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GOVERNANCE FRAMEWORK

Purpose

This document describes the governance framework for managing the Government of Canada’s financial assets and liabilities.

The funds management governance framework outlined in this document describes the roles and responsibilities of officials within the Department of Finance and the Bank of Canada (as fiscal agent of the Government), and of the committees of officials established to govern funds management activities.

As background, objectives and operational principles for managing the federal government’s financial assets and liabilities can be found in key policy documents summarized in Chapter 1.

<table>
<thead>
<tr>
<th>GOVERNANCE FRAMEWORK</th>
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<tbody>
<tr>
<td>The framework is designed to:</td>
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<tr>
<td>▪ Facilitate the discussion of key policy matters and set out decision-making authority for policy and operational changes.</td>
</tr>
<tr>
<td>▪ Support accountability through clear and transparent assignment of roles and responsibilities.</td>
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### GOVERNANCE FRAMEWORK

<table>
<thead>
<tr>
<th>S U P P L E M E N T A L  I N F O R M A T I O N</th>
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<tbody>
<tr>
<td>This document is supplemented by other governance-, policy- and program-related documents as amended over time. These include:</td>
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</table>

**Governance**


**Policy and Programs**

Funds Management Objectives

Funds management activities are guided by several fundamental objectives.

Funds management of the Government of Canada encompasses issuance of debt, management of liquidity and investment of financial assets. It is separated into two key functions: financial asset and liability management, and risk management. Activities under each of these two functions are guided by a set of overarching key principles.

**Key Principles**

- Efficiency and effectiveness: Policy development and operations should take into account, to the extent possible, leading practices of other comparable sovereigns. Regular evaluations should be conducted to ensure the efficiency and effectiveness of the governance framework and of borrowing and investing programs.

- Transparency and accountability: Information on financial asset and liability management plans, activities and outcomes should be made publicly available in a timely manner. Information on borrowing costs, investment performance and material exposures to financial risk should be measured, monitored, controlled and regularly reported as applicable.

In addition, distinct objectives and principles have been established within the financial asset and liability management function which pertain to the management of domestic debt and cash, foreign reserves and retail debt.
GOVERNANCE FRAMEWORK

Financial Asset and Liability Management Framework

Domestic Debt and Cash Management

Objectives

The fundamental objective of domestic debt and cash management is to raise stable and low-cost funding to meet the operational needs of the Government of Canada.

An associated objective is to maintain a well-functioning market in Government of Canada securities, which helps to keep debt costs low and benefits a wide array of domestic market participants.

Principles

In pursuit of these objectives, the Government of Canada manages its activities according to a set of principles.

- Transparency, regularity and liquidity: The design and implementation of the domestic debt program should emphasize transparency, regularity and liquidity to support a well-functioning government securities market. The Government should consult regularly with market participants to ensure the integrity and attractiveness of the market for dealers and investors.

- Prudence: Prudence should be maintained by managing the structure of the debt, raising funds for domestic operational needs using a variety of instruments denominated in Canadian dollars, and managing exposure to credit risk through diversification.

Foreign Reserves Management

Objectives

The objective of the Exchange Fund Account (EFA) is to aid in the control and protection of the external value of the Canadian dollar. Assets held in the EFA are managed to provide foreign currency liquidity to the Government and to promote orderly conditions for the Canadian dollar in the foreign exchange markets, if required. The key strategic objectives of foreign reserves management are to maintain a high standard of liquidity, preserve capital value and optimize return subject to liquidity and prudence objectives.
GOVERNANCE FRAMEWORK

Principles

In pursuit of these objectives, the Government of Canada manages its foreign exchange reserves according to a set of principles.

- Prudence: The foreign reserves should be managed to limit exposure to financial risk through the matching of assets and liabilities, prudent investment limits and diversification in instruments and currencies held.
- Cost-effectiveness: The reserves investment portfolio should be actively managed such that the net cost to the taxpayer, if any, is minimized.

Retail Debt

Objectives

The key objectives of the Retail Debt Program are to deliver a cost-effective program that provides value to Canadians and contributes to a diversified investor base, and to ensure Canadians are aware of and have access to Government of Canada non-marketable securities.

Principles

In pursuit of these objectives, retail debt activities are managed according to a set of principles.

- Maintain access to and awareness of savings products.
- Market savings products that have a distinctive “Canada” brand.
Risk Management Framework

Objective

The key objective of risk management is to identify and manage market, credit, operational and legal risks related to funds management activity.

Principles

In pursuit of this objective, risk management activities are managed according to a set of principles.

- Risk monitoring and oversight should be independent of financial asset and liability management operations.

- The Department of Finance and the Bank of Canada should strive to create a culture where risk management is highly valued, considered an integral part of all funds management activities, and viewed as a responsibility of all staff.
Authorities

The ultimate authority for funds management policy rests with the Minister of Finance.

Legal authority for the Government’s borrowing and cash management program is provided by Part IV (Public Debt) of the Financial Administration Act. Provisions of the Currency Act govern reserves activities. Section 24(1) of the Bank of Canada Act provides statutory authority for the Bank of Canada to act as the Government’s fiscal agent. Details of these legal and regulatory frameworks can be found in the highlight boxes on the following page.

Organizations

The Government’s debt, reserves, cash and risk management involve the Department of Finance and the Bank of Canada.
## GOVERNANCE FRAMEWORK

### PUBLIC DEBT


The FAA states that the Minister cannot borrow money without the authority of the Governor in Council. Each year, the Minister must table in Parliament a report on the planned borrowing and debt management for the next fiscal year. The Act provides the Minister with the authority to use modern financial and risk management tools and techniques such as interest rate and currency swaps, options, futures and forwards in the conduct of financial operations and for risk management purposes.

