

**“WHY CANADIAN BANK MERGERS
ARE NOT IN THE NATIONAL
INTEREST”**

An address by Hon. Henry N.R. Jackman
Honorary Chairman

Empire Life Insurance Company

**Remarks to the combined Empire and
Canadian Clubs of Toronto**

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“There is no case to support mega mergers. To the contrary, mega mergers are highly anti-competitive and represent a high risk, irreversible policy option They increase concentration in Canada to levels not seen anywhere else in the world.”

Peter Godsoe, Chairman, Bank of Nova Scotia
Address to the Canadian Club, September 14, 1998

CHECK AGAINST DELIVERY

MR. CHAIRMAN, THANK YOU FOR GIVING ME THE OPPORTUNITY TO SPEAK TO THE COMBINED EMPIRE AND CANADIAN CLUBS ON THE SUBJECT OF BANK MERGERS. FOR THOSE OF YOU IN THE FINANCIAL SERVICES INDUSTRY, THIS TOPIC MUST RANK AS CANADA'S LONGEST RUNNING SOAP OPERA. IT IS NOW INTO ITS SEVENTH YEAR.

FOR IT IS NOW OVER SIX YEARS AGO THAT THE ROYAL BANK AND THE BANK OF MONTREAL FIRST ANNOUNCED THEIR PLANS TO MERGE.

SINCE THAT TIME WE HAVE HAD TWO SETS OF PARLIAMENTARY COMMITTEE HEARINGS BY BOTH THE SENATE AND THE HOUSE OF COMMONS FINANCE COMMITTEES, TWO WHITE PAPERS, THE MACKAY REPORT ON THE FINANCIAL SERVICES INDUSTRY, AND SOME INCONCLUSIVE LEGISLATION.

NONE OF THESE REPORTS OR INITIATIVES REJECTED MERGERS OUTRIGHT. BUT NEITHER DID THEY ALLOW MERGERS. IN SHORT, THEY DECIDED NOTHING.

TO PARAPHRASE WINSTON CHURCHILL:

“NEVER IN THE FIELD OF HUMAN CONFLICT, HAS SO MUCH BEEN WRITTEN, OR SO MUCH BEEN SAID, BY SO MANY, TO SUCH LITTLE PURPOSE”.

THE BANKS ARE ARGUING THAT THEY NEED TO MERGE IN ORDER TO COMPETE EFFECTIVELY AND MAKE ACQUISITIONS ABROAD.

THOSE WHO OPPOSE THE MERGERS POINT OUT THAT THIS IS NOT THE ISSUE, AS THE CANADIAN GOVERNMENT IMPOSES NO RESTRICTIONS ON EXPANDING ABROAD OR RAISING CAPITAL FOR THAT PURPOSE. OPPONENTS OF THE MERGERS FEEL THAT THE REAL REASON TO MERGE IS SIMPLY TO REDUCE COMPETITION HERE AT HOME.

MOST OF THE DISCUSSION AND DEBATE HAS HAD VERY LITTLE TO DO WITH SUBSTANCE. IT HAS MUCH TO DO WITH THE PROCESS AS TO HOW A DECISION CAN BE ARRIVED AT.

THE STICKING POINT APPEARS TO BE WHAT HAS BEEN DESCRIBED BY THE GOVERNMENT AS SATISFYING A “PUBLIC INTEREST ASSESSMENT”, WHICH IS AN ELUSIVE, AND ILL DEFINED REQUIREMENT WHICH TO DATE NEITHER THE BANKS NOR THE GOVERNMENT HAS BEEN ABLE TO EXPLAIN TO EACH OTHER’S SATISFACTION.

WHEN IN 2002, ACCORDING TO THE PRESS, TWO MORE MERGERS WERE TURNED DOWN, ONE INVOLVING A MAJOR LIFE INSURANCE COMPANY, THE BANKS REQUESTED CLARIFICATION FROM THE GOVERNMENT AS TO WHAT WERE THE REQUIREMENTS OF THIS “PUBLIC INTEREST ASSESSMENT”. IN SHORT, THEY REALLY WANTED TO KNOW WHERE THEY STOOD.

