Report: Volume Two

Governance Evaluation
Debt & Reserves Management

Department of Finance Canada
Ministère des Finances Canada

Canada

Bank of Canada

Plamondon & Associates Inc.

Submitted to:

Treasury Evaluation Steering Committee
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Report
Volume Two
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Table of Contents

1 Preamble

This is the second of two volumes of a report to the Treasury Evaluation Committee on the governance evaluation of Debt and Reserves Management.

Volume One is a summary report, which principally includes the findings and recommendations.

Volume Two contains details on:

- Methodology;
- The evaluation framework; and,
- Participant responses from the questionnaire and the interviews.

2 Introduction

This study responds to a request from the *Treasury Evaluation Steering Committee*[1] to evaluate the governance framework for Debt and Reserves Management.

Each year the Committee engages independent experts to evaluate specific aspects of Canada's debt and reserves operations. The Committee is comprised of senior government officials, drawn from sources internal and external to the Department of Finance and the Bank of Canada.

The *Treasury Evaluation Committee Working Group*, comprised of officials from Finance Canada, the Bank of Canada and the Office of the Comptroller General, directs and monitors the evaluation projects.[2]

The management of Canada's national debt is the responsibility of Finance Canada[3]. This responsibility is shared with the Bank of Canada, the *fiscal agent* for Canada's debt.[4] The partnership between Finance Canada and the Bank of Canada is fundamental to how Canada manages its debt and reserves. Therefore, references throughout this report made to "Debt and Reserves Management" indicate the joint activities of both institutions.[5]

Numerous changes to the governance framework for Debt and Reserves Management were implemented in 2003. These changes altered the allocation of responsibilities between Finance Canada and the Bank of Canada and established a number of joint Finance/Bank committees. In large part these changes were designed to increase the involvement of senior officials in debt and reserves management, streamline decision-making and enhance accountability. Many of the governance changes are in the process of implementation and it may take a year or more before enough experience is gained to fully evaluate the effectiveness of the new system. Therefore, the views expressed by study participants should be considered to be "preliminary" and in many areas reflect the *hopes* of what will result from recent reforms.

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1 The Treasury Evaluation Committee is composed of the following members: (FINANCE: Associate DM; ADM of Financial Sector Policy branch) (BANK: Deputy Governor of Financial markets): (Office of the Comptroller General: Deputy Comptroller General). The Associate DM of Finance chairs the committee.

[2] Te Treasury Evaluation Committee Working group is composed of the following: (Finance: General Director of Financial Sector Policy; Chief of Debt Management Program) (Bank: Director of Debt Management and Foreign Reserves) (Office of the Comptroller general: Manager)

[3] The Financial Administration Act and the Currency Act articulate the statutory governance of federal government debt. Following approval to borrow from the Parliament of Canada, the Minister of Finance has the authority to manage Canada's debt, including the authority to delegate certain management functions to the Bank of Canada and Canada Investment and Savings. Within Finance Canada, debt and reserves are the responsibility of Financial Sector Policy Branch - Financial Markets Division – Debt Management Policy

[4] *Fiscal Agent* is the term used in Section 24 of the Bank of Canada Act. It confers statutory authority for the Bank of Canada to "… if and when required by the Minister to do so, shall act as agent for the Government of Canada in the payment of interest and principal and generally in respect of the management of the public debt of Canada pay interest and principal".

[5] Excluded from this study is an examination of Canada Investment and Savings.

3 Objectives

The initial terms of reference proposed by the Treasury Evaluation Working Group for this study were as follows:

> *Review the effectiveness of the processes and structures used to formulate debt, reserves and risk management policy and provide direction and control to operations, as they have evolved over time; and, advise on potential measures that could be used in the future evaluation of the new, enhanced framework*

In short, what was conceived was a two-stage evaluation; the first phase, described above, was to develop an understanding of the new governance system and then construct an evaluation framework. The second phase would presumably be conducted in a few years from now and would constitute a comprehensive evaluation.

Following some initial planning meetings for this study, as well as background research on governance guidelines relevant to government and treasury operations, it was determined that an evaluation framework could be both developed and then utilized in this initial study. In other words, the framework would be developed based on background research and meetings with the *Treasury Evaluation Working Group* and then used in an actual evaluation.

This approach is reflected in this revised statement of objectives:

1. *Assess how the governance of Debt and Reserves Management has evolved over the past five years;*
2. *Develop a framework for the evaluation of Debt and Reserves Management governance;*
3. *Test the effectiveness of the governance framework by using it evaluate current governance structure, practices and policies. In doing so, conclusions and recommendations are to be provided on current governance practices.*

4 Methodology

4.1 Survey

Twelve officials from Finance Canada and the Bank of Canada completed a written survey (Appendix A). Those surveyed included both operational and senior management staff from the Bank and Finance, including most of the key decision-makers and area heads. The Treasury Evaluation Working Group identified the staff that were asked to complete the survey.

The survey covered all elements of governance, segmented into five major areas.

Within each area a series of statements were posed on which participants were asked to rate their agreement or disagreement on a four point scale.

Strongly disagree	1
Disagree	2
Agree	3
Strongly agree	4

Participants were asked to provide their overall comments within each area of governance. This gave participants the opportunity to explain their responses to the scaled opinion questions and to raise any other issue they considered relevant.

The final section of the survey raised a series of open-ended questions on a few specific issues.

4.2 Personal Interviews

25 Individuals were interviewed for the study, either in person or by telephone. The interviews were completed in January and February (2004) and followed the tabulation and analysis of the written questionnaires. In the interview, participants were asked to elaborate or clarify certain of their positions, were queried about areas where their responses differed from the average ratings of their colleagues, and were asked about some of the suggestions for improvement that were offered by others in the written questionnaire.

The Treasury Evaluation Working Group identified interview participants. The interviews were conducted with:

- Department of Finance and Bank of Canada staff (16)
- Market dealers (4)
- Auditor General staff (1)
- International debt managers (2)

At the end of each interview participants were asked to comment on the suitability of the evaluation framework and to suggest any other issues that should be considered in a future evaluation.

4.3 Literature and Document Review

Departmental resources and the Internet were used to identify documents and literature relevant to this study. These documents were analyzed and incorporated into the study where appropriate.

4.4 International Comparisons

Direct inquiries, by Internet and telephone, were made of individuals identified by the Working Group as having expertise and experience in debt management in other countries. The annual report for debt operations for each of these countries was also examined.

5 Evaluation Framework

Evaluating the governance framework for Debt and Reserves Management requires objective criteria and standards. It is not sufficient to simply draw conclusions based on impressions taken from a number of interviews.

Prior to this study a list of standards or criteria to evaluate the governance structure, practices and policies for the Debt and Reserves Management Canada had not been documented.

Various public sector and private sector governance guidelines were used in this study to inform the development of the evaluation framework. The key source was the Treasury Board Secretariat Management Accountability Framework (July 21, 2003). It consists of 10 essential elements along with a series of indicators and associated measures. Government managers have been encouraged by the TBS to use the Management Accountability Framework as an assessment tool to determine organizational health.[6] Other government sources include governance guidelines for Crown Corporations, various reports from the Auditor General of Canada, and IMF/World Bank guidelines on public sector debt management.

The private sector has been very active in the modernization of governance practices and many of these guidelines have relevance to the public sector; in particular those that deal with risk management and independence. The relevant private sector guidelines that have informed the evaluation criteria for this study come primarily from the Toronto Stock Exchange.

Evaluation Criteria

The framework developed in this study considers five areas of governance. A summary of the framework is presented below while a more detailed presentation is provided in Appendix C (includes definition, objectives and measures indicating compliance).

1. Stewardship and Oversight

Stewardship and oversight refers to the responsibilities and actions taken at the highest level by the Minister and senior officials to ensure Canada's debt and reserves are effectively managed in compliance with the laws of Canada and with appropriate oversight.

- Are authorities from Parliament properly followed?
- Is the Minister of Finance and senior officials appropriately engaged in oversight?
- Are approvals obtained from the Minister and Senior officials as required?
- Are senior officials adequately briefed on key issues and developments?
- Is there an appropriate responsibility and accountability structure?

[6] The Management Accountability Framework is summarized in Appendix B of this report.

2. Strategic Direction and Planning

The management of Canada's debt and reserves are guided by a strategy and a plan. The strategy is high-level and is oriented towards achieving established goals. The plan is the more detailed program and methods worked out in advance to accomplish the objectives.

- Is the Minister and senior officials appropriately engaged in strategy and planning?
- Is the strategy and work plan an effective tool for planning and management?
- Does the strategy and work plan properly inform and direct the work of Finance and the Bank?

3. Risk management

Risk management refers to the process by which potential changes in certain economic variables do not cause an adverse financial outcome. It also refers to the systems and procedures that ensure the accuracy of work performed to reduce the chances of an error, omission or misdeed.

- How is risk identified and managed?
- Is risk assessment independent of policy and operations?
- Does the organizational culture respect risk management?
- What quality assurance and control mechanisms are in place?

4. Organizational Structure

The organizational structure refers to the internal arrangements that work together to achieve objectives. At the highest level this includes the clear assignment of responsibility and authority. Operationally, it includes procedures, review mechanisms, succession plans, training and the conduct of staff.

- Are the roles and responsibilities clear and understood?
- Is there clarity in the roles and responsibilities between the Department and the Bank?
- Is the structure for decision-making appropriate?
- Does the framework meet the tests of good governance as noted in Treasury Board guidelines, private sector guidelines, comparable organizations and other tests of best practices?
- Are the committees functioning effectively?

5. Results and Performance Measurements

This area refers to the process through which the effectiveness of staff and the performance of the organization as a whole are evaluated relative to objectives, plans and their peers.

