

**Financial statements (Unaudited)**  
**Department of Finance Canada**

For the year ended March 31, 2021

## 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, 2021, 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, 2021 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.



Michael Sabia, Deputy Minister  
Ottawa, Canada  
September 3, 2021



Darlene Bess, CPA, CA  
Chief Financial Officer

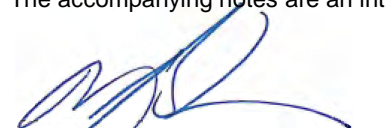
**Department of Finance Canada**  
**Statement of Financial Position (Unaudited)**  
**As at March 31**

(in thousands of dollars)	2021	2020
<b>Liabilities</b>		
Deposit liabilities (note 4)	943,747	266,131
Accounts payable and accrued liabilities (note 5)	5,264,537	230,050
Taxes payable under tax collection agreements (note 6)	10,049,311	2,358,191
Interest payable (note 7)	4,260,163	4,024,063
Notes payable to international organizations (note 8)	84,213	150,375
Matured debt (note 9)	438,508	471,532
Unmatured debt (note 10)	1,119,689,497	777,924,282
Long-term annuity liability (note 12)	1,860,252	1,812,149
Employee future benefits (note 13)	3,640	4,177
<b>Total gross liabilities</b>	<b>1,142,593,868</b>	<b>787,240,950</b>
Liabilities owed on behalf of Government (note 14)	(84,213)	(150,375)
<b>Total net liabilities</b>	<b>1,142,509,655</b>	<b>787,090,575</b>
<b>Financial assets</b>		
Cash awaiting deposit to the Consolidated Revenue Fund	-	4
Due from Consolidated Revenue Fund	4,434,473	4,221,079
Cash held as collateral (note 15)	1,365,914	9,974,647
Coin inventory	7,271	10,070
Accounts receivable (note 16)	271,570	190,247
Taxes receivable under tax collection agreements (note 6)	17,207,939	9,258,159
Foreign exchange accounts (note 17)	92,622,422	104,902,706
Loans to Crown corporations (note 18)	66,492,044	68,894,849
Other loans receivable (note 19)	2,372,059	1,503,260
Investments and capital share subscriptions (note 20)	-	241,937
<b>Total gross financial assets</b>	<b>184,773,692</b>	<b>199,196,958</b>
Financial assets held on behalf of Government (note 14)	(4,635,315)	(3,809,552)
<b>Total net financial assets</b>	<b>180,138,377</b>	<b>195,387,406</b>
<b>Departmental net debt</b>	<b>962,371,278</b>	<b>591,703,169</b>
<b>Non-financial assets</b>		
Tangible capital assets (note 23)	9,954	10,818
Prepaid expenses	2	40
<b>Total non-financial assets</b>	<b>9,956</b>	<b>10,858</b>
<b>Departmental net financial position</b>	<b>(962,361,322)</b>	<b>(591,692,311)</b>

Contractual obligations (note 24)

Contingent liabilities (note 25)

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



Michael Sabia, Deputy Minister  
 Ottawa, Canada  
 September 3, 2021



Darlene Bess, CPA, CA  
 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)	2021 Planned results	2021	2020
<b>Expenses</b>			
Economic and Fiscal Policy	99,534,689	122,643,818	100,240,958
Internal Services	67,959	77,939	71,463
<b>Total expenses</b>	<b>99,602,648</b>	<b>122,721,757</b>	<b>100,312,421</b>
<b>Revenues</b>			
Investment income	2,849,445	3,103,165	3,351,585
Interest on bank deposits	754,357	214,047	771,740
Sale of domestic coinage	124,996	100,847	115,183
Net foreign currency gain	-	-	148,396
Other income	183,283	232,506	647,270
Revenues earned on behalf of Government (note 28)	(3,912,081)	(3,650,565)	(5,034,174)
<b>Total revenues</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net cost of operations before government funding and transfers</b>	<b>99,602,648</b>	<b>122,721,757</b>	<b>100,312,421</b>
<b>Government funding and transfers</b>			
Net cash provided (to) by Government		(248,187,577)	72,840,262
Change in due from Consolidated Revenue Fund		213,394	(109,303)
Services provided without charge by other Government departments (note 26)		26,929	26,459
<b>Net cost of operations after government funding and transfers</b>		<b>370,669,011</b>	<b>27,555,003</b>
<b>Departmental net financial position - beginning of year</b>		<b>(591,692,311)</b>	<b>(564,137,308)</b>
<b>Departmental net financial position - end of year</b>		<b>(962,361,322)</b>	<b>(591,692,311)</b>

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)	2021	2020
<b>Net cost of operations after government funding and transfers</b>	<b>370,669,011</b>	<b>27,555,003</b>
<b>Changes due to non-financial assets</b>		
Tangible capital assets	(864)	(1,015)
Prepaid expenses	(38)	(24)
<b>Total change due to non-financial assets</b>	<b>(902)</b>	<b>(1,039)</b>
<b>Net increase in departmental net debt</b>	<b>370,668,109</b>	<b>27,553,964</b>
<b>Departmental net debt - beginning of year</b>	<b>591,703,169</b>	<b>564,149,205</b>
<b>Departmental net debt - end of year</b>	<b>962,371,278</b>	<b>591,703,169</b>

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)	2021	2020
<b>Operating activities</b>		
Net cost of operations before government funding and transfers	122,721,757	100,312,421
Non-cash items:		
Unrealized foreign exchange gains (losses) on debt	8,529,832	(5,011,160)
Unrealized foreign exchange (losses) gains on the foreign exchange accounts	(8,242,828)	5,143,184
Amortization of discounts and premiums on unmatured debt	(1,559,435)	(4,648,677)
Long-term annuity liability		
Initial recognition of Department's obligation under long-term annuity liability	-	(2,345,168)
Adjustment to the Department's obligation	(119,721)	-
Net accretion of long-term annuity liability	(30,796)	(32,132)
Total long-term annuity liability	(150,517)	(2,377,300)
Services provided without charge by other government departments	(26,929)	(26,459)
Amortization of discounts on loans to Crown corporations	10,553	32,484
Amortization of discounts on other loans receivable	4,147	5,181
Amortization of tangible capital assets	(913)	(1,050)
Change in cash collateral pledged to and by counterparties	(9,286,151)	2,824,590
Other variations in Statement of Financial Position:		
Net increases (decreases) in assets	8,075,636	(247,440)
Net (increases) decreases in liabilities	(12,961,368)	5,029,499
Payment of long-term annuity liability	102,415	124,629
<b>Cash used in operating activities</b>	<b>107,216,199</b>	<b>101,159,902</b>
<b>Capital investing activities</b>		
Acquisition of tangible capital assets	49	35
<b>Cash used in capital investing activities</b>	<b>49</b>	<b>35</b>
<b>Investing activities</b>		
Investments in foreign exchange accounts	47,709,544	30,111,090
Repayments from foreign exchange accounts	(52,004,981)	(30,841,184)
Issuance of loans to Crown corporations	45,252,750	52,837,700
Repayment of loans to Crown corporations	(47,666,108)	(42,366,948)
Issuance of other loans receivable	7,558	1,760
Repayment of other loans receivable	-	(23,920)
<b>Cash (provided by) used in investing activities</b>	<b>(6,701,237)</b>	<b>9,718,498</b>
<b>Financing activities</b>		
Net issuance of cross-currency swaps	3,013,938	769,247
Issuance of debt	(1,082,682,643)	(487,096,714)
Repayment of debt	730,966,117	448,289,294
<b>Cash provided by financing activities</b>	<b>(348,702,588)</b>	<b>(38,038,173)</b>
<b>Net cash provided (to) by Government of Canada</b>	<b>(248,187,577)</b>	<b>72,840,262</b>

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 10 service categories: acquisition management, communications, financial management, human resources management, information management, information technology, legal, management and oversight, materiel management, and real property management.

