Financial Restructuring: The Canadian Experience

Charles Freedman

In this paper, I examine the recent Canadian experience with financial restructuring. In the first section, I lay out the background situation in Canada, which was quite different from that of most other countries. This is followed by an examination of the factors that were crucial in motivating the major overhaul in legislation in which we are currently engaged in Canada. The third section presents the approach taken by the Canadian authorities in dealing with the perceived need for change, in particular the mechanisms proposed to cope with the problems thrown up by the changes in structure. The final section sets out briefly the current situation regarding the legislation.

Background

Unlike the case in most countries, the drive for financial restructuring in Canada was totally unrelated to pressures for the removal of interest rate ceilings, credit controls, or other such quantitative restrictions. Indeed, since the 1967 revision of the Bank Act removed interest rate ceilings on bank loans, interest rates on both deposits and loans have tended to move with market interest rates and Canada has thereby avoided artificial inducements for the development of new instruments and new intermediaries to evade interest rate restrictions.[1]

Historically, the Canadian financial system has been based on five principal industries or groupings. The chartered banks, all federally chartered, were always involved in commercial lending and, in the last three decades, have also moved into personal loans and residential mortgage lending in a major way. Trust and mortgage loan companies tended to specialize in residential mortgage lending but more recently have been moving aggressively into consumer loans and certain forms of business lending. Most of these institutions are federally chartered but some operate under provincial charters. The cooperative credit movement (credit unions and caisses populaires) has principally serviced the personal sector with both mortgages and loans, although recently it, too, has been moving gradually into business lending. On the deposit side, all three of the above groupings have competed strongly for personal business over the past two decades by offering a full range of deposit instruments, and more recently competition has also been increasing for business and government accounts, once largely the preserve of the chartered banks.

The life insurance industry has moved over time from a traditional business involving the selling of life insurance and investing the proceeds in a mix of mortgage loans and investments, to a much greater emphasis on single premium deferred annuities, which closely resemble term deposits at the other institutions, and a more diversified portfolio of assets. This industry is split among federal and provincial jurisdictions, with the large majority holding federal charters. Finally, securities dealers in Canada are very much like their counterparts in the United States, with the exception that the legislative framework under which they have operated has been established by the provinces and not the federal government.[2] In recent years the separation of banking and the securities business has come under increasing pressure as a growing share of the short-term financing business of the corporate sector has been done through paper markets and as banks have entered the discount brokerage business.

Thus, although the Canadian financial system has traditionally been

[1] The considerable Innovation in the area of new financial Instruments that has occurred in Canada has been the result of such factors as interest rate volatility, uncertainty regarding future rates of inflation, shifts in borrower and lender preferences, and new developments in technology and communications.

[2] In addition to the financial industries discussed in this paper, there are also a property and casualty insurance industry, a pension industry, and a variety of less regulated or unregulated industries, such as the sales finance industry, the mutual fund industry, and the venture capital industry

characterized by a separation of functions among different types of institutions, the separation was never watertight, and in recent years there has been a more or less continual blurring of functions as institutions penetrated each other's areas.

For much of its history the financial system was also characterized by a large degree of separation of financial firms from those engaged, in nonfinancial business and by widely held ownership of the principal financial institutions.

One way in which the separation of commercial and financial business is built into law is in terms of restrictions on the downstream linkages that are permitted to financial institutions. Thus there are stringent limitations on the holding of equity investments by deposit-taking institutions and life insurance companies,[3] and securities dealers have traditionally not made long-term investments for control purposes in unrelated businesses. There is, of course, a grey area as to what is financial and what is commercial, and institutions are permitted to engage in what have been defined as ancillary activities. These include, for example, certain kinds of activities related to real estate, leasing, and payroll services, as well as the sale of data processing services in the case of trust and insurance companies but not in the case of banks.

Upstream linkages between financial institutions and commercial firms were limited by a tradition of widely held ownership for banks, and until recently, for most large trust companies. This was buttressed by a Bank Act revision in 1967 that mandated widely held ownership for banks by limiting the holdings of any one individual, firm, or group of associated individuals or firms to 10 percent of bank voting equity.[4] By their nature cooperative credit institutions are not susceptible to upstream commercial links; nor are the mutual life insurance companies, which are effectively owned by their policyholders. And until recently, only those individuals actively engaged in the securities industry could be partners or shareholders in a securities dealer. Even

---

3 The principal situation in which banks can be involved in the ownership and operation of commercial firms is that in which the latter is taken over as collateral for a loan that is called. The bank is given two years to dispose of as holdings in these circumstances, although extensions may be granted by the Minister of Finance.

