Canadian Imperial Increases Credit-Swap Trading, Veritas Says

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Published Friday June 29, 2007

June 29 (Bloomberg) -- Canadian Imperial Bank of Commerce has expanded trading of credit derivatives more rapidly than any other Canadian lender, exposing the country's fifth-biggest bank to more risk, said **Veritas Investment Research** analyst **Ohad Lederer**.

The size of CIBC's credit derivatives portfolio almost doubled in 2006, as the Toronto-based lender followed rivals Royal Bank of Canada and Toronto-Dominion Bank in trading long- term credit-default swaps, the analyst said.

``It appears that CIBC is rushing in to this area of trading,'' **Lederer** said in an interview yesterday. ``They've seen Royal Bank and Toronto-Dominion make headway into this area and they've tried to catch up.''

CIBC, which has the smallest market value and the least amount of Tier 1 capital of Canada's biggest banks, has the second-largest portfolio of long-term credit derivatives, **Lederer** said in his note. A greater proportion of CIBC's trading of credit-default swaps may be with hedge funds rather than financial institutions, he said.

CIBC's actions may be putting it at a level of risk that's both higher than its competitors and increasing over time, **Lederer** said in his note. CIBC's portfolio of long-term credit derivatives rose to almost C$119 billion ($112 billion) the end of the fiscal second quarter.

``Investors must have faith that as trading ramps up in such a dramatic fashion, the bank has the risk management skills to price the risk and the instruments accurately,'' **Lederer** wrote.

Bank of Montreal

Investors must also rely on adequate oversight of the trading to prevent what happened with Bank of Montreal, he said. Bank of Montreal reported losses of C$680 million in May from trading natural-gas contracts.

``We don't know that any problems are going to arise from CIBC's credit derivative trading operations,'' **Lederer** said. ``It is possible the bank has in place effective risk controls.''

CIBC spokesman Rob McLeod declined to comment.

Credit-default swaps are financial instruments based on bonds or loans that are used to speculate on a company's ability to repay debt. They're traded in the privately negotiated over-the-counter market by banks and securities firms.

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Last Updated: June 29, 2007 10:02 EDT