

liability structure. Combined with the application of BIS rules to banks and eventually a variant thereof to trusts, the Committee's underlying assumption is that, for equivalent liability structures, the asset-side investment powers for trusts and banks would essentially be identical.

The approach to asset-side powers in the insurance sector should also be driven by the prudent portfolio approach. Indeed, much has already been accomplished here. In some provinces, the old "legal for life" restrictions have already been replaced by the prudent portfolio concept. Given the generally longer term of insurance liabilities, what is "prudent" for insurance companies, in comparison with banks and trusts, will typically involve much greater flexibility to invest in projects with longer time horizons.

RECOMMENDATIONS AND OBSERVATIONS

24. The Committee recommends that the present qualitative approach to the asset portfolio of trust companies be replaced by a prudent portfolio concept. It also recommends that the Bank for International Settlements (BIS) capital-adequacy rules or some appropriately modified version thereof be applied to trusts. The net effect of this will be that, for equivalent liability structures, the asset-side powers of trusts will be roughly identical to those of banks.
25. The Committee also recommends that the prudent portfolio approach be applicable to the insurance industry. We particularly welcome an updating of the insurance legislation since the term-to-maturity profile of insurance liabilities implies that this sector has a very significant role to play in the financing of longer term investment projects.

- *In-House Trust Powers*

At present the banks and insurance companies face more or less blanket prohibitions on the exercise of trustee powers, including management and agency powers. The Committee believes that these restrictions are too severe. In expanding in-house trust powers the Committee is following closely the federal Blue Paper's recommendations.

RECOMMENDATIONS AND OBSERVATIONS

26. The Committee proposes to expand the range of eligible fiduciary powers by permitting the direct exercise of trust powers by banks and insurance companies, with the following exceptions:
 - carrying out trusts conferred by order of a court;
 - carrying out *inter vivos* trusts;
 - acting as an executor or administrator under wills and bequests;
 - acting as official guardian or tutor for, or curator of, assets.
27. Banks and insurance companies will be able to engage in the full range of fiduciary activities through a trust company subsidiary.
28. If and when the in-house powers in Recommendation 26 cross into provincial jurisdiction, the relevant provincial registration, regulation and monitoring will apply.
29. While the Committee believes that the three previous recommendations respect provincial jurisdiction in the trust area, it notes that the Conference of Provincial Ministers Responsible for Financial Institutions agreed in principle at their August 30, 1989 meeting in Moncton that financial institutions other than trusts be prohibited from engaging in trust business except through trust subsidiaries. The Committee