

Financial statements (Unaudited)
Department of Finance Canada

For the year ended
March 31, 2020

Statement of Management Responsibility including Internal Control over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2020, and all information contained in these financial statements rests with the management of the Department of Finance Canada (the Department). These financial statements have been prepared by management using the Government of Canada's accounting policies, which are based on Canadian public sector accounting standards.

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfil its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of the Department's financial transactions. Financial information submitted in the preparation of the *Public Accounts of Canada*, and included in the Department's *Departmental Results Report*, is consistent with these financial statements.

Management is also responsible for maintaining an effective system of internal control over financial reporting (ICFR) designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the *Financial Administration Act* and other applicable legislation, regulations, authorities and policies.

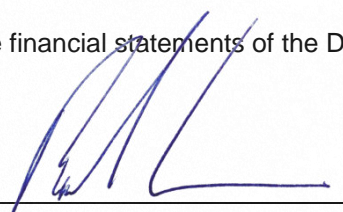
Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout the Department and through conducting an annual risk-based assessment of the effectiveness of the system of ICFR.

The system of ICFR is designed to mitigate risks to a reasonable level based on an ongoing process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments.

A risk-based assessment of the system of ICFR for the year ended March 31, 2020 was completed in accordance with the Treasury Board *Policy on Financial Management* and the results and action plans are summarized in the Annex.

The effectiveness and adequacy of the Department's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of the Department's operations, and by the Departmental Audit Committee, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting, and which recommends the financial statements to the Deputy Minister.

The financial statements of the Department have not been audited.



Paul Rochon, Deputy Minister
Ottawa, Canada
October 7, 2020



Darlene Bess, Chief Financial Officer

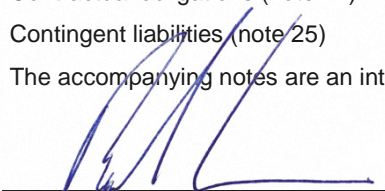
Department of Finance Canada
Statement of Financial Position (Unaudited)
As at March 31
(in thousands of dollars)

	2020	2019
Liabilities		
Deposit liabilities (note 4)	266,131	277,060
Accounts payable and accrued liabilities (note 5)	230,050	426,988
Taxes payable under tax collection agreements (note 6)	2,358,191	7,067,872
Interest payable (note 7)	4,024,063	4,148,724
Notes payable to international organizations (note 8)	150,375	195,955
Matured debt (note 9)	471,532	544,991
Unmatured debt (note 10)	777,924,282	730,152,813
Long-term annuity liability (note 12)	1,812,149	-
Employee future benefits (note 13)	4,177	4,074
Total gross liabilities	787,240,950	742,818,477
Liabilities owed on behalf of Government (note 14)	(150,375)	(195,955)
Total net liabilities	787,090,575	742,622,522
Financial assets		
Cash awaiting deposit to the Consolidated Revenue Fund	4	-
Due from Consolidated Revenue Fund	4,221,079	4,330,382
Cash held as collateral (note 15)	9,974,647	7,162,664
Coin inventory	10,070	8,823
Accounts receivable (note 16)	190,247	282,784
Taxes receivable under tax collection agreements (note 6)	9,258,159	9,947,344
Foreign exchange accounts (note 17)	104,902,706	99,688,385
Loans to Crown corporations (note 18)	68,894,849	58,391,613
Other loans receivable (note 19)	1,428,260	1,486,291
Investments and capital share subscriptions (note 20)	316,937	559,738
Total gross financial assets	199,196,958	181,858,024
Financial assets held on behalf of Government (note 14)	(3,809,552)	(3,384,707)
Total net financial assets	195,387,406	178,473,317
Departmental net debt	591,703,169	564,149,205
Non-financial assets		
Tangible capital assets (note 23)	10,818	11,833
Prepaid expenses	40	64
Total non-financial assets	10,858	11,897
Departmental net financial position	(591,692,311)	(564,137,308)

Contractual obligations (note 24)

Contingent liabilities (note 25)

The accompanying notes are an integral part of these financial statements.


Paul Rochon, Deputy Minister
Ottawa, Canada
October 7, 2020


Darlene Bess, Chief Financial Officer

Department of Finance Canada
Statement of Operations and Departmental Net Financial Position (Unaudited)
For the Year Ended March 31
(in thousands of dollars)

	2020 Planned results	2020	2019
Expenses			
Economic and Fiscal Policy	98,926,514	100,240,958	94,155,019
Internal Services	65,762	71,463	70,486
Total expenses	98,992,276	100,312,421	94,225,505
Revenues			
Investment income	2,245,513	3,351,585	2,385,520
Interest on bank deposits	688,936	771,740	737,628
Sale of domestic coinage	132,345	115,183	130,445
Net foreign currency gain	-	148,396	173,372
Other income	165,605	647,270	176,311
Revenues earned on behalf of Government (note 28)	(3,232,399)	(5,034,174)	(3,603,276)
Total revenues	-	-	-
Net cost of operations before government funding and transfers	98,992,276	100,312,421	94,225,505
Government funding and transfers			
Net cash provided by Government		72,840,262	80,869,800
Change in due from Consolidated Revenue Fund		(109,303)	(46,486)
Services provided without charge by other Government departments (note 26a)		26,459	25,399
Net cost of operations after government funding and transfers		27,555,003	13,376,792
Departmental net financial position - beginning of year		(564,137,308)	(550,760,516)
Departmental net financial position - end of year		(591,692,311)	(564,137,308)

Segmented information (note 27)

The accompanying notes are an integral part of these financial statements.

Department of Finance Canada
Statement of Change in Departmental Net Debt (Unaudited)
For the Year Ended March 31
(in thousands of dollars)

	2020	2019
Net cost of operations after government funding and transfers	27,555,003	13,376,792
Changes due to non-financial assets		
Tangible capital assets	(1,015)	(1,297)
Prepaid expenses	(24)	(20)
Total change due to non-financial assets	(1,039)	(1,317)
Net increase in departmental net debt	27,553,964	13,375,475
Departmental net debt - beginning of year	564,149,205	550,773,730
Departmental net debt - end of year	591,703,169	564,149,205

The accompanying notes are an integral part of these financial statements.

Department of Finance Canada
Statement of Cash Flows (Unaudited)
For the Year Ended March 31
(in thousands of dollars)

	2020	2019
Operating activities		
Net cost of operations before government funding and transfers	100,312,421	94,225,505
Non-cash items:		
Initial recognition of Department's obligation under long-term annuity liability	(2,345,168)	-
Amortization of tangible capital assets	(1,050)	(1,313)
Amortization of discounts on loans to Crown corporations	32,484	27,750
Amortization of discounts on other loans receivable	5,181	5,181
Amortization of discounts/premiums on unmatured debt	(4,648,677)	(3,000,732)
Accretion of long-term annuity liability	(32,132)	-
Unrealized foreign exchange gains on the foreign exchange accounts	5,143,184	766,815
Unrealized foreign exchange losses on debt	(5,011,160)	(750,311)
Services provided without charge by other government departments	(26,459)	(25,399)
Variations in Statement of Financial Position:		
Net decreases in assets	(247,440)	(3,120,290)
Net decreases in liabilities	5,029,499	208,991
Payment of long-term annuity liability	124,629	-
Change in cash collateral pledged to and by counterparties	2,824,590	(1,621,576)
Cash used in operating activities	101,159,902	86,714,621
Capital investing activities		
Acquisition of tangible capital assets	35	16
Cash used in capital investing activities	35	16
Investing activities		
Investments in foreign exchange accounts	30,111,090	31,527,994
Repayments from foreign exchange accounts	(30,841,184)	(29,313,325)
Issuance of loans to Crown corporations	52,837,700	43,563,489
Repayment of loans to Crown corporations	(42,366,948)	(40,347,754)
Issuance of other loans receivable	1,760	-
Repayment of other loans receivable	(23,920)	(13,500)
Cash used in investing activities	9,718,498	5,416,904
Financing activities		
Net issuance of cross-currency swaps	769,247	1,261,828
Issuance of debt	(487,096,714)	(458,061,254)
Repayment of debt	448,289,294	445,537,685
Cash provided by financing activities	(38,038,173)	(11,261,741)
Net cash provided by Government of Canada	72,840,262	80,869,800

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements (Unaudited)

1. Authority and objectives

The Department of Finance (the Department) is established under the *Financial Administration Act* as a department of the Government of Canada (the Government).

The Department is responsible for the overall stewardship of the Canadian economy. This includes preparing the annual federal budget, as well as advising the Government on economic and fiscal matters, tax and tariff policy, social measures, security issues, financial stability and Canada's international commitments. The Department plays an important central agency role, working with other departments to ensure that the Government's agenda is carried out and that ministers are supported with high-quality analysis and advice.

The Department's responsibilities include the following:

- preparing the federal budget and the Update of Economic and Fiscal Projections;
- developing tax and tariff policy and legislation;
- managing federal borrowing on financial markets;
- designing and administering major transfers of federal funds to the provinces and territories;
- developing financial sector policy and legislation;
- representing Canada in various international financial institutions and groups; and
- preparing the Annual Financial Report of the Government and, in cooperation with the Treasury Board of Canada Secretariat and the Receiver General for Canada, the Public Accounts of Canada.

To achieve its strategic outcome the Department articulates its plans and priorities based on its core responsibility of Economic and Fiscal Policy, determined in accordance with the Departmental Results Framework, and its Internal Services functions.

Economic and Fiscal Policy: To develop the federal budget and Fall Economic Statement, as well as provide analysis and advice to the Government on economic, fiscal and social policy; federal-provincial relations, including the transfer and taxation payments; the financial sector; tax policy; and international trade and finance.

Internal Services: Internal Services are those groups of related activities and resources that the federal government considers to be services in support of programs and/or required to meet the corporate obligations of an organization. Internal Services are comprised of the following 11 service categories: acquisition management, communications, financial management, human resources management, information management, information technology, legal, management and oversight, material management, real property management, and security services.

2. Summary of significant accounting policies

These financial statements have been prepared using the Government of Canada's accounting policies which are based on Canadian public sector accounting standards. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian public sector accounting standards.

The Department's significant accounting policies are as follows:

a) Parliamentary authorities

The Department is financed by the Government through parliamentary authorities. Financial reporting of authorities provided to the Department does not parallel financial reporting under generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the *Statement of Operations and Departmental Net Financial Position* and the *Statement of Financial Position* are not necessarily the same as those provided through authorities from the Parliament of Canada (Parliament). Note 3 provides a reconciliation between these financial statements and the parliamentary authorities provided to the Department.

