The Committee recognizes that as long as financial policy and financial structures differ across national boundaries, a process of bilateral or multilateral arrangements to enhance trade in financial services will inevitably lead to some situations where similarly situated Canadian firms are treated differently than foreigners. The concern with the combination of the FTA and the AMEX charter is that this unlevelling of the playing field is perceived as being one-sided. In the view of some witnesses who appeared before us, U.S. Schedule II banks have acquired more than national treatment *vis-à-vis* both the banks and the trusts.

RECOMMENDATIONS AND OBSERVATIONS

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.

These issues may well be further complicated in the context of Europe 1992, to which we now turn.

Europe 1992

As with the FTA, there are some larger issues associated with European financial integration that, while important to the prospects of Canadian financial institutions in Europe, are beyond our mandate. More to the point, the witnesses who appeared before us generally restricted their comments to the potential implications for the domestic financial structure. However, there were two specific issues that did arise and that merit highlight.

- *Reciprocity*

The first is related to the earlier FTA discussion and is, in fact, driven by the FTA. Specifically, in order to gain access to Europe 1992, Canada will be under substantial pressure to grant to the Europeans the same privileges granted to the Americans under the FTA, especially exemption from the asset ceiling for European Schedule II banks. It is probably fair to say that when witnesses addressed this issue they felt that this was inevitable and, in the current context anyway, not much of a concession since European Schedule II banks are well below the 12 per cent cap on domestic assets held by foreign bank subsidiaries. However, there was genuine concern on the part of witnesses that, as a result of concessions here and there, financial sector policy in Canada could end up with a substantial cumulative preference for foreign institutions. If, as a result, Canadian institutions were to lose a substantial part of their relative ability to access the domestic market, their future as international players would be bleak indeed.

Intriguingly, an issue which arose as part of this general discussion was whether Canadian regulations were, if anything, too transparent. If Canadians impose any restrictions (on ownership, for example, or on the size of Schedule II banks), these are typically up front for everyone to see. British banks are widely held, not because there are any restrictions but because the Bank of England will not give permission to any individual to hold more than 15 per cent of the shares of any bank. And on the continent, discretion plays an even larger role. It is probable that all nations will attempt to ensure that their major financial institutions remain in the hands of nationals. But few nations follow the Canadian policy of writing this down in black and white in statutes or regulations. The Committee wishes simply to register this observation.