IN OCTOBER 2002, THE SENATE AND HOUSE FINANCE COMMITTEES ONCE AGAIN WERE ASKED TO PROVIDE INPUT AS TO THE DEFINITION OF THE ALL-IMPORTANT “PUBLIC INTEREST ASSESSMENT”.

AFTER EXTENSIVE PUBLIC HEARINGS, THE GOVERNMENT IN JUNE OF 2003 REPEATED AGAIN THAT “THE GOVERNMENT BELIEVES THAT THERE IS A NEED FOR A BROAD PUBLIC INTEREST REVIEW OF ANY BANK MERGER PROPOSAL THAT GOES BEYOND OSFI AND COMPETITION BUREAU MANDATES”.

THIS OF COURSE SAYS VERY LITTLE. THE ABOVE WOULD SEEM TO BE A MAXIMUM AMOUNT OF TALK WITH A MINIMUM AMOUNT OF RESOLUTION. HOWEVER IF ONE READS BETWEEN THE LINES OF ALL THE GOVERNMENT STATEMENTS ON THIS SUBJECT, IT IS NOT HARD TO UNDERSTAND THE GOVERNMENT’S REAL MEANING.

I WOULD RESPECTFULLY SUGGEST THAT THE PROCESS IS MUCH LIKE A TEENAGE BOY ASKING THE PROM QUEEN FOR A DATE. THE GIRL SAYS, “WELL, I AM BUSY THIS WEEKEND, BUT PERHAPS LATER”.

THE SWAIN PERSISTS AND ASKS HER AGAIN. THE PROM QUEEN MAKES OTHER EXCUSES, SAYS SHE IS BABYSITTING, SPENDING TIME WITH HER PARENTS, OR IS OTHERWISE ENGAGED. THIS GOES ON FOR SEVERAL MONTHS, BUT OUR YOUNG HERO HAS STILL NOT GOT A DATE.

WHAT IS HAPPENING HERE IS SOMETHING THAT EVERYONE IN THIS AUDIENCE CAN UNDERSTAND. THE GIRL DOES NOT REALLY WANT TO GO OUT WITH THE BOY, BUT SHE DOES NOT WANT TO HURT HIS FEELINGS. SHE DESPERATELY HOPES THAT HE WILL TAKE THE HINT AND STOP CALLING HER.

THIS EXACTLY DESCRIBES THE RELATIONSHIP WITH OUR CANADIAN BANKS AND THE FEDERAL GOVERNMENT. THE FEDERAL GOVERNMENT DOES NOT WANT TO BE SEEN TO REJECT A MERGER ENTERED INTO OSTENSIBLY BY FREE MARKET FORCES. YET FOR OBVIOUS POLITICAL REASONS IT DOES NOT WANT IT TO HAPPEN. THEY DO NOT WANT TO SAY NO, THEY SIMPLY WANT THE BANKS TO TAKE THE HINT AND GO AWAY.

ALTHOUGH THE GOVERNMENT HAS PAID LIP SERVICE TO ITS INTENTION TO CLARIFY THE PUBLIC INTEREST ASSESSMENT, I DO NOT EXPECT THAT ANY GUIDELINES THEY MAY COME UP WITH WILL BE SUFFICIENTLY CLEAR TO GIVE THE BANKS MUCH COMFORT. THE GOVERNMENT IS STILL COMMITTED TO A REVIEW BY THE PARLIAMENTARY COMMITTEES. THE GOVERNMENT OF COURSE CANNOT PREDICT WHO WILL MAKE REPRESENTATIONS TO THESE COMMITTEES. THEY CANNOT PREDICT WHAT THE PUBLIC REACTION WILL BE. THE “PUBLIC INTEREST ASSESSMENT”, WHATEVER THAT MAY MEAN, WILL ULTIMATELY BE CLARIFIED ONLY BY THE M.P.’S, WHO OF COURSE WILL BE INFLUENCED BY THE VAGARIES OF PUBLIC OPINION.