The planned results presented in the *Statement of Operations and Departmental Net Financial Position* are the amounts reported in the *Future-oriented Statement of Operations* included in the 2019-20 *Departmental Plan*. Planned results are not presented in the Government funding and transfers section of the *Statement of Operations and Departmental Net Financial Position* and in the *Statement of Change in Departmental Net Debt* because these amounts were not included in the 2019-20 *Departmental Plan*.

b) Net cash provided by Government

The Department operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by the Department is deposited to the CRF, and all cash disbursements made by the Department are paid from the CRF. The net cash provided by Government is the difference between all cash receipts and all cash disbursements including transactions between departments of the Government.

c) Due from Consolidated Revenue Fund

Amounts due from the CRF are the result of timing differences at year-end between when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that the Department is entitled to draw from the CRF without further authorities to discharge its liabilities.

d) Revenues

- The Department reports revenues on an accrual basis.
- Investment income is recognized as revenue in accordance with the terms and conditions of underlying agreements or relevant legislation, as applicable.
- Sales of domestic coinage are recognized in the period in which the sales take place.
- Interest on bank deposits is recognized as revenue when earned.
- Net foreign currency gains are determined by reference to prevailing exchange rates at the time of the transaction and at the year-end date, as applicable, on foreign-currency denominated items.
- Guarantee fees are recognized when earned and are determined by reference to the terms of the guarantee program or underlying contract.
- Uncashed Receiver General cheques, warrants and bank account cheques for all departments and agencies are recognized as revenue of the Department if they remain outstanding for 10 years after the date of issue.
- Unclaimed matured bonds are recognized as revenue if they remain unredeemed for 15 years after the date of call or maturity, whichever is earlier.
- Unclaimed bank balances are recognized as revenue when there has been no owner activity in relation to the balance for a period of 40 years for balances under one thousand, and for 100 years for balances over one thousand.
- Other revenues are accounted for in the period in which the underlying transaction or event that gave rise to the revenue takes place.
- Revenues earned on behalf of Government are non-responsible revenues which are not available to discharge the Department's liabilities. While the Deputy Minister of the Department is expected to maintain accounting control, he has no authority regarding the disposition of non-responsible revenues. As a result, non-responsible revenues are presented as a reduction of the Department's gross revenues.

e) Expenses

- The Department reports expenses on an accrual basis.
- Transfer payments are recorded as expenses when authorization for the payment exists and the recipient has met the eligibility criteria or the entitlements established therefore. In situations where payments do not form part of an existing program, transfer payments are recorded as expenses when enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements.
- Interest and other costs are recognized when incurred and include interest; amortization of debt discounts, premiums and commissions; and servicing and issue costs. Discounts and premiums on debt are amortized on a straight-line basis.
- Operating expenses are recognized as incurred.
- The cost of domestic coinage sold is recognized in the period in which the related sale takes place.
- Net foreign currency losses are determined by reference to prevailing exchange rates at the time of the transaction and at the year-end date, as applicable, on foreign currency denominated items.
- Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment.
- Services provided without charge by other Government departments for accommodation, employer contributions to health and dental insurance plans and legal services are recorded as operating expenses at their estimated cost.
- Expenses include amortization of tangible capital assets, which are capitalized at their acquisition cost. Tangible capital assets used in operations are amortized on a straight-line basis over the estimated useful life of the asset.

f) Employee future benefits

Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multi-employer pension plan sponsored and administered by the Government. The Department's financial obligation with regard to the Plan is limited to its contributions. The Department's contributions to the Plan are charged to expenses in the year incurred and represent the Department's total obligation to the Plan. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government, the plan sponsor.

Severance benefits: The accumulation of severance benefits for voluntary departures ceased for applicable employee groups. The remaining obligation for employees who did not withdraw benefits in cash is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

g) Coin inventory

Coin inventory is valued at the lower of cost and net realizable value. Cost is determined using the average cost method.

h) Accounts receivable

Accounts receivable are stated at the lower of cost and net recoverable value. A valuation allowance is recorded for accounts receivable where recovery is considered uncertain.

i) Foreign exchange accounts

Short-term deposits, marketable securities, and special drawing rights held in the foreign exchange accounts are recorded at cost. Marketable securities are adjusted for amortization of purchase discounts and premiums. Purchases and sales of securities are recorded at the settlement date. Write-downs to reflect other than temporary impairment in the fair value of securities, if any, are included in the net foreign currency gain or loss in the *Statement of Operations and Departmental Net Financial Position*.

Subscriptions to, allocation of special drawing rights by, notes payable to, and loans receivable from the International Monetary Fund are recorded at cost.

j) Foreign currency transactions

Transactions involving foreign currencies are translated into Canadian dollars using rates of exchange in effect at the time of the transactions. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars using the rate of exchange in effect at the year-end date. Gains and losses resulting from foreign currency transactions are included in revenues or expenses in the *Statement of Operations and Departmental Net Financial Position*.

k) Loans receivable

Loans receivable, including loans to Crown corporations and other loans receivable, are initially recorded at cost and, where applicable, are adjusted to reflect the concessionary terms of those loans made on a long-term, low interest, or interest-free basis. An allowance for valuation is used to reduce the carrying value of loans receivable to the amount that approximates their net recoverable value. The allowance is determined based on estimated probable losses that exist for the remaining portfolio.

When the terms of a loan are concessionary, such as those provided with a low or no interest clause, the loan is initially recorded at its estimated net present value, with an immediate loss recognized in the *Statement of Operations and Departmental Net Financial Position*. The resulting discount is amortized to revenue to reflect the change in the present value of loans outstanding.

l) Investments and capital share subscriptions

Investments and capital share subscriptions are recorded at cost, net of valuation allowances. Allowances are determined based on a combination of expected return and likelihood of capital recovery. Given their nature, investments in certain international institutions are not expected to generate direct financial returns, and hence are not expected to be recovered. In such cases, allowances for non-recovery are established against the investments.

m) Derivative financial instruments

Derivative financial instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates or other financial measures specified in the contracts. Derivative financial instruments to which the Department is party include cross-currency swap agreements and foreign exchange forward contracts.

Cross-currency swap agreements and foreign exchange forward contracts are initially recorded in the *Statement of Financial Position* at cost. At each reporting date, notional amounts denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at that date. The associated unrealized gains or losses due to fluctuations in the foreign exchange value of the swaps and forward contracts are recognized in the *Statement of Financial Position* and as part of the net foreign currency gain or loss in the *Statement of Operations and Departmental Net Financial Position*.

In the *Statement of Financial Position*, cross-currency swaps are included in the balance of unmatured debt given their longer-term nature, while foreign exchange forward contracts are included in the balance of accounts payable and accrued liabilities given their short-term maturities.

In the *Statement of Operations and Departmental Net Financial Position*, interest income and expense on cross-currency swaps are presented in interest on unmatured debt.

For cross-currency swaps where domestic debt has been converted into foreign debt, any exchange gains or losses are offset by the exchange gains or losses on foreign currency investments held by the Exchange Fund Account. For foreign exchange forward contracts, any exchange gains or losses are offset by the exchange gains or losses on loan balances with the International Monetary Fund.

n) Tangible capital assets

All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more are initially recorded in the *Statement of Financial Position* at their acquisition cost. The Department does not capitalize intangibles; works of art and historical treasures that have cultural, aesthetic or historical value; assets located on reserves as defined in the *Indian Act*; and museum collections.

Amortization of tangible capital assets is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Asset class	Amortization Period
Computer hardware	Five to ten years
Informatics software	Three years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement
Machinery and equipment	Five to ten years
Motor vehicles	Three years

o) Debt

Debt is initially recognized in the *Statement of Financial Position* at the net proceeds received from issuance. Resulting premiums and discounts are amortized on a straight-line basis over the period to maturity. Debt that has reached its contractual maturity but which has not yet been repaid is reclassified at its face value from unmatured debt to matured debt.

For each series of real-return bonds issued, semi-annual interest and the principal payable upon maturity are indexed to the cumulative change in the consumer price index (CPI) for Canada relative to the CPI applicable to the original issue date of the series. The amounts recognized in the *Statement of Financial Position* for real return bonds' accrued interest payable and principal payable are adjusted at each reporting date using the CPI indices applicable to each series as at those dates, with a corresponding gain or loss recognized in the *Statement of Operations and Departmental Net Financial Position*.

Exchange or repurchase of debt

When a marketable bond is exchanged or repurchased, and the transaction results in an extinguishment of the debt, the difference between the carrying amount of the debt and the net consideration paid is recognized in the *Statement of Operations and Departmental Net Financial Position*.

An extinguishment occurs on the repurchase of bonds, or when there is an exchange of bonds with an existing bond holder and the terms of the original debt and the replacement debt are substantially different. Exchanged bonds are considered to have substantially different terms when the discounted present value of the cash flows under the new terms, including any amounts paid on the exchange and discounted using the average effective interest rate of the original debt, is at least 10 percent different from the discounted present value of the remaining cash flows of the original debt.

If an exchange of bonds with an existing bond holder does not result in an extinguishment, the carrying amount of the debt is adjusted for any amounts paid on the exchange, and the unamortized premiums or discounts relating to the original debt and arising on the exchange transaction are amortized over the remaining term to maturity of the replacement debt on a straight-line basis.

p) Long-term annuity liability

The long-term annuity liability is measured in the *Statement of Financial Position* at the present value of estimated future net cash flows, discounted using the applicable rates as at the date of initial recognition. Interest expense from the accretion of the liability each period is recognized as an expense in the *Statement of Operations and Departmental Net Financial Position*. For presentation purposes, interest expense is included in transfer payments expense in the Segmented Information note (note 27).

q) Collateral under cross-currency swap agreements

Where the Government receives collateral from a swap counterparty in the form of cash, deposit liabilities are recognized in the *Statement of Financial Position* until the collateral is either returned to the counterparty or the counterparty defaults under the swap agreement. Collateral received by the Government in the form of securities pledged by a counterparty are not recognized as assets. Collateral provided by the Government in the form of cash is recorded as a separate asset, cash held as collateral, in the *Statement of Financial Position*. Where the Government posts collateral in the form of securities, the securities remain recognized in the *Statement of Financial Position*.

r) Deposit liabilities

Deposits that are repayable on demand, and collateral in the form of cash received by the Government under its cross-currency swap agreements are recorded as deposit liabilities.

s) Contingent liabilities

Contingent liabilities are potential liabilities that may become actual liabilities when one or more future events occurs or fails to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

Provisions for liabilities arising under the terms of a loan guarantee program are established when it is likely that a payment will be made and an amount can be estimated.

t) Contingent assets

Contingent assets are possible assets which may become actual assets when one or more future events occurs or fails to occur. If the future confirming event is likely to occur, the contingent asset is disclosed in the notes to the financial statements.

u) Measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets, liabilities, revenues and expenses. At the time of preparation of these statements, management believes these estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, valuation allowances for loans receivable, valuation allowances for investments and capital share subscriptions, discounts on loans receivable, accruals of taxes receivable and taxes payable under tax collection agreements, the liability for employee future benefits, the estimated future cash flows of the long-term annuity liability, and the disclosed fair value of financial instruments. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and any necessary adjustments are recognized or disclosed in the financial statements in the year they become known.

v) Liabilities owed and financial assets held on behalf of Government

Liabilities owed and financial assets held on behalf of Government are presented in these financial statements as the Deputy Minister of the Department must maintain accounting control over them. However, deductions are made for these items in arriving at the Department's net liabilities and net financial assets in the *Statement of Financial Position*.

The classification of financial assets as being held on behalf of the Government is determined based on the (i) availability of the assets to discharge the Department's liabilities; and (ii) the ability to increase holdings of the assets without further authority from Parliament. Financial assets that do not meet both of these criteria are considered to be held on behalf of the Government. Certain liabilities that directly fund such assets are considered to be owed on behalf of the Government.

w) Related party transactions

Related party transactions, other than inter-entity transactions, are recorded at the exchange amount.

Inter-entity transactions are transactions between entities under common control. Inter-entity transactions, other than restructuring transactions, are recorded on a gross basis and measured at the carrying amount, except for the following:

- i) services provided or received on a recovery basis are recognized as revenues and expenses, respectively, on a gross basis and measured at the exchange amount; and
- ii) certain services received on a without-charge basis are recognized as expenses at the estimated cost of the services received.

3. Parliamentary authorities

a) Authorities provided and used

The Department receives most of its funding through annual parliamentary authorities. The authorities provided to and used by the Department are presented in the following table.

(in thousands of dollars)	2020	2019
Authorities provided		
Voted authorities	110,336	111,963
Statutory authorities		
Transfer payments	74,048,399	71,064,487
Interest on unmatured debt	17,836,993	15,937,173
Other interest costs	5,951,868	6,306,704
Purchase of domestic coinage	86,363	90,738
Other	880,477	658,209
Total statutory authorities	98,804,100	94,057,311
Non-budgetary authorities		
Loans to Crown corporations	52,867,082	43,596,084
International organizations	439,947	274,388
Other organizations	11,000	7,000
Total non-budgetary authorities	53,318,029	43,877,472
Total authorities provided	152,232,465	138,046,746
Less:		
Authorities available for future years	(68,572)	(68,572)
Lapsed authorities	(3,183)	(2,992)
Current year authorities used	152,160,710	137,975,182

b) Reconciliation of net cost of operations to authorities used

The Department's net cost of operations before government funding and transfers in the *Statement of Operations and the Departmental Net Financial Position* is reconciled with the current-year authorities used by the Department in the following table.

