an institution's overall asset portfolio may be diversified across regions. However, the likelihood is that there will not be too many takers for these schedule Bs.

RECOMMENDATIONS AND OBSERVATIONS

58. Diversification across the pillars by either upstream or downstream holding companies should be permitted.

59. Double counting of capital would not be permitted, even for mutual life companies and credit unions. However, these institutions should be allowed to issue preferred stocks and subordinated debentures.

60. For institutions desiring even greater commercial lending ability, a schedule B bank should be permitted as part of a holding company. Such banks would be restricted in terms of size. To exceed these limits would be possible only if they adopted the widely-held, schedule A route. The rationale for this approach is to encourage the development of regional banks as well as to allow regional institutions to use the schedule-B bank route to diversify their assets across regions.

F. NETWORKING

Networking is a term used to describe arrangements between financial institutions under which one of the institutions provides the public with access to products or services issued by the other. This type of arrangement can exist between affiliated or independent institutions. It provides an opportunity for independent and smaller institutions to offer a broader range of financial services than they could otherwise offer on their own account.

The Committee takes a very favourable view of networking. It is in the interest of consumers since it enhances product differentiation. This may be of particular importance in regions that have but one financial institution. Moreover, it allows an alternative form of diversification for financial institutions that desire to restrict their own operations to specialized areas.

We have two concerns relating to networking. The first is that tied selling be prohibited. Tied selling occurs when the sale of a good or service is conditional upon the purchase of other related goods or services. Suppose, for example, that a consumer wants to acquire a mortgage and also desires to have the mortgage insured in case of death. The institution providing the mortgage may have a networking arrangement with a particular life company that offers the package desired by the consumer. Tied selling would occur if the consumer could not obtain the mortgage unless he also took the specific life insurance contract offered by the mortgage lending institution, rather than an insurance contract that he/she had negotiated with an alternative insurance company.

The second, and related, concern is that the schedule of fees associated with networking be above board and be subject to monitoring by the relevant regulator.

RECOMMENDATIONS AND OBSERVATIONS

61. The Committee takes a very favourable view of networking, with two provisos. Tied selling must be prohibited and networking fees should be above board and subject to monitoring by the relevant regulator.