FROM THE GOVERNMENT’S POINT OF VIEW IT IS NOT DIFFICULT TO UNDERSTAND WHY IT WISHES TO BE VAGUE IN DEFINING THE MERGER GUIDELINES.

BANK MERGERS OBVIOUSLY INVOLVE CONSIDERABLE POLITICAL RISK. THE GOVERNMENT DOES NOT WANT TO SET A MERGER TIMETABLE WHEN THEY CANNOT PREDICT THE POLITICAL FALL-OUT. THEY WOULD FAR RATHER HAVE THE BANKS THEMSELVES DEFINE THE PUBLIC INTEREST ASSESSMENT, AND IF THE BANKS ARE SHOT DOWN BY THE COURT OF PUBLIC OPINION OR BY A PARLIAMENTARY COMMITTEE, SO BE IT. IN OTHER WORDS, THE POLITICAL RISK WILL BE TRANSFERRED FROM THE GOVERNMENT TO THE BANKS THEMSELVES. HAVING STATED MORE THAN ONCE THAT THE ONUS IS ON THE BANKS THEMSELVES TO DEFINE PUBLIC INTEREST, THE BANKS HAVE STILL BEEN MOST RELUCTANT TO MAKE A CASE AS TO WHY SUCH MERGERS ARE IN THE INTEREST OF THE AVERAGE CANADIAN – AND NOT JUST TO THE BANKS THEMSELVES.

IN 1998 THE MOST EFFECTIVE ADVOCATE AGAINST THE MERGERS WAS PETER GODSOE, THEN CHAIRMAN OF THE BANK OF NOVA SCOTIA, WHO ALMOST SIX YEARS AGO MADE AN EXCELLENT SPEECH TO THIS CLUB ON SEPTEMBER 14, 1998 ENTITLED “WHY BANK MERGERS ARE NOT IN THE NATIONAL INTEREST”.

PETER GODSOE HAS BEEN MY MENTOR IN THIS FIELD AND MANY OF THE POINTS I AM ATTEMPTING TO MAKE HERE WERE MADE PERSUASIVELY BY MR. GODSOE, NOW SOME SIX YEARS AGO.

IN HIS INTRODUCTION HE STATED THAT:

“THERE IS NO CASE TO SUPPORT MEGA MERGERS. TO THE CONTRARY, MEGA MERGERS ARE HIGHLY ANTI-COMPETITIVE AND REPRESENT A HIGH RISK, IRREVERSIBLE POLICY OPTION THEY INCREASE CONCENTRATION IN CANADA TO LEVELS NOT SEEN ANYWHERE ELSE IN THE WORLD.”

HE POINTED OUT THAT MERGERS WOULD MEAN SERIOUS CUTS IN EMPLOYMENT IN BRANCHES, REGIONAL AND HEAD OFFICES.

MR. GODSOE REPORTED THAT THE BANK OF CANADA AND A NUMBER OF FEDERAL RESERVE REPORTS CONCLUDED THAT THERE WAS NO EVIDENCE TO SUPPORT ARGUMENTS THAT THE BANKS HAVE TO BE MEGA INSTITUTIONS TO ACHIEVE ECONOMIES OF SCALE. HE POINTED OUT THAT THE BANK OF NOVA SCOTIA HAD A LOWER COST RATIO THAN THE ROYAL BANK, WHICH WAS THEN TWICE ITS SIZE.

