Department of Finance Canada
Financial statements (Unaudited)

For the year ended March 31, 2022

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, 2022, 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, 2022 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 1, 2022

Christopher Veilleux, Chief Financial Officer

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

(in thousands of dollars)	2022	2021
Liabilities		
Deposit liabilities (note 4)	1,882,973	943,747
Accounts payable and accrued liabilities (note 5)	3,530,067	5,264,537
Taxes payable under tax collection agreements (note 6)	26,189,035	10,049,311
Interest payable (note 7)	4,604,456	4,260,163
Notes payable to international organizations (note 8)	83,774	84,213
Matured debt (note 9)	505,738	438,508
Unmatured debt (note 10)	1,237,681,634	1,119,689,497
Long-term annuity liability (note 12)	1,791,259	1,860,252
Employee future benefits (note 13)	3,226	3,640
Total gross liabilities	**1,276,272,162**	**1,142,593,868**
Liabilities owed on behalf of government (note 14)	(83,774)	(84,213)
Total net liabilities	**1,276,188,388**	**1,142,509,655**
Financial assets		
Due from Consolidated Revenue Fund	4,705,668	4,434,473
Cash held as collateral (note 15)	505,807	1,365,914
Coin inventory	14,628	7,271
Accounts receivable (note 16)	300,252	271,570
Taxes receivable under tax collection agreements (note 6)	14,973,875	17,207,939
Foreign exchange accounts (note 17)	104,031,013	92,622,422
Loans to Crown corporations (note 18)	73,636,770	66,492,044
Other loans receivable (note 19)	2,411,500	2,372,059
Investments and capital share subscriptions (note 20)	-	-
Total gross financial assets	**200,579,513**	**184,773,692**
Financial assets held on behalf of government (note 14)	(3,032,557)	(4,635,315)
Total net financial assets	**197,546,956**	**180,138,377**
Departmental net debt	**1,078,641,432**	**962,371,278**
Nonfinancial assets		
Tangible capital assets (note 23)	9,070	9,954
Prepaid expenses	4	2
Total nonfinancial assets	**9,074**	**9,956**
Departmental net financial position	**(1,078,632,358)**	**(962,361,322)**

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 1, 2022

Christopher Veilleux, 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)	**2022 Planned results**	**2022**	**2021**
Expenses			
Economic and Fiscal Policy	99,780,935	104,557,586	122,643,818
Internal Services	69,993	74,802	77,939
Total expenses	**99,850,928**	**104,632,388**	**122,721,757**
Revenues			
Investment income	1,313,967	1,250,500	3,103,165
Interest on bank deposits	192,015	271,510	214,047
Guarantee fees	164,798	147,387	161,955
Sale of domestic coinage	117,241	141,318	100,847
Net foreign currency gain	-	124,579	-
Other income	73,048	88,234	70,551
Revenues earned on behalf of government (note 28)	(1,861,069)	(2,023,509)	(3,650,565)
Total revenues	**-**	**19**	**-**
Net cost of operations before government funding and transfers	**99,850,928**	**104,632,369**	**122,721,757**
Government funding and transfers			
Net cash provided to government		(11,937,409)	(248,187,577)
Change in due from Consolidated Revenue Fund		271,195	213,394
Services provided without charge by other government departments (note 26)		27,547	26,929
Net cost of operations after government funding and transfers		**116,271,036**	**370,669,011**
Departmental net financial position - beginning of year		**(962,361,322)**	**(591,692,311)**
Departmental net financial position - end of year		**(1,078,632,358)**	**(962,361,322)**

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)	**2022**	**2021**
Net cost of operations after government funding and transfers	**116,271,036**	**370,669,011**
Changes due to non-financial assets		
Tangible capital assets	(884)	(864)
Prepaid expenses	2	(38)
Total change due to non-financial assets	**(882)**	**(902)**
Net increase in departmental net debt	**116,270,154**	**370,668,109**
Departmental net debt - beginning of year	**962,371,278**	**591,703,169**
Departmental net debt - end of year	**1,078,641,432**	**962,371,278**

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)	2022	2021
Operating activities		
Net cost of operations before government funding and transfers	104,632,369	122,721,757
Non-cash items:		
Unrealized foreign exchange gains on debt	2,199,304	8,529,832
Unrealized foreign exchange losses on the foreign exchange accounts	(3,333,126)	(8,242,828)
Amortization of discounts and premiums on unmatured debt	(3,414,082)	(1,559,435)
Long-term annuity liability		
Adjustment to the department's obligation	-	(119,721)
Net accretion of long-term annuity liability	(31,563)	(30,796)
Total long-term annuity liability	(31,563)	(150,517)
Services provided without charge by other government departments	(27,547)	(26,929)
Amortization of discounts on loans to Crown corporations	6,563	10,553
Amortization of discounts on other loans receivable	1,705	4,147
Amortization of tangible capital assets	(905)	(913)
Change in cash collateral pledged to and by counterparties	(1,802,144)	(9,286,151)
Other variations in Statement of Financial Position:		
Net (decreases) increases in assets	(2,235,521)	8,075,636
Net increases in liabilities	(14,746,322)	(12,961,368)
Payment of long-term annuity liability	100,556	102,415
Cash used in operating activities	**81,349,287**	**107,216,199**
Capital investment activities		
Acquisition of tangible capital assets, net of proceeds of disposal	2	49
Cash used in capital investment activities	**2**	**49**
Investing activities		
Investments in foreign exchange accounts	57,734,620	47,709,544
Repayments from foreign exchange accounts	(41,160,989)	(52,004,981)
Issuance of loans to Crown corporations	61,012,560	45,252,750
Repayment of loans to Crown corporations	(53,874,397)	(47,666,108)
Issuance of other loans receivable	-	7,558
Repayment of other loans receivable	(153,903)	-
Cash used in (provided by) investing activities	**23,557,891**	**(6,701,237)**
Financing activities		
Net issuance of cross-currency swaps	410,864	3,013,938
Issuance of debt	(741,354,992)	(1,082,682,643)
Repayment of debt	624,099,539	730,966,117
Cash provided by financing activities	**(116,844,589)**	**(348,702,588)**
Net cash provided to the Government of Canada	**(11,937,409)**	**(248,187,577)**