4 The intention of this legislation was to prevent any potential foreign takeovers of Canadian banks but it had the side-effect of preventing commercial-financial links from developing in the banking industry.

when the use of outside capital was permitted, restrictions were placed on the amounts that could be held by any one outside investor.

Thus, the only potential upstream linkages were in the trust industry and in stockholder-owned life insurance companies.[5] Many of the small firms in these industries were owned by commercial firms, but most of the large firms were widely held. In the case of trust companies, the situation has changed drastically in the last few years, during which all the major widely held trust companies have been taken over by commercial concerns. Many of the purchasers have also bought life insurance companies, thereby creating ownership links between insurance companies and trust companies. In some cases they have also established or purchased property and casualty insurance companies, investment banks, and real estate brokers, thereby creating diversified financial conglomerates.

The picture in recent years, in short, has been one of a sector in flux, with increasing interpenetration by the various industries of each other's traditional domain, the development of financial-commercial upstream links through takeovers, and the common ownership of some trust companies and life insurance companies as these acquirers broadened their activities.

Factors motivating the legislative restructuring of the system

Although elements of the changing structure sketched out above provided the initial pressure for a major legislative restructuring of the system, other factors also came to play an important role over time in intensifying the perceived necessity for change and conditioning the nature of the change. One can identify five key factors that drove the process. First, there was a need to modernize the legislation of trust and mortgage loan companies and of life insurance companies and to deal with the question of the business powers available to each of these groups. Second, in the light of the spread of closely-held ownership, commercial-financial links, and common ownership of firms in different industries, there was a need to re-examine potential problems of self-dealing, conflicts of interest, and concentration

[5] There were also considerable upstream linkages in the property and casualty Insurance industry.

of ownership as well as the broader question of the desirability of financial-commercial links. Third, given the recent failures of a number of financial institutions, including two small Western Canadian banks, questions were raised about the incentives created by the system of deposit insurance in Canada, and about the adequacy of the supervisory structure. Fourth, as the process developed, there was increasing attention paid to the ongoing globalization of financial markets and the need for Canadian financial institutions to be able to compete effectively both at home and abroad. And fifth, at the same time as the federal government was developing its approach, the provincial governments were taking their own initiatives, both developing new legislation for the institutions under their aegis and acting to change the entry rules for the securities industry.[6] The initial impetus for restructuring the financial system came from the first two factors while the other factors came into play over time as the process was going on. I now turn to a detailed discussion of each of these factors.

Need to modernize legislation and the pressure to expand powers

Whereas, by law, the legislation governing banks is updated every ten years, the federal legislation governing trust companies had not been completely overhauled since 1913 and that governing life insurance companies since 1932.[7] Interestingly, most of the pressure in Canada for expansion of the business powers of deposit-taking financial institutions in the recent period have come from the institutions themselves. With some minor exceptions, there has not been much in the way of complaints by customers as to the availability of services, nor any great apparent demand for financial supermarkets. To a great extent, the desire of these institutions to expand their range of permitted services (especially in the area of commercial lending)

6 The crucial element here was the discussion about entry of other financial institutions and foreign dealers into the domestic securities industry.

7 This is not to imply that no changes had been made over the intervening period. Important amendments to the legislation and changes in regulahons had given these institutions a gradual and considerable increase in powers over the years such that for most of the period they were able to engage in the lines of business they wished to enter.

derived from their experience with the difficult financial markets of the late 1970s and early 1980s, which left the institutions concerned that they might not have the flexibility to cope with the situation that might evolve over the following decade. The key elements involved in the case of the trust companies were, first, the shortening of the maturities of deposits that had occurred in the face of uncertainty and interest rate volatility and, hence, the desire by the institutions to be able to lay off these funds in floating rate and short-term assets,[8] and, second, a concern that their primary asset, residential mortgages, would over time become less important for demographic reasons. There was, therefore, a strong desire to expand their activities in commercial lending. At the same time, life insurance companies were shifting their activity away from life insurance toward short-term deposit-like instruments and, consequently, they wished to be able to diversify their assets more widely than in the past in order better to match. In addition, they wanted to be able to purchase or set up trust companies in order to expand the scope of their activities.

