A second one would be that, given the existence of the FTA and the single European market in 1992, Canada must ensure that federal-provincial and interprovincial harmonization embraces the concept that our domestic financial markets become truly national. A fragmented domestic market not only imposes costs on consumers but as well handicaps our institutions as they attempt to play in the global financial marketplace. As the title of this Report indicates, the Committee has made this principle one of the centrepieces of our analysis.

A third principle would be that our major financial institutions remain in Canadian hands. This takes on more importance today than in 1986 since, as later analysis demonstrates, the FTA has restricted our range of options in this area.

The review of the 1986 Report will follow the three general categories referred to earlier.

## B. Consumer Protection and Financial Institution Stability

In the fall of 1985 and early 1986, it was probably fair to say that consumer protection and financial institution solvency and stability were uppermost in the minds of individual Canadians and policymakers alike. Indeed, the Committee was holding hearings for the 1986 Report in parallel with hearings dealing with the failures of the CCB and the Northland Bank. The challenge before the Committee was how to address these significant regulatory and solvency concerns in a manner that then allowed it to focus on the "enhancing competition" objective. In an important sense, the Committee's approach to these regulatory areas was absolutely critical to later recommendations relating to powers, networking and cross-pillar expansion.

We focused on the five key players in this area—the primary regulators, the CDIC, the auditors, the institutions themselves in terms of corporate governance (including ownership restrictions), and, finally, the consumer of financial services. The Committee's approach was that the most effective regime would be one where the roles of all five players were enhanced. In turn, it was this balanced approach that led us to reject approaches that focused on only one problem area, such as limiting ownership of all deposit taking institutions to ten per cent tranches.

Our conclusions with respect to the role of primary regulators appear in general terms in recommendations 1 through 6 in Appendix A and in more specific terms in recommendations 16 through 19. In terms of the role of auditors we simply refer readers to recommendations 20 to 24 in Appendix A.

The roles of the CDIC and corporate governance need more elaboration. In terms of the former, recommendations 7 through 15 in Appendix A summarize our conclusions. The more detailed analyses and recommendations appear in our 1985 report *Deposit Insurance*. One aspect deserves highlighting since it will play a role in the later analysis, namely the potential free-rider problem where provinces can charter and regulate deposit-taking institutions but the ultimate guarantor is the federal government, via CDIC. In our recent hearings this issue was directly addressed by the representatives of the National Bank of Canada. They argued that one of the likely reasons why there were no failures in Quebec, despite this province's greater flexibility in terms of ownership and powers for financial institutions, was that the costs of any failure would accrue to the QDIC, not the CDIC. In other words, there exists a tremendous incentive for the QDIC to ensure that provincially chartered institutions are monitored effectively and on a timely basis.

Our approach to this free-rider problem was to assert in recommendation 15 in Appendix A that access to CDIC was a privilege, not a right, so that the CDIC could refuse insurance for those provincially chartered institutions whose regulators did not meet or follow CDIC guidelines. Beyond this we recommended in recommendations 11 and 12 in Appendix A that if the CDIC deemed a provincially chartered institution to be no longer insurable, the CDIC would send in a group of