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 Canada (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 of Canada* 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 *Economic and Fiscal Update*, 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 *2021-22 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 $1,000, and for 100 years for balances over $1,000.
- 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-respendable 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-respendable revenues. As a result, non-respendable 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 multiemployer 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:

Asset class	Amortization period
Computer hardware	5 to 10 years
Informatics software	3 years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement
Machinery and equipment	5 to 10 years
Motor vehicles	3 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% 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)	2022	2021
Authorities provided		
Voted authorities	**144,831**	**3,441,598**
Statutory authorities		
Transfer payments	82,865,117	93,274,051
Interest on unmatured debt	17,865,673	15,095,812
Other interest costs	5,122,311	5,329,761
Purchase of domestic coinage	84,598	85,749
Other	390,165	639,388
Total statutory authorities	**106,327,864**	**114,424,761**
Non-budgetary authorities		
Loans to Crown corporations	61,027,128	45,252,808
Investment in Crown corporation	2,670,000	420,000
Payments to international organizations	581,497	798,469
Payments to other organizations	18,000	211,000
Total non-budgetary authorities	**64,296,625**	**46,682,277**
Total authorities provided	**170,769,320**	**164,548,636**
Less:		
Authorities available for future years	**(68,591)**	**(68,572)**
Lapsed authorities	**(16,052)**	**(137,559)**
Current year authorities used	**170,684,677**	**164,342,505**

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)	2022	2021
Net cost of operations before government funding and transfers	**104,632,369**	**122,721,757**
Adjustments for items affecting net cost of operations but not affecting authorities		
Transfer payment accruals		
Transfers to provinces and territories to address health care system pressures	(2,000,000)	(4,000,000)
Transfers to provinces and territories in relation to transit and housing, and for school ventilation improvement	(850,000)	-
Transfers to provinces and territories for COVID-19 vaccine rollout	-	(1,000,000)
Other transfer payment accruals	(40,705)	(142,686)
Total transfer payment accruals	(2,890,705)	(5,142,686)
Allowances for concessionary terms and valuation on loans, investments and advances	(33,200)	(19,110)
Services provided without charge by other government departments	(27,547)	(26,929)
Inventory charged to program expense	7,357	(1,173)
Amortization of tangible capital assets	(905)	(913)
Employee future benefits	414	538
Other expenses not being charged to authorities	(1,680)	(4,993)
Total items affecting net cost of operations but not affecting authorities	**(2,946,266)**	**(5,195,266)**
Adjustments for items not affecting net cost of operations but affecting authorities		
Advances to Crown corporations and agencies	61,045,128	45,263,808
Payment of prior year accruals		
To address health care system pressures and COVID-19 vaccine rollout	5,000,000	-
Federal-Provincial Fiscal Arrangements	85,626	-
To establish a Canadian Securities Regulation Regime	-	40,331
Total payment of prior year accruals	5,085,626	40,331
Investment in Canada Enterprise Emergency Funding Corporation	2,670,000	420,000
Youth Allowance Recovery received in advance	(575,544)	-
Loans made to the International Monetary Fund	360,654	798,469
Payments to the Canada Infrastructure Bank	210,950	52,947
Payments under the Hibernia Dividend Backed Annuity Agreement	100,556	-
Foreign exchange losses	73,855	16,426
Payment to the Canadian Commercial Corporation	13,000	4,000
Loan made to the Orphan Well Association	-	200,000
Other	14,349	20,033
Total items not affecting net cost of operations but affecting authorities	**68,998,574**	**46,816,014**
Current year authorities used	**170,684,677**	**164,342,505**

4. Deposit liabilities

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

(in thousands of dollars)	2022	2021
Canada Hibernia Holding Corporation[1]	102,255	102,081
Canada Eldor Inc.[2]	9,309	12,293
Collateral deposits[3]	1,771,409	829,373
Total deposit liabilities	**1,882,973**	**943,747**

[1] Canada Hibernia Holding Corporation (CHHC) deposit liabilities are demand deposits related to funds deposited to the CRF by CHHC to defray future decommissioning and abandonment costs that will be incurred upon closure of the Hibernia oil field. Abandonment is expected to occur by 2049 based on the useful lives of the assets. Interest accrues into the deposit balance at a rate equivalent to 90% of the bi-weekly 3-month treasury bill tender rate.

[2] Canada Eldor Inc. (CEI) deposit liabilities are demand deposits related to funds deposited to the CRF pursuant to subsection 129(1) of the *Financial Administration Act*. The funds will be used by CEI to pay for costs related to the decommissioning of former mine site properties in Saskatchewan and for retiree benefits of certain former employees. Interest accrues into the deposit balance at a rate equivalent to 90% of the bi-weekly 3-month treasury bill tender rate.

[3] 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)		2022	2021
Accounts payable	external parties[1]	79,122	125,787
	- other Government departments and agencies	14,160	127,292
Recoveries received in advance[2]		575,544	-
Accrued liabilities[3]		2,861,241	5,011,458
Total accounts payable and accrued liabilities		**3,530,067**	**5,264,537**

[1] Accounts payable to external parties include $52 million payable for transfer payments (2021 - $86 million).

[2] An amount of $575.5 million was received in respect of the Youth Allowance Recovery for the 2022-23 fiscal year. As the recovery was received in advance of the fiscal year to which it relates, it is recorded in accrued liabilities as at March 31, 2022 and will be recognized as a recovery in the Statement of Operations and Departmental Net Financial Position in the 2022-23 fiscal year.

[3] Accrued liabilities as at March 31, 2022 include $2,850 million payable for transfer payments to provinces and territories, of which $2,000 million is to address immediate health care system pressures, $750 million is to support municipalities facing municipal and other transit shortfalls and needs and to support housing supply and affordability, and $100 million for school ventilation improvement (2021 - $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 2022 were as follows:

(in thousands of dollars)	March 31, 2021	Receipts and other credits	Payments and other charges	March 31, 2022
Corporate taxes	3,154,005	34,817,786	23,463,935	14,507,856
Personal income taxes	11,415,822	92,245,348	91,032,399	12,628,771
Harmonized Sales Tax	(4,740,405)	37,159,315	33,635,681	(1,216,771)
First Nations Goods and Services Tax	-	23,371	23,371	-
First Nations Sales Tax	-	7,212	7,212	-
Cannabis Excise Duties[1]	219,889	577,007	527,717	269,179
Total taxes payable under tax collection agreements	**10,049,311**	**164,830,039**	**148,690,315**	**26,189,035**

[1] The majority of the provinces and the 3 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). Under the CCTAs, the federal portion of the cannabis duties is capped at $100 million per year for the first 24 months after implementation. The amount exceeding the cap is to be shared amongst participating provinces and territories based on their respective share of duties. A surplus was registered in the second year of implementation and transitional payments were made to participating provinces and territories in the fiscal year ending March 31, 2022.

