

**Meeting between Federal Reserve Board Staff
and Representatives of Canadian Banks**
February 6, 2012

Participants: Tony Gold, Anna Harrington, Jeremy Newell, Amanda Nova, Kathleen O'Day and Christopher Paridon (Federal Reserve Board)

Roger Blisset and Shawn Maher (Royal Bank of Canada); Jim Buckley (The Bank of Nova Scotia); Toni Evans and James Reilly (The Toronto-Dominion Bank); Andrew Karp (Bank of Montreal); Richard Koo (National Bank of Canada); Douglas Landy, Barbara Stettner and John Williams (Allen & Overy LLP); Marina Mandal Canadian Bankers Association); and David McGown and Achilles Perry (Canadian Imperial Bank of Commerce).

Summary: Staff of the Federal Reserve Board met with representatives of six Canadian banks (“Canadian Banks”) to discuss the restrictions on proprietary trading and hedge fund and private equity fund activities under section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (also known as the “Volcker Rule”). Among matters discussed in the meeting were the Canadian Banks’ views regarding:

- The potential negative consequences of extraterritorial application of the Volcker Rule, including its compliance and reporting requirements, to the Canadian Banks’ activities outside of the United States;
- The potential disruption to Canadian financial services and markets of applying the Volcker Rule’s restrictions to transactions involving residents of the United States, U.S. market infrastructure, or U.S. personnel; and
- The significant interconnectedness of U.S. and Canadian trading markets, market infrastructure and customer bases.

A copy of the materials presented by the Canadian Banks as part of this discussion is included below.

Discussion Points on Implementing Section 619 of the Dodd-Frank Act (Volcker Rule)

Monday, February 6, 2012

Meeting with: Canadian Bankers' Association, Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada, The Toronto-Dominion Bank

- Background on Canadian Banks and Canadian capital markets.
- Canada and U.S. share a unique history of regulatory cooperation including legislative, regulatory and diplomatic attempts to increase economic integration and reduce dual or duplicative regulation. We hope to work with the Agencies to build upon that.
- Primary concern is the difficulty of limiting the extraterritorial effects of the Volcker Rule by permitting international banks to engage in proprietary trading (the **SOTUS Trading Exceptions**), and to sponsor and invest in covered funds (the **SOTUS Funds Exceptions**), pursuant to Section __.9 and Section __.13 where such activity takes place solely outside of the United States (collectively, the **SOTUS Exceptions**).
- In light of deep and diverse economic connections and geographic proximity, SOTUS Exceptions, as drafted in the Proposed Rule, will leave most aspects of Canadian capital markets subject to the Proposed Rule.
- Canadian capital markets, which may be less liquid in some cases, particularly after a withdrawal of U.S. institutional activity due to the application of the Proposed Rule, may be harmed by a reduction in proprietary trading activity by the Canadian Banks. This may have an effect on the safety and soundness of U.S. banks.
- The application of other exemptions, such as the market-making exception, the risk-reducing hedging exception and the *bona fide* liquidity management exemption, may not apply to Canadian markets in the same manner as they do to U.S. markets and will require special attention from resource-constrained U.S. regulators.
- Similarly, the large population of Canadians temporarily resident in the U.S. makes the SOTUS Funds Exception unworkable. Existing sponsorship activities of Canadian funds, both public and non-public, should be permitted to proceed pursuant to existing Canadian regulations and relevant U.S. no action relief, such as the "Snowbird" no action letters for Canadian funds. Canadian mutual funds which are regulated in a manner similar to U.S. mutual funds should be exempted to the same extent.
- Without the ability to rely on sufficiently robust SOTUS Exceptions, the Proposed Rule will force Canadian Banks to drastically adjust their business model and to comply with a multitude of specific reporting and compliance obligations to U.S. regulators in respect of Canadian capital market activities that overlap and may conflict with existing obligations to Canadian regulators.