of Canadian resident owners of foreign currency deposits in banks in Canada.

COMPETITIVE DISADVANTAGE

The imposition of the reserve would again place the chartered banks at a further disadvantage with the trust companies who would not be subject to a reserve on their foreign currency deposits and could therefore offer better interest rates on their foreign currency business with Canadian resident depositors. This is in addition to the competitive disadvantage placed on banks by the removal in Bill C-6 (amended) of the exemption for currency in Canadian term deposits.

GROWTH OF DEPOSITS AND RESERVES

A comparison of reservable deposits and the calculated primary reserves under the present Bank Act with the reserves proposed by Bill C-15 and C-6 (as amended) is shown in Appendix B.

The estimated reservable deposits and primary reserve requirements might be summarized as follows:

	Dec. 31 1977	Oct. 29 1980
	(Millions)	
Reservable Deposits		
I Under present Bank Act	$85,000	$127,100
II Under Bill C-15	87,000	131,000
III Under Bill C-6 (amended)	91,000	135,000
Minimum Primary Reserve Requirement		
I Under present Bank Act	$ 4,809	$ 6,614
II Under Bill C-15	3,783	5,200
III Under Bill C-6 (amended)	3,883	5,320

Under the present *Bank Act*, due to the growth of the economy and the amount of deposits in the Canadian banking system, the reservable deposits have grown from $85 billion at December 31, 1977 to $127 billion at October 31, 1980. Similarly, the statutory primary reserves have grown from $4.8 billion to $6.6 billion.

Under Bill C-15 the minimum primary reserve at October 29, 1980 would be $5.3 billion after giving full effect to the phasing in of the reduction in reserve rates.

However, due to the change in the reserve on foreign currency deposits, an extra $3 billion of deposits become reservable. At the 3% rate this results in an increase of $90 million in required reserves.

Also the elimination of the exemption for 1 year and over term deposits by the amendment to Bill C-6 results in a further increase in the minimum reserve requirement.

From this it can be seen that the effects of the amendments to the proposed legislation have resulted in increasing the reserves required of banks by approximately $120 million, based on the amount of deposits at October 29, 1980.

Therefore, it might be considered that there has been an unintended increase in the amount of reserves above the level which was intended in the original reduction in the reserve rates from 12% to 10% of demand deposits and from 4% to 3% of notice deposits.

Due to the annual growth of the money supply and the amount of deposits in the Canadian banking system, it will be seen from the calculations below that the amount of reserves required, quite apart from any reserve on foreign currency deposits, will be considerably greater at the end of the 3½ year phase-in period than the present reserve required under the present Bank Act.

ADDITION OF RESERVES BY NEW BANKS

Also, there will be the addition to the reserves by the new foreign bank subsidiaries which will be incorporated under the new *Bank Act*. The notes payable outstanding of all Canadian financial institutions affiliated with foreign banks amounted to $573 billion at March 31, 1980 (Source: Bank of Canada Review, Statistical Table 47). Based on the required ratio of 5.31 for November 1980, these new banks would provide approximately $300 million in new cash reserves at the Bank of Canada, if all of these affiliates of foreign banks become incorporated as foreign bank subsidiaries under the new *Bank Act*. Using a very conservative estimate based on only one-half of these foreign affiliates becoming chartered banks, the additional cash reserves provided by them would amount to approximately $150 million.

The following projection indicates how the primary reserves would grow in line with the growth of deposits in the Canadian banking system, in spite of a reduction in the reserve ratios and even excluding any reserve on foreign currency deposits. These estimates are based on the following assumptions:

1. An estimated increase of 9% per annum on demand deposits and 14.5% per annum in notice deposits, compounded annually. The rate of 9% increase in demand deposits is based on the upper limit of the Bank of Canada's target range for M1 growth (currency and demand deposits). This rate is extremely conservative when compared with the growth in demand deposits of 12.8% in the year ended October 29, 1980. The rate of growth of notice deposits is based on the growth in notice deposits of 14.6% for the year ended October 29, 1980; the rate of growth in notice deposits was even higher in 1976, 1977 and 1978.

2. Neither foreign currency deposits nor reserves thereon are included.