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**Audit and Finance Committee
December 14, 2011**

TO: Councillor Russell Walker, Chair, and Members of the Audit and Finance Standing Committee

SUBMITTED BY: _____
James Cooke CGA, Director of Finance and Treasurer / CFO

DATE: November 23, 2011

SUBJECT: HRM Investment Custodian

INFORMATION REPORT

ORIGIN

At the regular quarterly meeting of the Investment Policy Advisory Committee it was suggested that staff provide an Information Report to the Audit and Finance Committee on the HRM investment custodian RBC Dexia.

BACKGROUND

HRM uses the services of RBC Dexia as the investment custodian of HRM investments. Recently Dexia, the European bank that is Royal Bank of Canada's equity partner in RBC Dexia, has been in the news for seeking assistance from European governments. Staff wants to provide the Audit and Finance Committee information on the role of an investment custodian as well as the layers of protection between any issues that Dexia may be facing and the security of HRM investment held by RBC Dexia.

DISCUSSION

As is common practice in the investment industry, HRM uses the services of an investment custodian to facilitate investment operations under the HRM Investment Policy. The investment custodian settles investment trades made by authorized HRM staff, collects income from these investments as well as the proceeds of the maturity or sale of these investments. HRM does not hold any cash with the HRM investment custodian. When authorized HRM staff purchase an investment instrument cash is transferred that day to the investment custodian. After verifying the details of each investment purchase the custodian transfers the funds to the broker from whom the instrument is being purchased and then holds the instrument on a segregated basis for HRM. When the investment reaches its maturity date the investment custodian collects the proceeds from the maturity and as directed by authorized HRM staff transfers the funds back to the HRM bank account.

The current HRM custodian RBC Dexia is ranked in the top 10 of global custodians with \$3 trillion in client assets under administration. RBC Dexia was established in 2006 when Royal Bank of Canada merged its Royal Trust custodian business with a similar operation of the European bank Dexia. Royal Bank of Canada and Dexia each have a 50% equity interest in RBC Dexia.

Over the past number of months there have been media reports concerning the financial strength of the European bank Dexia. These reports culminated in an announcement on October 9, 2011 that Dexia would be receiving financial assistance from the governments of France and Belgium. Final negotiations on the details of this assistance appear to be ongoing. Dexia has also announced their intention to sell off some operations. Media reports have suggested the Royal Bank of Canada may seek to buy out Dexia's 50% equity interest in RBC Dexia.

Although not having any real concerns about the security of HRM assets held by RBC Dexia, staff thought it prudent in early October to verify their understanding of the protection around these assets. RBC Dexia confirmed in writing on October 4 that RBC Dexia is an independently capitalized company and that the financial issues of Dexia have no impact on the operations of RBC Dexia. The 50% equity interest that Dexia has in RBC Dexia does not entitle Dexia to access RBC Dexia assets or the assets of RBC Dexia's clients. RBC Dexia further confirmed that client assets are held separately and distinctly from the assets of RBC Dexia. Furthermore, in the extremely unlikely event that RBC Dexia was to suffer a default or bankruptcy client assets are protected as they are held on a segregated basis.

When this matter was discussed at the November 21 meeting of the Investment Policy Advisory Committee no concerns were raised. However, the Committee thought it appropriate to ask staff to provide this Information Report to the Audit and Finance Committee.

BUDGET IMPLICATIONS

N/A

FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Project and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Project and Operating reserves, as well as any relevant legislation.

COMMUNITY ENGAGEMENT

N/A

ATTACHMENTS

None

A copy of this report can be obtained online at <http://www.halifax.ca/commcoun/cc.html> then choose the appropriate Community Council and meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

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490-6471