In addition, the Act provides the Minister of Finance with legislative authority to establish rules governing the issuance of debt. The *Terms of Participation in Auctions* ([http://www.bankofcanada.ca/en/auct.htm](http://www.bankofcanada.ca/en/auct.htm)) govern the primary market activities of government securities distributors and customers.

The powers of the Minister can be delegated to officials of the Department of Finance.

### EXCHANGE FUND ACCOUNT


The legislative mandate of the EFA is to aid in the control and protection of the external value of the Canadian dollar. Under the *Currency Act*, as revised in 2005, the Minister of Finance acquires, borrows, sells or lends assets to be held in the Account in accordance with the *Statement of Investment Policy*.

The *Currency Act* provides that the net income of the EFA for a fiscal year is payable to the Consolidated Revenue Fund of the Government of Canada.

### FISCAL AGENT

Roles and Responsibilities

Minister of Finance

The Minister of Finance is responsible for proposing approval of refinancing authority and preparing new Borrowing Authority Acts to the Governor in Council.

The Minister approves policies for funds management activities, including financial asset and liability management (wholesale and retail debt management strategy, reserves and cash management) and funds risk management. As circumstances warrant, the Minister approves significant initiatives or major changes to strategies during the fiscal year.

Prior to the start of a fiscal year, the Minister reports to Parliament on the Government of Canada’s debt management strategy for the coming fiscal year (the Debt Management Strategy).

Within 30 sitting days of the tabling of the Public Accounts of Canada in Parliament, the Minister submits a report on the federal debt operations for the previous fiscal year (the Debt Management Report).

The Minister is also responsible for providing an annual report to Parliament on the operations of the EFA within the first 60 days on which the House is sitting after the end of each fiscal year (the annual Report on the Management of Canada’s Official International Reserves).
Senior Management at the Department of Finance

Senior management at the Department of Finance includes the Deputy Minister, (Senior) Associate Deputy Minister, Associate Deputy Minister, Assistant Deputy Minister of the Financial Sector Policy Branch, General Director of the Financial Sector Policy Branch, and a senior official of a branch external to the Financial Sector Policy Branch (related to risk management).

Senior Management at the Bank of Canada

Senior management at the Bank of Canada includes the Governor, the Deputy Governor responsible for Financial Markets, and the Adviser, Strategic Planning and Risk Management.

Annex 1 depicts the authorities’ relationship among senior management within the Department of Finance and the Bank of Canada (pertaining to fiscal agency roles), separated by area of activity (financial asset and liability management, and risk management).

It is the responsibility of senior management to provide advice to the Minister on policy, strategy and risk, and to direct and oversee funds management policy development and implementation.

Officials – Financial Asset and Liability Management

Operating under the direction of the Director of the Financial Markets Division (Finance) and the Chief of Financial Markets Department (Bank of Canada), officials are responsible for the day-to-day management of wholesale debt, reserves and cash balances, consistent with approved policies and strategies. Operations of the Retail Debt Program are under the direction of the Director of the Financial Markets Division (Finance) and a Senior Officer, Department of Banking Operations (Bank of Canada).

Officials provide analysis and develop policies and recommendations for funds management. They inform and advise senior management on issues by reviewing, evaluating, analyzing and making recommendations on the Government of Canada’s borrowing, reserves and cash investment programs, strategy and operations. They conduct analysis and research on best practices and conduct annual external consultations on policy and operational matters. Officials also conduct and monitor Government of Canada financing and investing operations and collect and verify data on primary and secondary market activity related to Government of Canada securities. Also, operating under a Senior Officer, Department of Banking Operations (Bank of Canada), officials at the Bank of
Canada oversee the issuance and retirement of debt instruments and the making of interest payments on Government of Canada wholesale and retail debt.

**Officials – Risk Management**

The Adviser, Strategic Planning and Risk Management, and the Director of the Financial Risk Office (FRO), Bank of Canada, are responsible for oversight of FRO.

Officials in FRO are responsible for the day-to-day monitoring of risk associated with funds management activities. They report on risk levels and operational infractions and provide advice on risk practices suitable for sovereign funds management. Officials in the Office are also responsible for providing advice on risk management issues in the development of funds management policy.
Strategy, Coordination and Control

Funds management strategy and activity is coordinated and controlled through a structured system of committees and working groups.

While the ultimate decision-making authority rests with the Minister of Finance, the design of key strategies, policies and oversight of operations, and the coordination of funding, investment and liquidity management activities are largely delegated to several key committees, working groups and teams. Ministerial decisions are sought on issues such as strategic plans, investment policies and levels, and debt structure targets.

Funds management activities are undertaken to support the objectives set out in the Report on Plans and Priorities of the Department of Finance (http://www.fin.gc.ca/purl/rpp-e.html) tabled annually in Parliament by the Minister. The prudent and effective management of financial assets and liabilities and liquid cash and foreign reserves are essential elements in achieving the Government’s plans.

Financial Asset and Liability Management Strategy

Managers at the Department of Finance and the Bank of Canada jointly develop debt, foreign reserves, risk and cash management strategies, taking into account the aforementioned objectives and practices.

These institutions undertake consultations with market participants on issues relating to debt, reserves and cash management strategies and operations. The managers may establish one or more advisory group(s) for the purpose of obtaining input on key issues. In addition, financial asset and liability management policy
GOVERNANCE FRAMEWORK

development is subject to advice obtained through ongoing program evaluation (see Chapter 4 for more details).

At the working level, officials hold regular meetings with market participants, including investors in Government of Canada securities, dealers and other interested parties. The purpose of these meetings is to help develop program plans and initiatives that enhance the well functioning of the Government of Canada securities market.