MR. GODSOE EXPRESSED A GENUINE CONCERN ABOUT THE PRICING STRUCTURE UNDER A NEAR MONOPOLY SITUATION, COMPARING OUR COUNTRY WITH CALIFORNIA WHERE THERE HAD BEEN CONSIDERABLE CONCENTRATION THROUGH MERGERS. IN CALIFORNIA, DEPOSIT RATES FOR CONSUMERS WERE LOWER THAN ANYWHERE ELSE IN THE UNITED STATES. THE SAME COULD HAPPEN HERE. HE EXPRESSED THE CONCERN THAT OVER 64% OF SMALL BUSINESSES WERE OPPOSED TO MERGERS. MERGERS MEANT LESS CHOICE AND LESS ACCESS TO CAPITAL FOR CANADA’S SMALL BUSINESS.

EMPIRICAL EVIDENCE HAS SUGGESTED THAT PROFIT MARGINS FOR THE DOMESTIC BANKING INDUSTRY ARE PROBABLY HIGHER IN CANADA THAN IN OTHER WESTERN COUNTRIES. THIS WAS CONFIRMED BY MR. GODSOE’S 1998 STATEMENT THAT THE RATE OF RETURN ON CANADIAN BANKS’ DOMESTIC BUSINESS WAS THEN WELL OVER 20%. THIS COMPARED WITH THE AVERAGE OVERALL TOTAL ROE OF OUR FIVE BIG BANKS OF ONLY 14% TO 15% IN 1998. OTHER WORDS, CANADIANS ARE PERHAPS BEING ASKED TO SUBSIDIZE THE LOWER RETURNS ACHIEVED BY OUR BANKS’ INVESTMENTS IN THE UNITED STATES AND OTHER COUNTRIES WHERE RESULTS ARE GENERALLY LESS SATISFACTORY.

THE BANKS HAVE ALSO CONTENDED THAT THEY NEED A LARGER DOMESTIC BASE IN ORDER TO COMPETE INTERNATIONALLY, PARTICULARLY AS MORE AND MORE OF OUR COMPANIES ARE BECOMING INTERNATIONAL IN SCOPE. I SHOULD REMIND THIS AUDIENCE AGAIN THAT THERE IS NO RESTRICTION IN THE BANK ACT AGAINST OUR BANKS COMPETING ABROAD, NOR IS THERE ANY RESTRICTION ON THEM COMBINING THEIR INTERNATIONAL OPERATIONS TO COMPETE ABROAD AS LONG AS THEY KEEP THEIR DOMESTIC OPERATIONS SEPARATE.

SIMILARLY IT IS OBVIOUS THAT A MERGER IN ITSELF DOES NOT CREATE CAPITAL THAT CAN BE USED TO MAKE FOREIGN ACQUISITIONS. IF TWO BANKS OF EQUAL SIZE MERGE THEY MAY DOUBLE THEIR CAPITAL, BUT THEIR LIABILITIES ALSO DOUBLE AS WELL. IF THEY REALLY WANT CAPITAL TO GO ABROAD THEY WILL STILL HAVE TO RAISE ADDITIONAL CAPITAL, EITHER THROUGH A HOLDING COMPANY STRUCTURE, SALE OF TREASURY SHARES, OR OTHERWISE.

IT IS SIMPLY NOT TRUE TO SUGGEST THAT THE ABILITY TO EXPAND INTERNATIONALLY HAS ANYTHING TO DO WITH A LARGE DOMESTIC BASE. SOME OF THE LARGEST INTERNATIONAL BANKS COME FROM VERY SMALL COUNTRIES WITH SMALL DOMESTIC MARKETS. HOLLAND, SWITZERLAND AND EVEN HONG KONG ARE CASES IN POINT. BANKS FROM THESE COUNTRIES HAVE EXPANDED INTERNATIONALLY PRECISELY BECAUSE THERE WAS SO LITTLE ROOM TO EXPAND IN THEIR HOME MARKET.

ONE CAN ONLY ASSUME THAT ONE MORE “IN MARKET” MERGER, WHICH MIGHT TAKE UP TO FIVE YEARS OF MANAGEMENT’S TIME TO IMPLEMENT – TIME WHICH MIGHT HAVE OTHERWISE BEEN SPENT LOOKING AT FOREIGN OPPORTUNITIES, WILL IMPEDE RATHER THAN ENHANCE THEIR FOREIGN PRESENCE.

