

adianize" by selling shareholdings in excess of 10 per cent to Canadians.

Canada will expect reciprocal recognition for its banks in the jurisdiction of the parent bank. The Government does not propose to permit the establishment in Canada of branches or agencies of foreign banks. Foreign bank representative offices will be registered.

Non-bank subsidiaries of foreign banks in Canada will be required to file reports on their activities. Unless specifically authorized, such affiliates will be denied the right to borrow in the Canadian market with the guarantee of their foreign parents.

Entry into banking

The growth of the financial system has been accompanied by a gradual reduction in the proportion of total banking business done by the five largest Canadian banks. They held 61 per cent of total Canadian dollar deposits of all Canadian deposit-accepting institutions in 1975, compared to 69 per cent in 1967 and 75 per cent in 1960. One aspect of change in the system has been a recent acceleration in the establishment of new banks.

However, a substantial degree of concentration remains in Canadian banking, and to encourage greater competition the Government proposes to further facilitate the entry and growth of new Canadian banks. The main proposals are:

- Incorporation of banks by letters patent as an alternative to the present unique requirement of incorporation by special Act of Parliament.
- Provisions allowing Canadian institutions with financial experience and expertise to establish a new bank with an interest of 25 per cent (or more if approved by Governor-in-Council) for ten years. (Trust companies and others which accept deposits from the public are excluded from the proposal because of potential conflict of interest.)
- Provincial governments will be permitted to hold and vote up to 25 per cent of the shares of a new bank, reducing to 10 per cent within ten years.
- Incorporation provisions will facilitate conversion of an existing financial institution to a chartered bank.
- Reserve requirements will bear lightly on new banks until liabilities exceed \$500 million.

Business powers

Three principles are reflected in the Government's review of the powers conferred by the Bank Act:

- To avoid potential conflicts of interest. For example, business decisions could be affected if an institution is in a position to exercise both trustee powers and lending powers with respect to the same client.
- To extend, where possible, the availability of special financing services. Where conflicts of interest do not arise, it is desirable to broaden competition in services closely related to other banking services; factoring and leasing are examples.
- To encourage provision of services directly, rather than through affiliated corporations, to improve regulatory control, to avoid conflicts of interest, and to discourage non-financial activities.

Financial leasing

Banks will be permitted to engage in financial leasing of equipment, subject to certain regulations. (Financial leasing is a form of financing which can benefit small and medium-sized businesses in particular.)

The white paper proposes to permit banks to engage in factoring in order to increase competition and the Canadian presence in this activity. (In factoring, a seller of goods or services contracts with another party to finance and collect his accounts receivable and to assume the credit risks involved.)

Residential mortgages

The Bank Act now places arbitrary limits on bank holdings of residential mortgages. The limits have so far constrained only new banks, but in future they could also curb mortgage lending by larger banks. The limits will be removed in recognition of the need for residential mortgage funds.

Data processing and securities

The extension of data processing services to bank clients poses concerns about concentration of power and conflict of interest. There is also a need to permit room for the independent computer services industry to grow and develop. Regulations, therefore similar to the guidelines in effect

since January 1975, will be introduced limiting banks' data processing services to those directly related to the making of payments and to banking-related services provided to other financial institutions.

The role of banks in dealing in corporate securities will be defined more precisely. Most importantly, the power of banks to underwrite corporate securities or to act as agent in the private placement of corporate securities will be withdrawn, but the name of a bank will be permitted to appear in a prospectus or advertisement listing the selling group to enable the banks to distribute corporate securities.

Trust activities

Although banks will not be given trustee powers, the Bank Act will clarify powers of the banks with respect to a number of activities related in some degree to trustee business.

Banks will be permitted to sell but not manage mutual funds. They will be restricted to offering registered retirement savings plans and registered home ownership savings plans in the form of deposit plans only.

Banks would generally not be permitted to engage in portfolio management or investment counselling. Exceptions would be provided under certain conditions in respect of real estate investment trusts and mortgage investment companies. Small clients or infrequent investors could continue to request advice on particular securities and certain administrative services in the course of normal banking activities.

The white paper outlines a limited number of exceptions to the principle that the business of a bank should be provided directly through its own corporate structure.

The exceptions arise in such areas as residential mortgage lending, certain mortgage-based funds, venture capital and joint venture activities.

The broad reforms recently enacted or now under way in legislation dealing with corporations, competition and bankruptcy will be applied to banks, either directly or through revisions in the Bank Act. Banks will be given additional flexibility in the forms and methods of raising capital. Requirements for financial disclosure will be strengthened.