

approach assigns a degree of optimality to the *status quo* that is clearly inappropriate in a fast-changing domestic and international financial environment.

4. Finally, in spite of the fact that financial reform at the federal level is long overdue, Canadians can take pride in the achievements of our financial sector. This being the case, the Committee's approach is that, wherever possible, proposals for reform ought to work from and build upon these existing policy and institutional strengths.

CHAPTER 2

New Challenges

- A. Introduction
- B. International Developments

The FTA and Financial Services

- *The 10/25 Rule*
 - *The Schedule II Bank Provision and the AMEX Charter*
5. The Canada-United States Free Trade Agreement (FTA) complicates financial institution reform. It may be perceived as increasing the vulnerability to U.S. takeover of non-bank, federally chartered financial institutions. Moreover, when the FTA provision relating to Schedule II banks is viewed in tandem with the AMEX charter decision (as several of our witnesses tended to view them), the resulting perception is one of more-than-equal treatment of American residents vis-à-vis our domestic banks and trusts. This introduces yet another complication in finding common domestic policy ground between the trusts and the Schedule I banks.

Europe 1992

- *Reciprocity*
 - *Home Country Control/Mutual Recognition*
6. As part of Europe 1992, the Europeans are committed to creating a single market in financial services. The Committee observes that if the European Community can provide for the free flow of financial services across national boundaries, then the time has surely come for Canadian regulatory authorities to ensure that financial services can flow free and freely across provincial boundaries.

- C. Domestic Developments

Recent Provincial Policy Initiatives

- *Opening Up the Securities Sector*

The Quebec Model

- *Prudent Portfolio Approach*