

Allen Lambert, Chairman of Trilon Financial Corporation, noted that London Life had that very day completed the purchase of a ship built at Sorel that would be leased on an 18-year basis. This is an activity where one might expect that insurance companies would be better positioned than would banks and trust companies, although some trust companies are already involved in these sorts of activities.

Thus, there are important niches of the commercial lending/leasing market which should be opened to insurance companies. The fact that the leverage ratios of life insurance companies are very low in comparison with those of trust companies and banks suggests to us that an expansion of in-house activities would be fully consistent with concerns relating to consumer protection and solvency and, of course, consistent with enhancing competition in these markets.

The Green Paper argues that the private placement activity of insurance companies be considered as part of their commercial loan activity for purposes of portfolio investment limits. We disagree with this: private placements should come under the designation of debt securities rather than commercial lending.

- **Credit Unions**

The caisses populaires in Quebec already enjoy substantial freedom to diversify their assets. The present Ontario legislation allows credit unions to engage in commercial lending up to seven per cent of unimpaired capital, deposits and surplus and, with the approval of the regulatory authorities, up to 15 per cent of this total. The Ontario Task Force Report reaffirms these regulations and recommends that credit unions be able to engage in commercial lending to non-members as well as members. In our view, credit unions should have the same commercial lending powers as trust companies, after the credit unions achieve some threshold value of capital.

These recommendations with respect to credit unions were influenced by the brief of the Canadian Federation of Independent Business which reported that its members in Quebec felt that the caisses populaires represented an important alternative source of finance. Appropriately regulated, the credit union movement in the rest of the country might also provide a similar alternative avenue for the financing of small business.

Our principal concern is that the regulation of credit unions needs to be enhanced in some provinces. However, if our recommendations with respect to deposit insurance are implemented, the reconstituted CDIC will have the authority to ensure that the credit unions and their primary regulators will have to meet the minimum CDIC standards in order to qualify for deposit insurance.

- **Summary**

The Committee is in favour of expanding the in-house commercial lending powers of financial institutions. To this end, the Committee supports the Green Paper view, expressed in the Technical Supplement to the Green Paper, that "it would be appropriate to shift the focus of the investment rules governing financial institutions away from the qualitative rules towards a quantitative or portfolio approach." As part of this approach, we recommend that each institution be required to strike an investment committee of the board of directors that in turn would establish prudent investment standards for the corporation. The characteristic of this portfolio approach is the establishment of limits with respect to the proportion of the portfolio that can be invested in each type of security.

As noted above, in terms of commercial lending/leasing, the Committee is willing to go somewhat further than the Ontario Task Force and the House of Commons report; including the basket clause, we recommend that these institutions be allowed to invest up to 20 per cent of assets in commercial lending or leasing. It is probably appropriate for regulators to establish certain stages, presumably based on capital thresholds or leverage ratios, by which