## 2. Summary of significant accounting policies

These financial statements have been prepared using the Government'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. 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 *2020-21 Departmental Plan*.

### b) Net cash provided (to) 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 (to) by Government is the difference between all cash receipts and all cash disbursements, including transactions between departments of the Government and with Crown corporations.

### c) Due from Consolidated Revenue Fund

Amounts due from the CRF result from 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**

- Revenues are reported 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 occur.
- 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**

- Expenses are reported 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 occurs.
- 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 they 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 used in operations, which are amortized on a straight-line basis over the estimated useful life of the assets.

### **f) Employee future benefits**

Employee future benefits include pension benefits and severance benefits.

Pension benefits: Eligible employees participate in the Public Service Pension Plan (the 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. Purchases and sales of securities are recognized at the settlement date. Marketable securities are adjusted for amortization of purchase discounts and premiums. 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, and/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 low or no interest, 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 (derivatives) are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, fair values or other specified financial measures. The derivatives to which the Department is party include cross-currency swap agreements and foreign exchange forward contracts. Derivatives also include certain indemnity agreements between the Department and the Bank of Canada under which the Department will receive (reimburse) any gains (losses) the Bank incurs on dispositions of securities by the Bank under the Government of Canada Bond, Corporate Bond and Provincial Bond Purchase Programs (bond purchase programs).

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 receivable or accounts payable and accrued liabilities, as appropriate, 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.

The bond purchase program indemnity agreement derivatives are measured in the *Statement of Financial Position* at cost. Gains or losses under these indemnity agreements are recognized in the *Statement of Operations and Departmental Net Financial Position* when the Bank of Canada realizes gains or losses under the bond purchase programs.

**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:

<b>Asset class</b>	<b>Amortization Period</b>
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. Adjustments to the long-term annuity liability from changes in the estimated future cash flows are recognized in the *Statement of Operations and Departmental Net Financial Position*. 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, the adjustments in estimated future cash flows and interest expense are 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)	2021	2020
<b>Authorities provided</b>		
<b>Voted authorities</b>	<b>3,441,598</b>	<b>110,336</b>
<b>Statutory authorities</b>		
Transfer payments	93,274,051	74,048,399
Interest on unmatured debt	15,095,812	17,836,993
Other interest costs	5,329,761	5,951,868
Purchase of domestic coinage	85,749	86,363
Other	639,388	880,477
<b>Total statutory authorities</b>	<b>114,424,761</b>	<b>98,804,100</b>
<b>Non-budgetary authorities</b>		
Loans to Crown corporations	45,252,808	52,867,082
Payments to international organizations	798,469	439,947
Investment in Crown corporation	420,000	-
Payments to other organizations	211,000	11,000
<b>Total non-budgetary authorities</b>	<b>46,682,277</b>	<b>53,318,029</b>
<b>Total authorities provided</b>	<b>164,548,636</b>	<b>152,232,465</b>
Less:		
<b>Authorities available for future years</b>	<b>(68,572)</b>	<b>(68,572)</b>
<b>Lapsed authorities</b>	<b>(137,559)</b>	<b>(3,183)</b>
<b>Current year authorities used</b>	<b>164,342,505</b>	<b>152,160,710</b>



**b) Reconciliation of net cost of operations with 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)	2021	2020
<b>Net cost of operations before government funding and transfers</b>	<b>122,721,757</b>	<b>100,312,421</b>
<b>Adjustments for items affecting net cost of operations but not affecting authorities</b>		
Transfer payment accruals		
Transfer payments to provinces and territories to address health care system pressures and COVID-19 vaccine rollout	(5,000,000)	-
Other transfer payment accruals	(142,686)	101,713
Initial recognition of Department's obligation under long-term annuity liability	-	(2,345,168)
Total transfer payment accruals	(5,142,686)	(2,243,455)
Services provided without charge by other government departments	(26,929)	(26,459)
Allowances for concessionary terms and valuation on loans, investments and advances	(19,110)	1,803
Inventory charged to program expense	(1,173)	1,568
Amortization of tangible capital assets	(913)	(1,050)
Employee future benefits	538	(103)
Other expenses not being charged to authorities	(4,993)	(4,156)
<b>Total items affecting net cost of operations but not affecting authorities</b>	<b>(5,195,266)</b>	<b>(2,271,852)</b>
<b>Adjustments for items not affecting net cost of operations but affecting authorities</b>		
Advances	45,263,808	52,878,082
Loans made to the International Monetary Fund	798,469	439,948
Investment in Canada Enterprise Emergency Funding Corporation	420,000	-
Loan made to the Orphan Well Association	200,000	-
Payments to the Canada Infrastructure Bank	52,947	759,154
Payment to establish a Canadian Securities Regulation Regime	40,331	-
Payment to the Canadian Commercial Corporation	4,000	4,500
Acquisitions of tangible capital assets	-	35
Other	36,459	38,422
<b>Total items not affecting net cost of operations but affecting authorities</b>	<b>46,816,014</b>	<b>54,120,141</b>
<b>Current year authorities used</b>	<b>164,342,505</b>	<b>152,160,710</b>

#### 4. Deposit liabilities

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

(in thousands of dollars)	2021	2020
Canada Hibernia Holding Corporation <sup>1</sup>	102,081	101,905
Canada Eldor Inc. <sup>2</sup>	12,293	12,271
Collateral deposits <sup>3</sup>	829,373	151,955
<b>Total deposit liabilities</b>	<b>943,747</b>	<b>266,131</b>

<sup>1</sup> 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 2049 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.

<sup>2</sup> 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.

<sup>3</sup> Collateral deposits are cash received from counterparties as 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)	2021	2020
Accounts payable - external parties <sup>1</sup>	124,985	67,591
- other Government departments and agencies	127,292	134,430
Provision for redemption of Canadian pennies <sup>2</sup>	802	2,429
Foreign exchange forward contracts	-	16,993
Accrued liabilities <sup>3</sup>	5,011,458	8,607
<b>Total accounts payable and accrued liabilities</b>	<b>5,264,537</b>	<b>230,050</b>

<sup>1</sup> The majority of accounts payable to external parties relates to \$86 million payable for transfer payments (2020 - \$40 million).

<sup>2</sup> 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.

<sup>3</sup> Accrued liabilities as at March 31, 2021 include \$5,000 million payable for transfer payments to provinces and territories, of which \$4,000 million is to address immediate health care system pressures and \$1,000 million payable is for the COVID-19 vaccination rollout.

## 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 changes in taxes collectible and payable to provinces, territories and Aboriginal governments under tax collection agreements during 2021 were as follows:

(in thousands of dollars)	March 31, 2020	Receipts and other credits	Payments and other charges	March 31, 2021
Corporate taxes	3,690,202	22,728,570	23,264,767	3,154,005
Personal income taxes	2,730,390	81,728,103	73,042,671	11,415,822
Harmonized Sales Tax	(4,174,446)	30,944,188	31,510,147	(4,740,405)
First Nations Goods and Services Tax	-	21,108	21,108	-
First Nations Sales Tax	-	8,861	8,861	-
Cannabis Excise Duties <sup>1</sup>	112,045	395,763	287,919	219,889
<b>Total taxes payable under tax collection agreements</b>	<b>2,358,191</b>	<b>135,826,593</b>	<b>128,135,473</b>	<b>10,049,311</b>

<sup>1</sup> 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 year) 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.

