upstream and the provisions for share ownership and the composition of boards of directors shall be those applied to Schedule I banks (e.g., the ten per cent rule for individual holdings and the 25 per cent cumulative ownership limits for non-U.S. foreigners).

16. The chartering of a Bank Holding Company would allow the existing shareholders of the bank to become shareholders of the Bank Holding Company. The *Bank Act* (or the Bank Holding Company Act) would deem a bank conforming to this structure to be widely held. Over the longer term, the Committee can foresee situations where the Bank Holding Company might want to own less than 100 per cent of the Schedule I bank. This should be allowed provided that shares held by persons or companies other than the Bank Holding Company meet the requirements of the *Bank Act* with respect to Schedule I banks.

17. The Bank Holding Company can then establish downstream commercial companies or holdings which can be wholly owned, joint ventured, etc. The commercial arm could then engage in any activity. As noted in Recommendations 44 and 45 below, there would be no asset transactions allowed (unless specifically sanctioned) between the financial and the commercial arms but networking and fee-based transactions will be permitted.

Panels A and B of Chart 1 illustrate what the Committee has in mind. In the Panel A structure, all the financial subsidiaries flow directly from the Bank Holding Company. Under the Panel B structure, the Schedule I bank serves as a financial holding company and the remaining financial institutions are subsidiaries of the bank. The Committee has some concerns about the Panel B structure if everything beneath the bank holding company is wholly owned. Given that the Schedule I bank is narrowly held (by the widely held Bank Holding Company), our earlier rule that either parent or subsidiary must have a 35 per cent public float would imply that either the Schedule I bank have a 35 per cent public float or that each of the subsidiaries should be so structured. Consistent with Recommendation/Observation 2, both approaches should be allowed (except for securities firms which can now be wholly owned and should remain so).

Because of the structure of the BHC model and because the financial arm will not be able to commit assets to the commercial arm, this implies that a) insured deposits cannot be utilized to finance commercial operations and that b) problems arising on the commercial side cannot impact directly on the capital of the Schedule I bank although, as detailed below, indirect impacts cannot be ruled out. Thus, this is not the German universal bank model where commercial activities are directly downstream from the bank. In such a case, a problem with a downstream company can have a direct impact on the solvency of the bank. This is less so for the Bank Holding Company structure that the Committee is proposing.

The Committee now turns to some likely implications of a BHC structure. The underlying assumption in what follows is that banks need greater powers in terms of engaging in the range of activities that is open to their principal competitors, domestic and foreign. The question, then, is how to deliver these enhanced powers. One obvious alternative is an ancillary powers clause in the *Bank Act* allowing banks to undertake any bank-related activity for a trial period of, say, ten years. It is not difficult to foresee that this will lead to intense lobbying in terms of what is "ancillary". The BHC concept allows the banks themselves to define what activities are ancillary to banking. Moreover, as noted above, any such activities would not be undertaken downstream from the banks.

Yet another alternative is to extend the definition of banking on a more or less continuous basis. This is what has happened in connection with the AMEX charter. The federal government has now proposed to allow banks the power to promote goods and services, including insurance, to their credit card holders. Presumably, this approach could be used to redefine banking to include factoring, travel