Treasury Management in Canada

Canada Overview

Canada is a large country which shares the North American continent with Mexico and the United States.

The unit of currency is the Canadian dollar (CAD). It is divided into 100 cents and commonly referred to as the Canadian dollar. The Canadian dollar is freely traded on the foreign exchange market.

The Bank of Canada is the central bank and regulates all financial institutions in the country. There are no central bank reporting requirements and the regulatory environment is open. Canada is a member of the North American Free Trade Agreement (NAFTA).

There are two clearing systems serving four payment circuits that relate to cash and treasury management in Canada.

1. The high value system (LVTS - Large Value Transfer System) is an inter bank clearing system with no restrictions on minimum or maximum amounts which can be transferred. It is a real time net settlement system (RTNS) with all settlements guaranteed by the Bank of Canada. In addition to handling same day electronic payments it is also used to settle check clearings processed through the Automated Clearing and Settlement System (ACSS). It is owned and operated by the Canadian Payments Association, a private federal statutory corporation.
2. The ACSS is a check and ACH clearing system that provides same day value to check deposits and ACH across Canada. The ACSS effectively ensures that there is no float on any CAD checks drawn and deposited in Canada regardless of drawer or depositor location.
3. The ACH is a low value batch system with settlement handled through the ACSS. It is functionally similar to ACH systems in the U.S.
4. The U.S. Bulk Exchange is a net settlement system for next day settlement of U.S. dollar checks drawn on Canadian banks in Canada. (U.S. dollar checks drawn on U.S. or other banks are treated as cash letter items and settled accordingly.)

Corporations are generally considered to be resident in Canada if they are incorporated in Canada or exercise management and control from Canada. Resident corporations are taxed by both the federal and provincial governments on their worldwide income. Tax rates vary depending on corporate status, type of income, and the provinces where they carry on business. The federal income tax on resident corporations is 38% which is reduced by ten percentage points for taxable income earned in a province. Nonresident corporations conducting business in Canada through a branch are taxed at the full corporate rate on their net business income earned in Canada and must also pay an additional tax of 25% on after-tax income which is subject to an allowance for investment in Canadian property.

Treasury Management

Weblinks

Sponsor

Website and Email

Background

USCIA and US State Department

Government

Bank of Canada

Consultants

Ernst & Young and DTT WorldTax

Associations

Canadian Payments Association, Canadian Bankers Association, Electronic Commerce Council, and TMAC

Banks

Toronto Dominion Bank, Bank of Montreal, Canadian Imperial Bank of Commerce, Citibank, Royal Bank of

With its small base of indigenous corporations, treasury management in Canada is focused on manufacturing centers serving the U.S. and Canadian markets, Foreign Sales Corporations (FSC's) for U.S. multinationals, and commodity exporters. A founding member of the North American Free Trade Agreement, Canada is an ideal entry point into this large market for many European corporations.

All common treasury management techniques are permitted in Canada including leading/lagging, re invoicing, sweeping, and cash concentration. Multilateral netting is permitted without restriction. Notional cash pooling for a single business entity is common and used by most Canadian companies. Notional cash pooling for multiple business entities is not permitted. Pooling of other currencies, such as the U.S. dollar is permitted for single business entities.

The Canadian dollar is freely traded but sparsely used in international commerce relative to the U.S. dollar or Euro. Foreign exchange (fx) spreads and commissions are a major revenue source for foreign and domestic banks but lifting fees or fees "in lieu of exchange" are generally not levied.

Multiple CAD accounts can be held to facilitate accounting objectives or as part of an overall treasury strategy. Pooling and sweeping (zero balancing) are permitted and possible and are commonly used liquidity management tools.

Accounts

The basic CAD operating account is referred to as a demand account and may be held by resident or non-resident corporations. Banks pay interest on demand accounts maintained by corporations. Overdrafts are permitted with the amount and rate determined by each bank. CAD accounts can be freely held offshore.

Resident and non-resident corporations may hold accounts in Canada denominated in currencies other than the Canadian and US Dollar.

Time deposits of up to five years, repurchase agreements, and CD's offer corporations a range of short term investment options.

Overdrafts are permitted but are not a major source of short term financing. Bank finance continues to be a major source of funding. Competition for the financing business or reputable firms is intense and highly price competitive. Commercial Paper is also a financing source for established companies.

Payments and Receipts

Checks, cash, and ACH are widely used in retail settlements. Larger settlements are also handled by check because the Automated Clearing and Settlement System (ACSS) ensures no float loss to the beneficiary. Large payments are typically handled electronically through the Large Value Transfer System (LVTS) which has no minimum or maximum amount.

Lockbox type arrangements are permitted and used for processing efficiency as there is no deposit float benefit associated with a lockbox network.

Controlled disbursement is theoretically possible but of little practical use since there is virtually no deposit or processing float.

Technology and Marketplace

Canada, and Scotiabank

News

Financial Post, FT Survey, The Edmonton Journal, The Globe and Mail, and Toronto Star

Specialist Sites

Canada has a modern telecommunications system including fiber optic cable and digital switches. Bandwidth is reasonably priced and readily available. Electronic banking products including access systems and balance reporting are available and in common use. In addition to an excellent infrastructure, Canada also has a number of value added networks (VANs) that enable efficient domestic electronic commerce. EDI usage is comparable to the U.S.

Canada is a competitive banking market which is home to eleven relatively large local banks, forty three foreign banks, and one trust company. The local banks such as Bank of Montreal, Toronto Dominion Bank, Royal Bank of Canada, Canadian Imperial Bank of Commerce, and the Bank of Nova Scotia have commanding market share, international presence, and sophisticated electronic banking tools. The Bank of Nova Scotia is the dominant international bank in the Caribbean and Central America. Strategic alliances, such as that between Bank of Montreal and Wachovia are a trend worth noting. All major American banks have Canadian presence including Chase, Citibank, Mellon, and Bank One. International players such as HSBC and ABN-AMRO are located in Canada and HSBC maintains a relatively large branch presence.