The changes in taxes receivable under tax collection agreements during 2021 were as follows:

(in thousands of dollars)	March 31, 2020	Receipts and other credits	Settlements with the CRA	March 31, 2021
Corporate taxes	4,135,947	22,728,570	20,219,021	6,645,496
Personal income taxes	9,361,450	81,728,103	77,339,345	13,750,208
Harmonized Sales Tax	(4,080,031)	30,944,188	29,546,866	(2,682,709)
First Nations Goods and Services Tax	1,866	21,108	21,121	1,853
First Nations Sales Tax	760	8,861	9,004	617
Cannabis Excise Duties	75,783	395,763	301,133	170,413
Provincial benefit programs <sup>1</sup>	(237,616)	(6,342,733)	(5,902,410)	(677,939)
<b>Total taxes receivable under tax collection agreements</b>	<b>9,258,159</b>	<b>129,483,860</b>	<b>121,534,080</b>	<b>17,207,939</b>

<sup>1</sup> 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)	2021	2020
Domestic debt	3,871,136	3,593,516
Retail debt	330,400	356,332
Foreign debt	57,518	65,368
International Monetary Fund balances	1,109	8,847
<b>Total interest payable</b>	<b>4,260,163</b>	<b>4,024,063</b>

## 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)	2021	2020
Asian Infrastructure Investment Bank	50,042	112,101
International Bank for Reconstruction and Development	30,139	33,758
Multilateral Investment Guarantee Agency	4,032	4,516
<b>Total notes payable to international organizations</b>	<b>84,213</b>	<b>150,375</b>

## 9. Matured debt

Matured debt consists of debt that has matured but has not yet been redeemed.

The balance of matured debt as at March 31 is presented in the following table.

(in thousands of dollars)	2021	2020
Retail debt <sup>1</sup>	434,485	467,332
Marketable bonds <sup>2</sup>	4,023	4,200
<b>Total matured debt</b>	<b>438,508</b>	<b>471,532</b>

<sup>1</sup> Matured retail debt matured between 2010 and 2020 (2020 - between 2010 and 2020)

<sup>2</sup> Matured marketable bonds matured between 2007 and 2016 (2020 - between 2006 and 2016).

## 10. Unmatured debt

The Department borrows mostly in the domestic market, but also borrows in 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).

Domestic marketable bonds consist of non-callable Government of Canada bonds paying a fixed rate of interest semi-annually. As at March 31, 2021, outstanding domestic marketable bonds have remaining terms to maturity ranging from 1 to 44 years (2020 - 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.

Foreign marketable bonds are either issued in US dollars or euros to provide long-term foreign funds. As at March 31, 2021, outstanding foreign marketable bonds have remaining terms to maturity ranging from 1 to 4 years (2020 - 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.

Unmatured debt as at March 31 is presented in the following table.

(in thousands of dollars)			2021	2020
	Face value	Unamortized (discounts) / premiums	Carrying value	Carrying value
<b>Domestic debt</b>				
Treasury bills <sup>1</sup>	218,800,000	(111,104)	218,688,896	151,284,850
Marketable bonds	875,022,996	9,817,060	884,840,056	599,633,640
Retail debt	298,973	-	298,973	497,220
<b>Total domestic debt</b>	<b>1,094,121,969</b>	<b>9,705,956</b>	<b>1,103,827,925</b>	<b>751,415,710</b>
<b>Foreign debt</b>				
Canada bills	4,053,594	(364)	4,053,230	2,155,603
Marketable bonds	11,310,300	(15,106)	11,295,194	12,648,171
Medium term notes	62,835	-	62,835	1,112,580
<b>Total foreign debt</b>	<b>15,426,729</b>	<b>(15,470)</b>	<b>15,411,259</b>	<b>15,916,354</b>
<b>Total domestic and foreign debt</b>	<b>1,109,548,698</b>	<b>9,690,486</b>	<b>1,119,239,184</b>	<b>767,332,064</b>
<b>Cross-currency swap revaluation<sup>2</sup></b>				
Payables			76,828,104	88,947,092
Receivables			(76,377,791)	(78,354,874)
<b>Total cross-currency swap revaluation</b>			<b>450,313</b>	<b>10,592,218</b>
<b>Total unmatured debt</b>			<b>1,119,689,497</b>	<b>777,924,282</b>
			<b>Fair value</b>	<b>Fair value (restated<sup>3</sup>)</b>
Domestic debt <sup>3</sup>			1,145,963,824	825,629,029
Foreign debt			15,755,897	16,469,476

<sup>1</sup> Treasury bills include \$47.6 billion (2020 - \$43.7 billion) in three month bills, \$37.8 billion (2020 - \$27.5 billion) in six month bills, \$133.4 billion (2020 - \$60.4 billion) in twelve month bills and no cash management bills (2020 - \$20.3 billion).

<sup>2</sup> 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 \$2,793.7 million (2020 - \$701.9 million) related to individual cross-currency swaps that have a net asset value to the Government upon revaluation and \$3,244.0 million (2020 - \$11,294.1 million) related to individual cross-currency swaps that have a net liability value, resulting in a total net cross-currency swap revaluation liability of \$450.3 million (2020 - \$10,592.2 million).

<sup>3</sup> In 2021 the Department identified that the fair value of unmatured real-return marketable bonds included in the fair value of domestic debt did not include the inflation factor adjustment since 2018. The revised fair value figures and the amounts previously reported are as follows: \$82.1 billion as at March 31, 2020 (previously reported as \$62.9 billion), \$79.6 billion as at March 31, 2019 (previously reported as \$61.8 billion) and \$76.3 billion as at March 31, 2018 (previously reported as \$59.6 billion).

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

(in thousands of dollars)	Canadian dollars <sup>1</sup>	US dollars <sup>2</sup>	Total
2022	323,965,393	7,886,529	331,851,922
2023	181,706,022	3,770,100	185,476,122
2024	92,966,232	-	92,966,232
2025	75,065,381	3,770,100	78,835,481
2026	92,733,858	-	92,733,858
2027 to 2065	327,685,083	-	327,685,083
<b>Total contractual maturities of unmatured debt</b>	<b>1,094,121,969</b>	<b>15,426,729</b>	<b>1,109,548,698</b>

<sup>1</sup> Includes treasury bills, marketable bonds and retail debt.

<sup>2</sup> Includes Canada bills, marketable bonds and medium term notes denominated in US dollars.

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

	2021	2020
	%	%
Treasury bills	0.21	1.39
Marketable bonds—domestic	1.63	2.19
Retail debt	0.71	0.79
Canada bills	0.07	1.56
Marketable bonds—foreign	2.08	2.08
Medium term notes	0.18	0.99



## 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 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 may be denominated in Canadian dollars, US dollars, euros or British pounds sterling. 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 of swaps outstanding as at March 31, 2021 range from 1 to 10 years (2020 - 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, 2021, are as follows:

(in thousands of dollars)	
2022	7,510,765
2023	6,769,092
2024	9,154,897
2025	7,755,262
2026	8,496,743
2027 to 2031	37,141,345
<b>Total cross-currency swaps notional amounts</b>	<b>76,828,104</b>

### 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, 2021, the total notional amount of outstanding foreign exchange forward contracts was \$4.2 billion (2020 - \$3.1 billion). The forward contracts outstanding as at March 31, 2021 matured by May 25, 2021 (2020 - matured by May 21, 2020).

