foreign currency deposits than they can on Canadian dollar deposits. That seemed to us to be an unfortunate situation.

"We have seen in some degree, the effect of this over the last few years, where in an environment where the Canadian dollar has been under pressure Canadians have begun to hold, in the form of deposits with Canadian banks, foreign currencies to the extent now of something approaching $12 billion. A few years ago it was more like $5 billion or $6 billion. So there has been a move into this kind of instrument as a form of holding savings.

"Having said that, we took a crack at it in the previous legislation, and, as a result of failure to fully understand all of the effects that were in play, we put our banks in a position which, the Senate recognized, would be an uncompetitive position in making foreign currency loans to Canadian businesses that needed them for various legitimate purposes.

"We sought another position that would preserve the competitiveness of Canadian banks, while still trying to meet this essential principle. This was another proposal to try to do that . . . ."

"With this new reserve, the large professional money manager, if, he did not like the rate he could get in Canada, he could move his deposits around anyway and put them with any bank abroad. If you regard that as a loophole, had we closed that loophole, that is what would have happened: The Canadian banks would have lost the deposit entirely. So it did not seem sensible to go that route.

The places to which they could move deposits are limited. If they move those deposits to the United States, there is now an 8% reserve on them instead of a 4% reserve. There is no incentive to move the deposits there. The deposits could, however, be moved to other countries, where they would be reserve free. That means that your funds are under a different jurisdiction. Certain Canadians might not feel good about that. The professional money manager, so long as he knows where the funds are, and knows that the situation is reasonably stable where the funds have been moved—perhaps to London—might not worry about that at all, I suppose; but certain Canadians may begin to think twice about having those deposits shifted offshore to other jurisdictions.

There may also be withholding tax implications in foreign jurisdictions that would affect the return. So there may be breaks as regards the situation. But potentially there is an avoidance route, yes. That was recognized when we made the suggestion."

The reason for proposing a 3% reserve on foreign currency deposits was also explained by Gerald K. Bouey, Governor of the Bank of Canada when he appeared before your Committee on January 24, 1979 (Committee Proceedings January 24, 1979 18:21).

"My interest in the matter really relates to the deposits booked in Canada. If you have a situation, as we have now, where there is a cash reserve requirement against Canadian dollar deposits, that will obviously cost the banks something and it does affect the rates they can pay on those deposits. When you have no non-interest-bearing cash requirements against foreign currency deposits, then the banks are able to offer a higher rate than they otherwise would have done.

"It seems very strange to me that we would put Canadian dollar deposits at a disadvantage in this country as against foreign currency deposits. In fact, other things being equal, Canadians would be able to earn more money on their foreign currency. Particularly at a time when I was worried about the Canadian dollar, that seemed to be somewhat strange. So I have been interested in equalizing that situation, putting them on the same basis. The 3% against foreign currency deposits would then be the same as 3% against Canadian dollar time deposits.

"I think the problem may have arisen in the way that it was phrased, namely "deposits for use in Canada", which then of course might include deposits booked outside the country where the banks are in competition with foreign banks. I would not want to see that happen and that is where I would agree it needs to be looked at. But I think there must be a way of equalizing the situation within Canada for deposits booked in one currency or the other."

". . . If you go down to your bank in Ottawa and ask them to open a U.S. dollar account for you, they will do that. They will not have to keep non-interest bearing cash reserves against your Canadian dollar deposit account. It is that inequality that I am anxious to see eliminated. I think that can be done.

"I believe that the provisions as presently worded are based on the concept of funds for use in Canada. Some of the funds for use in Canada may come from depositors outside Canada and in that situation we do not want to put our banks at a disadvantage against foreign banks."

Your Committee notes that one aspect of the new reserve formula which has not been given more, if any, emphasis is that the substitution of the new foreign currency reserve formula appears to result in a considerable increase in the amount of the statutory reserve requirement. Under Bill C-15, based on deposits at December 31, 1977, it was calculated that the amount of "foreign currency deposits used domestically" amounted to approximately $4.4 billion (Committee report on Bill C-15, proceedings March 7, 1979, Issue No. 30). Under Bill C-6, based on deposits at April 30, 1980, the reservable foreign currency deposits in Canadian banks of residents amounted to approximately $10.5 billion. At the 3% rate, the aggregate reserve requirement for all banks would thus be increased by more than $183 million under the new formula. Part of this increase, of course, is caused by the growth in foreign currency deposits held by Canadian residents.

Your Committee has received and studied evidence and opinions which indicated that the proposed 3% reserve against foreign currency deposits of Canadian residents booked in Canada could have consequences which would be against the interests of Canadian resident businesses and individuals,