(in thousands of dollars)	2020	2019
Net cost of operations before government funding and transfers	100,312,421	94,225,505
Adjustments for items affecting net cost of operations but not affecting authorities		
Allowances on loans, investments and advances	1,803	(255,559)
Inventory charged to program expense	1,568	918
Employee future benefits	(103)	83
Amortization of tangible capital assets	(1,050)	(1,313)
Services provided without charge by other Government departments	(26,459)	(25,399)
Transfer payment accruals		
Initial recognition of Department's obligation under long-term annuity liability	(2,345,168)	-
Other transfer payment accruals	101,713	(174,176)
Other expenses not being charged to authorities	(4,156)	(576)
Total items affecting net cost of operations but not affecting authorities	(2,271,852)	(456,022)
Adjustments for items not affecting net cost of operations but affecting authorities		
Advances	52,878,082	43,603,084
Loans made to the International Monetary Fund	439,948	23,991
Payment to the Canada Infrastructure Bank	759,154	552,862
Payment to the Canadian Commercial Corporation	4,500	-
Acquisitions of tangible capital assets	35	16
Other	38,422	25,746
Total items not affecting net cost of operations but affecting authorities	54,120,141	44,205,699
Current year authorities used	152,160,710	137,975,182

4. Deposit liabilities

Deposit liabilities as at March 31 are presented in the following table.

(in thousands of dollars)	2020	2019
Canada Hibernia Holding Corporation ¹	101,905	100,407
Canada Eldor Inc. ²	12,271	12,091
Collateral deposits ³	151,955	164,562
Total deposit liabilities	266,131	277,060

¹ Canada Hibernia Holding Corporation (CHHC) deposit liabilities are demand deposits related to funds deposited to the CRF by CHHC to defray future decommissioning and abandonment costs that will be incurred upon closure of the Hibernia oil field. Abandonment is expected to occur in 2056 based on the useful lives of the assets. Interest accrues into the deposit balance at a rate equivalent to 90 percent of the bi-weekly three-month treasury bill tender rate.

² Canada Eldor Inc. (CEI) deposit liabilities are demand deposits related to funds deposited to the CRF pursuant to subsection 129(1) of the Financial Administration Act. The funds will be used by CEI to pay for costs related to the decommissioning of former mine site properties in Saskatchewan and for retiree benefits of certain former employees. Interest accrues into the deposit balance at a rate equivalent to 90 percent of the bi-weekly three-month Treasury bill tender rate.

³ Collateral deposits are cash received from counterparties as credit support collateral under cross-currency swap agreements.

5. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities as at March 31 are presented in the following table.

(in thousands of dollars)	2020	2019
Accounts payable - external parties ¹	67,591	288,515
- other Government departments and agencies	134,430	146,546
Provision for redemption of Canadian pennies ²	2,429	2,750
Foreign exchange forward contracts ³	16,993	(17,764)
Accrued liabilities	8,607	6,941
Total accounts payable and accrued liabilities	230,050	426,988

¹ The majority of accounts payable to external parties relates to \$40 million payable for transfer payments (2019 - \$250 million).

² Canadian pennies are no longer being produced and, since February 4, 2013, are being eliminated from circulation. As part of the effort to remove pennies from circulation, Canadians have the option of redeeming their pennies at face value. The provision reflects the estimated remaining net cost to the Government of this initiative as at March 31, 2020.

³ The foreign exchange forward contracts were settled on May 21, 2020 (2019 – May 21, 2019).

6. Taxes payable and receivable under tax collection agreements

The Canada Revenue Agency (CRA), an agency of the Government, collects and administers personal income taxes, corporate taxes, harmonized sales tax, sales tax, goods and services tax, and cannabis excise duties on behalf of certain provinces, territories and Aboriginal governments pursuant to various tax collection agreements. The Department ultimately transfers the taxes collected directly to the participating provinces, territories and Aboriginal governments in accordance with established payment schedules.

Taxes payable under tax collection agreements

Given that the Government reports information on a fiscal year basis, while tax information is calculated on a calendar year basis, there can be transactions related to several tax years during any given fiscal year. Taxes payable therefore include amounts assessed, estimates of assessments based upon cash received, adjustments from reassessments, and adjustments relating to previous tax years payable to provincial, territorial and Aboriginal governments.

The change in taxes collectible and payable to provinces, territories and Aboriginal governments under tax collection agreements during 2020 was as follows:

(in thousands of dollars)	March 31, 2019	Receipts and other credits	Payments and other charges	March 31, 2020
Corporate taxes	4,488,321	20,328,766	21,126,885	3,690,202
Personal income taxes	5,445,281	75,415,472	78,130,363	2,730,390
Harmonized Sales Tax	(2,933,124)	31,403,441	32,644,763	(4,174,446)
First Nations Goods and Services Tax	-	22,528	22,528	-
First Nations Sales Tax	-	8,531	8,531	-
Cannabis Excise Duties ¹	67,394	210,805	166,154	112,045
Total taxes payable under tax collection agreements	7,067,872	127,389,543	132,099,224	2,358,191

¹ The majority of the provinces and the three territories have entered into Coordinated Cannabis Taxation Agreements (CCTAs) with the Government. Under the CCTAs, the Minister of Finance of Canada and the provincial/territorial ministers have agreed that excise duties on cannabis products (excluding the provincial sales tax adjustment) will be shared (75% provincial / 25% federal) for the first two years following legalization. For fiscal years ending March 31, 2019 to March 31, 2021, Canada will share with the provinces/territories the federal cannabis duty that exceeds \$100 million (prorated by the number of days of legalization in each fiscal years) based on their respective share.

Taxes receivable under tax collection agreements

Taxes receivable under tax collection agreements include taxes collected or collectible by the CRA on behalf of provincial, territorial or Aboriginal governments that have not yet been remitted to the Department.

Changes in taxes receivable under tax collection agreements during 2020 were as follows:

(in thousands of dollars)	March 31, 2019	Receipts and other credits	Settlements with the CRA	March 31, 2020
Corporate taxes	4,999,844	20,328,766	21,192,663	4,135,947
Personal income taxes	8,986,702	75,415,472	75,040,724	9,361,450
Harmonized Sales Tax	(3,833,317)	31,403,441	31,650,155	(4,080,031)
First Nations Goods and Services Tax	1,748	22,528	22,410	1,866
First Nations Sales Tax	701	8,531	8,472	760
Cannabis Excise Duties	38,824	210,805	173,846	75,783
Provincial benefit programs ¹	(247,158)	5,578,899	5,569,357	(237,616)
Total taxes receivable under tax collection agreements	9,947,344	132,968,442	133,657,627	9,258,159

¹ Provincial benefit programs include benefit amounts paid by the CRA directly to recipients on behalf of provincial governments. Transfers to the provincial governments are ultimately reduced by these amounts.

7. Interest payable

Interest payable as at March 31 by class of debt is presented in the following table.

(in thousands of dollars)	2020	2019
Domestic debt	3,593,516	3,630,722
Retail debt	356,332	420,314
Foreign debt	65,368	77,292
International Monetary Fund balances	8,847	20,396
Total interest payable	4,024,063	4,148,724

8. Notes payable to international organizations

Notes payable to international organizations are non-interest bearing demand notes issued in lieu of cash in respect of subscriptions and contributions. The notes may be presented for encashment according to the terms of the related agreements.

Notes payable to international organizations as at March 31 are presented in the following table.

(in thousands of dollars)	2020	2019
Asian Infrastructure Investment Bank	112,101	159,622
International Bank for Reconstruction and Development	33,758	32,046
Multilateral Investment Guarantee Agency	4,516	4,287
Total notes payable to international organizations	150,375	195,955

9. Matured debt

Matured debt consists of debt that has matured but has not yet been redeemed. As at March 31, matured debt is as follows:

(in thousands of dollars)	2020	2019
Retail debt (matured from 2010 to 2020)	467,332	540,258
Marketable bonds (matured from 2006 to 2016)	4,200	4,733
Total matured debt	471,532	544,991

10. Unmatured debt

The Department borrows in both domestic and international markets on behalf of the Government.

Domestic debt

Domestic debt consists of treasury bills, marketable bonds and retail debt denominated in Canadian dollars.

Treasury bills consist of non-callable Government of Canada discount instruments. Treasury bills are issued with terms to maturity of three months, six months, or 364 days; the Government of Canada may also issue treasury bills with terms to maturity ranging from 1 day to three months for cash management purposes (cash management bills).

Marketable bonds consist of non-callable Government of Canada bonds paying a fixed rate of interest semi-annually, with remaining terms to maturity ranging from 1 to 45 years. Certain marketable bonds (real return bonds) pay semi-annual interest based on a real rate of interest. At maturity real return bondholders will receive, in addition to a coupon interest payment, a final payment equal to the sum of the principal amount and the inflation compensation accrued from the original issue date.

Retail debt includes Canada Savings Bonds, which are redeemable on demand by the holder.

Foreign debt

Foreign debt is issued by the Government under its foreign currency borrowing program. Foreign debt consists of marketable bonds, Canada bills and medium term notes denominated in US dollars or euros.

Marketable bonds are either issued in US dollars or euros to provide long-term foreign funds and have remaining terms to maturity ranging from 1 to 5 years.

Canada bills are short-term certificates of indebtedness issued in the US money market. These discount instruments mature not more than 270 days from issuance.

Medium term notes provide the Government with additional flexibility to raise foreign currency. The medium term note program allows for issuance of fixed or floating rate promissory notes in a number of currencies, including the US dollar, euro and British pound sterling.

As at March 31, unmatured debt is composed of the following:

(in thousands of dollars)	Face value	Unamortized (discounts) / premiums	Carrying value 2020	Carrying value 2019
Domestic debt				
Treasury bills ¹	151,867,000	(582,150)	151,284,850	133,555,431
Marketable bonds	596,540,272	3,093,368	599,633,640	572,097,421
Retail debt	497,220	-	497,220	1,236,815
Total domestic debt	748,904,492	2,511,218	751,415,710	706,889,667
Foreign debt				
Canada bills	2,159,674	(4,071)	2,155,603	2,690,938
Marketable bonds	12,668,400	(20,229)	12,648,171	11,007,355
Medium term notes	1,112,580	-	1,112,580	2,295,938
Total foreign debt	15,940,654	(24,300)	15,916,354	15,994,231
Total domestic and foreign debt	764,845,146	2,486,918	767,332,064	722,883,898
Less: Securities held for the retirement of unmatured foreign debt			-	(4,574)
Net domestic and foreign debt			767,332,064	722,879,324
Cross-currency swap revaluation²				
Payables			88,947,092	83,144,017
Receivables			(78,354,874)	(75,870,528)
Total cross-currency swap revaluation			10,592,218	7,273,489
Total unmatured debt			777,924,282	730,152,813
Domestic debt fair value			806,427,054	740,810,361
Foreign debt fair value			16,469,476	16,097,178

¹ Treasury bills include \$20.3 billion (2019 - \$5.5 billion) in cash management bills, \$43.7 billion (2019 - \$41.9 billion) in three month bills, \$27.5 billion (2019 - \$27.3 billion) in six month bills, and \$60.4 billion (2019 - \$59.6 billion) in twelve month bills.

² Cross-currency swap revaluation is the net notional value of cross-currency swap agreements translated, where applicable, into Canadian dollars using year-end exchange rates. Cross-currency swap agreements are entered into to effectively convert portions of domestic debt into foreign debt in order to meet foreign funding requirements.

Cross-currency swap revaluation includes \$701.9 million (2019 - \$988.8 million) related to individual cross-currency swaps that have a net asset value to the Government upon revaluation and \$11,294.1 million (2019 - \$8,262.3 million) related to individual cross-currency swaps that have a net liability value, resulting in a total net cross-currency swap revaluation liability of \$10,592.2 million (2019 - \$7,273.5 million).