**Bank of Canada bond purchase program indemnity agreements**

The Department and the Bank of Canada have entered into indemnity agreements which are accounted for as derivatives. Under the terms of these agreements, the Department has indemnified the Bank of Canada for any losses incurred by the Bank on the disposition of securities under the Bank's Government of Canada Bond, Provincial Bond and Corporate Bond purchase programs (bond purchase programs). The Bank of Canada will also pay to the Department any realized gains it earns on the disposition of securities under the bond purchase programs. The bond purchase programs were introduced by the Bank of Canada during fiscal year 2020-21 to support the liquidity and proper functioning of debt markets during the COVID-19 pandemic. No consideration was paid by either party upon entering into the agreements.

Details of the securities held by the Bank of Canada under the bond purchase programs as at March 31 are presented in the following table. The fair value represents the gain (loss) accruing to (from) the Department under the derivatives if the securities were disposed of by the Bank of Canada as at March 31.

	Securities held by the Bank of Canada under the bond purchase programs		Fair value of Department of Finance indemnity agreement derivatives (net)	
	Bank of Canada amortized cost	Fair value	2021	2020
(in thousands of dollars)				
<b>Bond purchase program indemnity agreements</b>				
Government of Canada bonds	252,684,054	245,242,021	(7,442,033)	-
Provincial bonds	18,875,113	18,552,069	(323,044)	-
Corporate bonds	200,335	202,215	1,880	-
<b>Total bond purchase program indemnity agreements</b>	<b>271,759,502</b>	<b>263,996,305</b>	<b>(7,763,197)</b>	<b>-</b>

The fair value of the indemnity agreement derivatives (net) relates to certain securities that are in a gain position and certain securities that are in a loss position, as follows:

(in thousands of dollars)	Fair value of Department of Finance indemnity agreement derivatives (net)			
	Relating to securities held by the Bank of Canada in:		Fair value (net)	
	Gain position	Loss position	2021	2020
<b>Bond purchase program indemnity agreements</b>				
Government of Canada bonds	90,185	(7,532,218)	<b>(7,442,033)</b>	-
Provincial bonds	5,952	(328,996)	<b>(323,044)</b>	
Corporate bonds	2,008	(128)	<b>1,880</b>	-
<b>Total bond purchase program indemnity agreements</b>	<b>98,145</b>	<b>(7,861,342)</b>	<b>(7,763,197)</b>	-

Gains of \$0.2 million were received by the Department under the bond purchase program indemnity agreements in 2021 (2020 - nil) and recognized in the *Statement of Operations and Departmental Net Financial Position*. No losses were paid by the Department in 2021 or 2020 under the indemnity agreements.

## 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 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.

## 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)	2021	2020
Department of Finance obligation	2,318,524	2,261,464
Provincial obligation	(458,272)	(449,315)
<b>Total long-term annuity liability</b>	<b>1,860,252</b>	<b>1,812,149</b>

Interest expense of \$39.8 million (2020 - \$32.1 million) and interest revenue of \$9.0 million (2020 - nil) were recognized in the *Statement of Operations and Departmental Net Financial Position*. Changes in the estimated future cash flows under the long-term annuity liability resulted in an increase in the carrying value and corresponding expense of \$119.7 million (2020 - nil).

## 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
2022	102,252	-	102,252
2023	93,306	-	93,306
2024	148,488	-	148,488
2025	188,398	-	188,398
2026	225,107	-	225,107
2027 to 2056	2,093,623	(800,000)	1,293,623
<b>Total estimated payments under the long-term annuity liability</b>	<b>2,851,174</b>	<b>(800,000)</b>	<b>2,051,174</b>

### 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 \$9.4 million (2020 - \$8.9 million). For Group 1 members, the expense represents approximately 1.01 times the employee contributions (2020 - 1.01) and, for Group 2 members, approximately 1.00 times the employee contributions (2020 - 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)	2021	2020
Accrued severance benefits obligation, beginning of year	4,177	4,074
Expense recognized	(86)	402
Benefits paid	(451)	(299)
<b>Accrued severance benefits obligation, end of year</b>	<b>3,640</b>	<b>4,177</b>

## 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 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)	2021	2020
<b>Liabilities owed on behalf of Government</b>		
Notes payable to international organizations	84,213	150,375
<b>Total liabilities owed on behalf of Government</b>	<b>84,213</b>	<b>150,375</b>
<b>Financial assets held on behalf of Government</b>		
Cash awaiting deposit to the Consolidated Revenue Fund	-	4
Accounts receivable	142,876	190,247
Foreign exchange accounts – accrued net revenue from the Exchange Fund Account	2,541,235	2,283,254
Other loans receivable	1,951,204	1,094,110
Investments and capital share subscriptions	-	241,937
<b>Total financial assets held on behalf of Government</b>	<b>4,635,315</b>	<b>3,809,552</b>

## 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, 2021 the Department had pledged total collateral of \$1,365.9 million (2020 - \$9,974.6 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)	2021	2020
Foreign exchange forward contracts	128,694	-
Accrued interest income – loans to Crown corporations	107,836	129,119
Accrued investment income	29,883	55,108
Receivables		
Other Government departments and agencies	3,789	5,002
External parties	1,368	1,018
<b>Total accounts receivable</b>	<b>271,570</b>	<b>190,247</b>

## 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)	2021	2020
	<b>Carrying value</b>	
Exchange Fund Account		
Investments held in the Exchange Fund Account	95,048,175	109,733,274
Accrued net revenue from the Exchange Fund Account	2,541,235	2,283,254
Total investments held in Exchange Fund Account (a)	97,589,410	112,016,528
Subscriptions to the International Monetary Fund (b)	19,632,414	21,178,014
Loans receivable from the International Monetary Fund (c)	197,355	368,467
Notes payable to the International Monetary Fund (d)	(14,132,556)	(17,156,602)
Special drawing rights allocations (e)	(10,664,201)	(11,503,701)
<b>Total foreign exchange accounts</b>	<b>92,622,422</b>	<b>104,902,706</b>
	<b>Fair value</b>	
<b>Total foreign exchange accounts</b>	<b>94,156,640</b>	<b>109,756,178</b>

### 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, holdings of 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 total investments held in the Exchange Fund Account as at March 31 are presented in the following table.

(in thousands of dollars)	2021	2020
US dollar cash on deposit	1,389,554	6,014,491
US dollar marketable securities	53,571,454	62,635,736
Euro cash on deposit	673,783	487,693
Euro marketable securities	17,376,156	17,538,137
British pound sterling cash on deposit	196,446	167,549
British pound sterling marketable securities	8,054,955	8,044,849
Japanese yen cash on deposit	59,979	14,194
Japanese yen marketable securities	5,427,333	5,266,018
Special drawing rights (e)	10,839,750	11,847,861
<b>Total investments held in Exchange Fund Account</b>	<b>97,589,410</b>	<b>112,016,528</b>

### Collateral pledged

As part of its operations, the Exchange Fund Account is required to pledge collateral with respect to credit facilities granted by its European clearing house. Collateral pledged must have a fair value of a minimum of US\$250 million, post-haircut, in equivalent securities. The clearing house applies a haircut on all securities pledged. As at March 31, 2021, the Exchange Fund Account has pledged collateral of marketable securities having a carrying value and fair value of \$411 million (2020 - nil).

### b) Subscriptions to the International Monetary Fund

Subscriptions to the IMF consist of Canada's subscription ("quota") to the capital of the IMF, an international organization of 190 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 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 decrease in subscriptions to the IMF during 2021 of \$1,545.6 million (2020 - net increase of \$728.7 million) was due to foreign exchange revaluation.