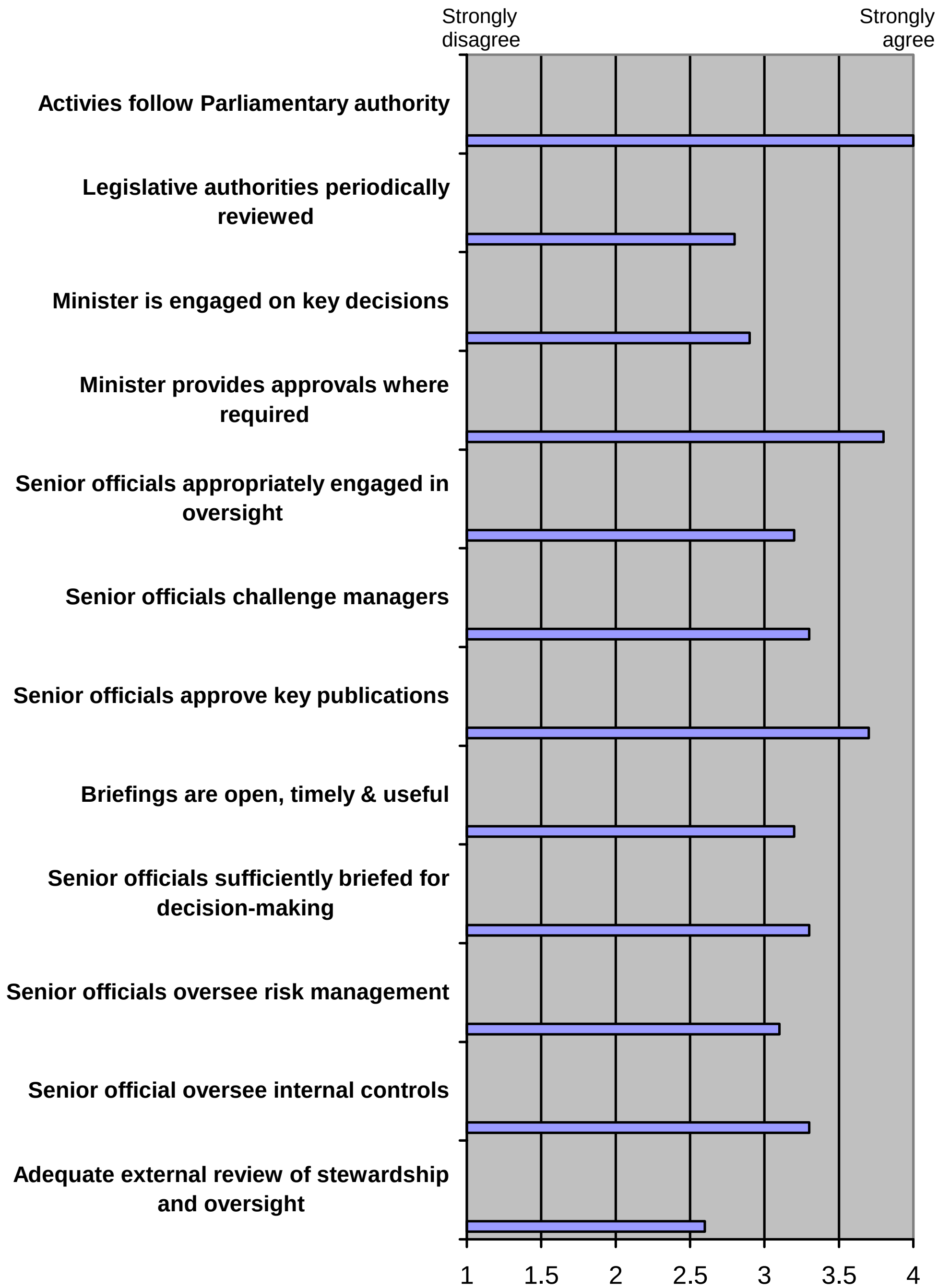
- How is performance measured and reported and is this done effectively?
- Is there a willingness to innovate to improve operations?
- Do performance measures direct staff to achieve strategic objectives?
- Are performance measures used to evaluate the effectiveness of staff?
- How effective is the external evaluation program?

6 Results: Bank of Canada and Finance Canada Participants

This section presents the results of both the survey and personal interviews with staff from the Bank of Canada and Finance.

For each area the results from the scaled opinion questions are presented first. Thereafter, written comments from the survey and the views offered in the personal interviews are provided.

6.1 Stewardship and Oversight



The average score for each question on stewardship and oversight was positive (i.e. above 2.5). The composite average for all twelve questions was 3.3. The issues receiving the lowest scores dealt with Ministerial engagement on key decisions, periodic review of legislative authorities and external review of stewardship and oversight practices.

Written Comments and Observations from Interviews

⇒ Almost all participants agreed that the new governance framework is well designed and expect it to have a significant and positive impact on stewardship and oversight. In this respect, the key feature identified was the on-going involvement of senior officials at Finance and the Bank on the Funds Management Committee. While optimistic about the outcome, some expressed caution that more experience is needed before it is clear that the objectives of the FMC will be fully realized.

FMC will provide more systematic oversight by senior officials at the front end of policy development.

In my view, the new governance framework provides improved and rigorous oversight of debt and reserves activity

My impression is that matters regarding debt and particularly reserves management (currently) lie below the "interest" of the highest officials

This new framework is a good start. But we have yet to work out the details of who will be responsible and who will do what.

The role of senior staff should be explicit. This will avoid any tendency to “rubber stamp”.

With new systems in play, some of my responses reflect my expectations, plus experience with previous system.

The Bank has pushed for the new FMC to ensure it has a voice with senior officials at Finance; that nothing gets lost at the Director level.

Having the Associate Deputy Minister as chair the FMC appropriately asserts the position of Finance regarding decision responsibility

FMC will be excellent in getting senior officials engaged in discussions at an early stage

New structure provides vehicle for focusing involvement of senior management

We have the right framework and full buy-in at the Bank. The questions remains will senior officials at Finance respect the changes. The “proof will be in the pudding”.

There is nothing vital missing.

The improvements that come with FMC are fairly modest. In many ways it simply formalized what had been done in the past; and what was already in place with the Exchange Fund Account and for risk management. .

The only limitation of note is the tendency of senior management and the Minister to pay attention to other issues, given the largely non-controversial nature of debt and reserves management. Note that, in keeping with their situation, senior management and Ministerial involvement has been reactive; not proactive.

It might be that the Governor and Deputy need to get involved in the FMC for the Committee to be truly effective.

Over the past decade Funds Management has become much more important to the Bank. We are now making investments in what in now one of the Bank's four pillars.

⇒ Most participants thought that the stewardship and oversight role exercised by the Minister was appropriate. It was thought that the Minister should be able to rely upon the overall structure of Debt and Reserves Management to discharge his stewardship and oversight responsibilities. This includes:

- Ministerial approval of the Debt Management Strategy and Debt Management report
- A well-designed governance structure that engages senior officials at the Funds Management Committee
- The added scrutiny of having two institutions involved in Debt Management. This includes direct access to the Minister by the Governor of the Bank of Canada, which could used by the Bank if problems were encountered
- The work of the Auditor General
- The work of the Treasury Evaluation Committee
- Periodic contact between the Minister with market dealers

The Public Accounts Committee of the House of Commons was viewed as not being particularly interested in debt and reserves issue.

Generally, the system that has been in place for a number of years works well. It's great strength is the joint Bank of Canada/Finance focus on policy issues, which ensures that senior managers can, if required, contribute and have dialogue and that there are two avenues to the Minister (if required).

The Bank of Canada Board oversees the system of internal control/internal audit and external audit. In my view the Minister should and can rely on this. The Board also reviews stewardship and risk management.

The Minister is not directly engaged

Bank officials have never been invited to a meeting where the Minister is briefed on debt and reserve issues. However, there is no doubt that if the Bank had a concern its views would be carried forward to the Minister. If there were a fundamental problem the Bank would raise the issue with the Governor who in turn could address the issue with the Minister.

Minister simply needs to be comfortable with high-level strategy. Minister can rely upon FMC. External evaluations can be a big help.

There is a fear about "bothering" the Minister with small items that require his approval. Progress gets slowed down because we accumulate issues before going to see the Minister. This should be streamlined.

Minister is appropriately engaged – useful to have him approve the debt strategy and debt management report

Is there enough there for the Minister to be comfortable? Yes; if it all works. Those involved need to understand on what the Minister relies to be comfortable with debt and reserves management. This should be spelled out

It seems unnatural and peculiar for a CEO to pay such little attention to the debt side of the balance sheet.

The relationship between senior officials at Finance and the Minister are less transparent to the Bank

The Bank of Canada will always be mindful of its overall independence. It operates with the full internal backing of its management structure and Board of Directors

Does the Minister have to be engaged or can he delegate to the experts (as in fact he seems to do)

There should be formal delegation to the FMC by the Minister

Debt and reserves management should be delegated to a more junior Minister, for whom these matters would be of greater importance. One can't blame the Minister of Finance for putting greater focus on the big "macro" issues

The Parliamentary Committee should take a greater interest. Perhaps they would if there were some controversy.

⇒ Many participants commented on how the Funds Management Committee might achieve maximum effectiveness in stewardship and oversight

Perhaps there are too many people attending the FMC to have a full and candid discussion of issues and staff.

We have only had one FMC meeting. We are still working out protocols and procedures

The most strategic decisions are still not taken at the highest level

The most senior official who is technically knowledgeable is the Director. But the Director needs to have policies endorsed at a higher level; that means the FMC must be active and engaged.

If they want the FMC to be taken seriously they should have pre-set meeting dates for the entire year.

Turnover at the senior level is an issue.

Senior officials are in a reactive mode. The agenda for the new FMC needs to be long term and strategic to ensure long term issues are considered and that input can be obtained when it can be meaningful.