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 2022 were as follows:

(in thousands of dollars)	March 31, 2021	Receipts and other credits	Settlements with the CRA	March 31, 2022
Corporate taxes	6,645,496	34,817,786	35,184,452	6,278,830
Personal income taxes	13,750,208	92,245,348	89,621,450	16,374,106
Harmonized Sales Tax	(2,682,709)	37,159,315	42,129,899	(7,653,293)
First Nations Goods and Services Tax	1,853	23,371	23,279	1,945
First Nations Sales Tax	617	7,212	7,302	527
Cannabis Excise Duties	170,413	577,007	534,548	212,872
Provincial benefit programs[1]	(677,939)	(5,580,130)	(6,016,957)	(241,112)
Total taxes receivable under tax collection agreements	**17,207,939**	**159,249,909**	**161,483,973**	**14,973,875**

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

7. Interest payable

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

(in thousands of dollars)	2022	2021
Domestic debt	4,231,499	3,871,136
Retail debt	311,957	330,400
Foreign debt	51,582	57,518
International Monetary Fund balances	9,418	1,109
Total interest payable	**4,604,456**	**4,260,163**

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)	2022	2021
Asian Infrastructure Investment Bank	49,781	50,042
International Bank for Reconstruction and Development	29,982	30,139
Multilateral Investment Guarantee Agency	4,011	4,032
Total notes payable to international organizations	**83,774**	**84,213**

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)	2022	2021
Retail debt[1]	502,193	434,485
Marketable bonds[2]	3,545	4,023
Total matured debt	**505,738**	**438,508**

1 Matured retail debt matured between 2010 and 2021 (2021 - between 2010 and 2020).

2 Matured marketable bonds matured between 2008 and 2016 (2021 - between 2007 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 3 months, 6 months, or 12 months; the Government of Canada may also issue treasury bills with terms to maturity ranging from 1 day to 3 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, 2022, outstanding domestic marketable bonds have remaining terms to maturity ranging from within 1 year to 43 years (2021 – within 1 year to 44 years). Certain marketable bonds (real return bonds) pay semi-annual interest based on a real rate of interest (interest payments are adjusted for changes in the consumer price index). 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. As at March 31, 2022, all retail debt has reached maturity; consequently all unredeemed retail debt outstanding as at that date is included in matured debt.

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, 2022, outstanding foreign marketable bonds have remaining terms to maturity ranging from within 1 year to 5 years (2021 - within 1 year to 4 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)			2022	2021
	Face value	Unamortized (discounts) / premiums	Carrying value	Carrying value
Domestic debt				
Treasury bills[1]	187,400,000	(503,724)	186,896,276	218,688,896
Marketable bonds	1,030,633,778	7,976,865	1,038,610,643	884,840,056
Retail debt	-	-	-	298,973
Total domestic debt	**1,218,033,778**	**7,473,141**	**1,225,506,919**	**1,103,827,925**
Foreign debt				
Canada bills	2,574,723	(1,967)	2,572,756	4,053,230
Marketable bonds	11,876,425	(27,780)	11,848,645	11,295,194
Medium term notes	-	-	-	62,835
Total foreign debt	**14,451,148**	**(29,747)**	**14,421,401**	**15,411,259**
Total domestic and foreign debt	**1,232,484,926**	**7,443,394**	**1,239,928,320**	**1,119,239,184**
Cross-currency swap revaluation[2]				
Payables			89,620,865	76,828,104
Receivables			(91,867,551)	(76,377,791)
Total cross-currency swap revaluation			**(2,246,686)**	**450,313**
Total unmatured debt			**1,237,681,634**	**1,119,689,497**
			Fair value	**Fair value**
Domestic debt			1,213,365,152	1,145,963,824
Foreign debt			14,062,689	15,755,897

[1] Treasury bills include $59.0 billion (2021 - $47.6 billion) in 3-month bills, $40.6 billion (2021 - $37.8 billion) in 6-month bills, and $87.8 billion (2021 - $133.4 billion) in 12-month bills.

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

Cross-currency swap revaluation includes $4,714.7 million (2021 - $2,793.7 million) related to individual cross-currency swaps that have a net asset value to the government upon revaluation and $2,468.0 million (2021 - $3,244.0 million) related to individual cross-currency swaps that have a net liability value, resulting in a total net cross-currency swap revaluation liability of $2,246.7 million (2021 - $450.3 million).

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

(in thousands of dollars)	Canadian dollars[1]	US dollars[2]	Total
2023	369,106,022	6,325,174	375,431,196
2024	152,966,232	-	152,966,232
2025	105,065,381	3,750,450	108,815,831
2026	102,733,858	-	102,733,858
2027	62,155,185	4,375,525	66,530,710
2028 to 2065	426,007,099	-	426,007,099
Total contractual maturities of unmatured debt	**1,218,033,777**	**14,451,149**	**1,232,484,926**

[1] Includes treasury bills and marketable bonds denominated in Canadian dollars.

[2] Includes Canada bills and marketable bonds denominated in US dollars.

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

	2022	2021
	%	%
Treasury bills	0.60	0.21
Marketable bonds - domestic	1.52	1.63
Retail debt	-	0.71
Canada bills	0.33	0.07
Marketable bonds - foreign	1.42	2.08
Medium term notes	-	0.18

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.

The remaining terms to maturity of the cross-currency swaps outstanding as at March 31, 2022 range from within 1 year to 10 years (2021 - within 1 year to 10 years). Cross-currency swap maturities, stated in terms of the foreign payable-leg notional amounts outstanding and translated into Canadian dollars as at March 31, 2022, are as follows:

(in thousands of dollars)	
2023	7,128,262
2024	8,868,373
2025	7,447,002
2026	8,148,704
2027	12,496,082
2028 to 2032	45,532,442
Total cross-currency swaps notional amounts	89,620,865

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, 2022, the total notional amount of outstanding foreign exchange forward contracts, stated in terms of the foreign amount to be paid at maturity and translated into Canadian dollars as at March 31 was $4.7 billion (2021 - $4.2 billion). The forward contracts outstanding had remaining terms to maturity of under 2 months as at March 31, 2022 (2021 - under 2 months).