### **c) Loans receivable from the International Monetary Fund**

Loans receivable from the IMF 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 (BBA).

Canada's current participation in the NAB is governed by the October 2020 NAB Decision, which took effect in January 2021 and remains in effect through the end of 2025. Canada's maximum commitment under the NAB as at March 31, 2021 is SDR 7,747.4 million (2020 - SDR 3,873.7 million). As at March 31, 2021, SDR 110.8 million or \$197.4 million (2020 - SDR 191.8 million or \$368.5 million) in lending has been provided by Canada to the IMF under the NAB.

Canada also participates in the BBA, which increases further the financial resources the IMF can borrow from member countries. Canada's commitment under the BBA as at March 31, 2021 is SDR 3,532 million (2020 - SDR 8,200 million). As at March 31, 2021, no lending (2020 - nil) has been provided to the IMF under the BBA.

Collectively, the outstanding loans under multilateral and bilateral arrangements with the IMF cannot exceed SDR 13 billion or any other amount that may be fixed by the Governor in Council at any given time. Commitments under the NAB and BBA 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 IMF 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 during 2021 by \$3,024.0 million (2020 - net decrease of \$241.8 million) due to \$1,525.9 million in net repayments (2020 - net repayments of \$681.7 million), and a decrease of \$1,498.1 million due to foreign exchange revaluation (2020 - increase of \$439.9 million).

**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 (2020 - nil). The net decrease in SDR allocations in terms of Canadian dollars during 2021 of \$839.5 million (2020 - net increase of \$395.8 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)			2021	2020
	Face value	Unamortized discounts	Carrying value	Carrying value
Farm Credit Canada	34,341,500	(1,407)	34,340,093	32,641,683
Business Development Bank of Canada	18,226,000	(124)	18,225,876	23,405,000
Canada Mortgage and Housing Corporation	13,926,136	(61)	13,926,075	12,848,166
<b>Total loans to Crown corporations</b>	<b>66,493,636</b>	<b>(1,592)</b>	<b>66,492,044</b>	<b>68,894,849</b>
			Fair value	
<b>Total loans to Crown corporations</b>			<b>66,936,238</b>	<b>69,963,535</b>

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
2022	11,680,500	13,606,000	1,314,377	26,600,877
2023	5,734,000	755,000	728,022	7,217,022
2024	3,394,500	735,000	731,527	4,861,027
2025	3,631,500	1,560,000	605,749	5,797,249
2026	2,669,000	395,000	5,789,317	8,853,317
2027 and thereafter	7,232,000	1,175,000	4,757,144	13,164,144
<b>Total loans to Crown corporations</b>	<b>34,341,500</b>	<b>18,226,000</b>	<b>13,926,136</b>	<b>66,493,636</b>

The average effective annual interest rates for the loans outstanding as at March 31, 2021 are as follows:

	Farm Credit Canada	Business Development Bank of Canada	Canada Mortgage and Housing Corporation	Weighted average
	%	%	%	%
<b>Fixed interest rate loans</b>				
Short-term	0.17	0.15	0.11	0.16
Long-term	1.12	1.49	0.73	1.02
<b>Floating interest rate loans</b>				
Short-term	0.11	0.09	-	0.09
Long-term	0.09	-	-	0.09

## 19. Other loans receivable

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

(in thousands of dollars)			2021	2020
	Face value	Unamortized discounts / valuation allowances	Carrying value	Carrying value
<b>Government business enterprises</b>				
Canada Lands Company CLC Limited (a)	396,440	(3,284)	393,156	381,652
Parc Downsview Park Inc. (b)	43,000	(15,301)	27,699	27,498
<b>Total government business enterprises</b>	<b>439,440</b>	<b>(18,585)</b>	<b>420,855</b>	<b>409,150</b>
<b>Provincial and territorial governments</b>				
Federal-provincial fiscal arrangements (c)	380,199	(27,974)	352,225	343,234
Municipal Development and Loan Board (d)	315	-	315	315
Winter Capital Projects Fund (e)	2,900	(2,900)	-	-
<b>Total provincial and territorial governments</b>	<b>383,414</b>	<b>(30,874)</b>	<b>352,540</b>	<b>343,549</b>
<b>International and other organizations</b>				
International Monetary Fund – Poverty Reduction and Growth Trust (f)	1,352,101	(10,000)	1,342,101	675,561
International Finance Corporation – Catalyst Fund (g)	75,000	-	75,000	75,000
Orphan Well Association (h)	200,000	(18,437)	181,563	-
Global Environment Facility (i)	10,000	(10,000)	-	-
Canadian Commercial Bank (j)	42,202	(42,202)	-	-
<b>Total international and other organizations</b>	<b>1,679,303</b>	<b>(80,639)</b>	<b>1,598,664</b>	<b>750,561</b>
<b>Total other loans receivable</b>	<b>2,502,157</b>	<b>(130,098)</b>	<b>2,372,059</b>	<b>1,503,260</b>

The currencies in which other loans receivable are denominated and the Canadian dollar equivalent as at March 31, 2021 are presented in the following table.

(in thousands of stated currency)	Face value, currency of denomination	Face value, CAD	Exchange rate	Proportion
<b>Currency of denomination</b>				
CAD	1,150,056	1,150,056	n.a.	46%
SDR	759,205	1,352,101	1.7809	54%
		<b>2,502,157</b>		<b>100%</b>

## **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 Parc 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.

A new promissory note of \$7.6 million was issued during the year (2020 - \$1.8 million). No repayments were received during the year (2020 - \$18.9 million). Discount amortization of \$3.9 million (2020 - \$5.0 million) was recognized in income.

### **b) Parc Downsview Park Inc.**

Parc Downsview Park Inc. owns a unique urban recreational green space located in Toronto, ON. The loan receivable from Parc 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 (2020 - nil). No repayments were received during the year (2020 - \$5 million). Discount amortization of \$0.2 million was recognized in income (2020 - \$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.

During the year, transactions included issuances of \$37.4 million (2020 - \$5.9 million) and repayments of \$28.4 million (2020 - \$66.1 million).

**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 denominated in SDR 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 1.5 billion.

During the year, transactions included issuances of \$798.4 million (2020 - \$397.1 million), repayments of \$27.4 million (2020 - \$10.8 million) and an exchange valuation adjustment which resulted in a decrease of \$104.5 million (2020 - increase of \$31.0 million).

**g) 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.

#### **h) Orphan Well Association**

Canada made an unconditionally repayable contribution of \$200 million during the year to the Alberta Oil and Gas Orphan Abandonment and Reclamation Association Canada (the Orphan Well Association) to support the Association's efforts in cleaning up oil and gas properties. The contribution is to be used by the Orphan Well Association on eligible expenditures incurred or committed to by the Association up to March 31, 2023. The portion of the contribution not expended by March 31, 2023 is to be returned to Canada. The contribution does not bear interest and is repayable in sixteen equal quarterly instalments starting in 2032 and ending in 2035. Earlier repayment is permitted.

To reflect the concessionary terms of the loan, a discount of \$19.1 million was recognized upon initial recognition of the contribution in 2021. Discount amortization of \$0.7 million was recognized in income (2020 - nil).