This is a technical domain. It takes many years of involvement before officials have enough knowledge and insight to be effective at oversight. We should invest in orientation to accelerate the learning process. It is not clear at the beginning how much they understand. It can be frustrating to be continually training senior staff

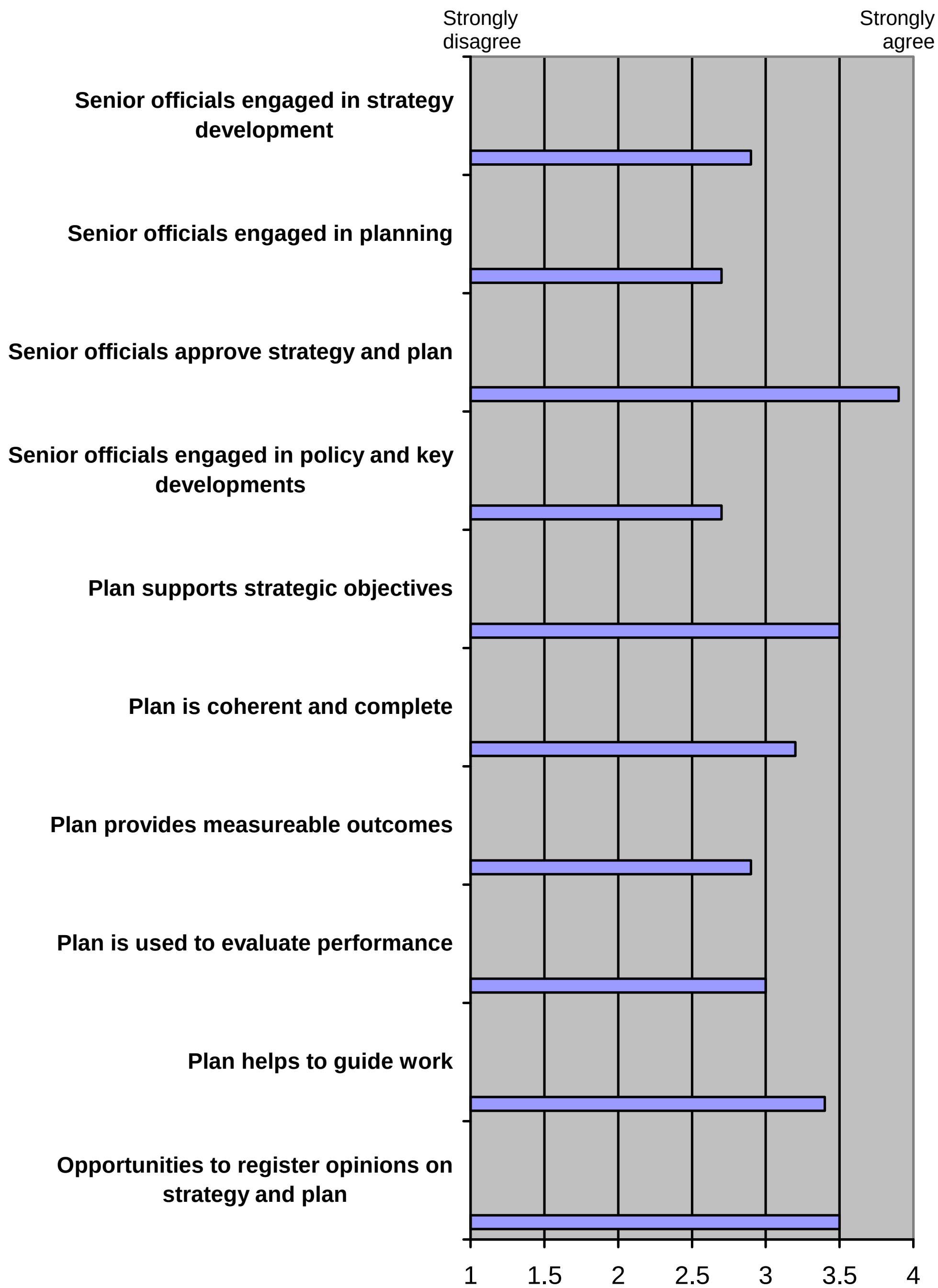
It is the responsibility of the Associate DM to be informed and take a view on Debt Management issues for the FMC to succeed.

We need to tone down technical jargon for the ADM and Associate DM

There were gaps before with too much reliance on the Director. The FMC changes address this.

It would be too tough technically to put someone from the outside on FMC.

6.2 Strategic Direction and Planning



Participants recorded a positive score for all questions in strategic direction and planning. The composite average for all ten questions was 3.2. The areas receiving the lowest scores dealt with the engagement of senior officials and the Minister on strategy and planning, and the presence of measurable outcomes in the work plan.

Written Comments and Observations from Interviews

⇒ For the most part, strategy and planning have been the purview of operational staff. There is some hope that the new Funds Management Committee will result in senior officials being more directly and systematically engaged on these issues.

This has to be the purview of the FMC; where they should focus their attention

The key feature of the FMC is that it provides an opportunity for senior officials to influence and approve strategic directions at an early stage.

For the most part, strategic direction and planning are conducted effectively, albeit with very limited external input. While there is/has been room for some improvement in the quality of each element, the clarity and relevance of objectives and workplans is of a high standard.

We need to make sure decisions fit with Minister's risk preferences.

Sometimes it's hard to see the overall strategy because briefings and documents are highly technical and detailed. Presentations should be set within a policy framework. The new committee structure should ensure the right level of technical depth is achieved at each level.

For quite some time there has not been effective coordinated system to develop strategy. Perhaps the FMC will change this.

⇒ Some frustration was noted at the lack of external advisors (academics, consultants etc) to help shape and review strategy. Some suggestions were offered to stimulate outside interest.

There are few experts out there on debt strategy. It would take a substantial effort to bring them in and make this work,, perhaps more trouble than its worth

There is limited academic interest in debt management. Perhaps this could be stimulated with secondments, exchanges, sponsored conferences, journals etc.

⇒ Some suggested that the planning process be more deliberate, systematic and comprehensive (i.e. include a range of options to stimulate debate).

Finance fights fires and changes priorities – which changes work plans. It's difficult for the Bank to manage in this environment.

We need to know what is driving strategy. There are too many political swings among senior officials, which makes it difficult to plan at the operational level.

Would like to see more alternatives and debate rather than the "right" answer. Options, implications and discussions would help to educate and inform.

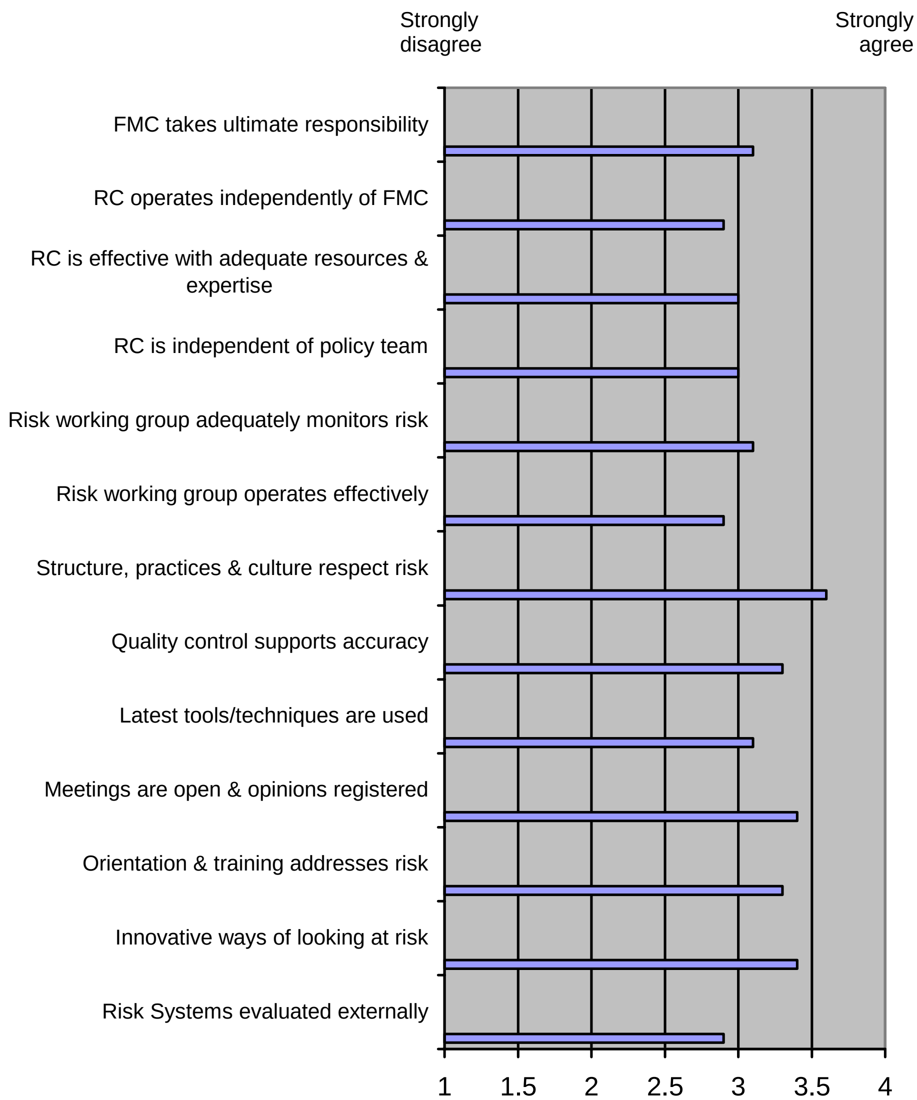
⇒ Other comments

Generally impressed by level of analysis that informs the strategy.

Hopefully under the new governance system Finance will be able to dedicate more resources to policy and spend less time in oversight with the Bank.

We would like, and have been working to develop, clearer performance measures for operations. They then need to be better integrated into work planning.

6.3 Risk Management



Participants recorded a positive score for all questions in the area of risk management. The composite average for all 13 questions was 3.1. The areas receiving the lowest scores dealt with the independence of the Risk Committee, the level of resources and expertise, and periodic external reviews for effectiveness.

Written Comments and Observations from Interviews

⇒ Most participants commented that the government's risk tolerance is very low. As a consequence the need for elaborate risk management reports and a totally independent working group is largely mitigated.

Canada does not take much risk so we do not need the sorts of structures and procedures that would be found at major financial institutions. We must ensure the government does not become a market player by remaining risk neutral (other than what is inherent).

Always need to continuously improve risk management tools and techniques so it's hard to ever say that the "latest" are in place. Also need to tailor risk management tools to actual risks present for the business.

Risk taken by government is very low. We don't need the same level of independence and clout that you would see in a Bank.

There is a concern that the same people sit on multiple committees

Risk management is more independent now.

Very little risk and standards are very high

There is not an "ideal" amount of independence because even the outsider comes from the same institution (and reporting structure)

The Risk Committee is still the B team to the FMC. It does not have a lot of power. But there is no natural "other" place for the risk group. Perhaps the RC should have other outlets: this should be explored.

An outsider from the Bank should be included in the Risk Committee.

Should there be a disagreement with Finance, we have every confidence that our views, most likely expressed in a memo, would flow up to the Minister.

We take more risk than people think, such as investing in US agencies when their ratings changed. We certainly take interest rate risk and currency risk.

I would like to bring in a real outsider (i.e. not from the Bank or Finance) to the Risk Committee.

⇒ Many participants noted that the capacity and quality of risk management has been improving, largely in response to specific feedback from the Risk Committee and others.

A risk management focus and culture has been under development for some time. Policies and procedures are generally clear and comprehensive. The only major element where some improvement is required is in the support provided to the Risk Committee (including the delivery of timely, clear adequate briefing reports and information on risk issues).

The new risk management framework has recently been introduced. It provides an excellent framework for strengthening risk management. The appropriate role and tools for sovereign risk management is in its infancy.

This area needs more work. It has suffered from staff turnover. Systems were not in place. The new structure will bring major improvements

People are generally becoming more sensitive to risk issues. The increased independence of the Risk Committee will help this.