Contractual maturities of unmatured debt by currency, stated in terms of face value, are as follows:

(in thousands of dollars)	Canadian dollars ¹	US dollars ²	Euros ³	Total
2021	244,078,963	2,969,044	232,830	247,280,837
2022	105,212,595	4,293,180	-	109,505,775
2023	76,706,022	4,222,800	-	80,928,822
2024	40,466,232	-	-	40,466,232
2025	47,065,381	4,222,800	-	51,288,181
2026 to 2065	235,375,299	-	-	235,375,299
Total contractual maturities of unmatured debt	748,904,492	15,707,824	232,830	764,845,146

1 Includes treasury bills, marketable bonds and retail debt.

2 Includes Canada bills, marketable bonds and medium term notes issued in US dollars.

3 Includes medium term notes issued in euros.

The average effective annual interest rates of unmatured debt as at March 31 are as follows:

	2020	2019
	%	%
Treasury bills	1.39	1.79
Marketable bonds—domestic	2.19	2.27
Retail debt	0.79	0.71
Canada bills	1.56	2.44
Marketable bonds—foreign	2.08	2.64
Medium term notes	0.99	2.23

11. Derivative financial instruments

Cross-currency swaps

The Government has entered into cross-currency swap agreements with various counterparties to facilitate the management of its debt structure. The terms and conditions of the swaps are established using International Swaps and Derivatives Association (ISDA) master agreements, which are in place with each counterparty.

Cross-currency swaps are used primarily to fund foreign-denominated asset levels in the foreign exchange accounts. Government debt is issued at both fixed and variable interest rates and is denominated in Canadian dollars, US dollars and euros. Using cross-currency swaps, Canadian dollar and foreign currency debt are converted into US dollars or other foreign currencies with either fixed interest rates or variable interest rates. As a normal practice, the Government's swap positions are held to maturity. Remaining terms to maturity range from 1 to 10 years.

The maturities of cross-currency swaps, stated in terms of the foreign payable-leg notional amounts outstanding and translated into Canadian dollars as at March 31, 2020, are as follows:

(in thousands of dollars)	
2021	12,450,045
2022	7,600,863
2023	7,562,791
2024	10,296,065
2025	8,589,022
2026 to 2030	42,448,306
Total cross-currency swaps notional amounts	88,947,092

Foreign exchange forward contracts

In the foreign exchange accounts, the Government funds loans to the International Monetary Fund (IMF), which are denominated in special drawing rights (SDRs), with US dollars. Since the currency value of the SDR is based upon a basket of key international currencies (the US dollar, euro, Japanese yen, British pound sterling and Chinese renminbi), a foreign exchange mismatch results whereby fluctuations in the value of the loan assets are not equally offset by fluctuations in the value of the related funding liabilities. The Government enters into forward contracts to hedge the resulting foreign exchange risk.

As at March 31, 2020, the total notional amount of outstanding foreign exchange forward contracts was \$3.1 billion (2019 - \$2.1 billion). The forward contracts outstanding as at March 31, 2020 mature in 2020-21.

12. Long-term annuity liability

The Government and the province of Newfoundland and Labrador entered into the Hibernia Dividend Backed Annuity Agreement (HDBA) effective April 1, 2019. Under the HDBA, both parties are obligated to make certain payments through 2056.

Government of Canada's obligation

The Government of Canada is obligated under the HDBA to make stated, unequal annual payments between 2019 and 2056 to Newfoundland and Labrador totaling \$3.3 billion. The total payments of \$3.3 billion include the provincial income and capital taxes (provincial taxes) in respect of those years payable by Canada Hibernia Holding Corporation (CHHC) to Newfoundland and Labrador. The Government indirectly owns all of the issued and outstanding shares of CHHC through the Canada Development Investment Corporation (CDEV), a wholly-owned federal Crown corporation.

The Department's obligation under the HDBA is to pay Newfoundland and Labrador each year the stated annual payment less the provincial taxes payable by CHHC in respect of that year (Department of Finance obligation).

Newfoundland and Labrador's obligation

The province of Newfoundland and Labrador is obligated under the HDBA to pay the Government of Canada eight fixed annual payments of \$100 million each, starting in 2045 and ending in 2052 (provincial obligation). At the Government's discretion, the payments may be made by way of set-off against (i) taxes payable to Newfoundland and Labrador under tax collection agreements; or (ii) the Department of Finance obligation otherwise payable.

Compliance with authorities

In order to make the scheduled payments to the province of Newfoundland and Labrador, a Specified Purpose Account (SPA) was established pursuant to subsection 21(1) of the *Financial Administration Act*. This subsection explains that money that is received and is to be disbursed for a special purpose pursuant to a contract or undertaking, may be paid out of the CRF for that purpose. As monies received were in accordance with this agreement, and made for the special purpose of satisfying the obligation to the Province, this statutory appropriation authorized the Government to make payments out of the CRF.

To facilitate this, the Department deposited dividends it received from CDEV into the SPA and then disbursed these amounts in payment of its obligation to Newfoundland and Labrador.

Amounts recognized in the financial statements

The long-term annuity liability as at March 31 is presented in the following table.

(in thousands of dollars)	2020	2019
Department of Finance obligation	2,261,464	-
Provincial obligation	(449,315)	-
Total long-term annuity liability	1,812,149	-

In the *Statement of Operations and Departmental Net Financial Position*, an expense of \$2,345.2 million and revenue of \$441 million were recognized upon initial recognition of the annuity, representing the initial values of the Department of Finance and provincial obligations, respectively. Interest expense of \$32.1 million (2019 – nil) was recognized in the *Statement of Operations and Departmental Net Financial Position*.

Contractual payments

The estimated contractual payments to be made (received) by the Department under the long-term annuity arrangement are presented in the following table.

(in thousands of dollars)	Department of Finance obligation	Provincial obligation	Net
2021	94,386	-	94,386
2022	94,752	-	94,752
2023	83,145	-	83,145
2024	136,534	-	136,534
2025	174,797	-	174,797
2026 to 2056	2,228,737	(800,000)	1,428,737
Total estimated payments under the long-term annuity liability	2,812,351	(800,000)	2,012,351

13. Employee future benefits

a) Pension benefits

The Department's employees participate in the public service pension plan (the "Plan"), a defined benefit pension plan sponsored and administered by the Government. Pension benefits accrue up to a maximum period of 35 years at a rate of 2 percent per year of pensionable service, times the average of the best five consecutive years of earnings. Benefits under the Plan are integrated with Canada/Québec Pension Plan benefits and are indexed to inflation. The Department's financial obligations with regard to the Plan is limited to its contributions.

Employees and the Department both make contributions to the Plan. Employees who were existing Plan members as at December 31, 2012 (Group 1 employees) are subject to different *Public Service Superannuation Act* rules and contribution rates (employee and employer rates) than those who became Plan members on or after January 1, 2013 (Group 2 employees).

The expense related to the Plan was \$8.9 million (2019 - \$8.1 million). For Group 1 members, the expense represents approximately 1.01 times the employee contributions (2019 - 1.01) and, for Group 2 members, approximately 1.00 times the employee contributions (2019 - 1.00 times).

b) Severance benefits

Severance benefits provided to the Department's employees were previously based on an employee's eligibility, years of service and salary upon termination of employment. However, since 2011 the accumulation of severance benefits for voluntary departures progressively ceased for substantially all employees. Employees subject to these changes were given the option to be paid the full or partial value of benefits earned or to collect the full or remaining value of benefits upon departure from the public service. All settlements for immediate cash-out are complete. Severance benefits are unfunded and, consequently, the outstanding obligation will be paid from future authorities.

The changes in the obligation for severance benefits during the year were as follows:

(in thousands of dollars)	2020	2019
Accrued severance benefits obligation, beginning of year	4,074	4,372
Expense recognized	402	120
Benefits paid	(299)	(418)
Accrued severance benefits obligation, end of year	4,177	4,074

14. Liabilities owed and financial assets held on behalf of Government

a) Liabilities owed on behalf of Government

Notes payable to international organizations are used in lieu of cash to fund investments made in those entities. Since the investments are considered to be financial assets held on behalf of Government, the notes payable funding those investments are considered to be liabilities owed on behalf of the Government.

b) Financial assets held on behalf of Government

Financial assets held on behalf of Government include amounts related to non-respendable revenues, such as accounts receivable, as well as other loans receivable and investments and capital share subscriptions which, if repaid, could not be used to discharge other liabilities.

The liabilities owed and financial assets held on behalf of Government as at March 31 are presented in the following table.

(in thousands of dollars)	2020	2019
Liabilities owed on behalf of Government		
Notes payable to international organizations	150,375	195,955
Total liabilities owed on behalf of Government	150,375	195,955
Financial assets held on behalf of Government		
Cash awaiting deposit to the Consolidated Revenue Fund	4	-
Accounts receivable	190,247	282,784
Foreign exchange accounts	2,283,254	1,482,023
Other loans receivable	1,019,110	1,060,162
Investments and capital share subscriptions	316,937	559,738
Total financial assets held on behalf of Government	3,809,552	3,384,707

15. Cash held as collateral

Cash held as collateral is cash deposited by the Government as credit support under collateral agreements with financial institutions. Interest is received on the balance.

As at March 31, 2020 the Department had pledged total collateral of \$9,974.6 million (2019 - \$7,162.7 million) in the form of cash.

16. Accounts receivable

Accounts receivable as at March 31 are presented in the following table.

(in thousands of dollars)	2020	2019
Accrued interest income – loans to Crown corporations	129,119	114,670
Accrued investment income	55,108	69,948
Receivables		
Other Government departments and agencies	5,002	7,229
External parties	1,018	90,937
Total accounts receivable	190,247	282,784

17. Foreign exchange accounts

The foreign exchange accounts represent the largest component of the official international reserves of the Government and consist of the following as at March 31:

(in thousands of dollars)	2020	2019
Carrying value		
Exchange Fund Account		
Investments held in the Exchange Fund Account	109,733,274	105,717,595
Accrued net revenue from the Exchange Fund Account	2,283,254	1,482,023
Total investments held in Exchange Fund Account (a)	112,016,528	107,199,618
Subscriptions to the International Monetary Fund (b)	21,178,014	20,449,334
Loans receivable from the International Monetary Fund (c)	368,467	545,741
Notes payable to the International Monetary Fund (d)	(17,156,602)	(17,398,419)
Special drawing rights allocations (e)	(11,503,701)	(11,107,889)
Total foreign exchange accounts, carrying value	104,902,706	99,688,385
Foreign exchange accounts, fair value	109,756,178	100,406,767

a) Investments held in Exchange Fund Account

Investments held in the Exchange Fund Account consist of cash advanced from the Government to the Exchange Fund Account, in Canadian dollars and other currencies, foreign currencies and securities, and SDRs. The Exchange Fund Account is operated pursuant to Section 17 of the *Currency Act*. Total advances are limited to US\$150 billion.

The following table details the international reserves held in and advances to the Exchange Fund Account as at March 31:

(in thousands of dollars)	2020	2019
US dollar cash on deposit	6,014,491	4,903,701
US dollar short-term deposits	-	267,758
US dollar marketable securities	62,635,736	59,233,774
Euro cash on deposit	487,693	249,944
Euro marketable securities	17,538,137	17,646,194
British pound sterling cash on deposit	167,549	450,150
British pound sterling marketable securities	8,044,849	9,774,947
Japanese yen cash on deposit	14,194	5,764
Japanese yen marketable securities	5,266,018	3,678,359
Special drawing rights (e)	11,847,861	10,989,027
Total investments held in Exchange Fund Account	112,016,528	107,199,618

b) Subscriptions to the International Monetary Fund

Subscriptions to the International Monetary Fund consist of Canada's subscription ("quota") to the capital of the IMF, an international organization of 189 member countries that operates in accordance with its Articles of Agreement.