A related element of pressure for change, which became important at a somewhat later stage, came from the desire of banks to enter into the securities business in Canada. In part, this was a reflection of the trend by corporate borrowers away from bank loans to securities markets and the banks' consequent perceived need to increase their fee-generating activities in lieu of intermediation income. Although some of the banks were already engaged in investment banking in jurisdictions outside of Canada and although banks were permitted to engage in certain types of securities activities in Canada, they felt that their ability to get involved to a greater extent in such business in their home market would enable them to service their domestic customers more effectively and would strengthen their capacity to engage in corporate underwriting and other facets of the securities business in international markets. In addition, there was some pressure to review the provincial regulations that prevented foreign entry into the domestic securities industry as well as some tendency to emulate related developments elsewhere, particularly in the United Kingdom.

[8] In Canada most commercial loans are made on a floating-rate basis related to the prime lending rate or, in some cases, to the cost of funds

Conglomeration, closely held ownership, and *commercial-financial* links

The other initial development leading to the process of change of the legislation governing the financial sector was the spread of the conglomerate movement to the financial sector. As mentioned earlier, nonfinancial firms had purchased financial firms and, in most cases, these new owners had gained control of institutions in more than one financial industry. Thus, some major trust companies and life insurance companies had been brought under common ownership and were closely held. As a result of these changes, policymakers became more concerned about the potential for self-dealing,[9] a problem that had not arisen in any major way until then, principally as a result of the tradition of wide ownership. Thus, one crucial goal of the restructuring exercise was to find a way of reducing the self-dealing risk in the case of closely held firms. Furthermore, with the interpenetration by industry groupings of each other's territories and the development of common ownership of different types of financial institutions, one could no longer rely upon compartmentalization of functions as a way of avoiding conflicts of interest.[10] As one moved into the "brave new world" in which institutions or groups of institutions with common ownership could carry on more functions, the question of how to deal with potential conflicts of interest came to the fore.

In addition to initial concerns about the self-dealing aspects of commercial-financial linkages, there developed over time a more

---

9 The term "self-dealing" has been used in the Canadian context to deal with transactions between a financial institution and either its controlling ownership group or the nonfinancial Interests of the ownership group. The concern has been that such non-arms-length transactions, whether asset purchases, loans, or guarantees, might in some cases be to the benefit of the owners and to the detriment of the financial institution, thereby increasing the rrsks to the depositors of the latter and to the deposit-insuring agency In extreme cases, such transactions might result in the insolvency of the financial institution

10 Conflict of interest issues arise when the interests of two customers of an institution can be in conflict or when those of the customer are in confltct with those of the institution itself An often-used example is the possibility that an institution would use the funds of a trust that it was administering to purchase securities of a firm to which it was lender and then use the proceeds to repay the loan The separatton of the trustee function and the commercial lending function had avoided this problem, but it has become essential to find other ways of dealing with it as financial institutions have become increasingly involved in both the trust business and commercial lending

general unease with such linkages, which was related to considerations of concentration of power and the impartiality of the credit process. Moreover, there has been some concern that problems in the nonfinancial part of a conglomerate could spill over and undermine confidence in the soundness of the financial institutions in the conglomerate.

Institution failures, supervision, and deposit insurance

In common with the experience in other countries, Canada has had a number of failures of financial institutions in the 1980s, including those of two small Alberta banks. These failures, which were very costly for the deposit insurance agency (and, in the case of the two small banks, for the government as well) led some to question the structure of the deposit insurance system. In Canada, deposits are insured for the first $60,000 and the premia charged all institutions are a fixed percentage of their insured deposits. Among the options that received the most attention in the debate were those of co-insurance and variable risk-related premiums.

The other offshoot of the institutional failures was a concern with the structure of the supervisory system and its ability to cope with the changing financial structure. In the case of banking supervision, Canada has always used a tripartite system that has relied on the bank's internal inspection systems reporting to the board of directors, on external auditors, and on the supervisory agency. The latter has relied upon financial statements verified by the auditors, and on-site inspections have played only a very limited role.[11] The question of whether the nature of the supervisory system itself bore some responsibility for the failure of the Alberta banks and therefore required modification was made the subject of a Commission of Inquiry.