⇒ A number of participants observed that the Risk Committee only examines treasury risk related to government debt and reserves, and does not review the government's overall financial risk.

Government exposure is broader than strictly direct government of Canada debt - this is an area of potential improvement

The Risk Committee should be renamed the Treasury Risk Management Committee. Some people may think we are looking at all financial risks.

We should rename the Risk Committee to more properly reflect its role in public policy.

We need to ensure that the government understands we are not looking at all risks; just treasury management risks related to debt and reserves.

⇒ Recent changes that gave the Risk Committee more independence were considered important. The ability of the Risk Committee to send reports to the FMC and Minister is a key element of its independence.

Risk Committee and FRACO have been structured to oversee risks independently, with direct reporting required to most senior levels of any concerns.

What FMC is responsible for is the policy framework and recommendations to the Minister that adequately considers risk management. Still the Risk Management Committee and FRACO are encouraged to write independent reports and assessments to include in advice to FMC and the Minister.

The new structure should work well. I see no need to place a non-governmental person on the Risk Committee.

⇒ Finance needs assurance that the risk office at the Bank of Canada is adequately focused on debt and reserve issues.

Finance needs to continue to have a clear window into the allocation of resources in risk management operations. That's why the co-chair of the RMC is from Finance. We need to ensure the focus remains on debt. The Bank may otherwise have a tendency to use the RMU for other risk management evaluations.

If there is to be a single chair for the Risk Committee it should come from Finance.

Because risk management is housed at Bank of Canada they may lose focus on debt and start looking at other issues

Need to clarify and resolve relationship of the Risk Committee to the Risk Unit at the Bank. Finance needs to be satisfied that its needs are addressed and that scarce resources are properly allocated.

The activities of the Risk Committee are useful to the Bank in other areas.

⇒ Other Issues

Useful to have IMF and World Bank look at Canadian practices on risk management, although we are probably ahead of most countries on the independence of risk assessment

Big issue is staff turnover

There needs to be an active rotation of "outsiders" on the Risk Committee to ensure there is adequate back up if staff leave. We need redundancy on this.

Sometimes it is hard to get a frank discussion in the Risk Committee, especially about errors and irregularities, because there are too many people in attendance. There are obvious educational benefits to exposing junior staff to issues and people, but we need to find a better balance.

The Bank of Canada should have the sole Chair of the Risk Committee. There are valid policy reasons for this, plus it would negate the need for rotating chairs and the revolving secretariat.

We don't do a lot of backward looking at the effectiveness of our risk management approach

Market dealers may well write to the Minister of Finance if they have an issue with how the government is managing risk.

Changes do not happen easily and affect many issues and reports. All changes should be thought through thoroughly.

Risk management could very much use an external evaluation

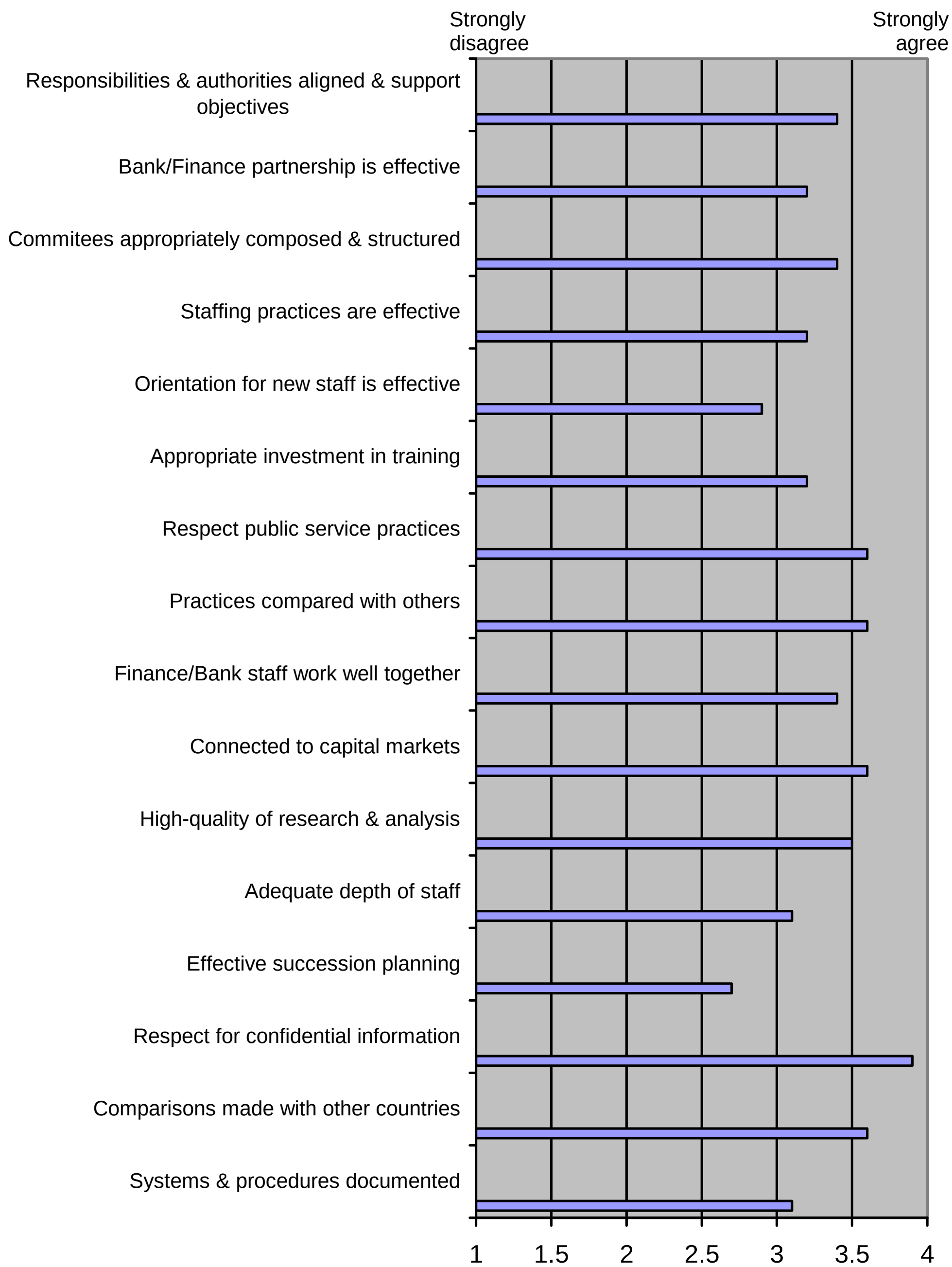
Making presentations to the Risk Committee helps to sharpen the focus and skills of staff. It is good for accountability, performance and competitive thought.

The Risk Committee could do more to shape the agenda rather than react to emerging issues.

Everyone should realize that the Risk Committee is only advisory; it does not make decisions.

Sometimes issues are brought to the Committee that are too innovative; that reflect a much higher tolerance for risk that the government has indicated they want to accept.

6.4 Organizational structure



Participants recorded a positive score for all questions in the area of organizational structure. The composite average for all 16 questions was 3.3. The area receiving the lowest score dealt with succession planning.

Written Comments and Observations from Interviews

⇒ The relationship between Finance and the Bank was generally described as professional and highly effective. There are some who like the word "partnership" to describe the relationship while others prefer the "principal-agent" continuum.

Partnership is a "feel good" term, but that's not the essence of the relationship. It is appropriately one of principal and agent. The term actually conflicts with the independence of both parties. We certainly work collaboratively and respectfully within a defined framework.

The relationship between the Bank and Finance works remarkably well due to the high level of social cohesion and collegiality at all levels of the organization, and a common understanding of policy objectives.

The relationship was good in 2001. It has improved significantly in 2003
Works well, not broken,

On the foreign reserves and debt management side the relationship is excellent. We may have our disagreements but there truly is a good creative tension

Disagreements can be enjoyable – debate in healthy and respectful – nothing is destructive

Working relationship is outstanding.

The notion of a partnership has been a "façade". Finance tells the Bank what to do. It's hard to imagine that this will change.

The Bank and Finance complement each other very well. This is rare and nor found in other countries.

Don't see this as a partnership – it is a client/agent relationship. Yes it has check and balance elements. What works is an active agent and an active principal.

Overall the relationship appears satisfactory. The respective roles are respected and clear. Individuals cooperate. Any difficulties are a function of personalities.
"Partnership" between Finance and the Bank is a "feel good" term. We want everyone to work constructively, positively and professionally.

⇒ Most participants identified staffing as a key organizational issue. Specifically, public service human resource practices and remuneration scales do not compare well with the private sector alternatives, particularly for highly qualified risk managers and traders.

As a rule, staffing and organizational structures are appropriate. However, the limitations imposed by government staffing practices prevent the hiring and remuneration of qualified professionals. In my view, we do remarkably well in developing economists into finance professionals. Beyond this, although the organizational arrangements are unique (Bank of Canada and Finance) they work very effectively.

There has been a high level of turnover.

The staffing problems are inherent. PSC does not facilitate good hiring – and in particular does not facilitate firings when appropriate.

Can't hire off of Bay Street, but don't need it.

We need to find people who have a public service and public policy bias. If all they want is money they won't be here long.

We even lose key treasury people to different areas of the Bank.

Overall staffing is an inherent problem that will never go away – we just have to manage it.

We get vulnerable when financial markets are strong and they come after talent.

We recruit mostly from universities and train people in treasury. Surprisingly we get few people interested in coming to Finance from the Bank.

⇒ Most participants commented about their hopes and concerns with the new governance framework. Among other issues, Bank staff is anxious that delegated authority is respected while Finance wants its role as principal respected.

A new framework is in place. It is off to a good start.

There are some growing pains and adjustments in getting making the new framework operational. Bank staff, seeking more independence, will need to ensure that systems and reports are in place before Finance staff will take a more "hands off" approach to operations.

The proof of the new governance structure is in the pudding. It looks good on paper, but will people respect the new roles and responsibilities or will operations continue to reflect past practices? In other words will Finance respect the authority delegated to the Bank or will they continue to intervene on day-to-day operational matters.

Perhaps a few too many committees. Important test of clarity of roles and responsibility is in practice. We need clear performance measures to achieve this.

We are still, not sure how this new structure will work in a crisis

Delegated authority is key to retaining good staff. It is not professional to have someone continuously looking over your shoulder.

Further delegation to the Bank is required.

