

subsidiaries of financial institutions that are deemed to be widely held. Accordingly, mutual insurance companies and credit unions/caisses populaires (or their "centrals") should be allowed to convert their trust company subsidiaries into Schedule III banks or to charter new Schedule III banks. Here again, as is the case for Bank Holding Companies, the mutual or credit-union ownership of Schedule III banks may be less than 100 per cent provided that the remaining shares are held in accordance with the ten per cent rule.

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.

C. Ownership of Insurance Companies

20. Financial institutions or financial holding companies can acquire insurance companies as part of their diversification across the pillars. Either the financial institution (or the financial holding company) or the acquired insurance subsidiary must have a 35 per cent public float.

D. Ownership Diversification Across the Pillars

E. Canadian Ownership

21. The Committee endorses the principle that Canadian financial institutions should remain in Canadian hands. The procedures for ensuring that this is the case are numerous and they involve, among other items, recourse to ministerial discretion as well as recourse to the relevant provisions of the *Canadian Ownership and Control Determination Act*. Moreover, the application of Canada's financial policy should ensure that powers granted to foreign institutions operating in Canada do not place Canadian institutions at a competitive disadvantage. With these provisions in place the Committee is confident that our major financial institutions will remain in Canadian hands.
22. The pending federal financial-institution legislation should incorporate Canadian ownership as one of the principal goals of financial sector policy and the exercise of ministerial discretion under the Acts governing financial institutions should reflect this goal.