

insurance, leasing and so forth. One likely consequence is that pressures will build for these activities to fall under the purview of the bank (or financial) regulators. It is far from obvious that this would be warranted. Nonetheless, the Committee recognizes that there are viable alternatives to aspects of the BHC approach.

The second point of elaboration is that the Bank for International Settlements (BIS) capital adequacy rules already anticipate that some countries will have bank holding companies. What this means in practice is that the BIS rules would require that the BHC be subject to some regulatory oversight.

Thirdly, the Committee recognizes that the BHC structure may not be foolproof when it comes to "contagion effects". Problems on the commercial side may spill over to the financial side in terms of depositor confidence. If the alternative model is that banks not be allowed to engage in these ancillary activities, then the BHC model does introduce a new risk of potential contagion effects. If, however, the alternative model is to allow these activities downstream from the bank, then the Committee prefers the BHC model.

Some perspective is needed here. The existing conglomerate model effectively incorporates both finance and commerce under the same corporate structure. In this sense, the BHC proposal would allow banks to be in roughly the same position as the big trusts. And the big trusts had no problem with contagion effects during the troublesome 1980s.

Fourthly, the Committee believes that there are several very salutary effects that will flow from the BHC structure. We shall focus on only two of them. The first is that the BHC model is likely to reduce the degree of closely held economic power in Canada. In other words, new widely held BHC conglomerates will compete with family held conglomerates like Power Corporation, Brascan, Olympia and York, etc.

The second relates to recent developments in the area of mixing commercial and financial activities. In Appendix C, we reproduce the organization charts of five major U.S. conglomerates (AMEX, GMAC, Ford, Sears and General Electric). While these institutions are not regulated as banks in their home jurisdictions, they clearly are major financial players, some on a global scale. Moreover, some are already major players in important areas of finance-related activities such as leasing while others (such as IBM and AT&T) are comingling finance with computational and telecommunications expertise, respectively. As the organizational charts indicate, these conglomerates have already made substantial inroads into Canada. The Committee questions the wisdom of automatically precluding the banks from engaging in these activities or accessing these potential synergies, particularly if the alternative is one of turning these activities, almost by default, over to foreign financial conglomerates. The BHC approach represents a potentially important domestic counter to this influx of foreign activity.

In summary, therefore, the Committee recognizes that while there may be viable alternatives for some of the objectives associated with our recommendation for bank holding companies, none has the full potential of the BHC. As a final point, the Committee wishes to emphasize that the Bank Holding Company approach is an option, not a requirement. Some Schedule I banks may wish to retain their current status. Others may choose the BHC route.