The Bank will always have to accept that Finance takes ultimate responsibility for the management of the debt. That necessarily means there is some oversight imbedded in the principal and agent relationship.

Have high hopes for new structure but so far nothing has really changed at the operational level – there is way too much "looking over the shoulder" – finance get educated -- perhaps this is the "check and balance"

If the Bank is receiving the same questions from Finance it must be that the Bank is not producing relevant and reliable reports on operations. This will take time to develop under the new structure. With independence comes accountability.

The junior staff at Finance can be very demanding and sometimes insensitive; we need to use the new system better.

Finance is responsible and accountable for Debt management. That's why it makes sense to have the Associate DM of Finance chair the FMC.

⇒ There are inherent challenges related to staff from different institutions working closely together on similar issues.

There is an inherent difficulty in the structure with the Bank as fiscal agent. Those who work in FMD at the Bank work on fiscal agent issues, yet report to managers at the Bank according to the evaluation criteria of the Bank. They have to serve two "masters" - the government and the Bank -- whose issues and views on issues may differ. The result can be a lack of alignment in work. This issue results from the overall nature of the structure with the Bank as fiscal agent -- an issue, which could be solved by one organization responsible for fiscal agency work (a debt management office, say)

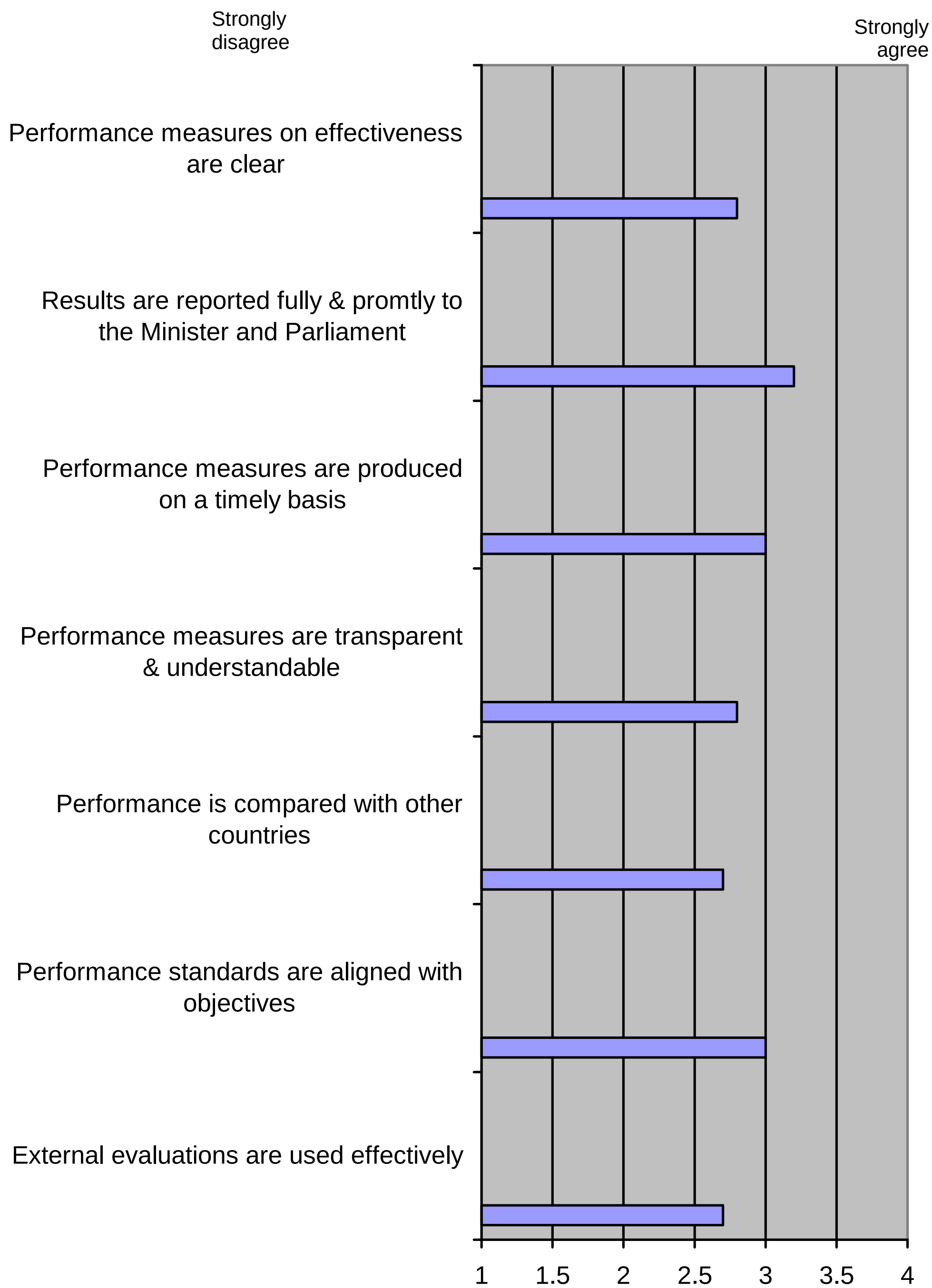
Bank and Finance have different year-ends. The calendars for work plans are not aligned.

Different year-end affects planning.

Performance appraisals are more difficult because two institutions are involved

The involvement of two institutions necessitates clear roles and responsibilities.

6.5 Results and Performance Measurement



Participants recorded a positive score for all questions in the area of organizational structure. The composite average for all seven questions was 2.9. The scores for results and performance measurement were lower than all other areas of governance. The lowest scores in the area were for external evaluations, comparisons with other countries, and for the transparency and understandability of performance measures.

Written Comments and Observations from Interviews

⇒ Most participants noted that because of the multitude of variables that affect debt management that it would be difficult, if not impossible, to develop a single effective performance measurement system. Most thought that a series of quantitative and qualitative indicators would be appropriate. It was noted that both that new elements in the Debt Management Report and a project within the Bank would show progress in developing a performance measurement framework. The need for more work in this area was acknowledged.

There are no natural benchmarks. Results and performance measurement are big challenges -- in some sense because costs are exogenously determined. The benchmark for all other borrowers is the government of Canada debt. How does one measure the benchmark? Qualitative feedback is received from key stakeholders (distributors of debt, investors -- domestic and international). Any one benchmark will not capture all of the objectives of the government (e.g. cost effectiveness, integrity)

There are too many variables in play to develop a model that reflects true performance. Best we can get is a series of indicators; perhaps some qualitative measures.

Need to improve performance measures and discussion of outcomes

Until recently, reporting on performance was limited to a few key statistics (auction results). Changes in systems and reports (DMR) have increased and broadened the level of transparency. A remaining issue is assessing and reporting on the performance of the Bank and Finance in the implementation of workplans.

Systems development in2003/04 permit much better and more timely and sophisticated performance measures. FRACO also will now be able to enhance risk monitoring and reporting.

A balanced scorecard might be possible. We certainly need a great many indicators.

Need better reports and better data

There is no common understanding of measurable objectives

⇒ A few participants commented on the external evaluations, specifically the limited scope and form of organization.

Limited budget for external evaluations may constrain depth of evaluations

Debt is the government's biggest overall cost, yet it doesn't receive much scrutiny or external evaluation.

Finance can use not only in-house but also external advisors to ensure effective oversight.

Great that external evaluations are being done.

Sole source and limited dollar limits constrain the extent of work. But it is still useful

Most academics are not knowledgeable, not too many of them – don't bother with evaluation if it isn't done right – pay more money – is it PR

We should look at the governance around external evaluations. While it has a separate stream of review, it is with the same people that sit on other committees. Perhaps the Evaluation Committee could be more like an audit committee with an independent chair.

It would make sense to have the author of evaluations present directly to the Treasury Evaluation Committee.

⇒ Some suggestions were made on how results measurement and performance evaluation might be improved.

We don't do an ex-post review on strategy – in other words knowing what we know now would we have done things differently; and does it tell us something about our approach/research/strategy going forward.

We can learn what others do at international conferences and meetings.

We should look at Sweden; they have done work in this area.

Canada is a leader. There is not much to learn here from other countries

Other countries have tried and failed at producing benchmarks

The government is not and should not be a "player" in the market. We should be "wallpaper" so that the markets can work, as they will. If anything we can be assessed on our neutrality.

We should publish more of our analysis and put it out there for scrutiny. For example, what did we publish related to the decision to reduce long term debt to 60%.

Canada can stay connected to market participants and get good feedback.

Should have greater use of peer review from other countries

Regular meetings with the IDA Capital Markets Committee are required

Public sector debt management is a unique field. Perhaps some staff exchanges with other countries would help to identify areas of strength and weakness.

Our primary objective is an efficient and effective capital market. We need measures to evaluate this.

6.6 Other Issues

Beyond the five general areas of governance, participants were specifically asked about the following issues

- Significant Changes in Governance Over the Past Five Years
- External Advisory Committee.
- Quasi-Independent Debt Management Office
- External Evaluations

While not originally in the list of questions many participants spoke about the consolidation of borrowing and reserves for the federal government and Crown Corporations.

Significant Changes Over the Past Five Years

⇒ The new governance structure was cited as the key development over the past five years.

The key change is the move to the new governance framework, which has strengthened all aspects of the framework

New governance framework in 2003

Clarity of roles in Finance and Bank

Significant changes in the "players" at both Finance and the Bank; means that corporate memory has been lost. As a consequence there is a more formal structure that reinforces roles and responsibilities. Clarity has been enhanced.

More senior involvement at Finance

More operational delegation to the Bank of Canada for certain tasks as described in Appendix 5 of the "Treasury Management Governance " document, and, the steps taken to create some sort of senior official interest and engagement at Finance

Independence of risk oversight

The 2003 new framework stands alone during the five year period

New rules codify and formalize practices and procedures – make it less dependent on experience

Formation of FMC to get senior policy makers from Bank and Finance more involved in policy deliberations and provide staff with clear policy framework, guidelines and performance measures. Independence at more senior level of FRACO.

⇒ Improvements were noted in the structure of debt and level of risk

The level of risk exposure has declined (market disruption, counter party failure) due to exogenous and internal factors (collateral frameworks)

Implementation of numerous measures to reduce risk exposures/ collateralizing.

Focus on debt management has shifted from sources of funds to maintaining effective liquid markets

External Advisory Committee

⇒ The predominant view was that while an external advisory committee would be "nice to have", the problems inherent in operating such a committee would exceed any possible benefit. The current consultation process was thought to be open, complete and effective.

Difficult to implement due to sensitivity of information and lack of properly informed experienced advisors.

