The third rationale is quite different. Later in this report, the Committee will outline a series of proposals to ensure that the market for financial services becomes national. Since most of the existing provincial barriers apply to trust companies, if the Committee's approach to a free internal market is derailed by actions of one or more of the provinces, the transitional Schedule III bank route provides a vehicle for cutting through any protectionist or extra-territorial behaviour on the part of the provinces.

RECOMMENDATIONS AND OBSERVATIONS

19. **The Committee offers the following as an observation, not as a recommendation. We have considered the possibility of utilizing a Schedule III charter as a transition category toward a Schedule I bank. Narrowly held trusts and domestic Schedule II banks would qualify for Schedule III bank status provided that on a change in ownership they sell down on a widely held basis, or else sell to an institution deemed to be widely held (mutuals, banks and credit unions). Whether this option will attract existing trusts and Schedule II domestic banks depends in large measure on the definition of what will constitute a change in ownership. The upside potential for this approach is essentially three-fold. First, if a lenient approach is taken to what will trigger the selling down of shares, then most trusts will opt for a federal charter. Second, if there is a concern about Canadian ownership of trusts this transitional Schedule III charter is an obvious solution since the only way to exit is via a widely held shareholding. Third, if the Committee's later proposals for unifying the Canadian financial market run into problems from intransigent provinces, a Schedule III bank charter will end-run any provincial barriers. As noted, however, the Committee is not sufficiently confident to make this a formal recommendation.**

The Committee now turns to the ownership of insurance companies.

C. Ownership of Insurance Companies

Virtually every previous official report on the reregulation or deregulation of financial institutions recommended that deposit-taking institutions (or their financial holding companies) could own insurance companies. However, the insurance representatives that appeared before the Committee mounted a strong case for preventing deposit-taking institutions from owning insurance companies. Part of the concern was that the recent move by banks into the securities sector would be repeated for the insurance sector.

In assessing this argument, the Committee could not ignore several other factors. First of all, most of the large stock insurance companies are already part of financial conglomerates. Would prohibition of any linkage between deposit-taking institutions and insurance companies imply that Trilon, for example, be required to sell one or the other of London Life and Royal Trust? Second, mutuals cannot by definition be acquired. Third, there are nearly twenty insurance companies that now have trust company subsidiaries, including two of the largest mutuals that acquired trust companies during the Committee's deliberations. Presumably the ban would be a two-way street: if deposit-taking institutions cannot own insurance companies, then the reverse should hold as well. Fourth, under the earlier recommendations, mutuals will be able to roll their trust companies into Schedule III banks. Finally, the Committee is aware of foreign practice in this regard. In the March 1990 issue of *Life Insurance International*, twelve of the seventeen European countries surveyed allowed life companies to own banks and twelve countries as well (but a slightly different twelve) permitted banks to own life companies. As the Committee's views were not influenced by what other nations do, this last point is primarily for information.

Overall, the Committee's conclusion is that its 1986 recommendation remains appropriate: