capital may be taxed if it is moved from one country to another. It has therefore not been possible to determine just how much Canadian capital was required to establish the foreign operations of the banks.

Canadian chartered banks are termed constrained corporations, meaning that ownership is limited to 10 per cent for any individual or associated group of individuals, and that no more than 25 per cent of it can be held in foreign hands. The change to the Bank Act in 1980 permitted Canadian banks to issue subordinated debentures in foreign currencies. As of October 31, 1981, the Canadian chartered banks had issued $550 million of subordinated debentures in U.S. dollars. It should be stressed, however, that the Inspector General of Banks has indicated that he does not consider that subordinated debentures should carry a very heavy weight in the calculation of leverage as it relates to a bank's capital adequacy.

It cannot be concluded how much shareholders equity was exported from Canada. However, in recent years, particularly in 1981, the total Canadian banking system was able to obtain new capital from international markets through retained earnings and the issuance of subordinated debentures in U.S. dollars. It should be considered that perhaps banks should fund their foreign currency operations by using more foreign capital, particularly in convertible preferred shares or convertible debentures. The Bank Act (1980) states very clearly the rules for issuing subordinated debentures in foreign currencies, but makes no reference to the rules for other types of equity issues in these currencies. Therefore, it would appear that banks should be encouraged to increase their foreign shareholders, since approximately 95 per cent of present shareholders are Canadian. We believe that the chartered banks should continue to be covered by the rules laid down for them as constrained corporations. Yet, increased foreign ownership would give the banks an international scope in attracting capital, particularly in periods where the banks may have saturated the market, domestically. The latter may indeed have been the case for the chartered banks over the last 18 months, when they raised approximately 25 per cent of all the common and preferred shares and convertible debentures in the entire Canadian market.

3.7 IMPACT OF OTHER FACTORS ON CAPITAL

As discussed in previous sections, capital is extremely important to a bank, as it is to any business, for cushioning unexpected shocks or deficiencies of earnings within a single year. In the light of this, several things must be considered that have a significant impact on a bank's capital base: loan losses; loss on the bank's income statement; and a dividend payout that exceeds earnings.

The first factor that may affect the appropriation for loss account is the difference between the five year average loan loss provision as included in the income statement, and a bank's actual loss experience in any one particular year. For the most part, the difference is netted against the appropriation for loss account. As noted in the previous section, over the last seven years, the difference has generally produced a deduction from the appropriation for loss account.

A second factor is a deficiency in a bank's earnings' statement in any one year or, in other words, a loss. This deficit would be deducted against the bank's retained earnings. In addition, a bank is permitted a tax-loss carry-forward for a five year period, but if this is not used, then it will become a deduction against the bank's capital.