



4. Financing Canadian Industries

Canada has sophisticated and highly developed financial institutions and markets, similar in many respects to those available in the United States. Foreign investors establishing a business in Canada are able to obtain financing from private sector financial institutions and intermediaries.

The major financial institutions include chartered banks, mortgage, loan and trust companies, sales finance companies, insurance companies, and pension funds. The major financial intermediaries include investment dealers and investment bankers who can arrange financing in various ways, either on an agency basis or as underwriters guaranteeing the placement of funding. In addition, several new and innovative forms of financing have emerged in recent years in the high risk and venture capital field.

In November 1980, Canada amended its Bank Act to allow foreign banks to operate Canadian subsidiaries on a commercial basis. As a result, the number of chartered banks has increased dramatically. A foreign bank must obtain a charter under the Bank Act and may operate one branch in addition to its Canadian head office.

Canada's nationally chartered commercial banks are the chief sources of short-term funds. Of these, the five major national banks account for almost 95 per cent of the country's total banking assets. Most Canadian banks are well represented on the international scene.

Stock and bond issues

Corporate stock issues can usually be floated without difficulty and legal requirements are relatively uncomplicated. Issues must be approved by the appropriate provincial securities commission, which must also clear the prospectus. Canadian requirements are quite similar to those of the U.S. Securities and Exchange Commission. If a stock qualifies, it will be registered, and admission to trading on the stock market is then routine. Canada has three major stock exchanges: Toronto, Montréal, and Vancouver.

Public bond issues must be cleared through the provincial securities commissions, which handle all prospectus filings. Canada's bond market is expanding in part because of the rapid growth of corporate pension funds and other institutional funds.

Chartered Banks

Canada has traditionally been distinguished from a number of other major industrial nations by the dominance of a few very large chartered banks. In Canada, the chartered banks are federally licensed and carry on a broad range of commercial banking activities. The five biggest rank among the largest in the world.

The largest Canadian banks each have total assets in the range of \$44 billion to over \$90 billion. Canadian chartered banks have extensive branch networks in Canada and abroad, each having more than 1,000 branches. Because of the size of these banks and due to Canadian banking legislation, it is not unusual for a single Canadian chartered bank to make extremely large loans.

The Canadian banks provide both working capital financing and term financing to businesses. The Canadian banks also provide personal loans and sales finance arrangements to finance sales of tangible property both to retail and wholesale buyers. In addition to providing loans, they provide a full range of commercial banking services.

Since 1980, in addition to the 11 Canadian chartered banks, over 50 agencies or subsidiaries of most of the large multinational banks also operate in Canada under the provisions of banking legislation and are entitled to operate as full chartered banks.

Mortgage, Loan and Trust Companies

Mortgage, loan and trust companies may be incorporated under either federal or provincial legislation. They are deposit-taking institutions, in many respects similar to the Canadian chartered banks.

However, these institutions do not normally provide a full range of commercial banking services. Certain businesses might finance using loans from these institutions either on a term basis or on mortgage security. These institutions generally invest their funds in private residential mortgages and in shorter-term mortgages on a wide variety of commercial and revenue producing properties. They are in many ways similar to the savings and loan institutions in the United States.

Other Financial Institutions

Businesses requiring financing have a number of other institutions they can approach in addition to commercial banks, mortgage, loan and trust companies. These include both general and life insurance companies as well as sales finance companies and pension funds. Normally, these institutions would be approached for