E. Canadian Ownership

Canadian financial markets are relatively open and should remain open. Allowing foreign institutions access to our domestic market has served to increase the competitiveness of the Canadian financial system generally and has provided benefits to the consumers of financial services. It has also allowed Canadian institutions the reciprocal privilege of promoting their interests abroad. This openess is important across all pillars, but is probably most pronounced in the insurance industry where many companies have very substantial international operations.

Foreigners can charter *de novo* institutions in all four financial pillars. The regulations are typically more restrictive when it comes to takeovers of existing Canadian financial institutions. As noted earlier, the 10/25 rule at the federal level still applies to non-U.S. foreign residents. Moreover, this or any other ownership rule can be maintained for all non-residents, even Americans, with respect to provincially chartered institutions (see Table 1 above).

Within this general framework, however, the Committee's firm view is that Canadian ownership of financial institutions, particularly deposit-taking institutions, should be encouraged. If our domestic financial institutions find that their access to the savings of the Canadian public is eroded, there is little likelihood that these institutions will be successful international competitors: a strong domestic base is an essential springboard for moving internationally. This is not unique. Most countries espouse similar goals.

As noted earlier, the principal concern arises from the FTA, where U.S. residents are no longer covered by the 10/25 rule for federal trust, loan, and insurance companies nor by the 25 per cent aggregate limit for non-resident ownership of chartered banks (the ten per cent rule for any single individual still applies irrespective of nationality). As also noted above, the 10/25 rule remains in place at the provincial level (or at least it could remain in place) since provincially chartered institutions are not covered by the financial services chapter of the FTA.

At a practical level, the issue then becomes one of whether or not Canadian policy can ensure that our large trusts and insurance companies remain in Canadian hands. The Committee has already rejected the imposition of the ten per cent rule on trust companies. It also rejects the notion that all trusts be chartered at the provincial level in order to secure Canadian ownership. In a sense, this closes off several options for ensuring Canadian ownership and control.

However, other avenues exist and must be pursued. First, existing policy at the federal level requires that any change in ownership of a financial institution involving more than ten per cent of voting shares must receive ministerial approval. This provision, which applies to Canadians and foreigners alike, is designed to ensure that any ownership change is in the best interests of the Canadian financial system. In the Committee's view, one of the factors contributing to the definition of "best interests" should be ensuring, wherever possible, Canadian ownership and control for large trust and insurance companies. While this is admittedly less transparent than resorting to formal rules, such as those embodied in a ten per cent regime, the Committee notes that this is the route that most of our trading partners utilize to ensure ownership by nationals.

Second, the Committee recommends resort to the review powers under the *Canadian Ownership and Control Determination Act* as an important ally in promoting Canadian ownership. Specifically, section 6 of the Act provides the federal government with the power to review foreign takeovers of major Canadian corporations (including trust and insurance companies) and to prohibit those takeovers which are deemed not to be of significant benefit of Canada. The Committee believes that a case can and should be made for including the maintenance of Canadian ownership for large trust, loan, and insurance companies as an integral component of what constitutes "of significant benefit to Canada" under the Act.