

- *Home Country Control/Mutual Recognition*

The second issue arising from Europe 1992 was by far the more important one in terms of the Committee's deliberations, namely the fact that the European Community nation states are designing a system where financial services can flow freely across national boundaries whereas Canada has trouble ensuring free trade in financial services across provincial boundaries. Several witnesses recommended that Canada adopt this emerging European model. The essential features are the concept of "Home Country Control" (the chartering nation) coupled with minimum harmonization of prudential standards and the provision for "mutual recognition" of the chartering jurisdiction by other nations. Host countries can dictate certain operating procedures but they must provide full access to foreign-chartered institutions. The Committee is emboldened by this development to press for a similar option within Canada. This will be elaborated in the later section dealing with the federal-provincial and interprovincial financial interface.

## RECOMMENDATIONS AND OBSERVATIONS

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

A third area where the financial environment has been altered significantly since 1986 relates to the legislative programs of the various provincial governments. Several provinces, including Ontario, Quebec, British Columbia, and New Brunswick, (see Appendix B) have updated their legislation as it pertains to trust and loan companies. This has generally meant that the provinces are in the lead in terms of providing new directions for financial sector evolution. It has also meant that there has been some charter flight from federal to provincial jurisdiction in order to take advantage of updated legislation and, as noted earlier, some large trusts are now threatening to follow suit. Reform of the federal trust, loan and insurance legislation was urgent in 1986. The delay has already severely compromised federal government flexibility in this general area and it is now becoming evermore apparent that it is compromising the viability of the Canadian financial sector generally.

- *Opening Up the Securities Sector*

In November of 1986, Scotiabank signalled its intention to enter the securities industry by establishing in Quebec a full service securities firm, Scotia Securities Inc., a wholly owned subsidiary of the bank. This had rather dramatic implications. Ontario's tentative moves in the direction of deregulating its securities industry were abandoned in favour of comprehensive deregulation. In December of 1986 Ontario announced that effective July 1, 1987, restrictions on investment in securities dealers by other Canadian financial institutions would be completely removed; for foreigners, the elimination of the investment restrictions would be staged to occur with a delay of one year. One result of this Canadian "big bang" is that the Schedule I banks now own the majority of assets in the Canadian securities sector.

Intriguingly, this move of the chartered banks into the securities sector received almost no attention from the witnesses who appeared before the Committee. The only major reference came from the insurance industry. Their point was that if banks were allowed to buy insurance companies