

institutions would be able to achieve this maximum commercial lending flexibility. Our proposals are summarized in the following series of recommendations.

## RECOMMENDATIONS AND OBSERVATIONS

51. The present qualitative approach to investment should be replaced by a quantitative or prudent portfolio approach that would be monitored by the investment committee of the board of directors. The essential features of this portfolio approach would be that quantitative limits would be established with respect to the proportion of the portfolio that can be invested in each type of security.
52. As far as the investment limits relating to commercial lending/leasing, the Committee is in favour of establishing an all-inclusive maximum of 20 per cent of assets for trust companies and insurance companies. It may be appropriate to have these limits escalate to the maximum levels in terms of a series of thresholds based, say, on the amount of capital.
53. Provided that the regulation of credit unions and caisses populaires outside Quebec satisfies the prudential standards established by the CDIC, the Committee is also in favour of expanding the commercial lending powers of credit unions, in phases again based on capital, up to a maximum of 20 per cent of assets. Since the regulations relating to credit unions are essentially in the domain of the provinces, this recommendation is directed principally to the CDIC in terms of the conditions on which it should be willing to accept credit unions for deposit insurance, other prudential considerations assumed to be in order.

### Other Cross-Pillar Activities

There are other areas where integration across the pillars is being accomplished through within-institution diversification. This is particularly the case with respect to securities-related transactions. Virtually all of the other pillars are engaged to some degree in the brokerage or underwriting industry. Some of these activities relate to the so-called exempt market where, because of the nature either of the transaction or the securities themselves, certain participants and transactions are exempted from coming under the application of the provincial securities acts. Other financial institutions have been allowed to register with the provincial securities commissions as limited-service brokers — the chartered banks in respect of their discount brokerage services, and financial institutions in Quebec as agents to manage individual securities accounts under the Quebec Stock Savings Plan. The Committee recognizes that in the final analysis it is the provincial securities commissions that will determine the extent to which other financial institutions can undertake securities-related activities.

Nonetheless, we are in favour of a more open and flexible environment with respect to these activities. For example, as we have already argued, the life companies should be allowed to maintain and even expand their private-placement activities. However, it is essential that all such activities be monitored or registered with the respective securities commissions. In this sense, within-institution expansion of powers to allow greater participation in the securities sector will involve regulation by other primary regulators, unlike the earlier case for an expansion of commercial credit. We do not believe that this will pose a serious challenge to the regulatory process, since it essentially represents a modest expansion of the status quo in this regard.

Expanding the in-house ability of the other pillars to engage in trust activities is somewhat more problematical. In general, we would recommend that financial institutions, other than trust companies, wishing to engage in estate, trust and agency activities be