that time Canadian banks already had subsidiaries outside of Canada.

The existing legislation provides that the total domestic assets of the foreign bank subsidiaries shall be limited to 8 per cent of the total domestic assets of the entire banking system.

At that time the expectation was that, as the domestic assets of Canadian banks grew, so could the domestic assets of the foreign bank subsidiaries. However, the very slow growth of the banking system's assets, which began in late 1982, resulted in the ceiling being approached much sooner than had been anticipated. Therefore, the House of Commons Finance Committee conducted a study in light of the consequences following from the 8 per cent ceiling being reached, since it was obviously about to be reached very soon.

Last fall the committee made a report on the foreign bank subsidiaries operating in Canada and recommended that the present ceiling of 8 per cent be increased to 16 per cent.

Although the committee recommended the elimination of a fixed market share limit on the foreign bank subsidiaries, concerns were raised that the financial services industry should not be allowed to fall under foreign domination. The committee advocated that the growth of foreign bank subsidiaries be controlled on the basis of: first, reciprocity of banking regulations abroad; second, the degree to which a foreign bank subsidiary can or does contribute to competitive banking services in Canada; third, the solvency of the foreign bank and its Canadian subsidiary; and, fourth, the diversity of lending services.

Bill C-30 raises the domestic assets ceiling on foreign bank subsidiaries operating in Canada from 8 per cent to 16 per cent rather than removing the market share restriction entirely, as recommended originally by the House of Commons Finance Committee.

Canadian non-bank financial institutions made representations before the House of Commons Finance Committee arguing that they should receive legislative consideration before foreign banks. As a result of these interventions, the committee recommended that a complete review of legislation concerning financial institutions be initiated. That review is being conducted in a number of different forums, including the private sector panel of the Minister of State for Finance.

Honourable senators, if we pass this bill, we are, in effect, accepting the recommendation of the House of Commons Finance Committee that the 8 per cent share be increased to 16 per cent, subject to the four criteria I mentioned.

Honourable senators, I ask for support on second reading.

Hon. Duff Roblin (Deputy Leader of the Opposition): Honourable senators, this is an interesting bill because it deals with an aspect of the Canadian financial structure in which we all have a direct interest.

One of the merits of our system—certainly one on which Canadians have from time to time congratulated themselves, whether they should have done so or not—is that our banking system has been a very stable one. The stability and the strength of the Canadian banking system in good times and bad have been amply demonstrated over the last 40 years. Possibly the last Canadian bank which went under was the Home Bank. Since that time we have had a very stable banking system, and it has been an attractive feature of our financial community.

However, the result has been that up until quite recently a small number of banks have occupied the field in Canada. One talks of the "big five." In recent years there has been an addition to the "big five" because a number of local, regional banks have taken advantage of a change in circumstances to enter this field as well. In my opinion, that has to be all to the good. The big step that was made the other year, however, was to open the Canadian banking system to foreign banks—banks which were domiciled outside the country but which could come in to establish Canadian outlets and to take part in the Canadian banking business.

● (1130)

I am aware that there was a considerable body of opinion that was alarmed about that on the principle that it might be deleterious to the stability of our banking system. Consumers of credit have not had that opinion. Consumers of credit, I think, have believed generally that competition in the banking system is not keen enough and that it ought to be greater. Indeed, one of the prime reasons, I suspect, for opening the door for the entry of foreign banks—even to the extent of 8 per cent, as the deputy leader has said—surely has to be in terms of an effort to deal, partially at least, with the desire for more competition in the Canadian banking system.

Honourable senators, I quite agree with that. The original move left roughly 92 per cent of the banking business, if one wishes to look at it in such terms, to the Canadian banks. This bill doubles the percentage available to foreign banks and reduces the percentage of the Canadian banks to 84 per cent. I have no objection to that. I think it is a move that is advantageous. It has the prospect of further increasing competition in the Canadian banking system.

I have long held the view that one of the merits of the American banking system is that banks are much more local in their operation. The First National Bank of Minneapolis, for example, would rise or fall on the activities of the economic sector around Minneapolis. Although the American banks are moving more and more to a branch banking system, local banks have been quite effective, I think, in making credit available in places where it might otherwise not be.

One of the complaints that has been voiced quite often in western Canada is whether or not credit was adequately available to people who needed it in the west. I am not going to enter into that argument because it is a complicated one. The present banking system can produce some fairly impressive facts about the credit that they make available in regions such as my own. But I think even if their claims are completely correct, it will do no harm, and conceivably will do a great deal of good, if we increase the number of banking operations in the whole of this country and offer to the consumer more markets which he may search for the supply of credit. One would hope that the cost of credit would also enter into the equation.