- *Schedule III Banks*

The Committee has already noted its intention, for domestic financial institutions, to restrict the label "bank" to those institutions that are required by law to be widely held. Only Schedule I banks now qualify. This definition is too narrow. Mutual insurance companies and credit unions should also be deemed as being widely held and, as such, should be able to charter banks downstream. Accordingly the Committee proposes the creation of a new class of bank, a Schedule III bank, which can be wholly owned by a widely held institution and which will have all the powers associated with Schedule I banks. Thus:

RECOMMENDATIONS AND OBSERVATIONS

18. **The Committee proposes the creation of a new category of bank, namely a Schedule III bank. The defining characteristic of these Schedule III banks is that they will be 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.**

The Committee actually went considerably further in terms of its deliberations relating to Schedule III banks. Specifically, the issue arose as to whether the Schedule III category could also be a "transitional" bank charter toward eventual Schedule I status. What this would mean in practical terms is that any trust company satisfying the 35 per cent public float could roll the trust or a domestic Schedule II bank into a Schedule III bank provided that upon the sale of a majority ownership position the range of buyers be restricted either to institutions that are deemed to be widely held (banks, mutuals, credit unions/caisses populaires) or to the public market in accordance with the provisions of the ten per cent rule.

The issue then became one of defining what is meant by a change of ownership in terms of the requirement to sell down on a widely held basis. Consider the Royal Trustco-Trilon relationship, for example. If a change in the ownership of Royal Trustco is defined to mean a decision to sell by Trilon (i.e., by the immediate upstream owners), then this transitional Schedule III bank would presumably be very appealing to all of the large trusts. If, however, the change in ownership applies upstream from Trilon (e.g. if it applies to the ultimate owners), then this transitional Schedule III concept may well end up as an empty set.

The downside to this proposal is that all of the trusts might take advantage of the transitional bank charter and then begin a massive lobbying effort for eventual grandfathering provisions. If the end result is one where these Schedule III banks end up being narrowly held in perpetuity, this may really unlevel the playing field between banks and trusts and it would be inconsistent with our earlier recommendation that the designation of "bank" be limited to institutions that are widely held.

The upside potential is threefold. First, if the definition of what triggers selling down is a "Trilon" decision rather than an upstream sale, then virtually all trusts will come under federal regulation as "transitional" Schedule III banks. Second, if Canadian ownership of trusts becomes a problem because of the FTA, then this transitional Schedule III charter (where trusts enter as narrowly held but can only exit as widely held Schedule I banks) represents a full-proof approach to ensuring continuing Canadian ownership.