The Sub-Committee has received a detailed submission from the North-South Institute which argues that Canada proceed along the lines of recent tax changes in the United Kingdom which provide banks there with an early incentive to take additional losses by selling debt back to debtor countries at a large discount. The complete proposal is included as an appendix to this report.

We realize this is a complex area which does not yield one obvious answer. But we are impressed by the thoughtfulness of the suggestions for reform, and persuaded that the Canadian government should be more active in promoting commercial debt relief that benefits Third World peoples, not just in granting tax relief on bad loans made by our banks. Accordingly, **the Sub-Committee recommends that the current 45% ceiling on reserves against problem sovereign debt exposure eligible for tax purposes remain, but that—as outlined in the appended proposal by the North-South Institute—banks be able to claim an additional tax loss equal to the difference between the 45% level already claimed and the amount of any discounts only when Third World loan assets are written down or sold in ways that reduce the burden on debtor countries. This should encourage faster, larger and more beneficial discounts on remaining commercial bank exposure. In addition, there should be a limit of 5 years or less on the length of time that banks are allowed to hold funds in loan-loss reserves above the level required by the Superintendent of Financial Institutions without acting to discount the portion of the debt applicable to those excess provisions.**

D. Providing Relief on Official Government Debt

The Canadian government is limited in the actions it can take to reduce the commercial debt burden of developing countries. But Canada is also an important creditor of the Third World and, therefore, able directly to make a difference through its own debt relief actions. Indeed, most of the external debt of low-income developing nations is held by donor governments and the IFIs.

While the situation of large middle-income debtors such as Mexico and Brazil has captured more attention and been the focus of initiatives such as the Brady plan, the plight of the least developed countries concentrated in Africa, is in fact more extreme even if less