Role of globalization

Although this issue was not especially prominent in the earlier part of the process, over time it came to have a much more central role

[11] This is similar to the situation in most European countrres In the United States, in contrast, wrth its large number of small banks, on-srte inspections play a central role.

in the thinking of the various participants in the debate. The principal question at issue in this regard was the potential direct entry into the domestic securities market of Canadian financial intermediaries and of nonresident banks and securities dealers.[12] Behind the debate was an increasing concern about the performance of the Canadian securities industry in a rather protected environment at a time of increasing competition in and from other major world securities markets.

A principal argument of those who supported change was that dealers needed more capital, particularly in a world of "bought deals" with greater than traditional risks. There was also concern that the Canadian securities market would become a backwater if it did not open up to the rest of the world and that more competition was necessary to ensure that the Canadian securities industry did not fall behind in a very innovative world environment. This concern was exacerbated by the fear that developments in communications, by reducing transactions costs, would permit an increasing share of Canadian lending and borrowing to be conducted outside the country if the Canadian securities industry was insufficiently efficient or innovative.

Provincial government initiatives

Recall that in Canada only banking is totally under federal jurisdiction. Although a large proportion of the trust industry and the insurance industry is federally chartered and regulated, some part of these industries falls under provincial jurisdiction as does virtually the entire cooperative credit industry and securities regulation. At the same time that the federal government was re-examining its approach to the financial sector, the provincial governments were revising their legislation as well. As the process developed there were three aspects of the provincial developments of particular importance. First, the province of Quebec moved down the path of permitting ownership of companies in one financial industry by those in another

12 Certain kinds of activities were open to both nonresident securities dealers and domestic financial intermediaries and, indeed, such institutions played an Important role in the so-called "exempt market".

industry. Second, there were apparent divergent attitudes by the federal and provincial governments regarding such issues as closely held ownership and financial-commercial linkages. Third, there was initially some considerable disagreement between Ontario, the primary regulator of the most important securities center in the country, and the federal government regarding the scope of entry by banks and other financial institutions into the securities business, as well as regarding the locus of regulation and supervision of federally chartered financial institutions that did enter into this business.

Approach taken to restructuring

In the course of preparing for the restructuring of the financial system, both federal and provincial governments commissioned and prepared a number of reports, and hearings were held by the House of Commons and Senate committees followed by the issue of reports. The federal government's own position was set out in two documents, an initial discussion paper entitled "The Regulation of Canadian Financial Institutions: Proposals for Discussion" (commonly known as the Green Paper), and a final set of proposals entitled "New Directions for the Financial Sector" (commonly known as the Blue Paper). Because it is the latter that has set out the framework for the legislation that has been and is currently being prepared, the approach in that paper is the focus of the rest of this discussion. Because the nature of the proposed changes continues to be the subject of intense debate, there may be modifications to the approach before the legislation is finally passed.

Powers

There is to be a very considerable extension of the business powers granted to financial institutions, both in the form of in-house powers and in the ability to invest downstream in other types of financial institutions. Among the most important of the changes is the right of trust and mortgage loan companies and life insurance companies to make consumer loans and business loans without specific quantitative limits.[13] In addition, subject to the rules regarding ownership which are discussed below, regulated financial institutions will be able to invest in, purchase, or start up institutions in other financial sectors, including the securities industry.[14] Institutions will also be permitted to engage in the networking of one another's products and to engage in a number of ancillary activities that were prohibited in the past.

There are a number of limitations to the general approach just outlined. First, large financial institutions will not generally be permitted to purchase large financial institutions in other areas, with the exception of securities dealers. This provision was aimed at preventing the reduction of competition through the merger of currently competing large institutions. Second, the retailing of insurance was excluded from the right to network. Third, the entry of nonresident institutions into the securities market, either directly or through investment in an existing securities dealer, was partly restricted until June 30, 1988. This was intended to give Canadian-owned financial institutions a short head start in entering into the securities industry. Fourth, the trade negotiations with the United States that are currently under way have included discussions of nonresident ownership of financial institutions in Canada, which may influence the final form of the legislation.

One result of the proposed changes is that the differences between the various types of financial institutions will be far smaller than in the past. Conglomerates will emerge that can provide virtually every kind of financial service to business customers or to personal customers or to both.[15] Institutions that choose to remain stand-alone

---

13 To qualify for the right to make business loans without limit, however, a near-bank must have reached a minimum size in terms of capital and have received supervisory approval Furthermore, the institution would be bound by considerations such as diversification which are part of the usual prudent portfolio approach to portfolio management.

