holding company be required when the institutions operate under different legislation and are provincially chartered. Again the level of ownership that would trigger the holding company would be ten per cent.

In the view of the Committee, the net result of these recommendations would likely be a dramatic increase in the degree and scope of regulation. With a ten per cent threshold for triggering a holding company, it would be possible to have ten separate holding companies associated with a given institution. More likely is a situation where there could be several holding companies. If the institution is chartered provincially, it is also likely that some of these holding companies would be chartered federally and some chartered provincially, depending on where the associated institutions are chartered. Moreover, in large financial conglomerates there will be a pyramiding of holding companies. For example, Power Corporation is a holding company. So is Power Financial Corporation, which is 80 per cent owned by Power Corporation. So, too, is Montreal Trustco Incorporated, which is 15 per cent owned by Power Financial Corporation and 40 per cent owned by yet another holding company in the Power Corporation family (see Figure 1). Under the Green Paper proposals, it is likely that there would be still other, non-related, financial holding companies associated with either the subsidiaries or holding companies in the Power empire.

Before the system adopts this further layer of regulation, however, we believe that it is appropriate to question the rationale behind the proposal to regulate financial holding companies. The major concern appears to be related to self-dealing. However, each of the institutions coming under the umbrella of the holding company would have to abide by the comprehensive self-dealing regulations elaborated upon in the previous section. Since there are two sides to every transaction, each episode of potential self-dealing will be subject to scrutiny in at least one institution. And if the NALT is designed to be between two affiliated companies, it will come under the purview of *both* BCRCs. It seems to us that very little, if anything, is to be gained by subjecting holding companies to regulation as well. Moreover, the costs both in terms of regulation and efficiency are likely to be substantial and the potential for federal-provincial conflict great. Thus, the Committee rejects the concept of a regulated FHC.

RECOMMENDATIONS AND OBSERVATIONS

42. The regulation of financial holding companies would add yet another substantial layer to the regulatory process. To the extent that the rationale for this is to control self-dealing, we believe that the concern is unwarranted given the previous recommendations addressing self-dealing. Since there are two sides to every transaction, each episode of self-dealing will be subjected to scrutiny in at least one institution and if the NALT is designed to be between two affiliated companies it will come under the scrutiny of both BCRCs. Accordingly, the Committee rejects the Green Paper proposal for federally regulated financial holding companies.

Cross-Pillar Activity and Self-Dealing

Concerns relating to self-dealing are more acute for institutions that have operations in more than one pillar. This would include holding companies and it would also include financial institutions in one pillar with subsidiaries operating in another pillar. We recommend that where a financial institution has a controlling interest in another financial institution, then either the institution itself or its affiliate must have 35 per cent of its stock publicly traded. The rationale for this is to enhance the role of corporate governance in monitoring self-dealing. We believe that a public share ownership of 35 per cent is 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 BCRCs function properly.