

Mr. BEATTIE: We did not want the banks to be in a position where they felt they had to refuse accommodation to credit-worthy financial institutions just by reason of lack of resources. The banks did co-operate very well in keeping things on an even keel at that time.

The CHAIRMAN: Are there any other questions on this aspect? Are you satisfied with the explanations on secondary reserve, Senator Leonard?

Senator LEONARD: I just want to get clear in my own mind as to the correlation between the primary reserve, which is now 4 per cent, under the Bank Act and this reserve. Adding this together, does it require a primary and a secondary of a minimum of 10 per cent and a maximum of 16 per cent?

Mr. BEATTIE: The 4 per cent only applies to part of the bank's deposits. The average over the whole of the bank's deposits is about 6.6 or 6.7 per cent. That may vary in the future as the proportions change between demand deposits and others.

Senator LEONARD: They are not computed on the same basis?

Mr. BEATTIE: No.

Senator McDONALD: Is the 6.6 per cent now comparable to the old 8 per cent?

Mr. BEATTIE: Yes.

Senator McDONALD: What would be the maximum, if 6.6 is the minimum?

Mr. BEATTIE: 6.6 is it under the new act. There is no power to vary that, thought it will vary slightly because it is the average of demand deposits at 12 per cent and others at 4 per cent. As the proportions in the bank's deposits change, the overall average will change slightly, but we will have no power to change the 4 per cent or the 12 per cent.

The CHAIRMAN: The 6.6 per cent is not necessarily constant?

Mr. BEATTIE: No, it may shift. It is more likely to shift down than up, I think, because the 4 per cent ratio will be slightly more advantageous to the banks in competing for term and notice deposit money.

The CHAIRMAN: It is a plus in their efforts to get money other than the regular deposits on a term basis. They may have to pay more for it, but they get some compensation in the difference in the rate.

Mr. BEATTIE: They do not have to leave so much of it earning no interest as they did before. Before it was 8 per cent in that particular category of deposits.

The CHAIRMAN: Have you any further questions on that, Senator Leonard?

Senator LEONARD: Apart from the secondary reserves, I have something to ask.

The CHAIRMAN: Is there any further information you want on secondary reserves?

Senator LEONARD: No.

Mr. BEATTIE: The next matter of an operating technique character is the change which is proposed, not in Bill C-190 but in section 72 of the Bank Act, under which the chartered banks can be required to make this reduced minimum cash reserve ratio in each half of the month separately, rather than just over the month as a whole, as they do now.

The situation now is such that an individual bank can run on a cash ratio well above the minimum, or well below the minimum, for quite a number of days at a time, and still reach the average without too much difficulty because the averaging period is quite long, namely, a month. This creates a situation in which the response of the system as a whole to the level of cash reserves that we set from day to day is very much weakened. Indeed, the reaction can be the opposite of what we expect, because if one bank is maintaining a cash reserve of,