required to do so through affiliated institutions, whether these be subsidiaries or under the umbrella of a financial holding company. The rationale for this has to do with the existing scope and competence of the primary regulators. The trust company regulators already have to deal with commercial lending activities of trust companies under the provision of the basket clause. Expanding the commercial lending activities of trust companies represents only an extension of the present monitoring roles of these primary regulators.

The reverse is not the case, however. The other primary regulators do not, at present, monitor any estate, trust and agency activities. Hence, we prefer that if financial institutions desire to enter the trust business they do so via affiliated institutions which would then be subject to the trust company primary regulators.

However, even here it is difficult to draw a firm line. The House of Commons report recommended that the life insurance industry have trustee powers to administer funds payable on insurance contracts, registered pension plans and registered retirement savings plans. The House Committee based this recommendation on the fact that, given the diversification of powers for this industry recommended elsewhere in its report, these trustee powers seemed to represent a logical extension of the life insurance business. We concur.

RECOMMENDATIONS AND OBSERVATIONS

54. There is probably scope for allowing greater in-house expansion of powers into other cross-pillar activities, provided that they are regulated or monitored by the responsible primary regulator. The Committee's approach is to be flexible unless a case can be made that such an expansion of in-house powers would run counter to the public interest.

55. The Committee concurs with the House of Commons report that life-insurance companies be allowed to act as trustee of funds payable on insurance contracts, registered pension plans and registered retirement savings plans. However, as a general rule, the Committee would prefer that institutions wishing to engage in the estate, trust and agency business do so through affiliated institutions rather than through an expansion of in-house powers.

D. DIVERSIFICATION THROUGH SUBSIDIARIES

We have already signalled our support for financial intermediaries to diversify their financial activities through subsidiaries. However, following the recommendations of the House of Commons report, we also believe that the amount of equity investment in subsidiaries should be deducted from the base capital of the investing institution and that the equity level to trigger this treatment should be set at 20 per cent of the voting stock. The rationale for this is to avoid double leveraging, i.e. to preclude the investing institution from counting this investment as part of its own capital base as well as part of the capital base of the new institution. This will also ensure that only institutions with a strong financial base will be able to take advantage of diversifying through subsidiaries.

This recommendation is subject to the two constraints on ownership set forth in the preceding chapter. First, financial institutions should not be allowed to acquire non-financial subsidiaries, except to a minimal extent as outlined earlier. Second, if these subsidiaries fall within a different pillar from that of the investing institution, then either the investing institution or the subsidiary must have 35 per cent of its stock publicly traded.

For some parts of the financial sector, this recommendation amounts to supporting the existing legislation. For example, banks now hold mortgage subsidiaries. For other parts of the financial system, this recommendation would represent a fairly radical change. For