Requires more effort than is justified by value (at least in initial period)

Very difficult to do this for several reasons. First it would be hard to get sufficiently expert people who can be objective. Second, experience of other countries is cautionary (e.g. US)

Canadian market place is concentrated and not difficult to bring together various perspectives

Difficult to implement as forming such a committee would be a challenge in a policy institution.

Hard to get market participants to speak freely – sometimes better to speak one-on-one

Like to have but hard to get. Participants would have to make a significant investment in time for them to be effective.

In Canada process is open and consultative -- it does not rely on a subset and this avoids potential conflict of interest situations such as in US

Current process is very open

⇒ A minority of participants supported the formation of an advisory committee and offered the following suggestions on form and mandate

Excellent idea

Form a small consultation committee of financial market participants andseek their advice 1-2 times per year

Favourable only if it set up in a way that they provide comments and views on strategic policy issues -- and that these views only need to be acknowledged (i.e. the government does not need to respond)

If set up, it should be composed of highly competent and knowledgeable people who understand financial risk as opposed to high profile albeit competent bureaucrats

Good idea! Should draw from Crown corporations and commercial banks

Should not be a decision-making body

Great idea – should inform the FMC

If its advice is policy it should be set up by the Bank and Finance and report to the FMC. Maybe the IDA Capital Markets Committee is the best forum; and already exists. If it’s focus is operational issues the Bank should set it up.

Perhaps the External Advisory Committee could help to ensure the system works as designed. This might be a place where the Bank and Finance can elevate issues of concern.

I am a big believer letting outsiders review and test our work. We simply have to be sensitive about market moving information.

⇒ In regards to external advice and external evaluations, participants noted the general lack of interest from the Canadian academic community on public debt and reserve issues. Some suggestions were offered on how to stimulate interest.

Academic interest is minimal to non-existent.

It is worth considering. We would need to take a long-term view to capacity building. Perhaps it would be best to target a few people, given them some training. They should not be stakeholders.

We should consider a think-tank to explore some issues.

Serious academic input might be useful alternative to an external advisory committee.

Quasi-Independent Debt Management Office

⇒ The majority view was that the current structure is appropriate for Canada and that the benefits of operating as a Debt Management Agency would not be worthwhile.

Canadian system works very well and benefits from positioning "inside" government

Other countries agencies either suffer from lack of integration in macro policy making, or are only superficially agencies (the majority)

Perhaps a DMO might be considered if debt was being raised for multiple stakeholders.

I am not necessarily impressed with how other countries manage their debt and reserves. On balance our situation is no better, no worse.

We need central coordination

The DMO would give no real staffing benefit; all we would do is pay existing staff more.

By not having debt management in house we would lose benefits otherwise available to other areas.

We would still need oversight; with no real benefit.

Useful only if you took in all debt and risk functions. Otherwise there is no compelling case and the pay off is not that high.

Our system is collaborative and we end up with better public policy decisions. We just have to manage duplication among the bank and Finance.

It makes some sense for CI&S to be a special agency because of the marketing aspects to it's mandate. That doesn't apply to debt and reserves.

Some provinces have set up debt offices, largely to get around pay scale issues. Otherwise they are very well integrated into government policy and decision-making structure.

I would be concerned about fragmenting market expertise in Canada's public sector

The Bank looked at this and concluded that it was not in the Bank's interest. Debt management and risk management provides expertise that is useful for other core functions.

There is no evidence that there is a problem. We should not change unless there is. We could end up doubling and tripling the costs for no real benefit to the taxpayers.

Trend in Europe in to Debt Management Offices, but their reasons that are not relevant to Canada. We have a broader focus.

With the UK the DMO has its strengths and weaknesses. Its hard to say that one system is better than the other.

⇒ The minority thought the idea of a Debt Management Office should be explored. The prime benefit would be the added flexibility in how staff would be compensated.

Would function more effectively with a Debt Management Office. The fact that the central offices would lose insight, and that the current system is not broken, are in my view not sufficiently relevant not to assess the merits of such a framework.

I prefer the independent debt management bureau. That's not to say there are not benefits in the current structure (particularly synergies). However, an independent structure would allow the operation to be staffed at a higher quantity/quality levels. Just getting out from the public sector pay scales would greatly increase the chances of attracting and retaining top-notch staff.

Crown Corporations

⇒ Although not included as an issue in the survey, many participants raised the issue of the Government of Canada consolidating debt management operations to include the needs or Crown Corporations.

The government would be much better served through a consolidated debt management function. Borrowing costs would be lower, risk exposure better managed through a more integrated system, costs for crowns could be reduced, dealers would have fewer players, liquidity could be enhanced (particularly with a declining stock of debt. The major obstacle would be the Crowns who might lose independence and prestige.

Crowns build fiefdoms and make false assertions about their cost of borrowing

It doesn't make sense for crown corps to pay huge commissions. It might be fun for their staff and the crowns like the independence, but the Minister should direct a change in this area. Can you imagine that at Ports Canada, each port has its own treasury function.

We need some quite internal thinking on this. The external resistance would be huge.

The genie is out of the bottle on this and it will be very hard to get it back in. Crowns will fight losing treasury operations.

We would need a transfer pricing mechanism

Areas for Improvement

⇒ Participants were asked to identify areas in which the governance of Debt and Reserves Management should be improved. There were relatively few suggestions, most of which focused on making the new governance regime work.

I would make none at the present time, given the move to the new governance framework

Further delegation. Less overlap between Finance and Bank works. Requires clearly defined objectives for projects.

Focus on key policy challenges could be improved (should happen through FMC)

Transparency and coherence and timeliness of reporting could be increased

Performance measures need to be strengthened (in workplan for 2004)
Stewardship (annual reviews) need to be developed

The domestic side is clearly lagging effective focus on the foreign reserves side relative to the overall risks

Greater continuity at the senior management level.

More external reviews, particularly on the risk management side

Push forward with performance measures and hold staff more accountable fopr results.

Deal with mid term strategic issues in development of debt strategy

Revisit question of external advisory committee – for Bank operations only perhaps.

Comments About the Evaluation Framework

⇒ Each participant was asked if they thought that importance elements of governance were omitted from the survey or in the interview. In every instance respondents indicated that the framework was valid, well organized and complete.

7 Results: Market Dealers

Overall Impressions of Debt and Reserves Management

Participants noted that because of changes in the way that Canada approaches the market means that they do not know Finance and the Bank as well as they did 10 years ago. The auction system means that dealers are no longer selected and paid commissions, making the system far more automated and less relationship oriented than it once was.

Market dealers give Canada very high ratings for how it manages its debt and reserves. The program is thought to provide a very efficient, cost effective and highly liquid market for Canada to meet its financing needs. The staff at both the Bank of Canada and Finance is considered to be highly capable, dedicated and well connected to capital markets. One dealer used the analogy of an airplane stating that "*The system is running well on autopilot. Everything is smooth, under control and flying in the right direction*".

Canada is seen as having a very effective borrowing program, even compared with countries much larger in size.

Far from being complacent with a well-run borrowing program, participants noted that Debt and Reserves Management operates in a culture of continuous improvement and innovation.

Information provided to market dealers was considered to be timely and complete. Finance publications are thought to be clear: web access to information and data was much appreciated.

Bank of Canada and Finance Canada "Partnership"

From the outside the partnership between the Bank and Finance is viewed as professional and highly effective.

Each institution is viewed as employing highly qualified and effective staff. Participants reported that at various times the staff at Finance has been of variable quality, but steady improvements have been achieved over the past five years.

Generally, market dealers view the Finance as responsible for policy and hold final decision-making power, while the Bank is thought to be its agent conducting operations. Not knowing the inner workings of the relationship between Finance and the Bank, some market dealers ensure they speak with both Finance and the Bank on the same issues to ensure complete communication.

Consultations / External Advisory Board

Participants offered differing views on the quality and effectiveness of consultations with market dealers. Some suggested more one-on one consultation while others preferred group sessions. Those advocating one-on-one meetings suggested they would be more forthcoming in such a format. Those arguing for group sessions did not the issues as so sensitive or proprietary to necessitate private meetings.

An overall concern was the amount of time that dealers invest in responding to questions from the Bank and Finance. One suggestion was to make the consultations more formalized, using the Capital Markets Committee of the Investment Dealers Association as the primary source of contact.

There is some doubt that a standing External Advisory Board would be useful to either the dealers or the government. While most would consider it an “honour” to be invited to sit on such a committee, there were many questions about whether a truly meaningful agenda could be assembled. The dealers understand that having such a committee might give some comfort to the Minister and senior officials, but the time and expense to assemble and maintain an advisory would exceed the possible benefits.

It was suggested that an advisory committee might be helpful in responding to a crisis. However, the Investment Dealers Association Capital Markets Committee could well be asked to serve this role.

Views on a Quasi-Independent Debt Management office

Given the high level of satisfaction and admiration for current operations, the benefits of moving to a more independent debt management office were not evident to market dealers. The view was expressed that there is no lack of focus under the current model

If the issue is getting around government salary scales then it was suggested that the government consider the model adopted by Ontario and other provinces. The Ontario Financing Authority operates in the same integrated manner as does the current federal model, but can access to a more flexible remuneration system

Crown Corporation Debt

As investment dealers there are many reasons to maintain good relations with crown corporations, in particular the commissions they pay on transactions.

Some dealers pointed out the crown corporations operate in capital markets very differently than does the federal government. First, the nature of their financing takes into account their particular business circumstances. For example, EDC is more active in American markets as their risk exposure is largely in US dollars. CMHC attempts to borrow on terms consistent with their exposure on home mortgages. Second, crown corporations are thought to be market timers.

Whereas the federal government follows disclosed and predictable patterns, crown corporations will enter the market when they believe the timing is advantageous. There is a sense that Finance and the Bank tells everyone what they are planning to do with no surprises or market interference. Third, crown corporations are thought to take advantage of opportunities to make a profit on their treasury operations. It was suggested that treasury operations was the most profitable line of business for EDC.

There was clear consensus that the market demands a premium from Crowns over terms offered to direct Government of Canada debt. As taxpayers, some dealers find it hard to understand why the government would utilize its credit, sustain duplicate treasury management bureaucracies, and end up paying 10 to 20 basis points more in interest costs. The view was that the government could centralize borrowing and raise the same amount of money at lower costs and with fewer staff. Dealers cautioned that if this was to happen the Bank of Canada would have to bolster its market surveillance to cover the markets in which Crowns are currently active.