At the management level, periodic meetings are held with consultative groups, including the Investment Industry Association of Canada and other debt management experts, to obtain advice on key strategic issues.

Risk Management

The Department of Finance and the Bank of Canada have a risk framework that separates risk management from financial asset and liability management operations.

The Adviser, Strategic Planning and Risk Management (Bank) oversees the development of risk management strategy, consistent with the best practices of sovereigns.

The Financial Risk Office (FRO) at the Bank of Canada deals with risk management. The Office monitors and reports on risk exposures, including market, credit and operational risks, related to financing and investment activities based on best practices of sovereign government funds operations and knowledge of private sector financial institution practices.

FRO also provides advice in respect of the development of financial asset and liability management policy, particularly related to market, credit and operational risks.
**GOVERNANCE FRAMEWORK**

**Coordination and Control**

Committees are set up to avoid overlap and to enhance continuity when issues common to more than one area are managed (Annexes 1a and 1b). The committees coordinate work on funding and investment activities at a strategic level and do not directly affect lines of authority within the Department of Finance and the Bank of Canada (Annex 1c).

Committee meetings are planned around key milestone activities (Annex 2a). Decision making is generally made by consensus in committees and working groups, although ultimate decision-making power rests with the chair or co-chairs. Teams at the Bank of Canada and the Department of Finance implement the decisions made by the committees and working groups.

**Acronyms of Committees and Working Groups**

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
<th>Level</th>
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<tbody>
<tr>
<td>FMC</td>
<td>Funds Management Committee</td>
<td>Senior Management</td>
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<tr>
<td>RC</td>
<td>Risk Committee</td>
<td></td>
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<tr>
<td>TEC</td>
<td>Treasury Evaluation Committee</td>
<td></td>
</tr>
<tr>
<td>FMCC</td>
<td>Funds Management Coordinating Committee</td>
<td>Middle Management</td>
</tr>
<tr>
<td>ALMC</td>
<td>Asset Liability Management Committee</td>
<td></td>
</tr>
<tr>
<td>RDCC</td>
<td>Retail Debt Coordinating Committee</td>
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</tr>
<tr>
<td>DDCM WG</td>
<td>Domestic Debt and Cash Management Working Group</td>
<td>Day-to-Day Mgt. &amp; Staff</td>
</tr>
<tr>
<td>FRRM WG</td>
<td>Foreign Reserves and Risk Management Working Group</td>
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<tr>
<td>RD WG</td>
<td>Retail Debt Working Group</td>
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<tr>
<td>TEC WG</td>
<td>Treasury Evaluation Committee Working Group</td>
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</table>
Committees and Working Groups

Funds Management Committee

The Funds Management Committee (FMC) oversees all activities covering domestic debt, cash management, reserves and risk management. The FMC’s mandate is to advise the Minister, through the Deputy Minister or his/her delegate, on policy and strategy for funds and risk management, direct the implementation of approved policy and plans, and review performance outcome reports.

The responsibilities of the FMC include advising on the target debt structure, liquidity plan, debt strategy and borrowing program plans, the Statement of Investment Policy for the reserves, the Swap Management Policy for derivatives transactions, overall limits on credit, market and liquidity risks and significant initiatives or major changes.

As delegated by the Minister, the FMC is also a decision-making committee that directs the work of the coordinating committees in the domain of domestic debt, foreign reserves and retail debt. This includes providing decisions and direction on: attaining the approved target for the debt structure and the targets set for the foreign reserves; implementing new investment types or programs; and conducting program reviews. Annex 3a contains a more detailed list of FMC responsibilities and authority.

The FMC oversees risk management practices and provides direction on establishing guidelines for risk identification, measurement, monitoring and mitigation. The FMC is provided with regular reports from the Financial Risk Office summarizing financial and operational risk exposures and key audit findings.

The FMC meets semi-annually, in late spring/early summer and late fall/early winter, (depicted in Annex 2b) and on an ad hoc basis as required. The two meetings are used to discuss work plan priorities at the Department of Finance and the Bank of Canada, and address key policy issues related to funds management activities.

The Department of Finance provides secretariat functions (preparation of information binders, meeting logistics, note keeping, etc.) for the FMC.

The FMC is composed of the following members:

<table>
<thead>
<tr>
<th>Finance:</th>
<th>(Senior) Associate Deputy Minister, Assistant Deputy Minister (Financial Sector Policy Branch).</th>
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<tr>
<td>Bank:</td>
<td>Deputy Governor (Financial Markets Department).</td>
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The (Senior) Associate Deputy Minister (Finance) chairs the FMC.

Regular attendees include the Chief and Director (Financial Markets Department), the Director (Financial Markets Division), a Senior Officer (Department of Banking Operations) and the co-chairs of the Risk Committee.

Other attendees include officers from Finance or the Bank who are responsible for specific issues raised at meetings.

To focus the discussion of key policy issues at senior management levels, the agenda items and policy proposals are analyzed by the working groups and coordinating committees (defined below) ahead of the semi-annual FMC meetings. Prior to the discussion of policy proposals at the FMC, an analysis of risk implications would be brought to the Risk Committee (defined below) for review.

To streamline the decision-making process, an escalation of policy proposals may follow the timeline depicted in Annex 2f.
Risk Committee

The Risk Committee (RC) is an advisory body to the FMC that reviews and provides opinions on the risk implications of market and operational developments, and policy proposals and recommendations put forward by the Funds Management Coordinating Committee, Asset Liability Management Committee and Retail Debt Coordinating Committee.