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)**
(in thousands of dollars)	**Bank of Canada amortized cost**	**Fair value**	
Bond purchase program indemnity agreements			
As at March 31, 2022			
Government of Canada bonds	319,519,590	299,320,528	**(20,199,062)**
Provincial bonds	15,129,416	14,249,228	**(880,188)**
Corporate bonds	158,770	155,294	**(3,476)**
Total bond purchase program indemnity agreements	**334,807,776**	**313,725,050**	**(21,082,726)**
As at March 31, 2021			
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**
Total bond purchase program indemnity agreements	**271,759,502**	**263,996,305**	**(7,763,197)**

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:

	Fair value of Department of Finance indemnity agreement derivatives (net)		
	Relating to securities held by the Bank of Canada in:		
(in thousands of dollars)	**Gain position**	**Loss position**	**Fair value (net)**
Bond purchase program indemnity agreements			
As at March 31, 2022			
Government of Canada bonds	-	(20,199,062)	**(20,199,062)**
Provincial bonds	-	(880,188)	**(880,188)**
Corporate bonds	89	(3,565)	**(3,476)**
Total bond purchase program indemnity agreements	**89**	**(21,082,815)**	**(21,082,726)**
As at March 31, 2021			
Government of Canada bonds	90,185	(7,532,218)	**(7,442,033)**
Provincial bonds	5,952	(328,996)	**(323,044)**
Corporate bonds	2,008	(128)	**1,880**
Total bond purchase program indemnity agreements	**98,145**	**(7,861,342)**	**(7,763,197)**

Losses paid and gains received by the department under the bond purchase program indemnity agreements in 2022 were negligible (2021 - gains received of $0.2 million).

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.

The department's obligation under the HDBA is to pay Newfoundland and Labrador each year a stated annual payment, which over the term of the HDBA total $3.3 billion, less the provincial taxes payable to Newfoundland and Labrador in respect of that year by Canada Hibernia Holding Corporation (CHHC). 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.

Newfoundland and Labrador is obligated under the HDBA to pay the Government of Canada 8 fixed annual payments of $100 million each, starting in 2045 and ending in 2052. At the government's discretion, the payments may be made by way of set-off against (i) the taxes payable to Newfoundland and Labrador under tax collection agreements; or (ii) the department's 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)	**2022**	**2021**
Department of Finance obligation	2,258,673	2,318,524
Provincial obligation	(467,414)	(458,272)
Total long-term annuity liability	**1,791,259**	**1,860,252**

Interest expense of $40.7 million (2021 - $39.8 million) and interest revenue of $9.1 million (2021 - $9.0 million) were recognized in the Statement of Operations and Departmental Net Financial Position. In 2021, 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.

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**
2023	95,002		95,002
2024	148,488	-	148,488
2025	188,398	-	188,398
2026	225,107	-	225,107
2027	208,996	-	208,996
2028 to 2056	1,884,627	(800,000)	1,084,627
Total estimated payments under the long-term annuity liability	**2,750,618**	**(800,000)**	**1,950,618**

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% per year of pensionable service, times the average of the best 5 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 $9.0 million (2021 - $9.4 million). For group 1 members, the expense represents approximately 1.01 times the employee contributions (2021 - 1.01) and, for group 2 members, approximately 1.00 times the employee contributions (2021 - 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)	**2022**	**2021**
Accrued severance benefits obligation, beginning of year	3,640	4,177
Expense recognized	(260)	(86)
Benefits paid	(154)	(451)
Accrued severance benefits obligation, end of year	**3,226**	**3,640**

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)	**2022**	**2021**
Liabilities owed on behalf of government		
Notes payable to international organizations	83,774	84,213
Total liabilities owed on behalf of government	**83,774**	**84,213**
Financial assets held on behalf of government		
Accounts receivable	180,393	142,876
Foreign exchange accounts – accrued net revenue from the Exchange Fund Account	709,321	2,541,235
Other loans receivable	2,142,843	1,951,204
Investments and capital share subscriptions	-	-
Total financial assets held on behalf of government	**3,032,557**	**4,635,315**

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, 2022 the department had pledged total collateral of $505.8 million (2021 - $1,365.9 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)	**2022**	**2021**
Accrued interest income – loans to Crown corporations	126,634	107,836
Foreign exchange forward contracts	119,859	128,694
Accrued investment income	46,256	29,883
Receivables		
Other government departments and agencies	5,916	3,789
External parties	1,587	1,368
Total accounts receivable	**300,252**	**271,570**

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)	**2022**	**2021**
	Carrying value	
Exchange Fund Account		
Investments held in the Exchange Fund Account	126,389,815	95,048,175
Accrued net revenue from the Exchange Fund Account	709,321	2,541,235
Total investments held in Exchange Fund Account (a)	127,099,136	97,589,410
Subscriptions to the International Monetary Fund (b)	19,051,525	19,632,414
Loans receivable from the International Monetary Fund (c)	131,689	197,355
Notes payable to the International Monetary Fund (d)	(13,642,590)	(14,132,556)
Special drawing rights allocations (e)	(28,608,747)	(10,664,201)
Total foreign exchange accounts	**104,031,013**	**92,622,422**
	Fair value	
Total foreign exchange accounts	**101,168,877**	**94,156,640**

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)	**2022**	**2021**
US dollar cash on deposit	4,595,661	1,389,554
US dollar marketable securities	63,690,155	53,571,454
Euro cash on deposit	386,699	673,783
Euro marketable securities	14,079,204	17,376,156
British pound sterling cash on deposit	353,468	196,446
British pound sterling marketable securities	8,121,709	8,054,955
Japanese yen cash on deposit	18,680	59,979
Japanese yen marketable securities	5,861,820	5,427,333
Special drawing rights (e)	29,991,740	10,839,750
Total investments held in Exchange Fund Account	**127,099,136**	**97,589,410**

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. As at March 31, 2022, the Exchange Fund Account had pledged collateral of marketable securities having a carrying value of $409 million and fair value of $401 million (2021 – carrying value and fair value of $411 million).

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 5 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.