14 Thus, the Canadian equivalent of Glass-Steagall, by which deposit-taking institutions and securities dealers were kept separate, is being abolished as part of the restructuring In addition to the right to invest in securities subsidiaries, banks and near-banks will be permitted to engage directly in certain hitherto-prohibited types of activities, in particular the provision of Investment advice and portfolio management services

15 The legal structure of the conglomerates may vary significantly since the law will permit but not require a financial holding company, and institutions can invest downstream in a partly or wholly-owned affiliate. Thus the peak of the pyramid may be any one of the regulated financial institutions or a financial holding company.

will also be able to offer, if they choose, most kinds of financial services, either directly or as an agent. The somewhat blurred distinctions of the past among different types of financial institutions will, for the most part, come close to disappearing. Of course, some institutions may continue to specialize in one or more areas, offering a boutique-type service in their area of special expertise.

One byproduct of giving banks and near-banks very similar powers in the domain of lending was the need to address the issue of competitive equity regarding the imposition of non-interest-bearing reserve requirements on banks and not on near-banks. The decision was taken to phase out reserve requirements on the banks so as to remove the unequal treatment and unequal costs on institutions competing for the same business. The Bank of Canada does not perceive the necessity for any major changes in the implementation of monetary policy as a result of the abolition of reserve requirements. Major financial institutions will continue to settle their accounts on the books of the bank and hence will continue to hold deposits at The Bank of Canada. This will provide a sufficient fulcrum for the operation of monetary policy.

Ownership

In many ways, this is the most complicated part of the proposals because it attempts to integrate a desire to limit financial-commercial linkages with a recognition of the present reality. In effect it divides financial institutions into three types—widely held, closely held with no commercial links, and closely held with commercial links. It also distinguishes, primarily for historical reasons, between banks and near-banks.

Banks. No commercial links are permitted. Existing large banks must remain widely held. Small banks can be closely held but when they reach a certain size ($750 million in capital) they must ensure that, within five years, at least 35 percent of their shares are widely held and publicly traded. Furthermore, large shareholders cannot increase their equity holdings in such a bank. Thus, over time, the proportion of ownership of the controlling shareholder will be diluted as new shares are issued, until the bank becomes widely held.

Nonbanks with no commercial links. These may remain closely held until they reach $750 million capital, at which point they must ensure that, within five years, at least 35 percent of their shares are widely held and publicly traded. In contrast to the case of banks the controlling owners may maintain their share of ownership indefinitely by purchasing their proportionate share of any new issue of voting, shares.

Nonbanks with commercial links. Special, more restrictive rules will be imposed in order to constrain commercial-financial linkages. First, no approval will be granted for the incorporation of new trust, mortgage loan, or insurance companies to applicants with significant commercial interests. Nor will such applicants be permitted to increase ownership positions of more than 10 percent or acquire ownership positions exceeding 10 percent in financial institutions with capital in excess of $50 million. Second, for commercially-linked institutions (or groupings) with more than $50 million in capital, 35 percent of shares must be widely held and publicly traded within five years. The controlling shareholders may purchase their proportionate share of any new voting equity issues as long as the 35 percent threshold is reached within five years. Third, for very small closely held institutions (less than $50 million in capital), no changes are required.

This approach to ownership is intended to arrest the trend to greater links between the commercial and financial sectors and to encourage wider holdings of shares (at least to the 35 percent level). Nonetheless, the movement to widely held ownership will probably occur only very gradually.

Self-dealing

The concern about self-dealing is to be addressed through a variety of approaches. First, and foremost, there will be severe limitations on non-arms-length transactions between financial institutions and persons or companies who are in positions of influence over or control of the institution. The most important of these'are transactions with shareholders who own more than 10 percent of the shares of the institution, with directors and officers of the institution, and with significant business interests of such persons. The policy bans most types of transactions with non-arms-length parties (including loans and investments, and sales and purchases of assets) and imposes internal controls for permitted classes of transactions (mostly service transactions). Second, transactions between regulated financial institutions will be restricted, but to a considerably lesser extent than those between financial institutions and their owners. Unusual transactions will require preclearance by supervisors. Third, the approach to ownership with its constraint on financial-commercial links will, over time, tend to reduce the situations in which self-dealing can occur.[16] Fourth, the combination of at least 35 percent minority shareholding and an enhanced role for independent directors should, on the margin, have a beneficial effect.