The RC is supported by the Financial Risk Office (FRO), which provides advice to the RC on risk issues associated with policy proposals and recommendations. It also advises the Funds Management Coordinating Committee, Asset Liability Management Committee and Retail Debt Coordinating Committee on risk implications during the development of policy proposals and recommendations, and monitors and reports on risk outcomes for funds management activities. FRO reports to the Adviser, Strategic Planning and Risk Management (Bank).

The RC is responsible for ensuring the FMC is provided with regular reports by FRO that summarizes trends in financial and operational risk exposures, EFA investment performance and key audit findings. As well, when proposals for new business activities are submitted to the FMC for approval, FRO will inform the RC whether business managers have followed due process in terms of identifying significant operational and legal risks and consulting with internal auditors and legal staff to identify and prepare mitigation strategies for operational and legal issues.

The structure, mandate, operations and composition of the RC and FRO are set out in the Memorandum of Understanding on Treasury Risk Management between the Bank of Canada and the Department of Finance (April 2004).

In order to ensure that risk issues are appropriately considered, FRO is required to submit a report to the RC when risk exposure is a material concern. The RC will consider the report and present the information to the FMC for its consideration. The RC meets quarterly, leading up to FMC meetings in the spring and fall (depicted in Annex 2a).

The Bank of Canada provides secretariat functions (preparation of information binders, meeting logistics, note keeping, etc.) for the RC meetings.

<table>
<thead>
<tr>
<th>The RC is composed of the following members:</th>
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<tr>
<td><strong>Finance:</strong> General Director (Financial Sector Policy Branch) and one other senior manager (external to Financial Sector Policy Branch).</td>
</tr>
<tr>
<td><strong>Bank:</strong> Adviser, Strategic Planning and Risk Management and Director (Financial Risk Office).</td>
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GOVERNANCE FRAMEWORK

The General Director (Finance) and the Adviser, Strategic Planning and Risk Management (Bank) co-chair the RC.

Regular attendees include officers (Assistant Directors, Directors, Chiefs) of relevant sections/teams at the Bank and Finance.

Other attendees include officers from Finance or the Bank who are responsible for specific issues raised at meetings.
Funds Management Coordinating Committee

The Funds Management Coordinating Committee (FMCC) meets regularly (typically once per month) or as needed to discuss key issues, develop policy advice and provide ongoing coordination of work on wholesale debt, cash management, and issues that involve both the domestic debt program and foreign currency management.

Within the limits delegated by the FMC, the FMCC is also a decision-making body, whose decisions are executed by officials at the Bank of Canada and Department of Finance. The FMCC proposes the agenda for the FMC meetings and ensures that reports on performance outcomes are provided to the FMC.

The Department of Finance provides secretariat functions (preparation of information handouts, meeting logistics, note keeping, etc.) for the meetings.

The FMCC is composed of the following members:

Finance: Director (Financial Markets Division) and Chiefs (Debt Management Policy Section and Reserves and Risk Management Section).

Bank: Chief and Director (Financial Markets Department).

The Director (Finance) and Chief (Bank) co-chair the FMCC.

Regular attendees include the Director (Financial Risk Office), Assistant Directors (Financial Markets Department), the Senior Representative from Corporate Services Branch of Finance and officers (Principals, Project Leaders) of sections/teams.

Other attendees include officers from Finance or the Bank who are responsible for specific issues raised at meetings.
**Asset Liability Management Committee**

The Asset Liability Management Committee (ALMC) meets regularly (typically every six weeks or as needed) and provides recommendations to the FMC, in its advisory role, on strategic and policy matters affecting the management of foreign reserves, including changes to the limits and guidelines pertaining to the foreign reserves established by the Minister and the FMC.

Within limits delegated by the FMC, the ALMC is also a decision-making body, whose decisions are executed by officials at the Bank of Canada and Department of Finance. In particular, the ALMC oversees the development of the annual funding and investment plans for the foreign reserves as well as the performance metrics regarding these plans, within the limits set by the FMC. Determining the annual funding plan involves setting targets and/or ranges for funding and investment activities.

The Department of Finance provides secretariat functions (preparation of information handouts, meeting logistics, note keeping, etc.) for the meetings.

The ALMC is composed of the following members:

Finance: Director (Financial Markets Division) and Chief (Reserves and Risk Management Section).

Bank: Chief and Director (Financial Markets Department).

The Director (Finance) and Chief (Bank) co-chair the ALMC.

Regular attendees include the Director (Financial Risk Office), the Assistant Directors (Financial Markets Department), the Senior Representative from Corporate Services Branch of Finance and officers (Assistant Directors, Principals, Project Leaders) of sections/teams.

Other attendees include officers from Finance or the Bank who are responsible for specific issues raised at meetings.
Retail Debt Coordinating Committee

The Retail Debt Coordinating Committee (RDCC) meets periodically, typically on a quarterly basis (see Annex 2f). The RDCC provides recommendations to the FMC on retail debt strategy and annual work plans. It develops the work plan for the year, coordinates program initiatives, and oversees campaign issues and pricing.

The Department of Finance provides secretariat functions (distribution of information, meeting logistics, note keeping, etc.) for the RDCC meetings.

The RDCC is composed of the following members:

Finance: Director (Financial Markets Division) and one Senior Officer (Financial Markets Division).

Bank: Senior Officer (Department of Banking Operations) and Director (Financial Markets Department).

The Assistant Deputy Minister (Financial Sector Policy Branch) and the Deputy Governor (Financial Markets Department) attends as required.

The Director (Finance) or Assistant Deputy Minister (Finance), as the case may be, chairs the RDCC.

Treasury Evaluation Committee

The Treasury Evaluation Committee (TEC) provides a backward-looking review of the implementation of policy decisions related to borrowing programs by carrying out evaluations through expert third parties. The TEC meets semi-annually to review evaluations and define terms of reference for new reviews, and to review completed evaluations (see Annex 2e).

