

Note 7: Structured Entities

We enter into certain transactions in the ordinary course of business which involve the establishment of structured entities (“SEs”) to facilitate or secure customer transactions and to obtain alternate sources of funding. We are required to consolidate a SE if we control the entity. We control a SE when we have power over the SE, exposure to variable returns as a result of our involvement, and the ability to exercise power to affect the amount of our returns.

In assessing whether we control a SE, we consider the entire arrangement to determine the purpose and design of the SE, the nature of any rights held through contractual arrangements and whether we are acting as a principal or agent.

We perform a re-assessment of consolidation if facts and circumstances indicate that there have been changes to one or more of the elements of control over the SE. See Note 1 for more information on our basis of consolidation.

Consolidated Structured Entities

Bank Securitization Vehicles

We use securitization vehicles to securitize our Canadian credit card loans, Canadian real estate lines of credit and Canadian auto loans in order to obtain alternate sources of funding. The structure of these vehicles limits the activities they can undertake and the types of assets they can hold, and the vehicles have limited decision-making authority. The vehicles issue term asset-backed securities to fund their activities. We control and consolidate these vehicles, as we have the key decision-making powers necessary to obtain the majority of the benefits of their activities.

The following table presents the carrying amount and fair value of transferred assets that did not qualify for derecognition and the associated liabilities issued by our bank securitization vehicles:

(Canadian \$ in millions)	2017			2016		
	Carrying amount of assets	Fair value of assets	Associated liabilities	Carrying amount of assets	Fair value of assets	Associated liabilities
Credit card receivables	7,292	7,292	4,115	7,210	7,210	4,324
Consumer instalment and other personal (1)	5,699	5,695	2,295	5,564	5,566	797
Total	12,991	12,987	6,410	12,774	12,776	5,121

(1) Includes Canadian real estate lines of credit and Canadian auto loans.

U.S. Customer Securitization Vehicle

We sponsor a customer securitization vehicle (also referred to as a bank-sponsored multi-seller conduit) that provides our customers with alternate sources of funding through the securitization of their assets. This vehicle provides clients with access to financing in the asset-backed commercial paper (“ABCP”) markets by allowing them to either sell or transfer a direct or indirect interest in their assets to the vehicle, which then issues ABCP to

investors to fund the purchases. We do not sell assets to the customer securitization vehicle. We earn fees for providing services related to the securitizations, including liquidity, distribution and financial arrangement fees for supporting the ongoing operations of the vehicle. We have determined that we control and therefore consolidate this vehicle, as we are exposed to its variable returns and we have the key decision-making powers necessary to affect the amount of those returns in our capacity as liquidity provider and servicing agent.

We provide committed liquidity support facilities to this vehicle which may require that we provide additional financing to the vehicle in the event that certain events occur. The total committed undrawn amount under these facilities at October 31, 2017 was \$6,765 million (\$6,314 million at October 31, 2016).

Capital and Funding Vehicles

Capital and funding vehicles are created to issue notes or capital trust securities or to guarantee payments due to bondholders on bonds issued by us. These vehicles may purchase notes issued by us, or we may sell assets to the vehicles in exchange for promissory notes.

We may also use capital vehicles to transfer our credit exposure on certain corporate loan assets. We purchase credit protection against eligible credit events from these vehicles which they fund through the issuance of credit-linked notes. Loan assets are not sold or assigned to the vehicles and remain on our Consolidated Balance Sheet. As at October 31, 2017, \$318 million of credit-linked notes issued by these vehicles were included in deposits in our Consolidated Balance Sheet (\$nil at October 31, 2016).

For those vehicles that purchase assets from us or are designed to pass on our credit risk, we have determined that based on the rights of the arrangements or through our equity interest we have significant exposure to the variable returns of the vehicles, and we control and therefore consolidate these vehicles. During 2016, all of the capital trust securities issued by one of these vehicles were redeemed. Additional information related to capital trust securities is provided in Note 16.

Credit Protection Vehicle

We sponsored a credit protection vehicle which provided credit protection to investors on investments in corporate debt portfolios through credit default swaps. We entered into credit default swaps with swap counterparties and offsetting swaps with the vehicle. We controlled and consolidated the vehicle. In September 2016, the vehicle redeemed all of its outstanding medium-term notes and the credit default swaps matured. There is no remaining activity in this vehicle.