#### **i) 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.

#### **j) 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.

## 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)			2021	2020
	Face value	Valuation allowances	Carrying value	Carrying value
International Development Association	13,362,258	(13,362,258)	-	-
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)	-	-
Multilateral Investment Guarantee Agency	13,827	(13,827)	-	-
Asian Infrastructure Investment Bank	257,200	(257,200)	-	-
Other investments	-	-	-	241,937
<b>Total investments and capital share subscriptions</b>	<b>14,821,697</b>	<b>(14,821,697)</b>	<b>-</b>	<b>241,937</b>

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)	2021			2020		
	Paid-in	Callable	Total	Paid-in	Callable	Total
International Development Association	CAD 13,362,258	-	<b>13,362,258</b>	12,939,018	-	<b>12,939,018</b>
European Bank for Reconstruction and Development	EUR 212,850	807,640	<b>1,020,490</b>	212,850	807,640	<b>1,020,490</b>
International Bank for Reconstruction and Development <sup>1</sup>	USD 604,197	7,879,800	<b>8,499,339</b>	604,197	7,879,841	<b>8,499,339</b>
	CAD 16,404			16,404		
International Finance Corporation						
Cumulative cash contributions	USD 81,342	-	<b>81,342</b>	81,342	-	<b>81,342</b>
Designated paid-in capital <sup>2</sup>	USD 538,857	-	<b>538,857</b>	-	-	<b>-</b>
Total International Finance Corporation	USD 620,199	-	<b>620,199</b>	81,342	-	<b>81,342</b>
Multilateral Investment Guarantee Agency	USD 10,732	45,802	<b>56,534</b>	10,732	45,802	<b>56,534</b>
Asian Infrastructure Investment Bank	USD 199,100	796,300	<b>995,400</b>	199,100	796,300	<b>995,400</b>

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

<sup>2</sup> In 2021 the International Finance Corporation converted a portion of its retained earnings into capital shares, which it designated as paid-in capital and distributed to its shareholders on a pro-rata basis. Canada made no cash contributions in respect of the paid-in capital designated on the conversion.



### **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, 2021, Canada has made total cumulative cash contributions into the paid-in capital of the EBRD of US\$216.2 million (2020 - 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.

### **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 issued a note payable to the AIIB in consideration for its paid-in capital contribution.

## 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, which were comprised of guaranteed investment certificates, had fully matured by March 31, 2021.

## 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 and fair values of certain financial instruments as at March 31.

(in thousands of dollars)	2021		2020	
	Carrying value	Fair value	Carrying value	Fair value (restated <sup>2</sup> )
<b>Assets</b>				
Foreign exchange accounts	92,622,422	94,156,640	104,902,706	109,756,178
Loans to Crown corporations	66,492,044	66,936,238	68,894,849	69,963,535
Foreign exchange forward contracts (net) <sup>1</sup>	128,694	129,563	-	-
<b>Liabilities</b>				
Foreign exchange forward contracts (net) <sup>1</sup>	-	-	16,993	21,057
Unmatured debt				
Total domestic and foreign debt <sup>2</sup>	1,119,239,184	1,161,719,721	767,332,064	842,098,505
Cross-currency swaps (net) <sup>3</sup>	450,313	1,108,938	10,592,218	10,876,580
Total unmatured debt	1,119,689,497	1,162,828,659	777,924,282	852,975,085
Bond purchase program indemnity agreement derivatives	-	7,763,197	-	-

<sup>1</sup> The carrying value of foreign exchange forward contracts (net) is presented in accounts receivable (2020 - accounts payable and accrued liabilities).

<sup>2</sup> In 2021 the Department identified that the fair value of unmaturing real-return marketable bonds included in the total domestic and foreign debt fair value did not include the inflation factor adjustment since 2018. The revised fair value figures for total domestic and foreign debt, including the inflation factor adjustment, and the amounts previously reported are the following: \$842.1 billion as at March 31, 2020 (previously reported as \$822.9 billion), \$774.6 billion as at March 31, 2019 (previously reported as \$756.9 billion) and \$748.3 billion as at March 31, 2018 (previously reported as \$731.6 billion).

<sup>3</sup> The carrying value of cross-currency swaps (net) is presented in unmaturing 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.

**Fair value of bond purchase program indemnity agreement derivatives**

The fair value of the bond purchase program indemnity agreement derivatives is calculated as the difference between the fair value and the amortized cost of the securities held by the Bank of Canada under the bond purchase programs as at March 31. The fair value is equivalent to the amount accruing to (from) the Department under the derivatives if the securities were disposed of at their fair value by the Bank of Canada as at 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 by a counterparty could be liquidated to mitigate credit losses in the event of that counterparty's default.

Collateral pledged by the Government and by counterparties under two-way CSA agreements as at March 31, 2021 is presented in the following table.

	Nominal amount		Fair value	
	Posted by Government of Canada	Posted by Counterparties	Posted by Government of Canada	Posted by Counterparties
(in thousands of dollars)				
Cash	1,365,914	829,366	1,365,914	829,366
Securities	-	1,828,768	-	1,974,628
<b>Total</b>	<b>1,365,914</b>	<b>2,658,134</b>	<b>1,365,914</b>	<b>2,803,994</b>

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.

(in thousands of dollars)	2021	2020
A+	22,021,017	29,462,615
A	37,666,515	40,880,883
A-	21,331,572	21,677,627
<b>Total notional amounts of swap and foreign exchange forward contracts<sup>1</sup></b>	<b>81,019,104</b>	<b>92,021,125</b>

<sup>1</sup> Swap notional amounts are stated in terms of the foreign payable-leg notional amounts outstanding, translated into Canadian dollars as at March 31.

#### **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, 2021, 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 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, 2021, 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 loss of \$11.2 million for the US dollar portfolio (2020 - \$1.9 million gain), a foreign exchange loss of \$1.9 million for the euro portfolio (2020 - \$3.0 million gain), a foreign exchange loss of \$0.7 million for the Japanese yen portfolio (2020 - \$1 million gain) and a foreign exchange loss of \$4.6 million for the British pound sterling portfolio (2020 - \$1.6 million loss).

## 23. Tangible capital assets

The change in tangible capital assets during 2021 is presented in the following table.

(in thousands of dollars)	Informatics equipment	Informatics software	Leasehold improvements	Machinery and equipment	Motor vehicles	Total
<b>Cost</b>						
Balance, March 31, 2020	3,634	63	11,516	2,747	90	18,050
Acquisitions	-	-	49	-	-	49
Adjustments	-	-	-	-	-	-
Disposals and write-offs	-	-	-	-	-	-
<b>Balance, March 31, 2021</b>	<b>3,634</b>	<b>63</b>	<b>11,565</b>	<b>2,747</b>	<b>90</b>	<b>18,099</b>
<b>Accumulated amortization</b>						
Balance, March 31, 2020	2,906	56	2,610	1,605	55	7,232
Amortization	176	7	461	262	7	913
Adjustments	-	-	-	-	-	-
Disposals and write-offs	-	-	-	-	-	-
<b>Balance, March 31, 2021</b>	<b>3,082</b>	<b>63</b>	<b>3,071</b>	<b>1,867</b>	<b>62</b>	<b>8,145</b>
<b>Net book value</b>						
Balance, March 31, 2020	728	7	8,906	1,142	35	10,818
Net change	(176)	(7)	(412)	(262)	(7)	(864)
<b>Balance, March 31, 2021</b>	<b>552</b>	<b>-</b>	<b>8,494</b>	<b>880</b>	<b>28</b>	<b>9,954</b>

## 24. Contractual obligations

Contractual obligations are financial obligations of the Government 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)	2022	2023	2024	2025	2026	2027 and thereafter	Total
<b>Transfer payments</b>							
International Development Association	455,770	454,720	31,150	30,680	66,970	696,630	1,735,920
African Development Fund	20,602	20,501	21,648	21,827	22,219	339,330	446,127
<b>Total contractual obligations</b>	<b>476,372</b>	<b>475,221</b>	<b>52,798</b>	<b>52,507</b>	<b>89,189</b>	<b>1,035,960</b>	<b>2,182,047</b>

## 25. Contingent liabilities

Contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. They are grouped into three 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)	2021	2020
International Bank for Reconstruction and Development	9,902,597	11,091,665
European Bank for Reconstruction and Development	1,190,138	1,253,619
Asian Infrastructure Investment Bank	1,000,710	1,120,872
Multilateral Investment Guarantee Agency	57,560	64,471
<b>Total callable share capital</b>	<b>12,151,005</b>	<b>13,530,627</b>

### 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, 2021 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, 2021, the aggregate outstanding principal amount of loans that are guaranteed under the PRMHIA is estimated at \$289.9 billion (2020 - \$270.8 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 \$34.4 billion (2020 - \$32.2 billion). 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, 2021, no losses are anticipated with respect to this guarantee and no provision has been made (2020 - no losses anticipated).