The Department of Finance provides secretariat functions (preparation of information handouts, meeting logistics, note keeping, etc.) for the meetings.

The TEC is composed of the following members:

Finance: (Senior) Associate Deputy Minister, Assistant Deputy Minister (Financial Sector Policy Branch).

Bank: Deputy Governor (Financial Markets Department).

Office of the Comptroller General:

Executive Director, Office of the Comptroller General.
The (Senior) Associate Deputy Minister (Finance) chairs the TEC.

Domestic Debt and Cash Management Working Group

The Domestic Debt and Cash Management Working Group (DDCM WG) meets regularly (typically once a month) to provide a forum for discussion and updates on a wide range of current issues associated with the implementation of funds management activities. The working group is responsible for reporting on ongoing activities and developing policy analysis and recommendations for the FMCC, in the lead-up to the FMC meetings.

The Bank of Canada and the Department of Finance provide secretariat functions (distribution of information, meeting logistics, note keeping, etc.) for the working group meetings on a rotating basis.

The DDCM WG is composed of the following members:

Finance: Chief and officials (Debt Management Policy Section, Financial Markets Division).

Bank: Assistant Directors and officials (Financial Markets Department).

The Chief (Finance) and Assistant Director (Bank) chair the DDCM WG on a rotating basis.
Foreign Reserves and Risk Management Working Group

The Foreign Reserves and Risk Management Working Group (FRRM WG) meets regularly (typically once a month) to provide a forum for discussion and updates on current issues related to the management of the foreign reserves. The working group is responsible for reporting on ongoing activities and developing policy analysis and recommendations for the ALMC.

The Bank of Canada and the Department of Finance provide secretariat functions (distribution of information, meeting logistics, note keeping, etc.) for the working group meetings on a rotating basis.

The FRRM WG is composed of the following members:

Finance: Chief and officials (Reserves and Risk Management Section, Financial Markets Division).

Bank: Assistant Director and officials (Financial Markets Department) and Principal and officials (Financial Risk Office).

The Chief (Finance) and Assistant Director (Bank) chair the FRRM WG on a rotating basis.
Retail Debt Working Group

The Retail Debt Working Group (RD WG) meets regularly (typically once a month) during the year. At these meetings, senior officials from the Department of Finance and Bank of Canada review and advise all parties on matters relating to program policies and delivery and all strategic issues going to the Retail Debt Coordinating Committee.

The Bank of Canada and the Department of Finance provide secretariat functions (distribution of information, meeting logistics, note keeping, etc.) for the meetings.

The RD WG is composed of the following members:

Finance: Chief and officials (Debt Management Policy Section, Financial Markets Division).

Bank: Senior Officer (Department of Banking Operations) and Officer (Financial Markets Department).

The Chief (Finance) and Senior Officer (Bank) chair the RD WG.
**Treasury Evaluation Committee Working Group**

The Treasury Evaluation Committee Working Group (TEC WG) recommends areas for review and develops terms of reference for steering committee approval. The working group is responsible for reviewing reports prepared by the external evaluator for factual accuracy and submitting the report to the steering committee. The working group meets on an as-needed basis.

The Department of Finance provides secretariat functions (preparation of information handouts, meeting logistics, note keeping, etc.) for the meetings.

The TEC WG is comprised of the following members:

<table>
<thead>
<tr>
<th>Finance</th>
<th>Bank</th>
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</thead>
<tbody>
<tr>
<td>General Director</td>
<td>Director (Financial Markets Department)</td>
</tr>
<tr>
<td>(Financial Sector Policy Branch), Director (Financial Markets Division) and senior official/adviser (Internal Audit and Evaluation Division).</td>
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The General Director (Finance) chairs the TEC WG.
GOVERNANCE FRAMEWORK

Reporting

Internal Reports

The following documents are distributed within the Department of Finance and the Bank of Canada and filed in registries on a periodic basis for the purposes of informing senior officials and accountability.

- Ongoing operational reports on wholesale debt auctions and buybacks, and retail debt sales and redemptions (Bank/Finance).
- Ongoing operational reports on cross-currency swap transactions (Bank).
- Ongoing reports on the level of reserves (Bank).
- Monthly reports on sales, redemptions and outstanding stock, by instrument and sales channel (Bank).
- Monthly reports on financial requirements and cash balances (Bank).
- Monthly EFA performance and risk reports (Bank).
- Monthly reports on sales, redemptions and outstanding stock for the Retail Debt Program (Bank).
- Quarterly reports on Wholesale Debt Program operations against plan, secondary market activity and government securities distributors (Bank).
- Semi-annual reports on operational risk events (Bank).
- Semi-annual reports for senior management at Bank/Finance on work plans and status of major initiatives (Bank/Finance).
- Semi-annual review for the Minister of Finance versus the funds management strategic plan approved at the beginning of the fiscal year, including performance and operations to date against the plan (Finance).
- Campaign period reports for the Minister on retail debt sales and redemptions (Bank).

Reporting of Meetings

For the FMCC, ALMC, RDCC and working groups, records of meeting agendas and meeting notes, including action items and outcomes, are kept by the secretariats for each meeting to assist in managing ongoing priorities and measuring performance. Ordinarily, minutes should be circulated and finalized within a two-week period; consensus of meeting participants is sought on the minutes prior to distributing them to all participants and filing the documents.
For the FMC, records of meeting agendas, discussion and reporting documents, and formal minutes are kept to document decisions and discussions and to assist in managing policy priorities.