Conflicts of interest

Potential conflict of interest problems will be handled by a multifaceted approach that includes greater disclosure to the consumer, the use of techniques to prevent the dissemination of inside inforation within an institution (commonly known in financial circles as "Chinese Walls"), and enhanced internal scrutiny through creation of a monitoring group within each institution. The purpose of these elements is to identify potential conflicts, to provide for an appropriate internal process to deal with conflicts, and to require that proper disclosure be made.

Among the disclosure rules will be the following: clear identification of the institution with which the client is contracting, including the presence or absence of deposit insurance coverage of deposits; a clear description of the role played by the corporation in contracting with the client, including whether the corporation is a principal or an agent for other parties; a statement that fees and commissions are earned by the institution in networking situations; and disclosure to the client of any material facts coming to the knowledge of the institution in the course of a business transaction with or on behalf of a client.

16 Some have argued that the ownership rules will potentially reduce the level of competition in the financial services industry. This may be a case where there is some tradeoff at the margin between competition and soundness and where the decision has been made to emphasize the latter

Corporate governance

In the area of corporate governance, changes with respect to auditors and directors will be put in place. Although the external auditors' role in the tripartite system will not be fundamentally changed, measures will be introduced to improve the quality of information flowing to them, to bolster their independence from the management of the financial institution, and to enhance their communication with directors and the supervisor.

Recognizing the important role that directors play in a financial institution, the intention is to make mandatory certain procedures that should improve the functioning of boards. To ensure that the board of directors has access to the views and judgment of individuals that do not have a significant association with the financial institution, it will be required that at least one-third of the directors be "independent" of the financial institution. Independent directors are also to be given an important role in reviewing the corporate practices of particular supervisory concern—for example, certain self-dealing transactions, conflicts of interest, and transactions or practices that may have a material effect on the health of the financial institution.

Supervision and deposit insurance

There have been and are to be a number of important changes to the supervisory and deposit insurance structure but these are not of an especially radical character. The two federal supervisory bodies, the Office of the Inspector-General of Banks and the Department of Insurance (which was responsible for supervising trust and mortgage loan companies as well as insurance companies) have been merged into a new Office of the Superintendent of Financial Institutions. This change is particularly appropriate, given the proposed changes in the powers of the various financial institutions that would make them much more similar than in the past. Other possible changes to the structure of the supervisory body that had been discussed in the course of the last two years, such as a merger with the deposit insurer or shifting supervisory responsibilities to the Bank of Canada, were in the end not considered to be as desirable. The supervisor was also given new powers, of which the power to make "cease and desist" orders is the most important. In addition, a new interagency committee will be established, consisting of the heads of the supervisory office, the central bank, the deposit insurance agency, as well the deputy minister of finance, which will ensure information exchange and consultation on supervisory matters that have implications for solvency, last resort lending and risk of deposit insurance payout. Also, by ensuring that the concerns of the deposit insurer and the lender of last resort are given full weight in decisions on troubled institutions, the new committee will strengthen the supervisor's "will to act" in these situations.

On the deposit insurance front, neither coinsurance nor risk-related premiums are to be introduced. However, the Canada Deposit Insurance corporation (CDIC) has been given increased powers in the issuance and termination of insurance coverage and it has been given the power to levy a premium surcharge on member institutions that are following unacceptable practices (as specified by CDIC bylaws). The insurer will also play a central role in restructuring insolvent institutions.

Current situtation

The legislation passed thus far includes that pertaining to the supervisor and deposit insurer, as just mentioned, and that permitting financial institutions to invest in or purchase an existing securities dealer or to start a new securities dealer subsidiary. The rest of the proposed changes, including those relating to institution powers, ownership, self-dealing, conflicts of interest, and corporate governance will be presented in the form of draft legislation later this year and introduced in parliament afterwards. Still unresolved are the issues being discussed in the free trade negotiations with the United States (in particular, questions of mutual access to markets pertaining to the involvement in the securities industry of banks, and of investment dealers having a bank connection) and some federal-provincial issues, particularly those regarding jurisdiction over securities powers exercised in-house by federally chartered institutions. Although the federal government reached agreement with Ontario over this issue, the other provinces have not accepted this agreement.

In the course of preparation of the legislation, it will be necessary to resolve some questions that still remain on major issues and to deal with the many details that were not covered in the government's policy paper. The changes currently under way to the financial sector are of such importance, in terms of establishing the framework for the financial industry for the next generation, that the process of discussion and legislation is bound to take some time before it is finally completed.