

addition, we recommend that the Minister of State for Small Business quickly appoint the members of the advisory committee to investigate small business financing and that his advisory committee specifically examine the problems outlined above. It should also examine ways of alleviating the financing problems of small business, through means such as: insurance schemes for small business loans, similar to those now provided by CMHC in the case of mortgage loans; the possible extension of SBLA loans to the financing of working capital as well as an increase in the limit on the size of these loans to, say, \$200,000; and the possibility of providing loan insurance, and other innovations which would allow small firms to obtain greater access to term loans from pension plan funds.

Regulation and Competition in Business Lending⁽²⁵⁾

The Canadian chartered banks are allowed to engage in the business of banking in the broadest sense of the term. Their investment portfolios are limited in certain respects, it is true; for example they can invest in no more than 10 per cent of the voting shares of any particular company. But they are freer than the near-banks, which, although they may control up to 30 per cent of the equity of any given firm, must first meet very detailed restrictions.

A similar pattern exists with respect to investment in debt instruments. Again, banks are subject to no specific statutory restrictions, yet near banks are subject to a wide range of restrictions with respect to earnings, security, and type of debt instrument.

Financial intermediaries can expand the scope of their activities through subsidiaries, but once again, the scope for such expansion is more limited for near banks than for banks. Moreover, special statutory powers enable the banks to engage in "core" business banking activities denied to non-banks. Banks can finance all major sectors of the economy, whereas the near banks can only undertake authorized investments. Near banks can make use of the basket clause which enables them to make unauthorized investments; however, they are limited in the use of this provision. For example the total value of unauthorized investments cannot exceed 7 per cent of their total assets in the case of trust and loan companies.

It is clear that the Canadian regulatory system allows the chartered banks greater flexibility in their activities than the near-banks. Competition does exist among a number of institutions in the business lending field and from the newly chartered schedule B banks, although the competitive impact of this latter group of institutions may be lessened if they soon reach their limits on total assets.

Bank Services

Over the past few years the banks have initiated a number of new services for commercial clients. Some of these are in the traditional line of banking business while others represent activities of a more peripheral nature. At the request of the Committee, the Canadian Bankers' Association conducted a survey of bank services provided by three of the five largest banks and it is on this survey that the following discussion is based.