While some clearly supported a centralized borrowing program, others thought that the Government of Canada should compete for Crown business with other market participants. It was suggested that this formula works well for the Canada Pension plan.

All dealers warned that Crowns would be loathe to surrender their treasury operations.

8 Results - International

Foreign perspectives on Debt and Reserves Management were obtained through personal interviews and from material available through the World Wide Web.

8.1 Australia

Background

The Australian experience offers insights from an organization that was recently created; transformed from a division of a government department into a quasi-independent debt and reserves management agency.

The Australian Office of Financial Management (AOFM) was established July 1999. It is responsible for all operational aspects of debt management. Its purpose and governance is documented in a Commonwealth Debt Management Charter.

Authority for the AOFM flows from the Treasurer (Minister), who takes decisions on strategic debt management issues, approves debt management risk benchmarks and risk policies, and considers any possible breaches of risk exposure limits brought to the Treasurer in accordance with policy requirements. The Secretary to the Treasurer (Head of Department) advises the Treasurer on debt policy and debt management issues, and draws on resources from both the AOFM and the Treasury. The Secretary also relies upon the advice from the AOFM Advisory Board.

The AOFM is organized into three main areas:

Treasury Services	Risk Management	Strategic and Reporting
Funding and Liquidity Management	Risk Policy`	Strategic Planning
Derivatives Execution	Risk Strategy/Reporting	Governance and Compliance
Financial Market Monitoring and Liaison	Reporting Infrastructure	Financial Settlements
	Information Technology	Human Resources and Corporate Support

The AOFM Advisory Board provides general counsel and guidance to the Secretary to the Treasury on all aspects of operational debt policy matters and performance of the AOFM generally. The composition of the Board by title as of June 30, 2003 was as follows:

1. Secretary to the Treasury (Chair);
2. Executive Director, Fiscal Group, Treasury;

3. General Manager, Budget Group, Department of Finance and Administration;
4. CEO, AOFM
5. Private sector – market dealer Executive Director
6. Consultant – former Director of Bankers Trust Australia Ltd.
7. Retired – former head of Financial Markets Group at Bankers Trust Australia Ltd.

The AOFM operates with three senior management committees:
- Audit Committee
- Liability Managem,ent Committee
- IT Steering Committee

The decision to reorganize as an Agency was based on the following reasons:
- Provide an "institutional setting" that supported a comprehensive risk-based approach to financial management
- Provide the appropriate level of resources
- Definition and clarity of objectives
- Rigour of accountability and control framework
- Clear differentiation of the respective roles of different policy agencies

These reasons suggest that an agency has greater focus and independence as it carries out debt and reserves management responsibilities. They suggest that accountabilities and responsibilities are clear and that the structure offers maximum flexibility to recruit and retain staff with the full range of requisite skills. The AOFM points out that they are clearly separated from institutions providing fiscal and monetary policy advice. Prior to becoming an Agency, debt management staffing and practices had remained unchanged for the prior 20 years. Following Agency status the level of staffing doubled.

The move to an agency was based more on the evolution than problem identification. In other words, the previous system was found to be sound, but the more flexible, nimble and independent status provided better and timelier responses to a more comprehensive risk management philosophy and a more innovative money market.

The structure of the agency was based on meeting five criteria:
1. Adequate resources and a sound basis for their allocation
2. A strong focus on financial markets and risk management
3. A strong perception of the separation between debt management and economic policy functions
4. Mechanisms to ensure an institutional awareness of public policy sensitivities
5. A sound structure of governance and appropriate flexibility and accountability in decision-making

The most recent annual report of the AOFM offers a number of disclosures relevant to this study:

- Agency activities reported an operating surplus of AUS$1.8 million, comprising revenues of $7.3 million and expenses of $5.5 million. (the Australian dollar has a value similar to the Canadian dollar)

- Various performance measures are provided such as: narrowness of the range of accepted bids and of the basis point spread between tender and secondary market yields; achieve cash balance targets.
- The mix of debt instruments was altered to support the Treasury Bonds Futures Market.
- A new treasury management system was implements, which operates on a single database for all settlements, accounting and risk management activities with straight through processing and single deal entry.
- Specific disclosures in the annual report include: staff turnover; staff composition; changes to senior management; workplace diversity; training and development; health and safety; use of consultants; expenditures details; access to information procedures; ecological and environmental performance.

8.2 United Kingdom

Background

The United Kingdom Debt Management Office was established in 1998. While legally part of HM Treasury, the DMO operates as an executive agency at arm's length from ministers. The Chancellor of the Exchequer determines the policy and financial framework for the DMO, but delegates to the CEO operational decisions on debt and cash management, and day-to-day management of the office.

The governance framework is set out in a published Framework Document, which also sets out strategic objectives, lines of accountability to Parliament.

The Managing Committee is guided by an Advisory Board which comprises the Chief Executive, the Deputy Chief Executive (and head of policy and markets) and the Head of Operations and Resources, together with three non-executive members from outside the DMO. Within the DMO most business issues are considered by one of three crosscutting committees: on debt strategy; cash strategy; and, investment. They are supported by a Credit and Risk Committee, which also reports to the Advisory Board.

The strategic objectives for the DMO for 2003-2004 included the following:

- Provide required financing that minimizes long-term cost, taking account of risk;
- Manage daily cash flow in a cost-effective manner;
- Manage assets and liabilities in accordance with Treasury objectives;
- Guide and assist in the formulation of strategy and help develop solutions for financial cost-effectiveness and risk reduction, including developing [partnerships with other parts of the public service
- Resource and staff the DMO to deliver its objectives efficiently, cost-effect9ively and professionally
- Develop and maintain appropriate management information and risk control systems to ensure full and accurate presentation of accountng information

Corresponding performance measures were as follows:

- Meet the Government's financing needs within the risk tolerances, consistent with the objectives of monetary policy.
- Meet targets for time taken to issue the results of gilt auctions, achieving complete accuracy.
- To achieve complete accuracy in accounting information, with reports issued on a timely basis
- To acknowledge all letters and e-mail enquiries from the public within 4 working days and for at least 95 per cent to be sent a substantive reply within 2 weeks.
- To achieve less than 5 breaches of Operational market notices (excluding any breaches which HM Treasury accept were beyond the control of the DMO).
- To ensure that, where there is a late change in the forecast, any necessary use of end of day borrowing or lending facilities is notified by the due time.
- To ensure that instructions to counterparties, agents and external systems are complete, accurate and timely, and that monitoring of the progress of transactions through settlement is effective, so that the DMO achieves at least 99% (by value) successful settlement of agreed trades on the due date.
- To release all market sensitive data and announcements in a timely manner and to aim to achieve no factual errors in material published by the DMO on its wire service pages, its websites or its printed documents.
- To process all loan or early settlement applications from local authorities within two working days (between date of agreement and completion of transaction).
- To prepare for audit accounts of the funds managed for public sector clients within 6 weeks of the end of the relevant accounting periods.

The DMO operates with about 80 staff and an annual budget of 7.8 million pounds, about $19 million

Interviews:

Interviews were conducted with two individuals who offered different experiences and perspectives on public sector debt management. One individual had worked for both the policy-making Treasury Department as well as the Debt Management Office. The second person is the former head of the Debt Management Office.

Even though the UK operates with a Debt Management Office, the structure and roles of the various parties was reported to be very similar to that of Canada.

Canada was thought of as an innovator and leader in public sector debt management. From the outside, the relationship between Finance Canada and the Bank of Canada was thought to be professional, collegial with roles clearly defined. Whatever “fuzziness” exists is considered to be an inherent characteristic between a policy and operational arm of government.

UK officials noted that they have been improving their documentation and tightening its procedures, largely as protection related to staff turnover.

I regards to the benefits of establishing a Debt Management Office there were conflicting opinions on what would be best for Canada. One participant noted that different models do different things: each has its strengths and weaknesses. The focus and clarity of mandate were thought to be strengths. The lack of integration with other macro-economic policy issues was a weakness. On a practical level operating independently has meant that support functions (i.e. IT department, human resources etc) were lacking, as the economies of being part of a much larger government department were not present. The other participant was clear advocate of a debt office for the following reasons:

a. The need for sufficient autonomy from the political sphere
b. Making clear the separation between debt management and monetary policy (in particular avoiding any risk that the debt managers might be thought to have inside information on monetary policy changes)
c. The need for greater transparency – between different government functions as well as between central government and the monetary authority
d. The ability to concentrate expertise, not least to employ the more sophisticated tools of financial management
e. The problems of recruiting and retaining staff with finance expertise, given the constraint of government salary scales and limited budgets.

A method of performance management is a topical issue. It was thought that all measures have flaws and one needs to use a range if measures, including qualitative and feedback from stakeholders. This is an area of interest and struggle in the UK; not unlike Canada. It was noted that there is no portfolio performance target in the UK to which the following reasons were offered:

- It tends to encourage speculative and opportunistic behaviour – when the need is likely to be to establish policies of predictability and transparency.
- The government portfolio manager is a large player in a small market, and thus closes to a price maker. In these circumstances the actions of the debt manager will change the benchmark against which performance is being measured.
- Market participants may well expect the debt manager to have some inside information on future interest rate movements, and be taking positions in the light of that. That will add to market uncertainty and hence debt issuance costs.

The DMO is also given a number of strategic objectives and annual quantified targets. These targets, which are published, tend to be measures of the efficiency and effectiveness of its operations, rather than of its policy choices. Details are in the DMO's Business Plan on the DMO's website, which also includes a commentary of achievements against the strategic objectives. The DMO's Annual Review, also on its website, includes some other material discussing performance.

In regards to risk management the model of an "audit committee" was recommended. This would feature an independent chair, perhaps from the AG's office, as well as a formal reporting mechanism. The DMO has its own risk management unit. The RMU has a mixed role – part advisory (to make sure that the proper policies procedures and controls are in place) and part monitoring (to ensure that the controls and limits are adhered to). The head of RMU reported to a senior official but had direct access to the head of the DMO. The DMO also has its own internal audit function, the head of which reported to the CEO. A Credit and Risk Committee met regularly, serviced by the RMU. There was an Audit Committee, serviced by the internal audit team, and chaired by one of the non-executive directors. The head of internal audit at the Treasury and our external auditor from the National Audit Office were also attendees. The senior management team separately considered high-level or strategic risks in the DMO.

Their Minister is directly but minimally involved in Treasury issues by holdings formal meetings with investment dealers at the beginning of each year. Generally debt management has been considered to be well run and beyond the active interest of Ministers or senior officials. Senior officials were involved in the setting of the annual remit – but perhaps only to the extent of one substantive meeting. In some years, the relevant minister did little more than approve a draft, although in others she was involved in discussions. Such a minimalist approach would likely change should problems or poor performance be revealed.

