs	**(324)**	(18)	(9)
Securities gains (losses), other than trading	**$ (315)**	$ 246	$ 145
Trading securities, net realized and unrealized gains (losses)	**$ (718)**	$ (38)	$ 305
Total income from securities	**$ 2,173**	$ 3,361	$ 2,608

Certain 2007 comparative figures have been reclassified to conform with the current year's presentation.