External Reports

- **Debt Management Strategy**: Prior to the start of a fiscal year, the Minister of Finance provides Parliament with a report describing the Government of Canada’s wholesale and retail debt management strategy for the coming fiscal year ([http://www.fin.gc.ca/purl/dms-e.html](http://www.fin.gc.ca/purl/dms-e.html)).

- **Debt Management Report**: Within 30 sitting days of the tabling of the Public Accounts of Canada in Parliament, the Minister of Finance provides Parliament with a report on the Government of Canada debt operations for the previous fiscal year ([http://www.fin.gc.ca/purl/dmr-e.html](http://www.fin.gc.ca/purl/dmr-e.html)).

- **Report on the Management of Canada’s Official International Reserves**: Within the first 60 days on which the House is sitting after the end of the fiscal year, the Minister of Finance provides Parliament with a review of the operations of the Exchange Fund Account for the previous fiscal year and the changes in Canada’s international reserve holdings against the background of developments in the foreign exchange market ([http://www.fin.gc.ca/purl/efa-e.html](http://www.fin.gc.ca/purl/efa-e.html)).

- **Departmental Performance Report**: At the end of each fiscal year, the Minister of Finance publishes the *Departmental Performance Report*, in which the Department of Finance’s activities and accomplishments during the previous year are articulated ([http://www.fin.gc.ca/purl/dpr-e.html](http://www.fin.gc.ca/purl/dpr-e.html)).

- Treasury evaluation: The Minister of Finance tables reports on the findings of treasury evaluations, including Department of Finance comments, with the House of Commons Standing Committee on Public Accounts. A copy is also sent to the Auditor General of Canada ([http://www.fin.gc.ca/access/audit_e.html](http://www.fin.gc.ca/access/audit_e.html)).

- **Bank of Canada Annual Report**: This report describes the Bank of Canada’s funds management activities during the previous calendar year ([http://www.bankofcanada.ca/en/annual/index.htm](http://www.bankofcanada.ca/en/annual/index.htm)).

Plans for Forthcoming Fiscal Year

The objectives and plans for the forthcoming fiscal year are set out at the beginning of the year in the following areas:

- Debt and cash management strategy.
- Foreign reserves management strategy.
- Retail debt work plan.
- Treasury evaluation’s three-year plan.
Program Effectiveness

Programs are monitored and reviewed on an occasional basis to ensure their effectiveness.

Consultations with market participants are conducted on a regular basis to gauge program performance and to design programs that meet the ongoing needs of the Government, taking into consideration market needs.

Evaluations of major policies and programs are conducted by experts outside of government on a periodic basis to assess program effectiveness and suggest potential enhancements.

Performance Monitoring

On an ongoing basis, the FMCC, ALMC and RDCC receive reports on performance and risks in their domains (see below). Performance is monitored through a variety of measures. Domestic debt and cash managers monitor developments in the primary and secondary markets through statistics that are indicators of liquidity and efficiency in the market of Government of Canada securities. Foreign reserve managers and the Financial Risk Office monitor market, credit and operational risks as well as investment performance. Retail debt managers monitor developments in pricing, relative cost-effectiveness, sales and redemptions. Business line managers perform ad hoc tests of backup operational facilities.

In addition, debt managers conduct on an as-needed basis, detailed reviews of programs and policies to assist in the development of policy advice.

The Department of Finance and the Bank of Canada also maintain internal audit and evaluation functions, which periodically review funds management activities.
External Evaluation

The Department of Finance and the Bank of Canada conduct annual consultations with market participants on wholesale debt and cash management program design and implementation.

The Department of Finance maintains an external evaluation function specific to funds management, where independent third parties undertake reviews of funding and investing policies and practices. These reviews contribute to the development of policy and priorities. Further details on the Treasury Evaluation Committee program are contained in the *Treasury Evaluation Program Framework* (October 2005).

The Minister of Finance tables reports on findings and the Government’s response to evaluations with the House of Commons Standing Committee on Public Accounts. A copy is also sent to the Auditor General of Canada.

Review of Governance Frameworks

This document and other supporting governance documents – including the *Memorandum of Understanding on Treasury Risk Management between the Bank of Canada and the Department of Finance*, the *Treasury Evaluation Program Framework*, the *Statement of Investment Policy* for the Exchange Fund Account, the *Swap Management Policy for the Government of Canada* and the *Government of Canada Treasury Risk Management Framework* – are reviewed on a regular basis to ensure efficient coordination and control of activities and effective policy development and decision making.

The secretariat of the Funds Management Committee is responsible for maintaining this document up to date.
GOVERNANCE FRAMEWORK

Organization
Annex 1a – Control Structure by Function
Annex 1b – Control Structure by Committee/Working Group
Annex 1c – Control Structure by Organization

Coordination
Annex 2a – Summary of Committee Meetings
Annex 2b – Funds Management Committee Meetings
Annex 2c – Risk Committee Meetings
Annex 2d – Treasury Evaluation Committee Meetings
Annex 2e – Lead-up to Funds Management Committee Meetings
Annex 2f – Committee/Working Group Meetings

Responsibility/Authority
Annex 3a – Funds Management Committee
Annex 3b – Risk Committee
Annex 3c – Funds Management Coordinating Committee
Annex 3d – Asset Liability Management Committee
Annex 3e – Retail Debt Coordinating Committee
Annex 3f – Working Groups
Annex 1a – Control Structure by Function

**GOVERNANCE FRAMEWORK**

**Funds Management Committee**
Oversees all activities covering wholesale debt, cash management, reserves and risk management.

**Risk Committee**
Provides FMC with recommendations on the risk implications and recommendations put forward by the FMCC, ALMC & RDCC.