The amount by which the sum of Canada's subscriptions plus loans to the IMF under special facilities exceeds the IMF's holdings of Canadian dollars represents the amount of foreign exchange which Canada is entitled to draw from the IMF on demand for balance of payments purposes. The subscription is expressed in terms of SDR, a unit of account defined in terms of a "basket" of the following five major currencies: the US dollar, euro, Japanese yen, British pound sterling and Chinese renminbi.

Canada has accumulated its subscriptions through settlements to the IMF in Canadian dollars, gold and SDRs. Annual maintenance of value payments are made to, or received from, the IMF when the Canadian dollar depreciates or appreciates against the SDR, in order to maintain the SDR-value of the IMF's holdings of Canadian dollars.

The net increase in subscriptions to the International Monetary Fund during 2020 of \$728.7 million (2019 - net decrease of \$197.3 million) was due to foreign exchange revaluation.

c) Loans receivable from the International Monetary Fund

Loans receivable from the International Monetary Fund consist of interest-bearing loans made under Canada's multilateral and bilateral lending arrangements with the IMF. The purpose of these arrangements is to provide temporary resources to the IMF, which works to promote economic growth and safeguard the stability of the international monetary system.

There are two outstanding lending arrangements with the IMF outside of the quota system: the New Arrangements to Borrow (NAB) and the temporary bilateral borrowing agreement.

Canada's current participation in the NAB is governed by the November 2012 NAB Decision which incorporated technical amendments made as a result of the IMF's 14th General Review of Quotas. The maximum lending by Canada to the IMF under this arrangement is SDR 3,873.7 million. As at March 31, 2020, SDR 191.8 million or \$368.5 million (2019 - SDR 294.2 million or \$545.7 million) in lending has been provided by Canada to the IMF under the NAB. Canada's participation in the NAB was renewed through November 2022.

In early 2017, Canada extended a temporary bilateral credit line to the IMF in the amount of SDR 8,200 million for a maximum period of four years as part of a collective effort with 34 other nations to foster global economic and financial stability. As at March 31, 2020, no lending (2019 - nil) had been provided to the IMF under the bilateral credit line.

Collectively, the outstanding loans under multilateral and bilateral arrangements with the IMF cannot exceed SDR 13,000 million or any other amount that may be fixed by the Governor in Council at any given time. Commitments under the NAB and bilateral borrowing agreement fall within this limit.

Amounts advanced under these arrangements are considered part of the Official International Reserves of Canada.

d) Notes payable to the International Monetary Fund

Notes payable to the International Monetary Fund are non-marketable, non-interest bearing notes issued by the Government to the IMF. These notes are payable on demand and are subject to redemption or re-issue, depending on the needs of the IMF for Canadian currency.

Canadian dollar holdings of the IMF include these notes and a small working balance (initially equal to one-quarter of one percent of Canada's subscription) held on deposit at the Bank of Canada.

Notes payable to the IMF decreased overall by \$241.8 million (2019 - net decrease of \$1,300.8 million) due to \$681.7 million in net repayments (2019 - \$1,123.8 million), partially offset by an increase of \$439.9 million due to foreign exchange revaluation (2019 - decrease of \$177.0 million due to foreign exchange revaluation).

e) Special drawing rights allocations

Special drawing rights allocations represent the SDRs allocated to Canada by the IMF. They represent a liability of Canada as circumstances could arise whereby Canada could be called upon to repay these allocations, in part or in total. The SDR is an international currency created by the IMF, and allocated to countries participating in its Special Drawing Rights Department.

As an asset, SDRs represent rights to purchase currencies of other countries participating in the IMF's Special Drawing Rights Department, as well as to make payments to the IMF itself. All SDRs allocated to Canada by the IMF have either been used to settle subscriptions in the IMF, or have been advanced to the Exchange Fund Account.

There was no allocation of SDRs by the IMF to Canada during the year (2019 – nil). The net increase in SDR allocations during 2020 of \$395.8 million (2019 – net decrease of \$107.2 million) was due to foreign exchange revaluation.

18. Loans to Crown corporations

Loans to Crown corporations as at March 31 are presented in the following table.

(in thousands of dollars)	Face value	Unamortized (discounts) / premiums	Carrying value 2020	Carrying value 2019
Carrying value				
Farm Credit Canada	32,653,500	(11,817)	32,641,683	29,846,489
Business Development Bank of Canada	23,405,000	-	23,405,000	22,235,000
Canada Mortgage and Housing Corporation	12,848,437	(271)	12,848,166	6,310,124
Total loans to Crown corporations, carrying value	68,906,937	(12,088)	68,894,849	58,391,613
Total loans to Crown corporations, fair value			69,963,535	58,642,003

Contractual maturities of outstanding loans to Crown corporations, at face value, are as follows:

(in thousands of dollars)	Farm Credit Canada	Business Development Bank of Canada	Canada Mortgage and Housing Corporation	Total
2021	9,394,000	19,350,000	2,084,855	30,828,855
2022	8,670,500	270,000	856,691	9,797,191
2023	4,354,000	650,000	544,923	5,548,923
2024	2,684,500	735,000	551,696	3,971,196
2025	3,351,500	1,375,000	448,792	5,175,292
2026 and thereafter	4,199,000	1,025,000	8,361,480	13,585,480
Total loans to Crown corporations	32,653,500	23,405,000	12,848,437	68,906,937

The average effective annual interest rates for the loans outstanding as at March 31, 2020 are as follows:

	Farm Credit Canada	Business Development Bank of Canada	Canada Mortgage and Housing Corporation	Total
	%	%	%	%
Fixed interest rates				
Short-term	1.44	-	0.65	1.27
Long-term	1.58	1.67	1.77	1.67
Floating interest rates				
Short-term	0.68	0.64	-	0.64
Long-term	0.56	-	-	0.56

19. Other loans receivable

Other loans receivable as at March 31 are presented in the following table.

(in thousands of dollars)	Face value	Unamortized discounts / valuation allowances	Carrying value 2020	Carrying value 2019
Government business enterprises				
Canada Lands Company CLC Limited (a)	388,870	(7,218)	381,652	393,819
Downsview Park Inc. (b)	43,000	(15,502)	27,498	32,309
Total government business enterprises	431,870	(22,720)	409,150	426,128
Provincial and territorial governments				
Federal-provincial fiscal arrangements (c)	376,693	(33,459)	343,234	403,436
Municipal Development and Loan Board (d)	315	-	315	315
Winter Capital Projects Fund (e)	2,900	(2,900)	-	-
Total provincial and territorial governments	379,908	(36,359)	343,549	403,751
International and other organizations				
International Monetary Fund – Poverty Reduction and Growth Trust (f)	685,561	(10,000)	675,561	258,215
Global Environment Facility (g)	10,000	(10,000)	-	-
Canadian Commercial Bank (h)	42,202	(42,202)	-	-
Total international and other organizations	737,763	(62,202)	675,561	258,215
National governments				
Ukraine (i)	-	-	-	398,197
Total national governments	-	-	-	398,197
Total other loans receivable	1,549,541	(121,281)	1,428,260	1,486,291

The currencies in which other loans receivable are denominated and the Canadian dollar equivalent are presented in the following table.

(in thousands of stated currency)	Face value, currency of denomination	Face value, CAD	Exchange rate	Proportion
Currency of denomination				
CAD	863,980	863,980	n.a.	56%
SDR	356,859	685,561	1.9211	44%
		1,549,541		100%

Government business enterprises

Canada Lands Company Limited (CLCL) is a self-financing federal Crown corporation incorporated under the *Canada Business Corporations Act*. CLCL's objectives are to ensure the commercially oriented, orderly disposition of selected surplus federal real properties with optimal value to the Canadian taxpayer, and the holding of certain properties. The Canada Lands Company CLC Limited (CLC) and Downsview Park Inc. are two of CLCL's wholly-owned subsidiaries.

a) Canada Lands Company CLC Limited (CLC)

CLC has acquired an interest in a number of real properties from the Government in consideration for the issuance of promissory notes, which bear no interest and are repayable from the proceeds of the sale of the properties in respect of which they were issued. The notes are recorded at their discounted value using the Government's cost of borrowing at the time of issuance.

New promissory notes of \$1.8 million were issued during the year (2019 - nil). Repayments of \$18.9 million were received during the year (2019 - \$13.5 million). Discount amortization of \$5.0 million (2019 - \$5.0 million) was recognized in income.

b) Downsview Park Inc.

Downsview Park Inc. owns a unique urban recreational green space located in Toronto, ON. The loan receivable from Downsview Park Inc. is a non-interest bearing promissory note repayable in full on July 31, 2050. The note is recorded at its discounted value using the Government's cost of borrowing at the time of issuance.

No new promissory notes were issued during the year (2019 - nil). Repayments of \$5 million were received during the year (2019 - nil). Discount amortization of \$0.2 million was recognized in income (2019 - \$0.2 million).

Provincial and territorial governments

c) Federal-Provincial fiscal arrangements

These amounts represent net overpayments in respect of transfer payments to provinces under the *Constitutions Acts 1867 to 1982*, the *Federal-Provincial Arrangements Act*, and other statutory authorities. The overpayments are non-interest bearing and will be repaid by reducing transfer payments in subsequent years.

d) Municipal Development and Loan Board

Loans have been made to provinces and municipalities to augment or accelerate municipal capital works programs. The loans bear interest at rates from 5.25 to 5.375 percent per annum and are repayable in annual or semi-annual installments over 15 to 50 years.

e) Winter Capital Projects Fund

Loans have been made to provinces, provincial agencies and municipalities to assist in the creation of employment. The loans bear interest at rates from 7.4 to 9.5 percent per annum and are repayable either in annual installments over 5 to 20 years, or at maturity.

International and other organizations

f) International Monetary Fund - Poverty Reduction and Growth Trust

Canada has made loans to the IMF's Poverty Reduction and Growth Trust in order to provide assistance to qualifying low-income countries as authorized by the *Bretton Woods and Related Agreements Act* and various appropriation acts.

The total revolving loan authority pursuant to the *Bretton Woods and Related Agreements Act* was set at \$550 million or such greater amount as may be fixed by the Governor in Council. The current limit set by the Governor in Council is SDR 1 billion.

As at March 31, 2020, Canada has lent a total of SDR 1,082.7 million or \$2,080.0 million (2019 - SDR 864.6 million or \$1,603.7 million) to the Poverty Reduction and Growth Trust. Of this amount, SDR 725.9 million or \$1,394.6 million (2019 - SDR 720 million or \$1,335.5 million) has been repaid.

The outstanding balance of SDR 356.9 million or \$685.6 million (2019 - SDR 144.6 million or \$268.2 million) was translated into Canadian dollars at the year-end closing rate of exchange of \$1.9211 per SDR (2019 - \$1.855 per SDR). During the year, transactions included repayments and an exchange valuation adjustment.

Separately, Canada has also made budgetary contributions towards an interest subsidy amounting to \$413.3 million (2019 - \$399.1 million).

g) Global Environment Facility (GEF)

Canada has provided funding for developing countries in the areas of ozone, climate change biodiversity and international waters as authorized by the *Bretton Woods and Related Agreements Act* and various appropriation acts. Advances to the GEF are made in non-negotiable, non-interest bearing demand notes that are later encashed.

h) Canadian Commercial Bank (CCB)

Canada has provided financial assistance in respect of the CCB as authorized by the *Canadian Commercial Bank Financial Assistance Act*. The amounts reported as other loans receivable represent the Government's participation in the loan portfolio that was acquired from the CCB and the purchase of outstanding debentures from existing holders.

National governments

i) Ukraine

Pursuant to section 8.3(1) of the *Bretton Woods and Related Agreements Act*, the Minister of Finance, by order of the Governor in Council, is authorized to extend certain forms of financial assistance to a foreign state. The provision of such financial assistance is contingent upon that state having an arrangement with the IMF and upon the satisfactory participation of other countries with Canada in the provision of financial assistance.

