this world, will be major players in the future in retail financial markets. Our traditional financial institutions could become largely irrelevant in this environment, if their access to capital and their growth are constrained by restrictive ownership rules.

A final point made by the trusts is to note that, over the last decade, the big narrowly held trusts have not been a drain on either the CDIC or the federal treasury. Small trusts in Ontario and elsewhere have failed and saddled the CDIC with substantial losses. So have some small widely held banks, including some that merged. While the large banks have not drawn upon CDIC funds, the reserves that they have built up against the poor performance of their third-world loan portfolio have cost the federal treasury many times the value of the small trusts' CDIC losses. In his appearance before us, Mr. Ronald McKinley, Chairman of the CDIC, estimated that there were about $650 million in losses to the corporation that can be attributed to widely held institutions as a result of either failure or re-organization of four banks. Failures of narrowly held institutions resulted in CDIC losses of just under $1.1 billion.

This is in contrast to the $15 billion of third-world debt that was gradually written off ("reserved against" is the technical term since the debt need not be written down). Since these reserves are treated as losses for tax purposes, the cost to tax payers is substantial. While these figures are not strictly comparable, they do indicate that widely held institutions can also impose significant revenue losses on the federal government.

On the basis of this evidence, the Trust Companies Association concludes that the typical policy proposals for trusts—wholly owned up to a certain size threshold and then moving toward wide ownership—run in a perverse direction: it is the small trusts, normally linked to real estate, that pose the major solvency problem, not the large trusts.

The model preferred by the trusts would be a Schedule III "trust-bank", which would, from their perspective, remove them from the myriad of barriers arising from the lack of federal/provincial and interprovincial harmonization. In addition, if AMEX is a bellweather then a Schedule III bank would put the trusts on an equal footing with the U.S. Schedule II banks that can be commercially linked. These trust banks could be held by a controlling shareholder in perpetuity as long as 35 per cent of voting shares are publicly traded. Under this model, corporate governance and supervisory rules would be much more strict than for widely held banks. The position of the trusts, as reflected in their testimony, is that the Schedule I banks would be granted in-house trust powers and they could remain widely held if they wished or could opt for a Schedule III charter or, presumably, anything in-between. Under this proposal, most trust companies would remain under, or seek to come under, federal control. This trust-bank (or bank-trust) status would not be an incursion into the provincial domain since ETA (estate, trust and agency) activities would still have to be provincially licensed and monitored, in much the same way that federally chartered Trust Général must comply with Quebec regulations for its ETA activities. Again, these are the views of the trust companies, not of the Committee.

The Committee's Approach

● *The "Core" Recommendations*

The Committee rejects both polar models. We are not in favour of narrowly held domestic institutions attaining bank (or trust-bank) status, although we recognize the potential unlevelling of the playing field with respect to the foreign Schedule II banks. Likewise, following our earlier recommendation/observation that no single structure should be imposed on the evolution of the Canadian financial system, we do not accept the bankers' approach that all deposit-taking institutions be widely held.

While it is not our intention to compare and evaluate the two positions, a few comments are warranted. We are not very taken by the bankers' fourth point relating to credit denial. The