**Asset Liability Management Committee**
Provides FMC with recommendations on strategic matters affecting the reserves.

**Retail Debt Coordinating Committee**
Coordinates Retail Debt Working Group, develops policy advice and forward planning.

**Foreign Reserves and Risk Management Working Group**
Discusses, updates and implements foreign reserve activities and issues related to risk and develops policy advice.

**Retail Debt Working Group**
Discusses, updates and implements retail debt activities.

**Domestic Debt and Cash Management Working Group**
Discusses, updates and implements domestic debt & cash activities and develops policy advice.

**Treasury Evaluation Committee**
Assesses policies and operational decisions of debt, cash and reserves management.

**Treasury Evaluation Committee Working Group**
Coordinates the assessment of evaluations.
Annex 1c – Control Structure by Organization

- Minister of Finance
- Secretary of State

- Funds Management Committee
- Risk Committee

- Asset Liability Management Committee
- Funds Management Coordinating Committee
- Retail Debt Coordinating Committee

- Foreign Reserves and Risk Mgt. Working Group
- Domestic Debt and Cash Mgt. Working Group
- Retail Debt Working Group

- Governor
- Deputy Governor, FM
- Special Adviser, Risk
- Director, FRO

- Deputy Minister
- Associate Deputy Minister
- Assistant Deputy Minister, FSP

- General Director, FSP
- Senior Manager, Finance

- Director, FMD
- Chief, RRM

- Senior Officer, DBO

- Department of Finance
- Bank of Canada
Annex 2a – Summary of Committee Meetings

MILESTONES

- **January**: TEC Evaluations, Completed, New Terms of Reference
- **February**: RD Work Plan
- **March**: Debt Mgt. Strategy
- **April**: FIN Priority Identification
- **May**: Report on the Management of Canada’s Official International Reserves
- **June**: RD Initiatives
- **July**: FIN Work Plan Review
- **August**: RD Strategy
- **September**: Debt Mgt. Reporting
- **October**: RD Campaign
- **November**: Debt Strategy Mid-Year Update
- **December**: BoC Work Plan Identification

**TEC Evaluations**
- Completed, New Terms of Reference

**RD Strategy**
- Priority Identification

**BoC Work Plan**
- Identification

**RD**
- Campaign

**Debt Strategy**
- Plan

**Debt Mgt.**
- Update

**FIN**
- Work Plan

**MILESTONES**

- **Winter**: Debt Strategy Plan
- **Spring**: Review of BoC Priorities
- **Summer**: Report on the Management of Canada’s Official International Reserves
- **Fall**: RD Initiatives
- **October**: RD Strategy
- **November**: Debt Mgt. Reporting
- **December**: BoC Work Plan Identification

**TEC**
- Tentative

**RC**
- Update

**FMC**
- Report on the Management of Canada’s Official International Reserves

**RC**
- Update
Annex 2b – Funds Management Committee Meetings

GOVERNANCE FRAMEWORK

MILESTONES

NOTES:
• Late fall / early winter FMC meeting focuses on debt strategy and identification of BoC Work Plan priorities
• Late spring / early summer FMC meeting focuses on identification of FIN Work Plan priorities
NOTES:
• Semi-annual RC meetings are held in April and November and dovetail into FMC process in the spring and fall.
GOVERNANCE FRAMEWORK

Annex 2d – Treasury Evaluation Committee Meetings

NOTES:
• Treasury Evaluation Committee meets annually to discuss evaluations and new studies
• Fall TEC meeting scheduled, if required

MILESTONES

TEC Evaluations
Completed, New Terms of Reference
Annex 2e – Lead-up to FMC Meetings

Prior to FMC meeting | Activity                                                                 | Responsibility                          |
---------------------|--------------------------------------------------------------------------|-----------------------------------------|
3 months             | Agreement on agenda items for next FMC meeting                          | FMCC, ALMC, RDCC                       |
2-3 months           | Development of agenda items and proposals                               | Working groups                          |
2 months             | First draft of papers/notes                                              | Chiefs (Finance), Assistant Directors (Bank) |
5 weeks              | Agreement on proposals and papers/notes                                  | Chiefs (Finance), Assistant Directors (Bank) |
4 weeks              | Review and approve proposals                                            | Director (Finance), Chief/Director (Bank) |
2 weeks              | RC Meeting                                                               |                                         |
2 weeks              | Review and agree on final papers and briefing documents                  | Chiefs (Finance), Assistant Directors (Bank) |
1 week               | Delivery of binder and pre-meeting briefings                            | Officer (Finance)                       |

Winter

Spring

Summer

March

April

May
In addition to the steering committee meetings, regular quarterly meetings are held by the Retail Debt Coordinating Committee (RDCC). Regular meetings (only shown once below) are held by the Asset Liability Management Committee (ALMC) and by the Funds Management Coordinating Committee (FMCC) and the following working groups:

- Domestic Debt and Cash Management (DDCM)
- Foreign Reserves and Risk Management (FRRM)

• Domestic Debt and Cash Management (DDCM)
• Foreign Reserves and Risk Management (FRRM)
Funds Management Committee

Responsibility/Authority

**Domestic Debt and Cash Management**
- Approves policy recommendations to bring forward to the Minister in relation to:
  - Target debt structure
  - Liquidity plan targets
  - Debt strategy, including borrowing program plans
- As delegated by the Minister, directs plan implementation through the FMCC and decides on high-level priorities/policy, including:
  - Major intra-year program adjustments
  - Debt structure modelling
  - Program reviews

**Foreign Reserves Management**
- Approves policy recommendations to bring forward to the Minister, including:
  - *Statement of Investment Policy and Swap Management Policy for the Government of Canada*
  - Reserves level
- As delegated by the Minister, directs plan implementation through the ALMC and decides on high-level priorities/policy, including:
  - Target level and operating range of reserves
  - Achievement of other structural targets (e.g. currency mix, liquidity/investment tiers)
  - Implementation of new investment types or new programs (e.g. commercial paper)
  - Reviews of programs and portfolio performance