Subscriptions to the IMF during 2022 decreased by $580.9 million (2021 - $1,545.6 million) 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, 2022 is SDR 7,747.4 million (2021 - SDR 7,747.4 million). As at March 31, 2022, SDR 76.2 million or $131.7 million (2021 - SDR 110.8 million or $197.4 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, 2022 is SDR 3,532 million (2021 - SDR 3,532 million). As at March 31, 2022, no lending (2021 - 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 reissue, 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 1% of Canada’s subscription) held on deposit at the Bank of Canada.

Notes payable to the IMF decreased during 2022 by $490.0 million (2021 - $3,024.0 million) due to $1,173.3 million in net repayments, partially offset by an increase of $683.3 million due to foreign exchange revaluation (2021 - net repayments of $1,525.9 million and a decrease of $1,498.1 million due to foreign exchange revaluation).

e) Special drawing rights allocations

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

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

As at March 31, 2022, SDR allocations to Canada are SDR 16,554.0 million, which translated into Canadian dollars of $28,608.7 million at that date (31 March 2021 – SDR 5,988.1 million or C$10,664.2 million). During the year, the IMF allocated to Canada SDRs of 10,565.9 million having a Canadian dollar value of $19,007.1 million (2021- nil). This was partially offset by a decrease due to foreign exchange revaluation of $1,062.6 million (2021 - $839.5 million).

18. Loans to Crown corporations

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

(in thousands of dollars)			2022	2021
	Face value	**Unamortized discounts**	**Carrying value**	**Carrying value**
Farm Credit Canada	37,456,000	(9,069)	37,446,931	34,340,093
Business Development Bank of Canada	20,072,000	(386)	20,071,614	18,225,876
Canada Mortgage and Housing Corporation	16,118,367	(142)	16,118,225	13,926,075
Total loans to Crown corporations	**73,646,367**	**(9,597)**	**73,636,770**	**66,492,044**
			Fair value	
Total loans to Crown corporations			**72,026,898**	**66,936,238**

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**
2023	7,399,000	15,284,000	1,104,417	23,787,417
2024	4,884,500	1,140,000	789,472	6,813,972
2025	4,181,500	1,770,000	647,993	6,599,493
2026	3,989,000	404,000	4,825,372	9,218,372
2027	3,105,000	585,000	322,635	4,012,635
2028 and thereafter	13,897,000	889,000	8,428,478	23,214,478
Total loans to Crown corporations	**37,456,000**	**20,072,000**	**16,118,367**	**73,646,367**

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

	Farm Credit Canada	Business Development Bank of Canada	Canada Mortgage and Housing Corporation	Weighted average
	%	%	%	%
As at March 31, 2022				
Fixed interest rate loans				
Short-term	0.70	0.60	0.24	0.64
Long-term	1.16	1.38	1.10	1.16
Floating interest rate loans				
Short-term	-	0.38	-	0.38
Long-term	0.38	-	-	0.38
As at March 31, 2021				
Fixed interest rate loans				
Short-term	0.17	0.15	0.11	0.16
Long-term	1.12	1.49	0.73	1.02
Floating interest rate loans				
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)			2022	2021
	Face value	Unamortized discounts / valuation allowances	Carrying value	Carrying value
Government business enterprises				
Canada Lands Company CLC Limited (a)	242,537	(1,791)	240,746	393,156
Parc Downsview Park Inc. (b)	43,000	(15,089)	27,911	27,699
Total government business enterprises	**285,537**	**(16,880)**	**268,657**	**420,855**
Provincial and territorial governments				
Federal-provincial fiscal arrangements (c)	319,824	(22,574)	297,250	352,225
Winter Capital Projects Fund (d)	2,900	(2,900)	-	-
Municipal Development and Loan Board (e)	315	-	315	315
Total provincial and territorial governments	**323,039**	**(25,474)**	**297,565**	**352,540**
International and other organizations				
International Monetary Fund – Poverty Reduction and Growth Trust (f)	1,269,549	(10,000)	1,259,549	1,342,101
International Development Association – concessional partner loan (g)	359,681	(31,900)	327,781	-
Orphan Well Association (h)	200,000	(17,052)	182,948	181,563
International Finance Corporation – Catalyst Fund (i)	75,000	-	75,000	75,000
Canadian Commercial Bank (j)	42,202	(42,202)	-	-
Global Environment Facility (k)	10,000	(10,000)	-	-
Total international and other organizations	**1,956,432**	**(111,154)**	**1,845,278**	**1,598,664**
Total other loans receivable	**2,565,008**	**(153,508)**	**2,411,500**	**2,372,059**

The currencies in which other loans receivable are denominated and the Canadian dollar equivalent as at March 31, 2022 are presented in the following table.

(in thousands of stated currency)	Face value, currency of denomination	Face value, Canadian dollar equivalent	Exchange rate	Proportion
Currency of denomination				
Special drawing rights	734,605	1,269,549	1.7282	50%
Canadian dollars	935,778	935,778	n.a.	36%
United States dollars	287,710	359,681	1.2502	14%
		2,565,008		**100%**

Government business enterprises

Canada Lands Company Limited (CLCL) is a self-financing federal Crown corporation incorporated under the *Canada Business Corporations Act*. CLCL's objectives are to ensure the commercially oriented, orderly disposition of selected surplus federal real properties, 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.

No new promissory notes were issued during the year (2021 - $7.6 million). Repayments of $153.9 million were received during the year (2021 - nil). Discount amortization of $1.5 million (2021 - $3.9 million) was recognized in income.

b) Parc Downsview Park Inc.

Parc Downsview Park Inc. owns a unique urban recreational green space located in Toronto, Ontario. 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 promissory notes were issued or repaid during the year (2021 – no notes issued or repaid). Discount amortization of $0.2 million (2021 - $0.2 million) was recognized in income.

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 $5.4 million (2021 - $37.4 million) and repayments of $60.4 million (2021 - $28.4 million).

d) 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% per year and are repayable either in annual installments over 5 to 20 years, or at maturity.

e) 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% per year and are repayable in annual or semiannual installments over 15 to 50 years.

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 relating to the Poverty Reduction and Growth Trust is SDR 2.0 billion.