THEN THERE IS THE ARGUMENT THAT MERGERS ARE HAPPENING ALL OVER THE WORLD, SO WHY SHOULD THIS OPTION BE FORECLOSED ON US? IT IS SIMPLY NOT TRUE THAT “IN COUNTRY” MERGERS ARE ALLOWED IN OTHER COUNTRIES WHERE BANKING CONCENTRATION APPROACHES CANADIAN LEVELS.

IN CANADA THE TOP FIVE BANKS HAVE 77% OF TOTAL DEPOSITS. THE COMPARABLE FIGURE FOR THE TOP FIVE BANKS IN AUSTRALIA IS 74%, IN FRANCE 62%, IN SWITZERLAND 58%, SPAIN 47%, GERMANY 19%, UNITED KINGDOM 35% AND THE UNITED STATES OF AMERICA ONLY 26%.

WHAT IS THE PUBLIC REACTION IN THESE COUNTRIES TOWARDS FURTHER CONCENTRATION OF DOMESTIC BANKING? IN THE U.S.A., NO BANK MAY HAVE MORE THAN 10% OF FDIC INSURED DEPOSITS. IN AUSTRALIA MERGERS WERE STOPPED IN 1998. IN THE UNITED KINGDOM A MAJOR BANK COMBINATION MERGER WAS STOPPED IN 2001. IN FRANCE IN 2003, TWO MAJOR BANKS WERE ALLOWED TO MERGE THEIR INVESTMENT BANKING AND INTERNATIONAL FUNCTIONS, BUT THEIR RETAIL BANKING NETWORKS REMAINED SEPARATE.

THIS IS A FORMULA THAT MIGHT ALSO BE APPLIED TO CANADA, IF OUR BANKS COULD GET THEIR FOCUS OFF DOMESTIC CONCENTRATION.

THE TRUTH OF THE MATTER IS THAT IF WE ALLOWED DOMESTIC MERGERS, WE WOULD BE THE ODD MAN OUT. WE WOULD BE ACTING CONTRARY TO WHAT THE REST OF THE WORLD THINKS ABOUT THE NECESSITY TO ENCOURAGE COMPETITION IN OUR HOME MARKET.

IN SPITE OF ALL OF THIS, WHY THEN DO THE BANKS WANT TO CONTINUE THEIR QUIXOTIC QUEST? IT IS NOT ABOUT GAINING THE SIZE TO COMPETE MORE EFFECTIVELY ABROAD. THE GOVERNMENT HAS ALREADY SAID THEY CAN EXPAND ABROAD.

THERE ARE HOWEVER OTHER REASONS WHY THE BANKS WANT TO MERGE.

MERGERS OF ALL KINDS OF COURSE ARE VERY POPULAR WITH THE FINANCIAL COMMUNITY. THEY GENERATE HUGE FEES TO THE INVESTMENT BANKING INDUSTRY AND THEIR CAPTIVE LAW FIRMS, ACCOUNTANCY FIRMS, ETC.

MERGERS ARE ALWAYS ACCOMPANIED BY INCREASED PAY TO THE CEO'S OF THE ACQUIRING COMPANY, GOLDEN PARACHUTES, VESTING OF OPTIONS AND A WHOLE HOST OF GOODIES WHICH TRICKLE DOWN THROUGH THE FINANCIAL COMMUNITY, THE COST OF WHICH APPEARS TO BE CAPITALIZED UNDER "GENERALLY ACCEPTED ACCOUNTING PRINCIPLES".

THE CHIEF EXECUTIVE OF ONE BANK-OWNED INVESTMENT DEALER TOLD ME THAT HE COULD MAKE ANY MERGER, ANY ACQUISITION, EARNINGS ACCRETIVE TO THE BUYER, NO MATTER HOW HIGH THE PRICE. ALL HE HAD TO DO WAS TO GET THE AUDITORS TO WRITE UP THE GOODWILL AND INTANGIBLE ASSET ACCOUNT.