### **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, 2021, 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 (2020 - no drawdowns and no provision).

### **c) Bank of Canada money market purchase program indemnity agreements**

In addition to the bond purchase program indemnity agreements accounted for as derivatives, the Department and the Bank of Canada have entered into indemnity agreements for the Bank's Provincial Money Market and Commercial Paper Purchase Programs (money market purchase programs). These programs were introduced by the Bank of Canada to support the liquidity and proper functioning of debt markets during the COVID-19 pandemic. The Bank of Canada discontinued further purchases under the Provincial Money Market purchase program during 2021, and discontinued the Commercial Paper purchase program effective April 2, 2021. The programs can be restarted by the Bank of Canada if necessary.

Under the money market purchase program agreements, the Department has indemnified the Bank of Canada for any losses incurred by the Bank on the money market securities not being paid in full by the issuers. The Department is not obligated to pay for any losses or entitled to any gains sustained by the Bank of Canada on the disposition of securities under the money market purchase programs. No consideration was paid by either party upon entering into the agreements.

Details of the outstanding indemnified exposure of the Department, based on the securities held by the Bank of Canada under the money market purchase programs as at March 31, are presented in the following table. The outstanding indemnified amount represents the amortized cost of the securities held by the Bank of Canada under the money market purchase programs as at March 31, which approximates the maximum amount payable by the Department in the event that none of the amounts due under those securities are paid by the issuers.

(in thousands of dollars)	Outstanding indemnified amount	
	2021	2020
Provincial Money Market purchase program	2,033,142	569,720
Commercial Paper purchase program	-	-
<b>Total money market purchase program indemnity agreements</b>	<b>2,033,142</b>	<b>569,720</b>

No losses were paid by the Department under the money market purchase program indemnity agreements in 2021 (2020 - nil).

## 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)	2021	2020
Accommodation	16,411	16,264
Employer's contribution to the health and dental insurance plans	8,526	8,249
Legal services	1,992	1,946
<b>Total services received without charge</b>	<b>26,929</b>	<b>26,459</b>



The Government has centralized some of its administrative activities for efficiency, cost-effectiveness and economic delivery of programs to the public. As a result, in certain cases the Government uses central agencies and common service organizations whereby one department performs services for 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

Other transactions with related parties are summarized in the following table.

(in thousands of dollars)	2021	2020
<b>Expenses - other Government departments and agencies</b>		
Interest on superannuation and other accounts	5,320,955	5,856,317
Contributions to employee benefit plans	13,842	12,795
Professional and special services	7,426	5,946
Machinery and equipment	490	418
Other expenses	684	903
Salaries and wages (recoveries)	(1,540)	(722)
<b>Total expenses – other Government departments and agencies</b>	<b>5,341,857</b>	<b>5,875,657</b>
<b>Revenues – other Government departments and agencies</b>	<b>82</b>	<b>69</b>

## 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	Total	
			2021	2020
<b>Expenses</b>				
<b>Transfer payments</b>				
Provinces and territories (a)	101,081,478	-	101,081,478	75,802,154
International organizations	473,785	-	473,785	487,897
Non-profit organizations	19,516	-	19,516	1,100
<b>Total transfer payments</b>	<b>101,574,779</b>	<b>-</b>	<b>101,574,779</b>	<b>76,291,151</b>
<b>Interest and other costs</b>				
Interest on unmatured debt (b)	15,089,238	-	15,089,238	17,826,824
Interest on superannuation and other accounts (c)	5,329,761	-	5,329,761	5,951,869
Other interest and costs	6,562	-	6,562	10,166
<b>Total interest and other costs</b>	<b>20,425,561</b>	<b>-</b>	<b>20,425,561</b>	<b>23,788,859</b>
Operating expenses (d)	99,675	77,932	177,607	147,607
Cost of domestic coinage sold	86,922	-	86,922	84,795
Net foreign currency loss	456,879	5	456,884	-
Other expenses	2	2	4	9
<b>Total expenses</b>	<b>122,643,818</b>	<b>77,939</b>	<b>122,721,757</b>	<b>100,312,421</b>
<b>Revenues</b>				
<b>Investment income</b>				
Exchange Fund Account net revenues	2,541,235	-	2,541,235	2,283,254
Loans to Crown corporations - interest	542,490	-	542,490	1,010,739
Other interest	19,440	-	19,440	57,592
<b>Total investment income</b>	<b>3,103,165</b>	<b>-</b>	<b>3,103,165</b>	<b>3,351,585</b>
Interest on bank deposits	214,047	-	214,047	771,740
Guarantee fees	161,955	-	161,955	117,540
Sale of domestic coinage	100,847	-	100,847	115,183
Unclaimed cheques and other	70,551	-	70,551	89,208
Long-term annuity - initial recognition of provincial obligation	-	-	-	440,522
Net foreign currency gain	-	-	-	148,396
Revenues earned on behalf of Government	(3,650,565)	-	(3,650,565)	(5,034,174)
<b>Total revenues</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net cost of operations</b>	<b>122,643,818</b>	<b>77,939</b>	<b>122,721,757</b>	<b>100,312,421</b>

**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)	2021	2020
Canada Health Transfer	41,880,174	40,371,762
Fiscal Equalization	20,677,054	19,850,108
Canada Social Transfer	15,023,242	14,585,672
Quebec Abatement	(5,582,265)	(5,811,066)
Territorial Financing	4,180,225	3,948,403
COVID-19 related transfers		
Safe Restart Agreement	12,976,726	-
Support for the health care system through the Canada Health Transfer <sup>1</sup>	4,000,000	500,000
Essential Workers Support Fund	2,884,209	-
Safe Return to Class Fund	2,000,000	-
Support for cleaning up inactive oil and gas wells	1,520,000	-
Support for COVID-19 immunization plans	1,000,000	-
Support for the offshore energy sector	320,000	-
Total COVID-19 related transfers	24,700,935	500,000
Long-term annuity liability		
Interest expense	39,753	32,132
Adjustment to the Department's obligation	119,721	-
Initial recognition of Department's obligation	-	2,345,168
Total long-term annuity liability	159,474	2,377,300
Statutory Subsidies	42,639	42,644
Establishment of a Canadian Securities Regulation Regime and a Canadian Regulatory Authority	-	40,331
Refund of Prior Year Expenditures	-	(103,000)
<b>Total transfer payments to provinces and territories</b>	<b>101,081,478</b>	<b>75,802,154</b>

<sup>1</sup> The COVID-19 related transfer payments to support the health care system were effected through one-time top-ups to the Canada Health Transfer, and are in addition to the amounts reported for the regular Canada Health Transfer.

