

stability, the financial sector is able to respond to market forces and that this response can encompass a variety of avenues.

Therefore, subject to certain criteria and priorities to be detailed later, the Committee welcomes all four general approaches to financial diversification:

- within-institution expansion of powers;
- subsidiaries;
- upstream and downstream holding companies; and
- networking.

In recommending this degree of structural flexibility, our position coincides with that of the House of Commons report.

RECOMMENDATIONS AND OBSERVATIONS

50. Subject to certain criteria and priorities to be detailed later, the Committee welcomes all four general approaches to financial diversification:

- within-institution expansion of powers;
- subsidiaries;
- upstream and downstream holding companies; and
- networking.

The following four sections will elaborate on these approaches in turn. While we shall address a wide range of issues as they apply to these alternative avenues for integration and to various financial sectors, we make no claim that the analysis is exhaustive.

C. EXPANDING IN-HOUSE POWERS

Commercial Lending

- **Trust Companies**

One of the expressed goals of the Green Paper was to accommodate the desire of trust and insurance companies to expand their commercial lending activities. After considering the possibility of an expansion of within-institution powers to allow greater commercial lending (but presenting no arguments against such a proposal), the Green Paper rejected this avenue in favour of the creation of a schedule C bank through which all additional commercial lending activity would be channelled. None of the representations we received from the institutions involved expressed support for this approach, although some welcomed it as an option along with expanded in-house powers. Among the many concerns was that some trust and insurance companies might not be able to become associated with a schedule C bank, so that as a result of the Green Paper proposals they might find their existing powers curtailed.

The Committee is of the view that a considerable expansion of in-house commercial lending powers is warranted. This conclusion is based on the following considerations.

First, trust companies in particular are currently faced with "matching" and diversification problems. Over the years the liabilities of banks and trusts have become more similar. Trust companies are more and more engaged in short-term deposit taking and they are in the forefront of many of the recent innovations relating to these transactions deposits. For their part, the banks moved aggressively in the direction of term deposits in the wake of the 1967 Bank Act, which introduced lower reserve ratios for these deposits.