During the year, transactions included repayments of $43.7 million (2021 - $27.4 million) and an exchange revaluation adjustment which resulted in a decrease of $38.9 million (2021 - $104.5 million). There were no issuances during the year (2021 - $798.4 million).

g) International Development Association (IDA) – concessional partner loan

In connection with the 19th replenishment of the resources of the IDA, Canada agreed to provide a loan of US$575.4 million to the IDA under the IDA's concessional partner loan program. Of the total loan committed to, US$287.7 million was advanced to the IDA in 2022 and US$287.7 million will be advanced in 2023.

The loan bears interest at 1.2% per year, payable semi-annually. Loan principal is repayable in 20 equal semi-annual instalments beginning in 2027 and ending in 2047. At Canada's request and with agreement of the IDA, the loan already advanced, or the advances to be made, may be converted into Canadian dollars. Such a conversion would result in a modification to the interest rate, and would require the payment by Canada of a transaction fee and the reimbursement to the IDA of any fees, costs or losses incurred by the IDA.

The loan advanced during the year of US$287.7 million translated upon issuance into $360.7 million Canadian dollars. To reflect the concessionary terms of the loan, a discount of $33.0 million was recognized upon issuance. Additionally, discount amortization of $1.3 million was recognized in income during the year, and as at March 31, 2022 exchange revaluation and other valuation adjustments resulted in decreases of $1.0 million and $0.2 million, respectively.

h) Orphan Well Association

Canada made an unconditionally repayable contribution of $200 million during the year ended March 31, 2021 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 16 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 $1.4 million was recognized in income (2021 - $0.7 million).

i) 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.

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.

k) 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.

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)			2022	2021
	Face value	Valuation allowances	Carrying value	Carrying value
International Development Association	13,785,498	(13,785,498)	-	-
International Bank for Reconstruction and Development	805,062	(805,062)	-	-
International Finance Corporation	325,644	(325,644)	-	-
European Bank for Reconstruction and Development	278,549	(278,549)	-	-
Asian Infrastructure Investment Bank	257,200	(257,200)	-	-
Multilateral Investment Guarantee Agency	13,827	(13,827)	-	-
Total investments and capital share subscriptions	**15,465,780**	**(15,465,780)**	**-**	**-**

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.

		2022			2021		
(in thousands of stated currency)		Paid-in	Callable	Total	Paid-in	Callable	Total
International Development Association	CAD	13,785,498	-	**13,785,498**	13,362,258	-	**13,362,258**
International Bank for Reconstruction and Development (IBRD)[1]	USD	619,498	7,879,841	**8,499,339**	619,498	7,879,841	**8,499,339**
International Finance Corporation							
Cumulative cash contributions	USD	257,280	-	**257,280**	81,342	-	**81,342**
Designated paid-in capital[2]	USD	538,857	-	**538,857**	538,857	-	**538,857**
Total International Finance Corporation	USD	796,137	-	**796,137**	620,199	-	**620,199**
European Bank for Reconstruction and Development (EBRD)[3]	EUR	212,850	807,640	**1,020,490**	212,850	807,640	**1,020,490**
Asian Infrastructure Investment Bank	USD	199,100	796,300	**995,400**	199,100	796,300	**995,400**
Multilateral Investment Guarantee Agency	USD	10,732	45,802	**56,534**	10,732	45,802	**56,534**

1 The capital shares of the IBRD are denominated in US dollars. Canada contributed paid-in capital using both US (US$604.2 million) and Canadian (C$16.4 million) dollars.

2 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 US$538.9 million paid-in capital designated on the conversion.

3 The capital shares of the EBRD are denominated in euros. Canada contributed paid-in capital using US dollars (US$216.2 million).

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). An additional contribution to the IDA of $423.2 million was made during the year (2021 - $423.2 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. An additional investment of US$175.9 million (C$220.8 million) in the capital shares of IFC of was made during the year (2021 – nil).

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.

Asian Infrastructure Investment Bank (AIIB)

Canada is a member of the AIIB pursuant to the *Asian Infrastructure Investment Bank Agreement Act* and as noted in various appropriation acts. 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.

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.

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.

	2022		2021	
(in thousands of dollars)	Carrying value	Fair value	Carrying value	Fair value
Assets				
Foreign exchange accounts	104,031,013	101,168,877	92,622,422	94,156,640
Loans to Crown corporations	73,636,770	72,026,898	66,492,044	66,936,238
Foreign exchange forward contracts (net)	119,859	119,237	128,694	129,563
Liabilities				
Unmatured debt				
Total domestic and foreign debt	1,239,928,320	1,227,427,841	1,119,239,184	1,161,719,721
Cross-currency swaps (net)[1]	(2,246,686)	(369,872)	450,313	1,108,938
Total unmatured debt	1,237,681,634	1,227,057,969	1,119,689,497	1,162,828,659
Bond purchase program indemnity agreement derivatives	-	21,082,726	-	7,763,197

1 For presentation purposes, cross-currency swaps (net) are included in total unmatured debt.

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

The fair values of the foreign exchange forward contracts and cross-currency swaps represent the estimated amounts that the government would receive or pay if the contracts were terminated on March 31, based on market factors as at that date. The fair values are established by discounting the expected future cash flows of the forward contracts and swaps, calculated from the contractual or notional amounts and year-end market interest and exchange rates. A positive (negative) fair value indicates that the government would receive (make) a net 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 2-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 2-way CSA agreements as at March 31, 2022 is presented in the following table.

	Nominal amount		Fair value	
(in thousands of dollars)	Posted by Government of Canada	Posted by counterparties	Posted by Government of Canada	Posted by counterparties
Cash	505,807	1,771,409	505,807	1,771,409
Securities	-	2,206,211	-	2,362,756
Total	**505,807**	**3,977,620**	**505,807**	**4,134,165**

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 standalone credit profiles at year-end.

(in thousands of dollars)	2022	2021
A+	27,245,421	22,021,017
A	56,271,248	37,666,515
A-	10,769,067	21,331,572
Total notional amounts of swap and foreign exchange forward contracts[1]	**94,285,736**	**81,019,104**

[1] 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, 2022, 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 4 currency portfolios: US dollar, euro, British pound sterling, and Japanese yen. As at March 31, 2022, a 1% 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 $10.6 million for the US dollar portfolio (2021 - $11.2 million loss), a foreign exchange gain of $0.1 million for the euro portfolio (2021 - $1.9 million loss), a foreign exchange loss of $0.3 million for the Japanese yen portfolio (2021 - $0.7 million loss) and a foreign exchange loss of $4.3 million for the British pound sterling portfolio (2021 - $4.6 million loss).