**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)	2021	2020
<b>Interest on domestic debt</b>		
Treasury bills	1,203,302	2,247,230
Marketable bonds	13,624,047	15,194,997
Retail debt	(1,236)	9,948
<b>Total interest on domestic debt</b>	<b>14,826,113</b>	<b>17,452,175</b>
<b>Interest on foreign debt</b>		
Canada bills	13,226	55,690
Marketable bonds	246,696	282,653
Medium term notes	3,203	36,306
<b>Total interest on foreign debt</b>	<b>263,125</b>	<b>374,649</b>
<b>Total interest on unmatured debt</b>	<b>15,089,238</b>	<b>17,826,824</b>

**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)	2021	2020
Superannuation accounts	5,081,945	5,590,376
Other specified purpose accounts	154,741	173,173
Retirement compensation arrangement accounts	83,227	88,769
Special drawing rights allocations	8,774	94,079
Canada Pension Plan Account	1,074	5,472
<b>Total interest on superannuation and other accounts</b>	<b>5,329,761</b>	<b>5,951,869</b>

**d) Operating expenses**

The following table presents details of operating expenses.

(in thousands of dollars)	2021	2020
Salaries and wages	105,983	98,020
Information services		
Advertising related to COVID-19	21,896	-
Other information services	1,443	1,372
Total information services	23,339	1,372
Accommodation	16,411	16,264
Contributions to employee benefit plans	13,842	12,795
Professional and special services	13,246	12,535
Machinery and equipment	2,103	1,110
Rentals	1,170	1,342
Amortization of tangible capital assets	913	1,050
Transportation and telecommunications	633	2,688
Leasehold improvements	-	2
Other subsidies and payments	(9)	(23)
Repairs and maintenance	(24)	452
<b>Total operating expenses</b>	<b>177,607</b>	<b>147,607</b>

**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)	2021	2020
Exchange Fund Account - net revenues	2,541,235	2,283,254
Loans to Crown corporations - interest	542,490	1,010,739
Interest on bank deposits	214,047	771,740
Guarantee fees	161,955	117,540
Sale of domestic coinage	100,847	115,183
Unclaimed cheques and other	70,551	89,208
Other interest	19,440	57,592
Net foreign currency gain	-	148,396
Long-term annuity - initial recognition of provincial obligation	-	440,522
<b>Total revenues earned on behalf of Government</b>	<b>3,650,565</b>	<b>5,034,174</b>

## 29. Impacts of COVID-19 pandemic

The Government continues to implement comprehensive measures to address the public health and economic aspects of the novel coronavirus (COVID-19) pandemic. 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.

The measures having the most significant financial impact on the Department are summarized as follows:

- expenses of \$24.7 billion (2020 - \$500 million) were recognized for transfer payments to the provinces and territories, including \$13.0 billion for the Safe Restart Agreement, \$4.0 billion to help the health care system recover, \$2.9 billion for the Essential Workers Support Fund and \$2.0 billion for the Safe Return to Class Fund;
- expenses of \$21.9 million (2020 - nil) were recognized for advertising undertaken to raise awareness of various aspects of the pandemic and the related measures;
- the Department indemnified the Bank of Canada for losses the Bank may sustain under certain of the Bank's asset purchase programs implemented to support liquidity and the proper functioning of Canadian debt markets. As at March 31, 2021 the cost of the outstanding securities covered by these indemnities is \$273.8 billion (2020 - \$570 million);
- the Department has outstanding loans of \$5.0 billion as at March 31, 2021 (2020 - \$5.0 billion) to the Canada Mortgage and Housing Corporation (CMHC) for CMHC's purchases of *National Housing Act* Mortgage Backed Securities to support liquidity and access to credit in the Canadian financial system; and
- the Department provided funding of \$420 million (2020 - nil) to the Canada Enterprise Emergency Funding Corporation (CEEFC), a federal Canadian Crown corporation mandated to administer the Large Employer Emergency Financing Facility (LEEFF). The LEEFF provides emergency funding support for large Canadian enterprises facing financial challenges in light of the economic impact of the pandemic. The Department's funding took the form of preferred shares in the CEEFC, which are not recognized in these financial statements. Subsequent to March 31, 2021, the maximum cumulative funding that may be provided by the Department increased from \$5.0 billion to \$10.0 billion, with the Department providing additional funding of \$2.35 billion to CEEFC in the period ended July 31, 2021.

To fund these and other Government measures, unmatured debt significantly increased to \$1,119.7 billion as at March 31, 2021, a \$341.8 billion (44%) increase from March 31, 2020.

## 30. Comparative information

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



**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 2020-21 (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 2020-21 *Departmental Results Report* and the 2020-21 *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 2020-21

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 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. The impact is more prevalent on controls relating to the FAA Sections 32 and 34. The Audits of Goods and Services Related to COVID-19 conducted by the Internal Audit Directorate did not find any significant issue and that expenses incurred have been processed in compliance with applicable legislation, and Treasury Board policies and guidance.

#### On-going monitoring of key controls:

The Department assesses the design and operational effectiveness<sup>1</sup> 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. This means that not all controls are tested on an annual basis, but follow a rotational, risk-based approach in association with their inherent level of risk.

This year, the Department completed its reassessment of entity-level controls, IT-general controls under departmental management and the following business processes. In August 2021, a number of changes were made at the Assistant Deputy Minister level. As senior management is the primary source of these controls, the internal control group will complete a full re-assessment of entity-level controls in the 2021-22 fiscal year.

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<sup>1</sup> 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.

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	Not performed <sup>2</sup>
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.

### **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

<sup>2</sup> Payroll & Benefits: During the 2019–20 fiscal year the internal control group identified areas for improvement in relation to appropriate signing authority on Section 34 of the Financial Administration Act (FAA) for certain pay transactions as well as documentation. The review and assessment of the payroll and benefits process was not performed as planned. This was not completed as to allow impacted parties to engage on consultations within the Department to achieve consensus on the intended best state on the management action plans to resolve the issues with FAA Section 34. Human Resources is currently in the process to complete the agreed implementation changes. Internal Control will resume the review and perform testing in 2021-22 to assess the design and operating effectiveness

**Service arrangements relevant to the financial statements - IT-General Controls**

SAP environment: The service-provider (TBS) provides an annual CSAE 3416<sup>3</sup> report prepared by an external auditor on the state of internal controls in the shared SAP environment. In January 2020, the SAP financial system was upgraded and moved to a cloud environment, and the audit scope was expanded by adding eighteen (18) controls to access controls over the cloud environment. This audit is important to ensure the Department is able to rely on the SAP system in advance of new public sector accounting standards on financial instruments, effective **April 1, 2022**.

Consistent with prior years, the CSAE 3416 report was qualified. In this year's report, there were sixteen (16) control exceptions (compared to seventeen (17) in the prior year), five (5) exceptions were reported as resolved by March 31, 2021. Some unresolved controls are deemed significant, which if not fixed would result in not being able to rely on the SAP system.

Over the 2021-22 fiscal year, the Department and the OAG will continue to follow-up on TBS Management Action Plans to ensure that corrective action has been taken on the deficiencies identified.

**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	Level of Risk	2021-22	2022-23	2023-24
Transfer payments	High	X	X	X
Domestic debt	High	X	X	X
Crown borrowing	High	X	X	X
International organizations	High	X	X	X
Official International Reserves	High	X	X	X
Operating expenses	Medium	X	X	X
Domestic coinage	Medium	X		
Payroll & benefits	High	X	X	X

<sup>3</sup> 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.