PETER GODSOE POINTED OUT THE ARTIFICIALITY OF SUCH “ACCOUNTING GAINS” IN HIS APRIL 1998 ISSUE OF THE SCOTIA BANKER, WHICH WAS CIRCULATED TO ALL BNS EMPLOYEES.

AT THE SAME TIME, THE PROFESSIONAL INVESTMENT MANAGERS OF MUTUAL AND PENSION FUNDS REMAIN OBSESSED WITH THEIR OWN QUARTERLY PERFORMANCE, BY WHICH THEY ARE JUDGED. THIS INDIRECTLY PUTS AN ALMOST IMPOSSIBLE PRESSURE ON CORPORATE MANAGERS TO PERFORM. AT THE SAME TIME, THE AVERAGE LIFE SPAN OF A CEO SEEMS TO BE SHORTENING – PERHAPS TO AS LITTLE AS THREE OR FOUR YEARS.

IT IS THEREFORE NOT ENOUGH FOR A MANAGER TO GROW HIS BUSINESS ORGANICALLY OR INCREMENTALLY IN ORDER TO SATISFY THE INVESTMENT COMMUNITY. A BANK CEO MAY BE RELUCTANT TO USE HIS EXCESS CAPITAL IN OPENING BRANCHES WHEN THE PAYOFF IS PERHAPS THREE OR FOUR YEARS DOWN THE ROAD.

BANKERS, LIKE OTHER CEO’S, NEED A “DEFINING TRANSACTION” ON THEIR WATCH, WHICH CAN BE PART OF THEIR LEGACY.

WHAT THE BANKERS WANT IS A MERGER WHERE GOODWILL AND INTANGIBLE ASSETS RESULTING FROM THE MERGER, INCLUDING THE TRANSACTION FEES, RESTRUCTURING AND REDUNDANCY COSTS, AND EVEN POTENTIAL LOAN LOSSES ARE CAPITALIZED AND IN SOME CASES ARE NEVER WRITTEN OFF AT ALL. THIS OF COURSE ALLOWS THE ACQUIRING COMPANY TO CLAIM THAT THE MERGER ACTUALLY IS EARNINGS ACCRETIVE.

ALTHOUGH OUR CANADIAN BANK CEO’S ALL MAKE BETWEEN \$9 AND \$12 MILLION PER YEAR, THEY ARE NOT IMMUNE TO THE BLANDISHMENTS AND PERQUISITES THAT RUNNING AN EVEN LARGER BANK MAY OFFER. AFTER ALL, THE CHAIRMAN OF CITIGROUP HAS MADE, IN A GOOD YEAR, OVER \$130 MILLION.

IN 1998, HUGH BROWN, PERHAPS CANADA’S MOST RESPECTED BANK ANALYST FROM NESBITT BURNS, INDICATED THAT THE FOUR CEO’S OF THE 1998 PROPOSED MERGING BANKS THEN STOOD TO MAKE OVER \$100 MILLION, ACCORDING TO THE BANKS’ PROXY MATERIAL. ONE OF THEM WOULD HAVE MADE AS MUCH AS \$40 MILLION. THESE FIGURES ARE OF COURSE IN 1998 DOLLARS WHEN EXECUTIVE COMPENSATION WAS MUCH LOWER. YOU COULD TODAY PROBABLY MULTIPLY THOSE FIGURES BY A FACTOR OF TWO OR THREE.

THUS WE HAVE A COMPELLING REASON WHY THE BANKS WANT TO MERGE: TO STRUCTURE A TRANSACTION THAT CAN SHOW ACCOUNTING GAINS ON THE INCUMBENT CEO'S WATCH, WITH PERHAPS LITTLE REGARD FOR THE LONG TERM CONSEQUENCES THAT WILL BE ON SOMEONE ELSE'S WATCH.

