

Canada's financial system — competitive, active and growing

The Canadian financial system is highly sophisticated and internationally competitive, offering a full range of services to potential UK investors accessible in Canada or through London offices of Canadian firms. The industry is traditionally organised into four major subsectors — chartered banks, trust and mortgage loan companies, insurance companies and securities firms, the first three respectively accounting for 40%, 30% and 12% of total assets.

Among the chartered banks, the top six control assets of nearly \$400 billion, and the top three are among the 50 largest in the world. They are the major source of external debt financing and, while a primary source of short-term working capital, they also engage directly in leasing and extend a range of long-term loans (including plant expansion, export financing, etc.).

The centralised structure of the banking system means not only accessibility to services across Canada but also services around the world: the 12 domestic chartered banks offer a variety of services (savings and chequing accounts, deposit receipts, personal and commercial loans, bankers' acceptances, currency trading and market information, etc.) at over 7400 branches throughout Canada and at some 300 offices in over 40 countries abroad. They additionally have correspondent relationships with 5000 banks world wide.

The 'big six' (Royal Bank of Canada, Bank of Montreal, Canadian Imperial Bank of Commerce, Bank of Nova Scotia, Toronto Dominion and National Bank of Canada — all with London offices) control over 95% of both assets and deposits of the domestic banks.

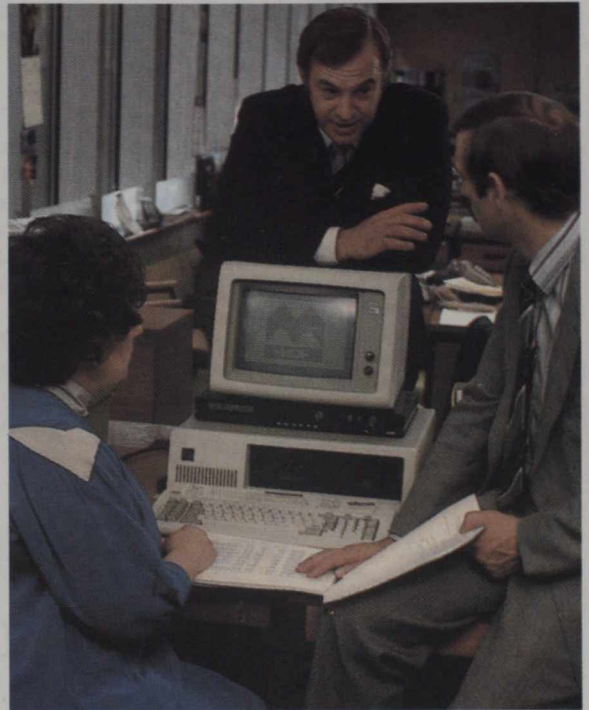
Their strength and stability has been evidenced in their 17.3% growth in aggregate earnings over the last reporting year.

Also ready to serve foreign investors are major foreign banks which provide in their Canadian offices essentially the same range of services as domestic Canadian banks: loans, deposits and commercial services. Since ownership restrictions were removed on foreign banks in 1980, their number has increased to 58 and their market share of the Canadian banking industry has increased to 16%.

Trust and mortgage companies are deposit taking institutions similar to the chartered banks but not normally providing a full range of commercial banking services. They generally invest funds in residential and shorter term mortgages on a wide variety of commercial and revenue-producing properties. Businesses may finance their operations through these institutions either on a term basis or on mortgage security.

Although the primary role of insurance companies is risk underwriting, insurance companies can deploy premium income in business financing for intermediate (5-10 years) or long term (over 10 years) requirements. They can for example be a competitive source of financing for longer term requirements on real estate transactions.

As in the UK, Canadian securities firms or investment dealers join those with capital with those in need of it. This process can be accomplished by



underwriting new public security issues or offering new issues to the public on a 'best effort' or agency basis; or by placing corporate securities with private individuals or corporations. Ninety-five per cent of all securities transactions (more than \$700 billion) are handled by members of the Investment Dealers Association of Canada, the national self-regulating body. On a per capita basis, Canadians raise twice as much capital as Americans.

There are five stock exchanges, located in Toronto, Montreal, Vancouver, Calgary and Winnipeg. Listing a corporate stock on a Canadian exchange is usually quite simple. Each new listing must meet certain minimum requirements, similar to SEC requirements.

With over 80% of the dollar volume in Canada, the Toronto Stock Exchange is the country's largest. From 1982 to mid 1985, it out-performed both the London and New York exchanges.

Canada's bond market is also well developed with major corporations regularly raising capital by issuing bonds and debentures. Securities dealers usually handle the underwriting and distribution of these securities. An 'over the counter' secondary market ensures liquidity.

Sales finance companies provide a wide range of services to both consumer and commercial clients. Consumer loans generally cover such items as consolidation of personal debts, purchase of cars and household appliances, and vacations. On the commercial side, sales finance companies handle vehicle fleet leasing or equipment financing.

Credit unions are cooperative associations which primarily accept deposits and offer mortgage and personal loans. Many provide loans to small business, chequing facilities, term deposits, travellers' cheques and lines of credit.

Venture capital companies generally make investments in the range of \$500 000 to \$5 000 000. They offer assistance and management advice to those



Assets of the 'big six'.