instance, without further qualification, it would allow a securities firm or a bank to acquire a trust company subsidiary.

Provincial authorities may not be willing to allow securities firms to diversify in this manner. Likewise, federal authorities may not give the green light to chartered banks to hold trust company subsidiaries. Our position on these issues is that the policy authorities should be required to make the case that such restrictions are in the public interest.

RECOMMENDATIONS AND OBSERVATIONS

56. Financial intermediaries should be allowed to diversify their financial activities through subsidiaries. However, subsidiaries of financial institutions should not be in the non-financial area, except to the limited extent referred to in the recommendations of the previous chapter. Moreover, the 35 per cent rule relating to publicly traded stocks will also apply: either the institution or the subsidiary must have 35 per cent of its stock publicly traded.

57. Equity investment in subsidiaries must be deducted from base capital in order to avoid double leveraging. A 20 per cent ownership stake in a subsidiary should be the threshold level for triggering this provision against double leveraging. This should ensure that only institutions with a strong financial base could take advantage of diversifying through subsidiaries.

E. HOLDING COMPANIES

The Committee recommends that diversification across the pillars also be allowed through both downstream and upstream holding companies. This recommendation is subject to the same sorts of restraints that apply to subsidiaries (e.g., no double leveraging, only related non-financial activities, and the ownership provisions as elaborated in the previous chapters). Since we are recommending a uniform approach to the disallowance of double counting of capital, there may be a case for special treatment of mutual-life companies and perhaps credit unions. The issue arises because mutual insurance companies and financial cooperatives are not able to readily raise outside capital. Thus, the Green Paper hints that the government might consider allowing double counting of capital by these institutions in respect of their investments in a downstream holding company. We disagree with this position. Our preference is to follow the House of Commons report in maintaining a uniform ban on double counting of capital, but allowing mutuals to issue preferred stocks and subordinated debentures.

These policy recommendations with respect to holding companies reflect, to a large degree, the status quo. The financial conglomerates already make extensive use of holding companies. Moreover, the caisses populaires in Quebec have utilized a downstream holding company route to acquire both a trust and insurance company.

We have already rejected the proposal that trust companies be required to conduct all additional commercial lending through a holding company and a schedule C bank. In large measure, this was because we believed that an expansion of in-house commercial lending powers was not only more appropriate but, as well, consistent with regulatory concerns. However, if institutions so desire, the Committee is in favour of allowing financial institutions to acquire the equivalent of a schedule B bank. Such banks could have a majority shareholder interest but they would be restricted in terms of asset size and branching. To go beyond these asset limits, the bank would have to follow the schedule A, widely-held route. Our rationale for this relates in part to the concern over regional banking. The schedule B route may provide an avenue for developing successful regional banks, particularly if they are offshoots of strong regional conglomerates. Moreover, they may represent an avenue whereby