Funding for such transactions is provided by the Minister of Finance out of the CRF. The maximum amount of financial assistance that can be provided under legislation is US\$2.5 billion in respect of any particular foreign state and US\$5 billion in respect of all foreign states.

The loan to Ukraine was repaid in full during 2019-2020.

20. Investments and capital share subscriptions

Investments and capital share subscriptions as at March 31 are presented in the following table.

(in thousands of dollars)	Face value	Valuation allowances	Carrying value 2020	Carrying value 2019
International Development Association	12,939,018	(12,939,018)	-	-
European Bank for Reconstruction and Development	278,549	(278,549)	-	-
International Bank for Reconstruction and Development	805,062	(805,062)	-	-
International Finance Corporation	104,801	(104,801)	-	-
International Finance Corporation – Catalyst Fund	75,000	-	75,000	75,000
Multilateral Investment Guarantee Agency	13,827	(13,827)	-	-
Asian Infrastructure Investment Bank	257,200	(257,200)	-	-
Other investments	241,937	-	241,937	484,738
Total investments and capital share subscriptions	14,715,394	(14,398,457)	316,937	559,738

Certain of Canada's capital share subscriptions have both a paid-in portion and a portion which is callable. Only if certain circumstances arise in the future, such as the inability of the investee to otherwise meet its financial obligations, would the Department be obligated to pay for some or all of the callable share capital. Details of the paid-in and callable portions of investments and capital share subscriptions, where applicable, are provided in the following table.

(in thousands of stated currency)	2020			2019		
	Paid-in	Callable	Total	Paid-in	Callable	Total
International Development Association	CAD 12,939,018	-	12,939,018	12,497,398	-	12,497,398
European Bank for Reconstruction and Development	EUR 212,850	807,640	1,020,490	212,850	807,640	1,020,490
International Bank for Reconstruction and Development ¹	USD 604,197	7,879,841	8,499,339	604,197	7,878,737	8,499,339
	CAD 16,404	-	16,404	16,404	-	16,404
International Finance Corporation	USD 81,342	-	81,342	81,342	-	81,342
Multilateral Investment Guarantee Agency	USD 10,732	45,802	56,534	10,732	45,802	56,534
Asian Infrastructure Investment Bank	USD 199,100	796,300	995,400	199,100	796,300	995,400

¹ The subscription to the capital shares of the International Bank for Reconstruction and Development is denominated in US dollars. The Department has paid-in capital using both US and Canadian dollars.

International Development Association (IDA)

Canada's contributions and subscriptions to the IDA (part of the World Bank Group) are authorized by the *Bretton Woods and Related Agreements Act* and various appropriation acts. The contributions and subscriptions to the IDA are used to lend funds to the poorest developing countries for development purposes on highly favourable terms (very low interest, with a 25 to 40 year maturity and 5 to 10 years of grace).

European Bank for Reconstruction and Development (EBRD)

Canada's subscription to the capital of the EBRD is authorized by the *European Bank for Reconstruction and Development Agreement Act* and various appropriation acts. The EBRD provides financing for well-structured and financially robust projects of all sizes, with the objective of making economies more competitive, well governed, green, inclusive, resilient and integrated. Each payment to the EBRD is comprised of cash and a promissory note. As at March 31, 2020, Canada has made total cumulative cash contributions into the paid-in capital of the EBRD of US\$216.2 million (2019 - US\$216.2 million).

International Bank for Reconstruction and Development (IBRD)

Canada's subscription to the capital of the IBRD (part of the World Bank Group) is authorized by the *Bretton Woods and Related Agreements Act* and various appropriation acts. The IBRD provides loans, guarantees, risk management products and advisory services to middle-income and creditworthy low-income countries, and also coordinates responses to regional and global challenges.

International Finance Corporation (IFC)

Canada's subscription to the capital of the IFC (part of the World Bank Group) is authorized by the *Bretton Woods and Related Agreements Act* and various appropriation acts. The IFC works to further economic development by encouraging the growth of productive private enterprise, particularly in less developed areas.

International Finance Corporation - Catalyst Fund

Canada has provided financing for the IFC's Catalyst Fund, as authorized by the *Bretton Woods and Related Agreements Act* and various appropriation acts. The Catalyst Fund supports private sector engagement in climate change mitigation and adaptation activities through the provision of concessional and commercial financing arrangements.

Multilateral Investment Guarantee Agency (MIGA)

Canada's subscription to the capital of the MIGA (part of the World Bank Group) is authorized by the *Bretton Woods and Related Agreements Act* and various appropriation acts. The MIGA provides political risk insurance and credit enhancement for projects in developing countries covering all regions of the world.

Asian Infrastructure Investment Bank (AIIB)

Canada is a member of the AIIB pursuant to the *Asian Infrastructure Investment Bank Agreement Act*. The AIIB invests in infrastructure and other productive sectors in Asia and promotes regional cooperation in addressing development challenges. Canada will contribute the paid-in capital in five equal annual installments.

Other investments

Following the dissolution of PPP Canada Inc. in 2018, the Department assumed the investments held by PPP Canada Inc. pursuant to Order in Council P.C. 2017-1329. These investments included guaranteed investment certificates maturing in 2021. The investments earn interest at rates from 1.65% per cent to 2.06% per cent per annum.

21. Fair value of financial instruments

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are management's estimates and are generally calculated using market conditions as at a specific point in time, where a market exists. The determination of fair value is subjective and inherently involves uncertainties due to the unpredictability of future events and conditions. Fair values may not reflect future market conditions nor the actual values obtainable should the instrument be exchanged in the market. For instruments with a short term to maturity or of a non-negotiable nature, fair values are assumed to approximate carrying values.

The following table presents the carrying value and the fair value of certain financial instruments.

(in thousands of dollars)	2020		2019	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Foreign exchange accounts	104,902,706	109,756,178	99,688,385	100,406,767
Loans to Crown corporations	68,894,849	69,963,535	58,391,613	58,642,003
Liabilities				
Foreign exchange forward contracts (net) ¹	16,993	21,057	(17,764)	(11,407)
Total domestic and foreign debt	767,332,064	822,896,530	722,883,898	756,907,539
Cross-currency swaps (net) ²	10,592,218	10,876,580	7,273,489	7,032,892

¹ The carrying value of foreign exchange forward contracts (net) is presented net in accounts payable and accrued liabilities.

² The carrying value of cross-currency swaps (net) is presented in unmatured debt.

Fair value of foreign exchange forward contracts (net) and cross-currency swaps (net)

The fair values of the foreign exchange forward contracts and cross-currency swaps represent the estimated amounts that the Government would receive or pay if the contracts were terminated on March 31, based on market factors as at that date. The fair values are established by discounting the expected future cash flows of the forward contracts and swaps, calculated from the contractual or notional amounts and year-end market interest and exchange rates. A positive (negative) fair value indicates that the Government would receive (make) a payment if the agreements were terminated on March 31.

22. Financial risk

a) Credit risk related to cross-currency swap and foreign exchange forward contracts

The Department manages its exposure to credit risk by dealing principally with financial institutions having acceptable credit ratings. Credit risk is also managed through collateral provisions in cross-currency swap and foreign exchange forward contracts. The Government participates in a two-way collateral program in accordance with Credit Support Annex (CSA) agreements for its cross-currency swap portfolio. Under the CSA agreements, the Department and the counterparty are required to provide collateral, either in the form of securities or cash (CAD or USD), based on the terms and conditions of the agreements, such as when the fair value of a contract exceeds a minimum threshold. The collateral pledged to the Government could be liquidated to mitigate credit losses in the event of a counterparty default.

Collateral pledged by the Government and by counterparties under two-way CSA agreements as at March 31, 2020 is presented in the following table.

(in thousands of dollars)	Nominal amount		Fair value	
	Posted by Government of Canada	Posted by Counterparties	Posted by Government of Canada	Posted by Counterparties
Cash	9,974,647	151,955	9,974,647	151,955
Securities	-	2,384,169	-	2,776,345
Total	9,974,647	2,536,124	9,974,647	2,928,300

The Department does not have a significant concentration of credit risk with any individual institution and does not anticipate any counterparty credit loss with respect to its cross-currency swap and foreign exchange forward contracts.

The following table presents the notional principal amounts of the swap and foreign exchange forward contracts organized by credit ratings based on published Standard & Poor's credit ratings and stand-alone credit profiles at year-end. Swap notional amounts are stated in terms of the foreign payable-leg notional amounts outstanding, translated into Canadian dollars as at March 31.

(in thousands of dollars)	2020	2019
A+	29,462,615	28,049,569
A	40,880,883	37,966,473
A-	21,677,627	19,193,404
Total notional amounts of swap and foreign exchange forward contracts	92,021,125	85,209,446

b) Managing foreign currency and interest rate risk and sensitivity analysis to foreign currency exposures

Foreign currency and interest rate risks are managed using a strategy of matching the currency and the duration of the Exchange Fund Account assets and the related foreign currency borrowings of the Government. As at March 31, 2020, the impact of price changes affecting the Exchange Fund Account assets and the liabilities funding the assets naturally offset each other, resulting in no significant impacts to the Government's net debt. Assets related to the IMF are only partially matched by related foreign currency borrowings, as the assets are denominated in SDR; however, foreign exchange risks relating to loans to the IMF have been mitigated by entering into various foreign exchange forward contracts.

The majority of the Exchange Fund Account foreign currency assets and liabilities are held in four currency portfolios: US dollar, euro, British pound sterling, and Japanese yen. As at March 31, 2020, a one percent appreciation in the Canadian dollar as compared to the US dollar, euro, British pound sterling and the Japanese yen would result in a foreign exchange gain of \$1.9 million for the US dollar portfolio (2019 - no significant exposure), a foreign exchange gain of \$3.0 million for the euro portfolio (2019 - \$1.7 million loss), a foreign exchange gain of \$1 million for the Japanese yen portfolio (2019 - no significant exposure) and a foreign exchange loss of \$1.6 million for the British pound sterling portfolio (2019 - no significant exposure).

23. Tangible capital assets

The change in tangible capital assets during 2020 is presented in the following table.

(in thousands of dollars)	Informatics equipment	Informatics software	Leasehold improvements	Machinery and equipment	Motor vehicles	Total
Cost						
Balance, March 31, 2019	3,634	63	11,516	2,747	55	18,015
Acquisitions	-	-	-	-	35	35
Adjustments	-	-	-	-	-	-
Disposals and write-offs	-	-	-	-	-	-
Balance, March 31, 2020	3,634	63	11,516	2,747	90	18,050
Accumulated amortization						
Balance, March 31, 2019	2,596	50	2,149	1,332	55	6,182
Amortization	310	6	461	273	-	1,050
Adjustments	-	-	-	-	-	-
Disposals and write-offs	-	-	-	-	-	-
Balance, March 31, 2020	2,906	56	2,610	1,605	55	7,232
Net book value						
Balance, March 31, 2019	1,038	13	9,367	1,415	-	11,833
Net change	(310)	(6)	(461)	(273)	35	(1,015)
Balance, March 31, 2020	728	7	8,906	1,142	35	10,818

24. Contractual obligations

Contractual obligations are financial obligations of the Government to others that will become liabilities when the terms of the related contracts or agreements for the acquisition of goods and services or the provision of transfer payments are met.

The expected payments to be made under the Department's significant contractual obligations that can be reasonably estimated are summarized by the year of payment as follows:

(in thousands of dollars)	2021	2022	2023	2024	2025	2026 and thereafter	Total
Transfer payments							
International Development Association	34,090	32,530	32,200	31,150	30,680	743,100	903,750
African Development Fund	3,805	20,602	21,224	22,412	22,597	374,303	464,943
Total contractual obligations	37,895	53,132	53,424	53,562	53,277	1,117,403	1,368,693

25. Contingent liabilities

Contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. They are grouped into two categories as follows:

a) Callable share capital

The Department has subscribed to callable share capital in certain international organizations. In the event of the capital being called, the likelihood of which is low, payments to these organizations would be required.

Callable share capital as at March 31 is presented in the following table.

