As an aside, it is important to note that this recommendation is designed to enhance corporate governance as it relates to self-dealing. It is not intended to reflect our judgement on the issue of the concentration of power in the financial sector. We shall have some comments on the concentration issue later. For now, we merely note that the Green Paper ignored the concentration issue entirely: it was not included among the underlying principles relating to financial sector reform.

Returning to the issue at hand, the implication of the 35 per cent provision can be elaborated by means of a few examples. If an insurance company were to acquire a trust company, then either the insurance company or the trust company must be publicly traded to the extent of 35 per cent. Hence, a publicly-traded financial institution could operate wholly-owned subsidiaries in another pillar. The same would apply to a holding company. If the holding company is publicly traded to the extent of 35 per cent, its subsidiaries can be narrowly held. However, if the holding is narrowly held, all of its subsidiaries must have 35 per cent of their shares publicly traded.

Schedule A banks are, of course, widely held. We deem mutual life companies and credit unions to be widely held as well. Hence any of these institutions would be able, under this provision, to hold wholly-owned subsidiaries in any pillar.

Where there is a difference between the percentage of shares publicly traded and the percentages of voting rights publicly traded, the 35 per cent rule applies to voting rights.

RECOMMENDATIONS AND OBSERVATIONS

43. Where one financial institution has a controlling interest in another financial institution operating in a different pillar, either the institution itself or its affiliate must have 35 per cent of its shares traded publicly. For financial conglomerates, if the holding company does not have 35 per cent of its shares traded publicly, all of its subsidiaries must be publicly traded to the extent of 35 per cent. Since schedule A banks, mutual companies and credit unions are, or are deemed to be, widely held they could, under these provisions, hold wholly-owned subsidiaries. The rationale for this provision is to enhance the role of corporate governance in monitoring self-dealing. A public share ownership of 35 per cent is probably sufficient to ensure that professional financial analysts will monitor the operations of the firm. This added scrutiny and increased public awareness will provide yet another incentive for institutions to ensure that their business conduct review committees function properly.

44. Where there is a difference between the percentage of shares publicly traded and the percentages of voting rights publicly traded, it is the latter that is the focus of our recommendation.

Financial and Non-Financial Activities

The issue relating to the commingling of financial and non-financial activities essentially relates to whether or not this occurs upstream or downstream. It seems appropriate that non-financial agents should be able to engage in financial activities provided they do this through a financial holding company structure. Either the financial holding company must have 35 per cent of its shares publicly traded or else all of its subsidiaries must have 35 per cent of their shares publicly traded.

What ought not to be permissible, however, is for institutions under a financial holding company to engage in non-financial activities. It is probably necessary to make some minor exceptions to this general prohibition in order to allow financial conglomerates to operate subsidiaries, such as data processing units, that are designed to service the needs of the