Comparing the position of Canadian banks to those of the United States, the exposure as between Canadian banks is somewhat more evenly distributed. Figures given to the Committee indicate that the nine large U.S. money centre banks hold over 60 per cent of the total U.S. problem debt. This represents 9.2 per cent of their assets as compared to 6.4 per cent of the assets of Canadian banks. This heavy involvement of major U.S. banks has a powerful influence on the approach taken by the U.S. Treasury on managing the debt question. However, if an across-the-board comparision of the two banking systems is made and account is taken of differences in banking regulations and accounting practices, the capital-to-assets ratios of the two countries are roughly similar.

The Canadian banks have in the last couple of years substantially increased their reserves against the problem debtor countries. In June 1984 the Inspector General of Banks directed them to set aside provisions against sovereign risk loans in 32 problem countries of between 10 and 15 per cent of total exposure.*

The minimum level was to have been achieved by October 31, 1986. To strengthen reserves still further, another directive was issued in December 1986 requiring that by 1989 Canadian banks make a further increase in their provisions — of 18 to 20 per cent — on their sovereign loans to specific countries. This percentage is likely to be increased further in the future. The list of countries is henceforth to be assessed annually with a view to possible additions or deletions.

Although it is Canadian bank practice to set aside specific provisions for non-performing loans in Canada and some OECD countries, reserves for sovereign loans to problem debtor countries are pooled and treated as a general reserve. Some banks report in the text of their annual reports the amount set aside for general provisions, and in some instances this is related to the Inspector General's list of 32 countries, whereas others give only the percentage of their general provisions in relation to the debt; the Bank of Nova Scotia limits its comments to the statement that it is "in compliance with the guidelines." The Royal Bank reports its loan loss experience by region; all the others aggregate their losses under the general category of "international" which means that non-performing loans in the United States and other OECD countries are lumped in with Third World debtors. A further limitation in the information provided is that the aggregated figures given for non-performing loans are shown net of provisions for loan losses, with no separate entry to indicate the size of the provisions taken, so that the precise amounts of international loans deemed to be non-performing cannot be identified.

Subject to these several qualifications, the annual reports do broadly show that the banks are carrying out the Inspector General's directive and making significant additions to their reserves against loan losses. The National Bank of Canada reported that its general reserves as of October 31, 1986 amounted to

* The Inspector General's 32 countries were: Argentina, Bolivia, Brazil, Chile, Costa Rica, Cuba, Dominican Republic, Ecuador, Guyana, Honduras, Jamaica, Liberia, Madagascar, Malawi, Mexico, Morocco, Nicaragua, Nigeria, North Korea, Peru, Philippines, Poland, Romania, Senegal, Sudan, Togo, Turkey, Uruguay, Venezuela, Yugoslavia, Zaire and Zambia. When the new directive was issued for 1987-89, the Ivory Coast, Panama and South Africa were added and Turkey was removed.