The Case for Narrowly Held Institutions

The case for narrowly held institutions, or more precisely the case for a flexible ownership regime, was presented by four representatives of the trust industry (the Trust Companies' Association and officers of the owners of three of the big trusts) and by several other witnesses, such as insurance representatives. The Committee will focus on the points emphasized by the trust companies.

The trust companies generally begin their case by noting that an ownership rule (such as ten per cent) can indeed play a role in minimizing concerns such as self-dealing and foreign takeovers, but that the competitive costs of using this instrument for these ends would simply be too high. Far better to attack the problem directly, via self-dealing bans, more effective corporate governance, enhanced supervision and disclosure and the like. Alternatives presented to the Committee ranged from Royal Trust's Business Conduct Review Committee, to the undertakings assumed by Imasco and Canada Trust, and to the recent BCE Inc. by-law under which Montreal Trust will not have any dealings with any of the BCE Inc. subsidiaries or affiliates except for the provision of what is called fee-based services.

In addition, BCE Inc. Chairman, Raymond Cyr provided another perspective:

> . . . for any financial institution, access to capital is the single most important factor in ensuring solvency, growth and competitiveness. I think that is one of the things we bring to the table—access to capital. We have seen in the past a number of circumstances in financial institutions where access to capital has been the one criterion that has determined whether the institution survived or not. The ownership structure of those Canadian institutions that have failed was never the real criterion—access to capital in time of crisis is the most important factor in ensuring the solvency of financial institutions.

The trust companies also argued that the formal ten per cent rule is not critical in terms of ensuring Canadian ownership. While most countries want to retain control by nationals over their deposit-taking institutions, hardly any of them go about it by means of a ten per cent rule. Rather, virtually every western nation has in place a provision whereby no one can buy more than ten or 15 per cent of a federal (or national) financial institution without the express approval of the Minister. Since Canada also has this provision in place there is no need for a legislated ten per cent limit to control foreign ownership.

These points are defensive in that they argue against the imposition of a widely held ownership regime applicable to all deposit-taking institutions. There is also a positive side to the trust companies' case which is probably captured best by a quotation from the brief of the Trust Companies Association:

> If our financial institutions are to be able to survive and compete in a global market, they will need access to enormous amounts of capital. A restrictive ownership regime will make it more difficult for institutions to raise this capital. Prohibiting significant, controlling commercial investment in the financial sector will impede both new entry into the industry and the growth of our domestic financial institutions. The prohibition would also have the effect of forcing Canadian commercial capital offshore to more hospitable investment climates. Yet at the same time, the domestic financial services market will be increasingly penetrated by foreign institutions, and by large non-financial commercial enterprises [that are] foreign owned.
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> . . . We will see foreign institutions and large commercial non-financial enterprises tapping into retail financial markets, offering attractive new financing vehicles for the aging "baby boomers", who will tend to focus their activity on the savings end of the market for their retirement years. The Ford Credits, the General Motors Acceptance Corporations, the GEs of