23. Tangible capital assets

The change in tangible capital assets during 2022 is presented in the following table.

(in thousands of dollars)	Informatics equipment	Informatics software	Leasehold improvements	Machinery and equipment	Motor vehicles	Total
Cost						
Balance, March 31, 2021	3,634	63	11,565	2,747	90	18,099
Acquisitions	-	-	-	-	45	45
Disposals and write-offs	-	-	-	-	(90)	(90)
Balance, March 31, 2022	**3,634**	**63**	**11,565**	**2,747**	**45**	**18,054**
Accumulated amortization						
Balance, March 31, 2021	3,082	63	3,071	1,867	62	8,145
Amortization	168	-	463	262	12	905
Disposals and write-offs	-	-	-	-	(66)	(66)
Balance, March 31, 2022	**3,250**	**63**	**3,534**	**2,129**	**8**	**8,984**
Net book value						
Balance, March 31, 2021	552	-	8,494	880	28	9,954
Net change	(168)	-	(463)	(262)	9	(884)
Balance, March 31, 2022	**384**	**-**	**8,031**	**618**	**37**	**9,070**

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 as follows:

(in thousands of dollars)	2023	2024	2025	2026	2027	2028 and thereafter	Total
Transfer payments							
International Development Association	456,720	31,150	30,680	66,970	81,760	614,870	1,282,150
African Development Fund	19,894	21,008	21,181	21,562	21,459	307,831	412,935
	476,614	52,158	51,861	88,532	103,219	922,701	1,695,085
Other loans receivable							
International Development Association[1]	359,681	-	-	-	-	-	359,681
Total contractual obligations	**836,295**	**52,158**	**51,861**	**88,532**	**103,219**	**922,701**	**2,054,766**

[1] The department has agreed to provide a concessional partner loan totaling US$575.4M to the International Development Association. Of the loan, US$287.7M (C$360.7M) was advanced in 2022 and US$287.7M (C$359.7M translated at the March 31, 2022 exchange rate) will be advanced in 2023 and is a contractual obligation as at March 31, 2022.

25. Contingent liabilities

Contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. They are grouped into 3 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)	**2022**	**2021**
International Bank for Reconstruction and Development	9,850,984	9,902,597
European Bank for Reconstruction and Development	1,117,016	1,190,138
Asian Infrastructure Investment Bank	995,494	1,000,710
Multilateral Investment Guarantee Agency	57,260	57,560
Total callable share capital	**12,020,754**	**12,151,005**

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, 2022 there are two approved mortgage insurers under the PRMHIA: Sagen Mortgage Insurance Company Canada (formerly known as 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% of the original principal amount of the insured mortgage.

As at March 31, 2022, the aggregate outstanding principal amount of loans that are guaranteed under the PRMHIA is estimated at $292.6 billion (2021 - $289.9 billion). Any payment made by the Minister is subject to a deductible equal to 10% of the original principal amount of these loans, or $34.9 billion (2021 - $34.4 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 6 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 (C$147.5 million translated at the March 31, 2022 exchange rate).

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, 2022, no losses are anticipated with respect to this guarantee and no provision has been made (2021 - no losses anticipated).

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.

	Outstanding indemnified amount	
(in thousands of dollars)	**2022**	**2021**
Provincial Money Market purchase program	-	**2,033,142**
Commercial Paper purchase program	-	-
Total money market purchase program indemnity agreements	-	**2,033,142**

No losses were paid by the department under the money market purchase program indemnity agreements in 2022 (2021 - 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)	**2022**	**2021**
Accommodation	16,576	16,411
Employer’s contribution to the health and dental insurance plans	8,947	8,526
Legal services	2,024	1,992
Total services received without charge	**27,547**	**26,929**

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)	**2022**	**2021**
Expenses - other government departments and agencies		
Interest on superannuation and other accounts	5,102,756	5,320,955
Contributions to employee benefit plans	13,310	13,842
Professional and special services	6,747	7,426
Machinery and equipment	762	490
Information	478	151
Rentals	269	176
Other expenses	420	357
Salaries and wages (recoveries)	(1,997)	(1,540)
Total expenses – other government departments and agencies	**5,122,745**	**5,341,857**
Revenues – other government departments and agencies	**46**	**82**

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.

			Total	
(in thousands of dollars)	Economic and Fiscal Policy	Internal Services	2022	2021
Expenses				
Transfer payments				
Provinces and territories (a)	80,618,812	-	80,618,812	101,081,478
International organizations	780,416	-	780,416	473,785
Non-profit organizations	4,251	-	4,251	19,516
Total transfer payments	**81,403,479**	**-**	**81,403,479**	**101,574,779**
Interest and other costs				
Interest on unmatured debt (b)	17,846,221	-	17,846,221	15,089,238
Interest on superannuation and other accounts (c)	5,122,311	-	5,122,311	5,329,761
Other interest and costs	19,439	-	19,439	6,562
Total interest and other costs	**22,987,971**	**-**	**22,987,971**	**20,425,561**
Operating expenses (d)	88,893	74,680	163,573	177,607
Cost of domestic coinage sold	77,241	-	77,241	86,922
Net foreign currency loss	-	-	-	456,884
Other expenses	2	122	124	4
Total expenses	**104,557,586**	**74,802**	**104,632,388**	**122,721,757**
Revenues				
Investment income				
Exchange Fund Account net revenues	709,321	-	709,321	2,541,235
Loans to Crown corporations - interest	525,254	-	525,254	542,490
Other interest	15,925	-	15,925	19,440
Total investment income	**1,250,500**	**-**	**1,250,500**	**3,103,165**
Interest on bank deposits	271,510	-	271,510	214,047
Guarantee fees	147,387	-	147,387	161,955
Sale of domestic coinage	141,318	-	141,318	100,847
Net foreign currency gain	124,571	8	124,579	-
Unclaimed cheques and other	88,215	19	88,234	70,551
Revenues earned on behalf of government	(2,023,501)	(8)	(2,023,509)	(3,650,565)
Total revenues	**-**	**19**	**19**	**-**
Net cost of operations	**104,557,586**	**74,783**	**104,632,369**	**122,721,757**

