

float. This provision parallels the existing provision whereby a domestic Schedule II bank has ten years to become widely held.

These recommendations are close to those contained in our 1986 Report, with the exception that we are no longer recommending that trusts have the option of chartering a narrowly held Schedule II bank, limited in terms of both size and branches. In large measure, this is because the Committee will, in Chapter 4, recommend expanded commercial lending powers for trusts. The option still remains for trusts to charter a domestic Schedule II that must become widely held in ten years.

- *The Bank Holding Company Route*

The Committee recognizes that this set of "core" recommendations does not level the playing field as it relates to the ownership of deposit-taking institutions. It is not possible to level this playing field without eliminating one or the other of the existing sets of institutions. More to the point, the Committee has come to the view that the critical level-playing-field concern relates to powers, not to ownership. While the banks did argue that allowing narrowly held trusts might place them at a disadvantage in capital markets, nowhere in their testimony did they point to problems in terms of access to capital. However, time and time again reference was made to the fact that other financial institutions, domestic and foreign, were able to engage in activities not permitted to them under their bank charters. Some of these concerns will be highlighted in Chapter 6 below.

One way to address this legitimate concern is to enhance bank powers in terms, say, of expanded in-house powers or of the range of downstream subsidiaries that they are allowed to acquire. For some activities, this is the obvious route to follow. For others, however, it may result in the extension of the definition of banking (and financing them directly or indirectly via insured deposits) well beyond what is appropriate. Moreover, levelling the playing field for every new activity will likely require something akin to a continuous revision process for the *Bank Act*. This is simply not practical.

An alternative approach is needed. The Committee's view is that this alternative is the Bank Holding Company (BHC). Since the BHC proposal is among the most significant recommendations of this Report, the concept merits elaboration. After presenting some underlying objectives of the Bank Holding Company structure and the specific BHC recommendations, the Committee then engages in a discussion of some of the implications that flow from such a structure.

The objectives of a Bank Holding Company structure include the following:

- to enhance the competitive position of banks by designing a structure to allow them to engage in certain activities, such as travel insurance, factoring, acquisition of computer servicing companies, etc., that their competitors can now do;
- to accomplish this in a manner that does not compromise the ability of regulators to isolate the core "banking function" and thus to protect depositors. Phrased differently, those ancillary activities that are deemed to be beyond the limits of banking will not be able to be financed by insured deposits; and
- to retain wide ownership so as to reduce the risk of self-dealing and to ensure that control remains in Canadian hands.

The Committee therefore recommends:

RECOMMENDATIONS AND OBSERVATIONS

15. **Schedule I banks shall be allowed to reorganize their ownership structure by creating widely held Schedule I Bank Holding Companies. These holding companies must be**