IF AND WHEN THE BANK MERGERS ONCE AGAIN COME TO THE TABLE AND REACH THE STAGE OF PARLIAMENTARY HEARINGS, I WOULD RESPECTFULLY SUGGEST THAT THE PUBLIC INTEREST ASSESSMENT BE BROADENED TO INCLUDE OTHER IMPORTANT ISSUES. THE BANKS SHOULD BE ASKED TO ANSWER THE FOLLOWING QUESTIONS:

WHAT EXACTLY ARE THE PROFIT MARGINS ON THE CANADIAN BANKS' DOMESTIC BUSINESS? HOW FAR ARE THEY OUT OF LINE WITH MARGINS IN OTHER INDUSTRIALIZED COUNTRIES? TO WHAT EXTENT ARE CANADIANS BEING ASKED TO SUBSIDIZE THE BANKS' AMERICAN AND FOREIGN BUSINESS? WHAT EFFECT WOULD ANY CONTEMPLATED MERGER HAVE ON THIS EQUATION?

HOW INDEPENDENT ARE THE NON-EXECUTIVE DIRECTORS, WHEN IN SOME CASES, THE MAJORITY RECEIVE LOANS FROM THE BANK, EITHER DIRECTLY OR THROUGH THEIR AFFILIATES?

WHAT IS THE ROLE OF THE NON-EXECUTIVE DIRECTORS OF THE BANK IN FACILITATING A MERGER TRANSACTION? DO THEY IN EFFECT ACTUALLY CHOOSE THE CHIEF EXECUTIVE OFFICER OF THE PROPOSED COMBINATION, OR IS IT THE TWO CEO'S THEMSELVES WHO DEFINE EACH OTHER'S ROLE AND COMPENSATION? DO THE NON-EXECUTIVE DIRECTORS LOOK AT OUTSIDE CANDIDATES FOR THE JOB, WHICH I WOULD EXPECT SHOULD BE PART OF THEIR MANDATE?

WHAT ABOUT THE HOST OF CONFLICTS ARISING FROM THE BANKS' OWNERSHIP OF OUR MAJOR INVESTMENT DEALERS, WHEN AT THE SAME TIME THEY ARE THE LARGEST PLAYERS IN THE FIDUCIARY, TRUST, INVESTMENT MANAGEMENT AND MUTUAL FUND INDUSTRIES? THE CONFLICTS HERE ARE ENORMOUS.

WE DO NOT HAVE A NATIONAL SECURITIES COMMISSION IN THIS COUNTRY. BUT SINCE THE BANKS ARE ENTIRELY UNDER FEDERAL CONTROL, AND SINCE THE BANKS NOW CONTROL OVER 65% OF ALL EQUITY UNDERWRITINGS, IT WOULD SEEM TO ME THAT THE FEDERAL GOVERNMENT HAS A ROLE HERE, WHICH THEY ARE NOT FULFILLING. AT LEAST THIS SHOULD BE A MAJOR SUBJECT FOR DISCUSSION AT THE PARLIAMENTARY COMMITTEES WHEN THE EFFECT OF A MERGER IS CONSIDERED.

IT IS THIS GENUINE CONCERN ABOUT DEALER CONFLICTS, THAT LIKEWISE MAKES IT MOST INAPPROPRIATE THAT OUR INSURANCE INDUSTRY, THE LAST INDEPENDENT BASTION OF OUR NATION'S SAVINGS, SHOULD BE ALLOWED TO FALL UNDER THE DOMINATION OF THOSE WHO PROFIT FROM PURVEYING NEW ISSUES.

