OPTIMIZING YOUR CROSS-BORDER FINANCIAL RELATIONSHIPS WITH CANADA

David T. Olsen, Regional President, PNC Bank Canada Branch
Richard Lewis, Senior Vice President, Head of International Treasury Management, PNC

The ease and longevity of our relationship with Canada can make us forget that the enormous territory to the north is not just an extension of the United States. Like any other global market, Canada has its own customs, laws, rules, regulations — and potential — that require just as much attention and insight as those of our more-distant trading partners.¹
Canada is a vitally important market for U.S. companies. In 2015, there was more than $642.7 billion of trade between the two countries. In 2015, U.S. companies exported about $280 billion worth of goods to Canada, making it the largest market for U.S. goods. Canada exported $295 billion worth of goods to the U.S. in that year. According to the Department of Commerce, U.S. exports of goods and services to Canada supported an estimated 1.7 million jobs in 2014.1

Current conditions contribute to the opportunity to expand in a strong economy that is favorable to U.S. interests:

• Border and regulatory cooperation continues to improve the potential for a variety of industries and their supply chains.

“We Take Care of Business”

Canada is an exceptionally supportive environment for business.

• The Economist Intelligence Unit rates Canada’s banking system as the soundest in the world for the eighth consecutive year in its annual Global Competitiveness Report.1

• The World Economic Forum rated Canada the first Best Country for Business.2 Forbes magazine (December 2015) ranked Canada one of the Top 10 Best Countries for Business.3

• Canada led all G7 countries in average economic growth over the past decade, according to the World Bank (2014).3

• Canada has become the first Global Risk-Free Haven, according to the World Economic Forum.4

• Canada offers one of the lowest corporate tax rates among the G7 and has moved from fourth to second place since 2012.2

• Canada has become the first country in the G-20 to offer a tariff-free zone for industrial manufacturers. Canada’s initiative applies across the entire country.6

In addition, Canada has implemented an Industrial Regional Benefits (IRB) policy that is designed to ensure that Government of Canada defense and security procurements generate high value-added business activity for Canadian industry. The policy requires that companies undertake business activities in Canada valued at 100% of the value of the defense or security contract they have been awarded by the Government of Canada.7 This can require substantial offsets.

Challenges

Although opportunities in Canada are certainly enticing, surprising challenges remain. Canadian Customs documentation, bilingual labeling, packaging requirements, and Canadian federal and provincial sales tax accounting can all be difficult to navigate. There are also barriers to doing business with Canadian federal, provincial and municipal governments. Businesses need to be familiar with procurement procedures, and security clearances may be required.8

In addition, Canada has implemented an Industrial Regional Benefits (IRB) policy that is designed to ensure that Government of Canada defense and security procurements generate high value-added business activity for Canadian industry. The policy requires that companies undertake business activities in Canada valued at 100% of the value of the defense or security contract they have been awarded by the Government of Canada. This can require substantial offsets.

The Banking Environment in Canada

The Canadian banking environment is highly regulated and monitored by the Office of the Superintendent of Financial Institutions (OSFI). There have been no bank failures in Canada since 1923. Although there are many similarities between the U.S. and Canadian banking systems, there are important differences. For example:• Check float has been nearly eliminated in the United States due to Check 21 and image clearing, and Canada has also significantly reduced float on checks or cheques.

In addition to being exceptionally stable, the banking environment in Canada is:

• Highly efficient. It offers same-day clearing of paper and electronic payments.

• Highly electronic. A much larger percentage of payments is cleared through electronic channels than in the United States.

• Risk managed. A large value transfer system, or collateralized real-time gross settlement system, processes more than 85% of the inter-bank payment value.

• Concentrated. Canada’s Big Five banks and the Bank of Canada account for more than 90% of bank assets.11

• Sizeable. Each major Canadian bank has more than 1,000 branches and coast-to-coast representation across Canada.

Canada has 29 domestic banks. Twenty-eight foreign banks have established branches in Canada, all of which are permitted to offer the full range of wholesale and retail banking services. There are also six cooperative credit associations that are federally regulated.

U.S. AND CANADIAN BANKING ENVIRONMENT

UNITED STATES

• Department of the Treasury

• Federal Reserve

• Office of the Comptroller of the Currency (OCC)

• Federal Deposit Insurance Corporation (FDIC)

• Office of Foreign Assets Control (OFAC)

• North American Clearing House Association (NACHA)

• Depository Trust & Clearing Corporation (DTCC)

UNITED STATES

• Department of Finance

• Bank of Canada (Central Bank)

• Office of the Superintendent of Financial Institutions (OSFI)

• Canadian Deposit Insurance Corporation (CDIC)

• Financial Transactions Reports Analysis Centre of Canada (FINTRAC)

• Payments Canada

• Canadian Depository for Securities (CDS)
Choosing a Bank For Your Canadian Expansion

Many firms with subsidiaries, operations or sales offices in both Canada and the United States need assistance with managing payables, receivables and currency as well as arranging credit and treasury management services. What is the best type of bank to handle your financial transactions?

You could choose to:

• Bank on both sides of the border with a Canadian financial institution.
• Do business with a U.S. financial institution that does not have cross-border relationships.
• Bank in the United States with a U.S. financial institution and in Canada with a Canadian institution.

Our recommendation is to bank on both sides of the border with a U.S. financial institution that has a full-service branch in Canada. This option should offer:

• A comprehensive understanding of your business as well as the regulatory and business environment in both countries
• Familiarity with your business and industry
• Faster response to treasury management and credit requirements in both countries
• Ability to lend to both your parent organization in the United States and its Canadian subsidiary
• Existing relationships with Canadian financial institutions, professionals and suppliers that can benefit your business expansion
• Assistance with streamlining of collateral and documentary relationships

ABOUT PNC BANK CANADA BRANCH

Established in Canada in 1998 and a Canadian commercial lending foreign bank branch since 2001, PNC Bank Canada Branch (“PNC Canada”) offers specialized knowledge and experience to help you succeed in this vital cross-border marketplace. In 2014, PNC Canada received approval from OSFI to operate as a full-service branch. If you are interested in exploring how PNC Canada might be able to assist with your Canadian operations, we encourage you to talk to us.

Today, services include:

• Full range of committed and uncommitted revolvers and term loans in Canadian or U.S. dollars
• Commercial, asset-based and equipment finance loans and leases
• Comprehensive corporate depository and treasury management services
• A wholesale lockbox solution that allows you to process your Canadian receivables using state-of-the-art technology and advanced service options

PNC Bank Canada Branch combines a wide range of financial resources with a deep understanding of your business to help you achieve your goals. To learn more about how we can bring ideas, insight and solutions to you, please call your Treasury Management Officer or visit pnc.com/canada.

PNC is a registered mark of The PNC Financial Services Group, Inc. (“PNC”).

In Canada, PNC Bank Canada Branch, the Canadian branch of PNC Bank, National Association (“PNC Bank”), provides bank deposit, treasury management, lending (including asset-based lending through its Business Credit division) and leasing products and services (through its Equipment Finance division). Deposits with PNC Bank Canada Branch are not insured by the Canada Deposit Insurance Corporation. Deposits with PNC Bank Canada Branch are not insured by the Federal Deposit Insurance Corporation, nor are they guaranteed by the United States Government or any agency thereof.

Lending and leasing products and services, as well as certain other banking products and services, may require credit approval.

©2016 The PNC Financial Services Group, Inc. All rights reserved.