(in thousands of dollars)	2020	2019
International Bank for Reconstruction and Development	11,091,665	10,529,044
European Bank for Reconstruction and Development	1,253,619	1,210,572
Asian Infrastructure Investment Bank	1,120,872	1,064,016
Multilateral Investment Guarantee Agency	64,471	61,201
Total callable share capital	13,530,627	12,864,833

b) Loan guarantees

Mortgage or Hypothecary Protection Insurance

The *Protection of Residential Mortgage or Hypothecary Insurance Act* (PRMHIA), which came into force on January 1, 2013, authorizes the Minister of Finance to provide protection in respect of certain mortgage or hypothecary insurance contracts written by approved mortgage insurers. As at March 31, 2020 there are two approved mortgage insurers under the PRMHIA: Genworth Financial Mortgage Insurance Company Canada and Canada Guaranty Mortgage Insurance Company.

Under the PRMHIA, payments in respect of the guarantee would only be required if a winding-up order were made in respect of an approved mortgage insurer. Where this is the case, the Minister would honour lender claims for insured mortgages in default, subject to: (a) any proceeds the beneficiary has received from the underlying property or the insurer's liquidation, and (b) a deductible of 10 percent of the original principal amount of the insured mortgage.

As at March 31, 2020, the aggregate outstanding principal amount of loans that are guaranteed under the PRMHIA is estimated at \$270.8 billion (2019 - \$273.7 billion). Any payment made by the Minister is subject to a deductible equal to 10 percent of the original principal amount of these loans, or \$32.2 billion (2019 - \$32.1 billion). The principal amount outstanding does not refer to the Department's anticipated losses or payments in respect of the guarantee. No provision has been made in these accounts for payments under the guarantee.

International Bank for Reconstruction and Development (IBRD)

In 2017, pursuant to section 8.3(1) of the *Bretton Woods and Related Agreements Act*, the Minister of Finance, by order of the Governor in Council, authorized a partial loan guarantee in the amount of US\$118 million to the IBRD in respect of a US\$1,443.8 million loan entered into between the IBRD and the Republic of Iraq. Under this guarantee, the Department would make payment to the IBRD in the event that the Republic of Iraq is more than six months late in meeting a scheduled interest or principal payment to the IBRD. The Department would only be required to pay a pro-rata share of the loan repayment that is past due, up to the fixed aggregate amount of US\$118 million.

In the event that any portion of the guarantee is called, Canada would receive a claim from the IBRD against the Republic of Iraq and would have the option to pursue recovery. As at March 31, 2020, no losses are anticipated with respect to this guarantee and no provision has been made.

Coast Capital Savings Federal Credit Union (CCS)

Pursuant to section 39.02 of the *Bank Act*, the Minister of Finance has authorized a loan guarantee of \$1.5 billion for a line of credit extended by federal financial institutions to CCS. Each guaranteed drawdown under this line of credit must be approved by the Minister of Finance. The loan guarantee agreement expires on October 31, 2021.

Under this guarantee, if CCS defaults on the line of credit the Government would pay eligible outstanding principal, interest and other expenses. Following default, the Government has the option to pursue recovery under the Indemnity Agreement between CCS and the Government.

As at March 31, 2020, there are no approved drawdowns on the line of credit giving rise to a guarantee exposure and no provision for associated losses has been recognized.

26. Related party transactions

The Department is related as a result of common ownership to all Government departments, agencies, and Crown corporations. Related parties also include individuals who are members of key management personnel or close family members of those individuals, and entities controlled by, or under shared control of, a member of key management personnel or a close family member of that individual.

The Department enters into transactions with these entities in the normal course of business and on normal trade terms. The Department also receives common services without charge from other Government departments as disclosed below.

a) Common services received without charge from other Government departments

The services received without charge from other Government departments have been recorded as expenses in the *Statement of Operations and Departmental Net Financial Position* as follows:

(in thousands of dollars)	2020	2019
Accommodation	16,264	16,206
Employer's contribution to the health and dental insurance plans	8,249	7,343
Legal services	1,946	1,850
Total services received without charge	26,459	25,399

The Government has centralized some of its administrative activities for efficiency, cost-effectiveness and economic delivery of programs to the public. As a result, the Government uses central agencies and common service organizations so that one department performs services for all other departments and agencies without charge. The costs of these services, such as the payroll and cheque issuance services provided by Public Services and Procurement Canada (PSPC) and audit services provided by the Office of the Auditor General are not included in the *Statement of Operations and Departmental Net Financial Position*.

b) Other transactions with related parties

These amounts include expenses and revenues pertaining to liabilities owed and assets held on behalf of Government, interest expense on the superannuation and all other interest-bearing specified purpose accounts established by Government departments and agencies, and contributions to employee benefit plans.

(in thousands of dollars)	2020	2019
Expenses - other Government departments and agencies	5,875,657	6,211,341
Revenues - other Government departments and agencies	69	35

27. Segmented information

The Department's segments include its core responsibility of Economic and Fiscal Policy and the Internal Services functions which support that responsibility. Segmented information is based on the same accounting policies described in the summary of significant accounting policies (note 2). The following table presents expenses and revenues for segments by major object of expense and type of revenue.

(in thousands of dollars)	Economic and Fiscal Policy	Internal Services	2020 Total	2019 Total
Expenses				
Transfer payments				
Provinces and territories (a)	75,802,154	-	75,802,154	70,734,453
International organizations	487,897	-	487,897	998,765
Non-profit organizations	1,100	-	1,100	12,346
Total transfer payments	76,291,151	-	76,291,151	71,745,564
Interest and other costs				
Interest on unmaturing debt (b)	17,826,824	-	17,826,824	15,929,074
Interest on superannuation and other accounts (c)	5,951,869	-	5,951,869	6,306,704
Other interest and costs	10,166	-	10,166	8,094
Total interest and other costs	23,788,859	-	23,788,859	22,243,872
Operating expenses (d)	76,152	71,455	147,607	146,240
Cost of domestic coinage sold	84,795	-	84,795	89,820
Other expenses	1	8	9	9
Total expenses	100,240,958	71,463	100,312,421	94,225,505
Revenues				
Investment income				
Exchange Fund Account net revenues	2,283,254	-	2,283,254	1,482,023
Loans to Crown corporations - interest	1,010,739	-	1,010,739	843,300
Other interest	57,592	-	57,592	60,197
Total investment income	3,351,585	-	3,351,585	2,385,520
Interest on bank deposits	771,740	-	771,740	737,628
Sale of domestic coinage	115,183	-	115,183	130,445
Guarantee fees	117,540	-	117,540	101,362
Unclaimed cheques and other	89,206	2	89,208	74,949
Net foreign currency gain	148,397	(1)	148,396	173,372
Long-term annuity - initial recognition of provincial obligation	440,522	-	440,522	-
Revenues earned on behalf of Government	(5,034,173)	(1)	(5,034,174)	(3,603,276)
Total revenues	-	-	-	-
Net cost of operations	100,240,958	71,463	100,312,421	94,225,505

a) Transfer payments to provinces and territories

Transfer payments to provinces and territories are paid pursuant to the *Federal-Provincial Fiscal Relations Act*, *Budget Implementation Acts* and other statutory authorities. Transfer payments to provinces and territories are presented in the following table.

(in thousands of dollars)	2020	2019
Canada Health Transfer	40,871,762	38,567,524
Fiscal Equalization	19,850,108	19,147,460
Canada Social Transfer	14,585,672	14,160,847
Quebec Abatement	(5,811,066)	(5,046,284)
Territorial Financing	3,948,403	3,785,322
Long-term annuity liability		
Initial recognition of Department's obligation	2,345,168	-
Interest expense	32,132	-
Statutory Subsidies	42,644	42,484
Establishment of a Canadian Securities Regulation Regime and a Canadian Regulatory Authority	40,331	77,100
Refund of Prior Year Expenditures	(103,000)	-
Total transfer payments to provinces and territories	75,802,154	70,734,453

b) Interest on unmatured debt

Interest on unmatured debt includes interest incurred, amortization of debt discounts/premiums and net interest on cross-currency and interest rate swaps. Interest on unmatured debt by class of debt is presented in the following table.

(in thousands of dollars)	2020	2019
Interest on domestic debt		
Treasury bills	2,247,230	1,899,173
Marketable bonds	15,194,997	13,638,433
Retail debt	9,948	15,690
Total interest on domestic debt	17,452,175	15,553,296
Interest on foreign debt		
Canada bills	55,690	58,819
Marketable bonds	282,653	267,330
Medium term notes	36,306	49,629
Total interest on foreign debt	374,649	375,778
Total interest on unmatured debt	17,826,824	15,929,074

c) Interest on superannuation and other accounts

The Department funds interest on all interest-bearing specified purpose accounts established by Government departments and agencies, including superannuation accounts and retirement compensation arrangement accounts established for the benefit of public service employees and members of the Royal Canadian Mounted Police and the Canadian Forces, the Canada Pension Plan Account, and other accounts.

Interest on superannuation and other accounts is presented in the following table.

(in thousands of dollars)	2020	2019
Superannuation accounts	5,590,376	5,911,468
Other specified purpose accounts	173,173	186,556
Retirement compensation arrangement accounts	88,769	93,140
Special drawing rights allocations	94,079	110,957
Canada Pension Plan Account	5,472	4,583
Total interest on superannuation and other accounts	5,951,869	6,306,704

d) Operating expenses

The following table presents details of operating expenses by category.

(in thousands of dollars)	2020	2019
Salaries and wages	98,020	93,649
Professional and special services	12,535	13,162
Accommodation	16,264	16,206
Contributions to employee benefit plans	12,795	11,557
Transportation and telecommunications	2,688	3,669
Information services	1,372	2,276
Amortization of tangible capital assets	1,050	1,313
Machinery and equipment	1,110	1,923
Rentals	1,342	2,099
Repairs and maintenance	452	423
Leasehold improvements	2	-
Other subsidies and payments	(23)	(37)
Total operating expenses	147,607	146,240

28. Revenues earned on behalf of Government

Revenues earned on behalf of Government represent revenues which the Department cannot re-spend to fund other departmental activities.

The following table presents details of revenues earned on behalf of Government:

(in thousands of dollars)	2020	2019
Exchange Fund Account - net revenues	2,283,254	1,482,023
Loans to Crown corporations - interest	1,010,739	843,300
Other interest	57,592	60,197
Interest on bank deposits	771,740	737,628
Sale of domestic coinage	115,183	130,445
Guarantee fees	117,540	101,362
Unclaimed cheques and other	89,208	74,949
Net foreign currency gain	148,396	173,372
Long-term annuity - initial recognition of provincial obligation	440,522	-
Total revenues earned on behalf of Government	5,034,174	3,603,276

29. Comparative information

Comparative figures have been reclassified where necessary to conform to the current year's presentation.

30. Subsequent events

The novel coronavirus (COVID-19) pandemic has resulted in governments worldwide taking unprecedented steps to combat the spread of the virus. The Government of Canada continues to implement comprehensive measures to address the public health and safety and, under the COVID-19 Economic Response Plan, the economic aspects of the pandemic. Certain aspects of the Plan were in effect prior to March 31, 2020, while others have or will become effective in the 2020-21 fiscal year.

The financial impact of the majority of the measures affecting the Department of Finance will start to be reflected in the Department's financial results for the 2020-21 fiscal year. As the ultimate duration and impact of the COVID-19 pandemic is unknown at this time, it is not possible to reliably estimate the length and severity of the impact on the Department's financial position and financial results in future periods.