I BELIEVE THE COMMITTEE SHOULD ASK THE BANKS AS TO WHAT STEPS SHOULD BE TAKEN TO CORRECT THE LAPSES OF ETHICAL CONDUCT, WHICH SEEM TO BE ALMOST A WEEKLY SUBJECT OF COMMENT IN THE PRESS AND FOR WHICH, IN SOME CASES, THE BANK DIRECTORS SEEM COMPLETELY INCAPABLE OF FACING. THERE HAVE BEEN MANY STORIES REGARDING THE STRUCTURED PARTNERSHIPS IN ENRON, THE LOANS TO HEDGE FUNDS CLIENTS TO FACILITATE IMPROPER TRADING OF MUTUAL FUNDS, THE LACK OF DUE DILIGENCE OR DISCLOSURE IN RESPECT TO STOCK OFFERINGS, THE FINES PAID TO REGULATORS, THE COURT SETTLEMENTS TO AGGRIEVED INVESTORS - THE LIST IS TOO LONG TO ENUMERATE.

IN SHORT, I DO NOT THINK BANK MERGERS WILL HAPPEN NOW BECAUSE IT IS NOT IN THE INTEREST OF THE BANKS THEMSELVES TO FACE THE SCRUTINY THAT SUCH A PROCESS WOULD ENTAIL.

THE QUESTION REMAINS WILL MERGERS EVER HAPPEN? WELL, THE ONE THING WE KNOW IS THAT CHANGE IS ALWAYS WITH US. MERGERS MAY HAPPEN IN CANADA, BUT ONLY IF CANADA DECIDES TO HAVE A GENUINELY COMPETITIVE FINANCIAL SYSTEM.

OUR BANKS IN CANADA ARE A PROTECTED SPECIES. WE DO NOT REALLY HAVE A FREE MARKET IN BANKING SERVICES, THE BARRIERS TO ENTRY OF FOREIGN BANKS TO OPERATE RETAIL NETWORKS IN THIS COUNTRY ARE STILL EFFECTIVELY WITH US, AND SINCE 1998 WHEN THE BANK MERGERS WERE FIRST SERIOUSLY DISCUSSED, THE MARKET DOMINANCE OF THE BIG 5 HAS INCREASED, RATHER THAN DIMINISHED.

EVERY CHANGE IN THE BANK ACT OR FINANCIAL SERVICES LEGISLATION IN THE PAST FORTY YEARS HAS PAID LIP SERVICE TO THE IDEA OF ENCOURAGING ALTERNATIVE CHOICE. YET FOR OVER FORTY YEARS THE MARKET SHARE OF OUR BIG BANKS HAS INCREASED. I THINK THE TIME HAS COME, AND EVEN SENATOR KOLBER, THE BANKS' STRONGEST PROPONENT IN THE SENATE SEEMS TO AGREE, THAT THE PLAYING FIELD SHOULD BE LEVELLED AND FOREIGN BANKS SHOULD BE ALLOWED IN ON A BASIS AT LEAST AS PERMISSIVE AS GIVEN TO CANADIAN BANKS IN OTHER COUNTRIES.

IF CANADA REALLY WANTS TO BE PART OF AN INTERNATIONAL COMMUNITY, WE MUST BRING OUR LAWS INTO ACCORDANCE WITH OUR PARTNERS IN THE FREE WORLD. CANADIAN BANKERS CANNOT HAVE IT BOTH WAYS. IF AMERICAN AND OTHER WORLD BANKS ARE TO ENTER CANADA ON THE SAME BASIS THAT CANADIAN BANKS CAN OPERATE ABROAD, THEN AND ONLY THEN, SHOULD MERGERS BE CONSIDERED.

THE ISSUE IN CANADA IS NOT REALLY THE NUMBER OF BANKS WE HAVE, BUT WHETHER THE MONOPOLY POSITION GIVEN TO THE EXISTING FIVE WITH THEIR HIGH MARGINS AND THEIR CONTINUED ISOLATION FROM WORLD COMPETITIVE PRESSURES IN CANADA SHOULD BE ALLOWED TO CONTINUE – OR WHETHER OUR FINANCIAL SYSTEM SHOULD ENTER THE 21ST CENTURY.