The 1967 Bank Act also allowed banks to enter the mortgage market. And they were able to do this either through an expansion of in-house powers or via the creation of mortgage subsidiaries. That is, the Bank Act did not require that these increased mortgage activities be undertaken through a complex and mandatory set of new institutional arrangements.

With the banks now accounting for a significant share of the overall mortgage market, and with the demographics signalling a decline in the rate of growth of housing starts, the trust companies face growth constraints as well as diversification problems. It would appear that enhanced commercial lending represents an obvious solution to the dilemma facing trust companies. More commercial loans make eminent sense in terms both of matching the terms of assets with the terms of liabilities and of allowing greater portfolio diversification.

A second argument for an in-house expansion of commercial lending powers relates to the evolution of the financial sector. To be competitive in the 1980s requires that institutions be able to offer a wider range of services in order to cater to the needs of their customers. All financial institutions today offer a considerably broader range and variety of financial services than they did even a decade ago. This trend will surely continue, particularly since it is becoming progressively difficult in the face of financial innovation to draw a line between the instruments offered by the various pillars.

Third, it seems to us that an expansion of commercial lending powers will not present a serious problem for the trust company primary regulators. These regulators already oversee some commercial lending activities. Thus, commercial lending does not represent a cross-pillar activity in the important sense that it involves recourse to another primary regulator for monitoring.

Accordingly, we recommend that trust companies be allowed considerably enhanced powers to engage in commercial lending/leasing. Under the existing federal legislation as it pertains to federal insurance and trust legislation, commercial activities come under the "basket clause" which has an aggregate limit of seven per cent of assets. (A basket clause is a provision which allows financial institutions to undertake any investment or lending activities up to a specified percentage of total assets. The basket clause can be used to exceed the specified investment limits in any category or it can be utilized to invest in instruments not elsewhere specified. Since there is no category for commercial loans under the existing legislation, the basket clause allows trust companies to invest seven per cent of their assets in commercial loans.)

The House of Commons report recommends that trust companies have greater flexibility with respect to engaging in commercial loans. It does this not by specifying an asset limit with respect to commercial loans, but rather by broadening the basket clause to 15 per cent of assets.

The submission of the Trust Companies Association of Canada recommended that commercial lending and/or leasing activites be expanded up to a maximum of between 20 and 25 per cent of assets.

The Committee is of the opinion that the lower limits of the Trust Companies' recommendation would provide an appropriate degree of relaxation of the commercial lending limits at this time. The existing limits might be raised in stages, with permission to move to the upper end of the 20 per cent maximum requiring levels of capital above some minimum threshold.

- **Insurance Companies**

We believe that insurance companies also merit more flexibility in commercial lending/leasing. They already participate in the private placement market and the longer term nature of their liabilities allows them to enter the commercial lending/leasing market in a way that is not always readily open to banks or trust companies. In testimony before us, Mr.