Our overriding recommendation (number 50) in Appendix A was that subject to certain criteria and priorities, we welcomed all four general approaches to financial diversification:

- within-institution expansion of powers;
- subsidiaries;
- upstream and downstream holding companies; and
- networking.

Detailing the many recommendations in this area (51 through 74 in Appendix A) is clearly not in order. Some general comments must suffice. Basically, the Committee was in favour of full networking, as well as full ownership integration across the pillars. For institutions that were deemed to be widely held, namely Schedule I banks, mutual life companies and credit unions, they would have the freedom to wholly own subsidiaries in other pillars. For narrowly held trusts, for example, the requirement was that ownership integration across the pillar required either that the financial holding company have 35 per cent of its voting shares publicly traded or that each financial institution falling under the holding company have 35 per cent of its shares publicly traded.

In terms of narrowly held trusts, the implications were as follows. As long as the financial holding company or the trust or insurance company itself had a 35 per cent public float it could wholly own subsidiaries in other pillars, except banking. As noted earlier, if this provision was not met then each subsidiary must have a 35 per cent public float. In terms of the asset side of trust and insurance companies, we recommended the move toward the prudential portfolio approach with the restriction that a maximum of 20 per cent of assets for trust and insurance companies could be in the area of commercial lending/leasing. Further activities on the commercial/leasing side would have to be run through a Schedule II bank, which would be limited in terms of its overall size and branching.

Although not specifically formulated in terms of a recommendation, the Committee argued that for newly established financial institutions or for a change in control of an existing financial institution, all NALTs would have to be pre-cleared with primary regulators for a specified time period or until the regulators were satisfied that appropriate corporate governance procedures were put in place.

In terms of ownership of institutions within the securities pillar, the Committee recognized that since the provinces regulate this sector, the ability of federally incorporated financial institutions to buy securities firms would rest on provincial approval (recommendation 68 in Appendix A). This sort of recommendation—allowance by Ottawa if the provinces are willing—will feature prominently in the later section relating to networking of insurance.

The Committee respected the status quo in terms of banks—they should remain widely held. Because they are widely held they have the freedom to diversify fully, via wholly owned subsidiaries, across the pillars.

Finally, while ownership would be integrated, each of the core functions would be regulated by the primary regulator for that function.

D. Federal-Provincial Harmonization

From the 1986 Report:

> We believe that one of the distinguishing features of our report . . . is that our recommendations complement fully the existing federal-provincial allocation of powers and responsibilities in the Canadian financial sector. While we were cognizant at all times of the federal-provincial implications arising from these recommendations, the principal reason for working within the