Unconsolidated Structured Entities

The table below presents amounts related to our interests in unconsolidated SEs:

	2017			2016		
	Capital and funding vehicles	Canadian customer securitization vehicles (1)	Structured finance vehicles	Capital and funding vehicles	Canadian customer securitization vehicles (1)	Structured finance vehicles
Interests recorded on the balance sheet						
Cash and cash equivalents	8	50	-	11	53	-
Trading securities	-	6	209	-	14	1,056
Available-for-sale securities	2	725	-	2	643	-
Loans	7	-	-	-	-	-
Other	-	6	-	12	6	-
	17	787	209	25	716	1,056
Deposits	460	50	146	1,265	53	879
Derivatives	-	-	63	-	-	135
Other	16	-	-	21	-	-
	476	50	209	1,286	53	1,014
Exposure to loss (2)	57	6,425	209	57	6,796	1,056
Total assets of the entities	476	4,592	209	1,285	5,131	1,056

(1) Securities held that are issued by our Canadian customer securitization vehicles are comprised of asset-backed commercial paper and are classified as trading securities and available-for-sale securities. All assets held by these vehicles relate to assets in Canada.

(2) Exposure to loss represents securities held, undrawn liquidity facilities, total committed amounts of the BMO funded vehicle and derivative assets.

Capital and Funding Vehicles

Certain of our capital and funding vehicles purchase notes issued by us as their underlying assets. In these situations, we are not exposed to significant default or credit risk. Our remaining exposure to variable returns is less than that of the note holders, who are exposed to our default and credit risk. We are not required to consolidate these vehicles.

Canadian Customer Securitization Vehicles

We sponsor customer securitization vehicles (also referred to as bank-sponsored multi-seller conduits) that provide our customers with alternate sources of funding through the securitization of their assets. These vehicles provide clients with access to financing either directly from BMO or in the ABCP markets by allowing them either to sell or transfer a direct or indirect interest in their assets to the vehicles, which then issue ABCP to investors or BMO to fund the purchases. We do not sell assets to the customer securitization vehicles. We earn fees for providing services related to the securitizations, including liquidity, distribution and financial arrangement fees for supporting the ongoing operations of the vehicles. We have determined that we do not control these entities, as their key relevant activity, the servicing of program assets, does not reside with us.

We provide liquidity facilities to the vehicles that issue ABCP to investors which may require that we provide additional financing to the vehicles in the event that certain events occur. The total committed and undrawn amount under these liquidity facilities and any undrawn amounts of the BMO funded vehicle at October 31, 2017 was \$5,688 million (\$6,134 million at October 31, 2016).

Structured Finance Vehicles

We facilitate development of investment products by third parties, including mutual funds, unit investment trusts and other investment funds that are sold to retail investors. We enter into derivative contracts with these third parties to provide investors with their desired exposure, and we hedge our exposure related to these derivative contracts by investing in other funds through SEs. We are not required to consolidate these vehicles.

Compensation Trusts

We sponsor various share ownership arrangements, certain of which are administered through trusts. Generally these arrangements permit employees to purchase bank common shares.

For our largest plan, employees can direct a portion of their gross salary toward the purchase of our common shares and we match 50% of employees' contributions up to 6% of their individual gross salary to a maximum of \$100,000. Our matching contributions are paid into trusts, which purchase our common shares on the open market for distribution to employees once those employees are entitled to the shares under the terms of the plan. We are not required to consolidate our compensation trusts. These trusts are not included in the table above, as we have no interest in the trusts.

Total assets held under our share ownership arrangements amounted to \$1,805 million as at October 31, 2017 (\$1,616 million in 2016).

BMO Managed Funds

We have established a number of funds that we also manage. We assess whether or not we control these funds based on the economic interest we have in the funds, including investments in the funds and management fees earned from the funds, and any investors' rights to remove us as investment manager. Based on our assessment, we have determined that we do not control these funds. Our total interest in unconsolidated BMO managed funds was \$774 million at October 31, 2017 (\$798 million in 2016), which is included in securities in our Consolidated Balance Sheet.

Non-BMO Managed Funds

We purchase and hold units of non-BMO managed funds for investment and other purposes. We are considered to have an interest in these funds through our holding of units, and because we may act as counterparty in certain derivative contracts or other interests. These activities do not constitute control, and as a result our interests in these funds are not consolidated. Our total interest in non-BMO managed funds was \$1,426 million at October 31, 2017 (\$2,525 million in 2016), which is included in securities in our Consolidated Balance Sheet.

Other Structured Entities

We may be deemed to be the sponsor of a SE if we are involved in the design, legal set-up or marketing of the SE. We may also be deemed to be the sponsor of a SE if market participants would reasonably associate the entity with us. We do not have an interest in certain SEs that we have sponsored.
