

securities negotiable by Canadian brokers who are affiliated with banks so as to include government securities. This would therefore include securities issued by all administration levels in Canada—federal, provincial and municipal—which amounts to a sizable sales figure.

[English]

It is not only a healthy chunk of their business, it is about 80 per cent or 90 per cent of the business of some of the larger Canadian firms that are doing business in the United States. So the agreement means that Canadian securities dealers which are acquired by Canadian banks will be able to stay in business, and in most parts of its business, in all the United States.

It means that securities subsidiaries of Canadian banks can compete in the United States market in an area in which they have a clear competitive advantage. It will allow Canadian banks to take greater advantage of the increased powers that our regulatory changes of last year will bring about.

There is another important provision relating to Glass-Steagall. We have been guaranteed that any amendments to this Act in the future will apply to Canadian companies, Canadian banks, in the same way as they will apply to United States banks. This is not an idle promise. Glass-Steagall has been around for some 50 years, and there is every expectation and indication that the United States administration, many members of Congress, and certainly many members of the financial sector in the United States, want to see it changed. In fact, Senator Proxmire has started to hold hearings on the liberalization of the Glass-Steagall Act. So this assures us of the benefits of any liberalization that will come about.

Some have said we should have had a complete exemption from Glass-Steagall. I think that anybody who is following with any degree of sensitivity what is going on in the United States Congress will know that that is not realistic. In fact, it could even be described as being naive. But, needless to say, the moves that are in the free trade agreement are welcomed. They will certainly build a stronger future for our industry in that market.

The United States has also agreed to preserve existing Canadian privileges dating from the 1978 International Banking Act. These provisions ensure that Canadian banks operating in the United States can continue to provide services across state lines through their existing United States branch network. American banks, as I am sure you know, Mr. Speaker, cannot do retail banking across state lines. So, together, these provisions preserve our existing access to the United States market. They open up some new opportunities for our banks.

One final observation is this. The health of the Canadian banks, the Canadian financial sector, depends on the health of the Canadian economy. It depends on the health of their clients. I want to read from *The Toronto Star* what the Chairman of the Royal Bank had to say. He said:

### Supply

The Royal Bank is convinced that the proposed Canada-U.S. free trade agreement is a good one for Canada and Canadians; and that we could reject it only at grave peril to our future prosperity.

He goes on to state later in the article:

The Royal Bank services, and is intimately involved with, the fortunes of clients in practically every sector of the Canadian economy.

We realize full well that some of our customers will gain more, and others less from the agreement. In expressing Royal Bank support for the agreement, we have the best interests of all our customers in mind—

There is very good reason for that. It is because if the Royal Bank's customers do well, as Mr. Taylor expects from this agreement, then the Royal Bank will do well.

The second group of provisions works in the interests of our domestic rights and serves Canadian consumers and our domestic financial markets. We have agreed that the U.S. Schedule B banks will no longer be subject to the 16 per cent aggregate ceiling on foreign bank subsidiaries. Our experience has shown, since the Schedule B banks were first permitted in 1980, that Canadian banks can compete quite effectively with United States banks and other foreign banks. As a group, the Schedule B banks have not shown high levels of profitability. But they have been able to increase financial resources available in Canada to Canadians. They have brought new competition and new ideas which have clearly benefited Canadian businesses and individuals.

We have also agreed to exempt United States investors from the rule that prevents Canadian Schedule A banks from being more than 25 per cent owned by foreign interests. In practice, this rule is a redundancy. No investor or group of associated investors can own more than 10 per cent of one of our major banks. These banks are also so widely held that no one, foreign or Canadian, can even come close to controlling them.

Indeed, the agreement we signed with the Americans keeps the needs of our financial industry very much in mind. Since last December 18, when we issued the policy paper on financial institution reform, our policy has been based on the premise that large firms should not be able to acquire other large firms in the financial sector. It is also based on the premise that any financial institution with more than \$750 million in capital must be publicly traded. This applies to all financial institutions in the country, whether they are Canadian, American, British, French, German, or any other nationality. In essence, we are distinguishing between two types of financial institutions, big ones and small ones. When one gets to be big two things happen. First, no single interest can buy one out; and, second, one must offer one's shares to the general public.

I would add one more point. The Government of Canada retains the power of review of the activities of all players in the financial sector that we regulate, Canadian and foreign alike. We will continue in the future, as we have in the past, to exercise our judgment about what is right for our financial system. We will continue to review each application for admission on a case-by-case basis to ensure that the best interests of Canada are served.