C Domestic Harmonization

Toward a National Financial Market

- *The Europe 1992 Model*

In Chapter 2 of Part I, we welcomed the initiatives of the provincial ministers of finance in the direction of harmonizing the regulation of financial institutions and we also welcomed the invitation they extended to the federal government to join them in future meetings. Likewise, the Committee is pleased to recognize the accomplishments of the CLHIA in designing a system of capital adequacy rules to underpin their consumer protection plan. This is a significant step toward the creation of a national market for insurance services.

Nonetheless much more is needed, particularly for deposit-taking institutions. Because the concerns, indeed frustrations, relating to provincial impediments were expressed by virtually everyone who appeared before us, the Committee is emboldened to make some rather dramatic recommendations in this area. The motivation underlying the Committee's desire to enhance the national aspects of Canada's domestic financial markets derives from the commitment, as part of Europe 1992, to a single European market for financial services.

RECOMMENDATIONS AND OBSERVATIONS

53. If Europeans can harmonize across national boundaries, then Canadians can surely harmonize across provincial boundaries.

It is instructive to outline the main features of the Europe 1992 model. In testimony before the Committee, Nicholas Le Pan, Assistant Deputy Minister with the federal Department of Finance, focussed on three basic principles underlying the European model of financial integration. The first is "mutual recognition" by member states of the authorization for a financial institution chartered in one state to do business in another member state. The second, and closely related, principle is that mutual recognition is subject to the harmonization of minimum standards, including minimum capital standards. Underlying this harmonization is, of course, substantial coordination, information sharing and the like among national regulators. These two principles pave the way for "home country rule" in which the regulator in the chartering nation is responsible for the supervisory oversight of the institution in its operations throughout the Community. The final principle is that the conduct-of-business rules or operating rules would be those of the host country, that is the country where the services are provided. In effect, then, the thrust of the Europe 1992 approach is that financial institutions will have a right to trade in financial services on the basis of a single "passport" from their home jurisdiction, subject only to host-country operating codes.

- *The Royal Trust Model*

The blueprint for the Committee's proposal comes from the Royal Trust brief, in particular the three-part "Royal Trust Model". The three components of the Royal Trust approach are:

1. a new consensus on key standards and principles;
2. a federal-provincial accord on regulation;
3. acceptance of the designated jurisdiction concept.

In terms of what might be included in this "new consensus", Royal Trust suggests:

° fitness and competence standards for owning and operating a financial institution;
° common capital adequacy standards to safeguard institutional solvency;
° corporate governance methods for prudent management;