Under the COVID-19 Economic Response Plan, the Government of Canada is making investments to stabilize the economic consequences of the pandemic. The Plan measures that most affect the Department include:

- provinces and territories received \$500 million in transfer payments from the Department in March 2020 for critical health care system needs and mitigation efforts. Increased transfer payments for other aspects of the Plan are expected to flow through the Department in the 2020-21 fiscal year;
- up to \$150 billion of *National Housing Act* Mortgage Backed Securities will be purchased by the Canada Mortgage and Housing Corporation (CMHC) to support liquidity and access to credit in the Canadian financial system. The Department funds CMHC for these purchases and as such there will be a corresponding increase in loans to Crown corporations. As at March 31, 2020, \$5.0 billion (July 31, 2020 - \$5.8 billion) had been loaned to CMHC under this program;
- the Bank of Canada has established the following programs to support liquidity and the proper functioning of Canadian debt markets: the Government of Canada Bond Purchase Program, Provincial Bond Purchase Program, Corporate Bond Purchase Program, Provincial Money Market Purchase Program and the Commercial Paper Purchase Program.

The Government of Canada, through the Department, will indemnify the Bank of Canada for any losses it may suffer on the sale or other disposition of the securities purchased under these programs. Moreover, any realized gains from the Government of Canada Bond Purchase Program, Provincial Bond Purchase Program and Corporate Bond Purchase Program will be fully remitted to the Government of Canada through the Department. As at July 31, 2020, there have been no realized gains or losses for these programs; and

- subsequent to March 31, 2020, Canada Development Investment Corporation, a federal Crown corporation, was mandated to implement the Large Employer Emergency Financing Facility (LEEFF). The LEEFF will provide bridge financing to Canada's largest employers in order to keep their operations going. Funding for the LEEFF will be provided by the Department.

To finance the investments being made to address the COVID-19 pandemic, a significant increase in the amount of outstanding Government of Canada debt is forecast. It is anticipated that there will be an increase in debt for all terms, with the highest relative increase being for long-term bonds. While higher levels of debt outstanding are forecast, interest expense on debt is not expected to increase in 2020-21 given historically low interest rates. As at July 31, 2020, total unmaturing debt is \$1,101.1 billion, a \$323.2 billion (42%) increase over March 31, 2020.

Department of Finance Canada

Annex to the Statement of Management Responsibility Including Internal Control over Financial Reporting of the Department of Finance Canada for Fiscal Year 2019-20 (unaudited)

1. INTRODUCTION

This document provides summary information on the measures taken by the Department of Finance Canada (the Department) to maintain an effective system of internal control over financial reporting (ICFR) as well as information on internal control management, assessment results and related action plans.

Detailed information on the Department's authority, mandate and program activities are available in the 2019-20 *Departmental Results Report* and the 2019-20 *Departmental Plan*.

2. DEPARTMENTAL SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING

2.1 Internal control management

The Department has a well-established governance and accountability structure to support departmental assessment efforts and oversight of its system of internal control.

A departmental internal control framework approved by the Deputy Minister and the Chief Financial Officer (CFO) is in place, which includes:

- Accountability structures relating to internal control management to support sound financial management, including clear roles and responsibilities for employees in their areas of responsibility for control management;
- On-going communication and training on statutory requirements, policies and procedures for sound financial management and control;
- A group dedicated to ICFR under the direction of the CFO with a primary focus on maintaining documentation in support of business processes and associated key risks and control points;
- A risk based internal audit plan which includes audits and reviews related to business processes assessed under the *Policy on Financial Management*;
- An *Office of Values and Ethics* to provide service and guidance on values and ethics issues, discuss ethical dilemmas in accordance with the *Values and Ethics Code for the Public Sector, Policy on Conflict of Interest and Post Employment*. In addition, the *Department of Finance Code of Conduct* underlines the need for employees to avoid, and if necessary, resolve conflicts of interest between their official duties and their personal interests. Mandatory annual reporting is an important feature of the code;
- A *Disclosure Protection Officer*, housed within the *Office of Values and Ethics*, to facilitate protected disclosures of wrongdoing in accordance with the *Public Servants Disclosure Protection Act*;

- Monitoring and regular updates on internal control management plus assessment results and action plans presented to the Departmental Audit Committee (DAC) and senior management; and
- Advice provided by the DAC to the Deputy Minister on the adequacy and functioning of the Department's risk management, control and governance frameworks and processes.

2.2 Service arrangements relevant to the financial statements

The Department relies on other organizations for the processing of certain transactions recorded in its financial statements.

Common-to-government arrangements:

- Public Services and Procurement Canada (PSPC) centrally administers banking arrangements and related processes, the payment and processing of salaries and the procurement of goods and services consistent with the Department's delegation of authority;
- Treasury Board of Canada Secretariat (TBS) provides the Department with information on public service insurance and centrally administers payment of the employer's share of contributions toward statutory employee benefit plans;
- The Department of Justice provides legal services to the Department; and
- Shared Services Canada (SSC) provides information technology (IT) infrastructure services, with the exception of the infrastructure service for the SAP financial system. Effective January 2020, the SAP financial system transitioned to a Cloud environment which is housed within TBS and managed by a third party.

Specific departmental arrangements:

- The Bank of Canada has shared responsibility with the Department for maintaining the financial records and accounts for the domestic debt of Canada and the Exchange Fund Account of Canada, for which the Bank acts as fiscal agent. These responsibilities include ensuring all related financial systems and processes are effectively designed and operating;
- Canada Revenue Agency (CRA) provides the financial information used by the Department to determine taxes receivable from CRA under tax collection agreements, including accrual-based methodologies to determine amounts receivable at year-end;
- TBS provides financial management and accounting services for operating expenses, managed through a shared-services arrangement; and
- TBS provides the Department and other departments with its SAP financial system platform through which it captures and reports on financial transactions. As the service provider, TBS is responsible for ensuring that IT-general controls over the SAP environment, including TBS infrastructure services,

are designed and operating effectively. The Department retains responsibility of certain IT-general controls within the SAP environment, such as user access controls and segregation of duties.

3. DEPARTMENTAL ASSESSMENT RESULTS DURING FISCAL YEAR 2019-2020

The key findings and significant adjustments required from the current year's assessment activities are summarized below.

New or significantly amended key controls: In the current year, there were no other significantly amended key controls in existing processes, which required a reassessment.

Covid-19

The Covid-19 pandemic, and more specifically the rapid transition to a remote work environment has had an impact on key controls that require signatures confirming approvals or evidence that a review has been performed. The impact is more prevalent on controls relating to the FAA Sections 32 and 34. To mitigate the inability to obtain wet signatures, compensating measures such as e-mail confirmation from the signing authority have been used. As part of the on-going monitoring of key controls for fiscal year 2020-2021, Internal Control will validate and test the effectiveness of these measures, and engage with process owners to implement best practices required to sustain an audit.

On-going monitoring of key controls:

The Department assesses the design and operational effectiveness¹ of its high-risk business processes on an annual basis as part of its rotational on-going monitoring of key controls.

The Department conducts walkthroughs throughout the fiscal year and selects transaction samples for testing. The testing validates that the controls in place are effective and operating as designed prior to the OAG pre-audit review. The extent of testing is determined by the frequency of the control being performed as well as the characteristics of the population. It also includes the expected size and frequency of misstatements for the population to be tested, and is based on the assessment of inherent risk, control risk and the detection risk related to the analytical procedures. The Department follows industry standards in determining the quantity of tests performed.

¹ Design effectiveness refers to whether or not controls are in place and aligned and balanced with the risks they aim to mitigate. Operating effectiveness refers to testing undertaken to determine whether key controls have been functioning over a period of time. Testing is performed on a sample basis, using widely recognized sampling techniques and methodologies. In certain instances, judgment with respect to targeted testing is employed in areas that have certain risk profiles.

This year, the Department completed its reassessment of entity-level controls, IT-general controls under departmental management and the following business processes:

Key control areas	Assessed level of financial reporting risk	Approach to assessment	Status
Transfer payments	High	Design and operational effectiveness	Completed as planned and no remedial actions required
Domestic debt	High	Design and operational effectiveness	Completed as planned and no remedial actions required
Crown borrowing	High	Design and operational effectiveness	Completed as planned and no remedial actions required
International organizations	High	Design and operational effectiveness	Completed as planned and no remedial actions required
Official International Reserves	High	Design and operational effectiveness	Completed as planned and no remedial actions required
Payroll and Benefits	High	Design effectiveness	Completed as planned and a remedial action plan is in place
Operating expenses	Medium	Operational effectiveness	Completed as planned and no remedial actions required

Based on the testing, the key controls that were tested have performed as intended.

Payroll & Benefits: The resolution of pay-related issues, including stabilizing pay operations and processing of pay transactions, will require multiple years of effort and significant resources. The review and assessment of the payroll and benefits process is ongoing. Internal Control has completed testing on a number of operational activities related to staffing, leave without pay and extra duty pay to validate the current level of maturity and assess the design effectiveness of the controls under the Department's responsibilities.

This HR to Pay testing did not reveal any significant issues with respect to the Financial Administration Act (FAA) Sections 32 and 33. However, there were issues with FAA Section 34 approvals being performed by individuals without the appropriate financial signing authority and instances where FAA Section 34 was not verified. In addition, there was a lack of consistency in the document management system in place to retain the final and signed version of key documents and their supporting forms used during the hiring process. A management action plan is being developed with Human Resources to address these issues and updates will be provided to DAC on progress.

Operating expenses

The Department implemented a data analytics program in January 2016. This program analyzes accounting and other financial data for anomalies from a compliance and/or process efficiency standpoint using industry-standard data analytics software. The objective of the analysis is to detect operational, and compliance risk. The quarterly monitoring report supports management in overseeing these activities:

- Travel
- Travel card purchases
- Accounts payable
- Acquisitions cards
- Financial monitoring
- Material management contracts and amendments

Service arrangements relevant to the financial statements

SAP environment: The service-provider (TBS) provides an annual CSAE 3416² report prepared by an external auditor on the state of internal controls in the shared SAP environment. In January 2020, the SAP financial system has been upgraded and moved to a cloud environment. Considering this change, the scope of the audit was expanded to include work to assess the access controls over the cloud environment.

The CSAE 3416 report was qualified, which is consistent with prior years. In this year's report, there were seventeen (2019 – eight) control exceptions, of which seven (2019 – five) are deemed significant enough to prevent the Office of the Auditor General (OAG) from relying on automated and IT dependent application controls within SAP in a year where ITGC reliance would be sought.

The observations mentioned above did not have an impact on the OAG's risk assessment or audit approach over the Department for 2019-20 as this work is being carried out in anticipation of future ITGC reliance. Manual spreadsheets continue to be provided to the OAG as audit evidence.

In addition, the OAG is in the process of performing additional tests not covered by the Report on Controls. Over the 2020-21 fiscal year, the Department of Finance and the OAG will continue to follow-up on the TBS Management Action Plan to ensure that corrective action has been taken on the deficiencies identified.

² The Canadian Standard on Assurance Engagements 3416 (CSAE 3416), Reporting on Controls at a Service Organization, provides the department with the assurance that the service-provider is maintaining effective and efficient internal controls related to financial, informational, or security reporting. This examination formally designated as CICA 5970 is the Canadian equivalent of the American Institute of CPAs (AICPA) SSAE 16 audit compliance standards.

4. DEPARTMENTAL MONITORING PLAN OF KEY CONTROLS

4.1 Monitoring plan for the next fiscal year and subsequent years

The Department's rotational on-going monitoring plan of key controls over the next three years is based on an annual validation of high-risk processes and controls as is shown in the following table:

Key Control Areas	Assessed level of financial reporting risk	2020-2021 assessment scope	2021-2022 assessment scope	2022-2023 assessment scope
Transfer payments	High	Yes	Yes	Yes
Domestic debt	High	Yes	Yes	Yes
Crown borrowing	High	Yes	Yes	Yes
International organizations	High	Yes	Yes	Yes
Official International Reserves	High	Yes	Yes	Yes
Operating expenses	Medium	Yes	Yes	Yes
Domestic coinage	Medium	Yes	No	Yes
Payroll & benefits	High	Yes	Yes	Yes

Entity-level and IT-general controls will be validated on an annual basis. Operating expenses are monitored on an on-going basis under the data analytics program.

In 2020-2021 the assessment scope for Payroll & Benefit will also include operating effectiveness, in addition to design effectiveness.

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