

THE PROCEDURE OF SPECIAL DEPOSITS

Decisions regarding calls for Special Deposits are made by the Court of Directors of the Bank of England, in all normal circumstances at their regular weekly meetings every Thursday morning. Calls are expressed in terms of the percentage of the deposits of the banks concerned which is to be placed on Special Deposit with the Bank of England and specify the date or dates by which the deposits are to be completed. The form of announcement makes it clear that the call is made with the approval of the Chancellor of the Exchequer.

On the occasion of the first call, the decision was not announced until after the close of business on the Stock Exchange at 3.30 p.m. the same day. The reason for this was partly because it was undesirable to introduce a new monetary weapon by a blunt announcement of a call during market hours and also because, as it happened, Special Deposits were being used on this first occasion in association with other measures, in the hire purchase field, which were being announced in Parliament on that day. The second call coincided with a change in Bank Rate and both decisions were announced simultaneously, just before noon. It is probable that the announcement of future calls for, or releases from, Special Deposits will again be made directly after the Court's decision has been taken, shortly before noon.

As soon as a call has been announced, letters are despatched to the banks concerned (at present, the 11 London Clearing Banks and the 5 Scottish banks) informing them of the precise amount that each is required to deposit and the date or dates by which the deposits are to be made. The calls on the London Clearing Banks have so far on each occasion been for 1% of total gross deposits and those on the Scottish banks for $\frac{1}{2}\%$ of total gross deposits. These percentages are normally applied to the latest available monthly figure of total gross deposits; but, for those clearing banks where this is an important consideration, the amount of deposits with branches outside England and Wales is first deducted from the figure of total gross deposits. The resulting amount is then rounded to the nearest multiple of £100,000.

As regards timing, a specified interval elapses between the announcement of a call and the date by which the making of Special Deposits is to be completed, this date having so far always been one on which the clearing banks draw up monthly figures for publication. Thus the first call was made on the 28th April for completion by the 15th June; the second was made on the 23rd June, half to be completed by the 20th July and half by the 17th August. Within the limits thus set, each bank decides when and in what instalments to make deposits. The banks are, however, asked to provide the Bank of England with such forecasts as they can give of the likely size and timing of the instalments. This enables the Bank to take account of these movements of funds in managing the money market and in particular in judging the amount of Treasury Bills to be offered and allotted at the weekly tenders.

Interest is payable on Special Deposits at the multiple of $\frac{1}{16}\%$ nearest to the average Treasury Bill rate at the weekly tender of the preceding week. Interest at this rate is calculated and paid on Mondays or, where the Monday is a holiday, on the first business day of the week.

Some banks may lose deposits in the ordinary course of business while others gain them; alternatively, all may lose or all may gain. The amount of Special Deposits is accordingly adjusted each month to take account of the latest figures for each bank's gross deposits. These adjustments are notified to the banks concerned in the same way as are calls for Special Deposits, and normally on the Thursday following the publication of the clearing banks' mid-monthly statements. The amounts involved in such adjustments are usually of modest size and the practice has thus far been to require any additional deposits to be completed by the following Wednesday and for any releases from deposits to be made on the following Wednesday.

As the Bank Return indicates, the counterpart of Special Deposits normally takes the form of an increase in the amount of government securities in the Banking Department of the Bank of England.