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)	**2022**	**2021**
Canada Health Transfer	43,132,955	41,880,174
Fiscal Equalization	20,955,226	20,677,054
Canada Social Transfer	15,473,939	15,023,242
Quebec Abatement	(6,256,531)	(5,582,265)
Territorial Financing	4,379,879	4,180,225
COVID-19 related transfers		
Support for the health care system through the Canada Health Transfer[1]	2,000,000	4,000,000
Support for municipal and other transit shortfalls and needs, and to support housing supply and availability	750,000	-
Safe Return to Class Fund	100,000	2,000,000
Safe Restart Agreement	-	12,976,726
Essential Workers Support Fund	-	2,884,209
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	2,850,000	24,700,935
Statutory Subsidies	42,639	42,639
Long-term annuity liability		
Interest expense	40,705	39,753
Adjustment to the department's obligation	-	119,721
Total long-term annuity liability	40,705	159,474
Total transfer payments to provinces and territories	**80,618,812**	**101,081,478**

[1] 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)	2022	2021
Interest on domestic debt		
Treasury bills	469,760	1,203,302
Marketable bonds	17,118,371	13,624,047
Retail debt	1,293	(1,236)
Total interest on domestic debt	**17,589,424**	**14,826,113**
Interest on foreign debt		
Canada bills	2,542	13,226
Marketable bonds	254,215	246,696
Medium term notes	40	3,203
Total interest on foreign debt	**256,797**	**263,125**
Total interest on unmatured debt	**17,846,221**	**15,089,238**

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)	2022	2021
Superannuation accounts	4,860,517	5,081,945
Other specified purpose accounts	160,678	154,741
Retirement compensation arrangement accounts	80,781	83,227
Special drawing rights allocations	19,378	8,774
Canada Pension Plan Account	957	1,074
Total interest on superannuation and other accounts	**5,122,311**	**5,329,761**

d) Operating expenses

The following table presents details of operating expenses.

(in thousands of dollars)	2022	2021
Salaries and wages	96,836	97,458
Contributions to employee benefit plans	22,257	22,367
Accommodation	16,576	16,411
Professional and special services	12,221	13,246
Information services		
Advertising related to COVID-19	9,335	21,896
Other information services	1,371	1,443
Total information services	10,706	23,339
Rentals	1,541	1,170
Machinery and equipment	1,532	2,103
Amortization of tangible capital assets	905	913
Transportation and telecommunications	802	633
Repairs and maintenance	199	(24)
Other subsidies and payments	(2)	(9)
Total operating expenses	**163,573**	**177,607**

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)	2022	2021
Exchange Fund Account net revenues	709,321	2,541,235
Loans to Crown corporations - interest	525,254	542,490
Interest on bank deposits	271,510	214,047
Guarantee fees	147,387	161,955
Sale of domestic coinage	141,318	100,847
Net foreign currency gain	124,579	-
Unclaimed cheques and other	88,215	70,551
Other interest	15,925	19,440
Total revenues earned on behalf of government	**2,023,509**	**3,650,565**

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 $2.9 billion (2021 - $24.7 billion) were recognized for transfer payments to the provinces and territories, including a one-time $2.0 billion top-up to help provinces and territories deliver quicker access to health care, reduce the backlog accumulated during the pandemic and support additional surgeries, $750 million to address municipal and other transit shortfalls and needs and to improve housing supply and affordability, and $100 million to support ventilation improvement projects in school (2021 - $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 $9.3 million (2021 - $21.9 million) 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, 2022 the cost of the outstanding securities covered by these indemnities is $334.8 billion (2021 - $273.8 billion), with accumulated unrealized losses of $21.1 billion (2021 - $7.8 billion). Subsequent to March 31, 2022, accumulated unrealized losses, which are impacted by market interest yields among other factors, increased to $26.9 billion as at July 31, 2022.

- the department has outstanding loans as at March 31, 2022 of $4.0 billion (2021 - $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 $2.7 billion (2021 - $420 million) 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.

30. Comparative information

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

31. Subsequent events

Since March 31, 2022, the Department of Finance Canada has provided, on behalf of Canada, $1.95 billion in new loans to Ukraine to support Ukraine's economic resilience. Of this amount, $1.45 billion was provided through a new Administered Account for Ukraine at the International Monetary Fund.

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 2021-22 (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 2021-22 *Departmental Results Report* and the 2021-22 *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 its 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 department continues to monitor COVID-19 expenses to ensure they are 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[1] 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 did not reassess the entity-level controls, as senior management is the primary source of these controls, the internal control group will perform a re-assessment of entity-level controls once all the changes are finalized, formally approved, and implemented. The department completed the reassessment of IT-general controls under departmental management and the following business processes.

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

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 and operational effectiveness	Completed as planned and remedial actions are in place[2]
Domestic Coinage	Medium	Design and operational effectiveness	Completed as planned and no remedial actions required
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.

[2] 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 pay transactions. As planned the 2021-22 review of the payroll and benefits process was to validate the effectiveness of the management action plans to resolve the issues with FAA Section 34. The testing covered all 2021-22 activity and using the analytic software identified the related delegated Financial Signing Authority (FSA). The testing approach has been based on funds centers to cover the whole department. There were 6 deficiencies identified; 3 without FSA, and 3 with FSA but not for the related fund center. We have confirmation the 3 without delegation are in the process of getting their FSA card.

Operating expenses

This year, the department reviewed and updated the analytic software implemented in 2016. The 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.

During the year, the department terminated the monitoring of travel card purchases as activity is limited and use is controlled and monitored by TBS, and increased the monitoring of Acquisition card activity to monthly. All other programs remain quarterly monitoring reports. The monitoring reports support management in overseeing these activities:

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

Service arrangements relevant to the financial statements - IT-General Controls
SAP environment: The service-provider (TBS) provides an annual CSAE 3416[3] 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 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.**

For fiscal 2021-22, the CSAE 3416 report is unqualified. In this year's report, there were no exceptions noted on the 55 controls tested (compared to 16 exceptions in the prior year).

Over the 2022-23 fiscal year, the department and the OAG will continue to follow-up with TBS in consideration of the importance for Finance to maintain reliance on the SAP system.

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

4. DEPARTMENTAL MONITORING PLAN OF KEY CONTROLS

4.1 Monitoring plan for the next fiscal year and subsequent years

The department's rotational on-going monitoring plan of key controls over the next 3 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	2022-23	2023-24	2024-25
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