**Retail Debt Management**
- Approves policy recommendation to bring forward to the Minister, including:
  - Program strategy and budget
- As delegated by the Minister, directs plan implementation through the RDCC and decides on high-level
priorities/policy, including:
  - Campaign execution
  - Program reviews

**Risk Management**
- Advises Minister on risk issues, including:
  - Overall limits on credit, market and liquidity risk
  - *Government of Canada Treasury Risk Management Framework*
- As delegated by the Minister, oversees risk management practices and directs high-level initiatives affecting risk, including:
  - Guidelines for risk identification, measurement, monitoring and mitigation
  - Financial and operational risk in the Government’s treasury activities
Risk Committee

**Responsibility/Authority**

- Advises on financial and operational risk implications for issues to be brought forward to the FMC
- Advises on the risk management framework
- Reviews financial and operational risk exposures and material developments affecting risk exposures
- Reviews proposed changes to the risk guidelines, the *Statement of Investment Policy* and the *Swap Management Policy for the Government of Canada*
- Provides the FMC with monthly or quarterly reports on financial risk exposures and EFA investment performance
- Provides the FMC with a semi-annual report summarizing high-level information on operational risk events and key findings in audit reports of fiscal agent activities
- Flags to the FMC any change in financial and operational risk levels of which the FMC should be aware
- Ensures proposals for new business activities submitted to the FMC have followed due process in terms of identifying significant operational risks and consulting with internal auditors and legal staff to identify and prepare mitigation strategies for operational and legal issues
- Advises on other risk management issues, including domestic debt activities (e.g., transparency, Receiver General cash management framework, issues related to Crown corporations)
Funds Management Coordinating Committee

Responsibility/Authority

**General Issues**
- Makes decisions on policy recommendations to bring forward to the FMC
- As delegated by the FMC, decides on discretion given to the Domestic Debt and Cash Management Working Group and teams
- Coordinates issues involving the Domestic Debt and Cash Management Working Group
- Oversees preparation of FMC meetings

**Domestic Debt and Cash Management Issues**
- Conducts business planning/coordinates work plans/oversees major projects
- Oversees internal and external communication issues
- Manages issues pertaining to governance, evaluations and accountability
- Decides on policy advice and policy implementation issues to bring forward to the FMC, including:
  - Issues requiring ministerial approval (see Annex 3a)
  - Program reviews
  - Other structural and high-level priorities/policy development
- Oversees formulation of debt strategy
- Oversees wholesale debt management policy, operations and monitoring
- Oversees cash management policy and operations
- Oversees external relations and market surveillance
- Oversees government financing
Asset Liability Management Committee

Responsibility/Authority

General Issues
- Provides recommendations to the FMC and Minister on strategic matters affecting the management of the foreign reserves and foreign currency activity
- As delegated by the FMC, decides on discretion given to the Foreign Reserves and Risk Management Working Group and teams
- Coordinates issues involving the Foreign Reserves and Risk Management Working Group
- Makes decisions on policy recommendations to bring forward to the FMC

Foreign Reserves Management Issues
- Oversees the development of the annual funding and investment plan
- Decides on policy advice and policy implementation issues to bring forward to the FMC, including:
  - Issues requiring ministerial approval (see Annex 3a)
  - Changes to the limits and guidelines of the EFA
  - Performance and program reviews
  - Policies for selecting counterparties and issuers for investment in the EFA
  - Other direct high-level priorities affecting the EFA
- Approves counterparties and issuers for investment in the EFA proposed by the working group
- Decides discretion given to FRM, including:
  - Desired ranges for currency composition of assets and liabilities
  - Desired range for laddering of the maturity profile of liabilities
  - Desired range for market and credit risk
  - Desired range for the annual funding requirements and amounts per funding tool
- Manages issues pertaining to governance, evaluations and accountability
- Determines the allocation of responsibilities for work plan projects
- Oversees the performance and funding activity
- Coordinates communication issues as required
Retail Debt Coordinating Committee

Responsibility/Authority

- Responsible for overall coordination of retail debt activity
- Makes decisions on policy recommendation to bring forward to the FMC
- Develops policy direction consistent with overall debt management strategy
- Provides direction to Retail Debt Working Group on preparation of annual work plan
- Manages issues pertaining to governance, evaluations and accountability
Domestic Debt and Cash Management Working Group

Responsibility/Authority

- Ensures funds are available to meet government requirements
- Manages cash position through treasury bill and cash management bill programs
- Designs/implements bond program
- Maintains securities distribution network and monitors secondary market
- Reports on debt operations in *Debt Management Report*
- Develops financing and investing policy and plans in *Debt Management Strategy*

Foreign Reserves and Risk Management Working Group

Responsibility/Authority

- Reviews portfolio management and funding issues
- Reviews documentation issues
- Reviews and interprets guidelines
- Analyzes market developments and business cases
- Develops policy advice on portfolio management and funding
- Develops policy advice on risk issues
- Provides independent analysis on risk and return for suggested changes to procedures or guidelines
- Discusses security types and counterparties (e.g. designation list)
- Reports to the ALMC (and the RC reports to the FMC) on material developments

Retail Debt Working Group

Responsibility/Authority

- Ensures retail debt activities are managed consistent with overall direction provided by the RDCC
- Develops detailed work plans, policy advice and program assessments consistent with approved work plan
- Reports on retail debt operations in *Debt Management Report*
- Develops policy and plans in *Debt Management Strategy*