The debt office also holds formal meetings with primary dealers each quarter. They deal with issues of confidentiality by making the meetings open and accessible with a published agenda, short minutes, and overnight disclosure

The DMO has an Advisory Board, but with only two external members(they both sat on Audit Committee). Both members of the AB were recently retired from financial institutions.

8.3 United States

Debt and Reserves management in the United States is the responsibility of the Department of Treasury, more specifically the Bureau of Public Debt in the Office of Fiscal service.

The Bureau's mission and objectives are to borrow the money needed to operate the federal government in a cost effective manner, providing mechanisms for a wide-range of investors to participate, and to account for the resulting debt.

A feature often mentioned in the Bureau's materials is the encouragement of retail customers to establish direct account relationships for security holdings, largely through electronic transactions. This follows the general approach to debt management that is citizen-centered, results –oriented, and market-based.

The Bureau's annual report addresses operations in five main areas: wholesale securities services; government agency investment services; retail securities services; summary debt accounting; and, franchise services

The strategic plan is influenced by a program evaluation initiative. This includes: a comprehensive long-range planning process; customer surveys; financial statement audits; program reviews; consolidation of Federal Reserve Bank offices; disaster recovery plans; and, employee satisfaction surveys

Internally, the bureau promotes values of: integrity; high ethical standards; communications that are open, informal and candid; delegations of authority to the lowest practical level; decisions by consensus;

The Federal Reserve Banks are the Fiscal Agents of the Bureau of Public Debt. The relationship is described as a dynamic partnership based on common goals. The Federal Reserve Board provides the Bureau with continuous market contact and operational flexibility in administering the debt. The Bureau maintains an oversight function over its fiscal agent through performance standards, reporting requirements, expenditure reviews and productivity assessments. In doing so the Bureau states that it respects the banks individual responsibilities, and preserves their flexibility to manage day-to-day operations.

The Treasury Borrowing Advisory Committee serves the Office of Debt Management. It is comprised of 17 individuals from the banking and investment community that meet quarterly. Detailed minutes are taken at each meeting, the salient points of which are translated into a report issued to the Treasury Secretary. It appears that these reports respond to specific questions raised at the meeting by government officials.

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Project Team

All work related on this project was completed by Robert Plamondon FCA

Robert Plamondon is a researcher, writer, consultant and professor with a focus on public policy issues in the areas of governance, finance and taxation. He is Canada's leading authority on the compliance and administrative costs of the nation's major tax systems and had led numerous breakthrough projects on the governance of some of Canada's most important public institutions.

Bob's work has been internationally recognized in journals, conferences and public legislatures. The Committee of Public Accounts (UK) reported that his work in developing research methods were "innovative" and "ingenious". Macleans magazine described his work as "landmark". He has numerous appearances on local and national media, including Newsworld, and has appeared before the House of Commons Standing Committee on Finance and Economic Affairs.

The Canadian Institute of Chartered Accountants selected Bob to be one of 50 Impact CA's, the group that represents the profession to Canada's decision-makers. He also his profession's representative as a judge for the Financial Post awards for the best annual reports. In 2003 Bob was elected to receive the designation of FCA, the profession's highest distinction, conferred upon less than three percent of all CA's for outstanding career achievement.

Bob has served in academia on a full and part-time basis for close to twenty years, with teaching responsibilities at the undergraduate and graduate levels.

Bob is a graduate of Carleton University earning a Masters of Management Studies; and a Bachelor of Commerce (Honours) with a major in marketing. He is publicly active having served numerous organizations and boards and is currently the volunteer treasurer for the Sierra Club of Canada. He is active in sports and fitness and in 2003 he completed Ironman USA in Lake Placid New York.

Appendix A Governance Questionnaire

Rating Scale

Many of the questions seek your views on a rating scale of 1 to 5. For your guidance, the scale should be interpreted as follows:

1 Strongly disagree

2 Disagree

3 Agree

4 Strongly agree

Titles

References to the Minister include both the Minister of Finance; the Secretary of State for Finance (pre December 2003); and, the Parliamentary Secretary to the Minister of Finance.

References to “senior officials: in the questionnaire include the following:

a. Finance	Minister Deputy Minister Associate Deputy Minister Assistant Deputy Minister
b. Bank of Canada	Governor Senior Deputy Governor Deputy Governor Advisor

1. Stewardship and Oversight

For the purposes of this evaluation, “stewardship and oversight” refers to the responsibilities and actions taken at the highest level by the Minister and senior officials to ensure Canada’s debt and reserves are effectively managed in compliance with the laws of Canada and with appropriate oversight.

a. Relative to your area of work, please indicate your opinion to the following questions relevant to stewardship and oversight.

	Strongly Disagree			*Strongly Agree*
Activities follow the authorities established by Parliament under the Financial Administration Act and the Currency Act	1	2	3	4
The legislative authorities (i.e. FAA and Currency Act) are appropriate and reviewed periodically (i.e. 5 years)	1	2	3	4
The Minister is engaged in key decisions	1	2	3	4
The Minister explicitly provides approvals where required	1	2	3	4
Senior officials are appropriately engaged in oversight	1	2	3	4
Senior officials challenge managers	1	2	3	4
The Minister and senior officials approve key publications (Debt Management Strategy; Debt Management Report; Exchange Fund Account Annual Report)	1	2	3	4
Briefings given to the Minister and senior officials are complete, open, timely and useful	1	2	3	4
The Minister and senior officials are sufficiently briefed for decision-making	1	2	3	4
The Minister and senior officials oversee the system of risk management	1	2	3	4
The Minister and senior officials oversee the system of internal control	1	2	3	4
There is an adequate external review of the stewardship and oversight system	1	2	3	4

b. Please provide any comments you have relative to your responses above or more generally on stewardship and oversight.

2. Strategic Direction and Planning

The management of Canada's debt and reserves are guided by a strategy and a plan. The strategy is high-level and is oriented towards achieving established goals. The plan is the more detailed program and methods worked out in advance to accomplish the objectives.

a. Please respond to the following questions on the strategy and planning process.

	Strongly Disagree			*Strongly Agree*
The Minister and senior management are engaged in the development of the strategic direction	1	2	3	4
The Minister and senior management are engaged in the planning process	1	2	3	4
Minister and senior management approve the strategic direction and plan	1	2	3	4
Minister and senior management are engaged on an on-going basis on key policy issues and developments	1	2	3	4
The strategic plan and annual work plans support the achievement of established goals.	1	2	3	4
The work plan is coherent and complete	1	2	3	4
The work plan provides measurable outcomes	1	2	3	4
The plan is used to evaluate results and performance	1	2	3	4
The work plan is an effective tool that helps to guide work	1	2	3	4
There is meaningful opportunity to register opinions on the appropriateness of the strategy and work plan	1	2	3	4

b. Please provide any comments you have relative to your response above or more generally on strategic direction and planning.

3. *Risk Management*

Risk management refers to the process by which potential changes in certain economic variables do not cause an adverse financial outcome. It also refers to the systems and procedures that ensure the accuracy of work performed to reduce the chances of an error, omission or misdeed.

	Strongly Disagree			*Strongly Agree*
The Funds Management Committee takes ultimate responsibility for risk management	1	2	3	4
The Risk Committee operates independently of the Funds Management Committee	1	2	3	4
The Rick Committee operates effectively with appropriate resources and expertise.	1	2	3	4
The Risk Committee operates independently from the policy team	1	2	3	4
The Financial Risk Analysis & Control Office adequately monitors funds management risk	1	2	3	4
The Risk Control and Analysis Working Group Is properly composed, resourced and is working effectively	1	2	3	4
The structure, practices and culture of debt and reserves management respects risks	1	2	3	4
The accuracy of internal work is supported by quality control measures	1	2	3	4
The latest proven risk management tools and techniques are used	1	2	3	4
Meetings are open and staff is given opportunities to register diverging opinions	1	2	3	4
Orientation, training, and briefing practices address risk issues	1	2	3	4
There is a willingness to be innovative and consider new ways of managing risk	1	2	3	4

Risk management systems are periodically reviewed for effectiveness, including an external evaluation	1	2	3	4

b. Please provide any comments you have relative to your responses above or more generally on risk management.

4. *Organizational Structure*

The organizational structure refers to the internal arrangements that work together to achieve objectives. At the highest level this includes the clear assignment of responsibility and authority. Operationally, it includes procedures, review mechanisms, succession plans, training and the conduct of staff.

	Strongly Disagree			*Strongly Agree*
Responsibilities and authority within debt and reserves management are clearly allocated and aligned with Objectives	1	2	3	4
The partnership between Bank and Finance Is effectively structured and managed	1	2	3	4
The Committees are appropriately structured and composed	1	2	3	4
The staffing and human resource practices are modern and effective	1	2	3	4
The orientation for new staff is complete and effective	1	2	3	4
There is an appropriate investment in training and education	1	2	3	4
The culture and values are consistent with modern public service practices	1	2	3	4
The practices of debt and reserves management are periodically compared with those of other jurisdictions	1	2	3	4
Staff from Finance and the Bank of Canada work well together	1	2	3	4
Staff is well-connected to capital markets	1	2	3	4
There is a high level of research and analytical capacity	1	2	3	4
There is adequate depth in staffing	1	2	3	4

	Strongly Disagree			*Strongly Agree*
There is an effective succession plan in place	1	2	3	4
Staff respect the confidentiality of information	1	2	3	4
Comparisons are made with other jurisdictions to ensure use of best practices	1	2	3	4
Systems and procedures are adequately documented	1	2	3	4

b. Please provide any comments you have relative to your responses above or more generally on organizational structure.

5. *Results and Performance Measurement*

This area refers to the process through which the effectiveness of staff and the performance of the organization as a whole are evaluated relative to objectives, plans and their peers.

	Strongly Disagree			*Strongly Agree*
There are clear performance measures for the overall effectiveness of Debt and Reserves Management	1	2	3	4
Results are fully and promptly reported to the Minister and Parliament	1	2	3	4
Performance measures are produced on a timely basis	1	2	3	4
Measures are transparent and understandable	1	2	3	4
Performance is compared with other Jurisdictions	1	2	3	4
Performance standards are aligned with corporate objectives	1	2	3	4
The periodic “external evaluations” are used effectively to review and improve operations	1	2	3	4

b. Please provide any comments you have relative to your responses above or more generally on results and performance measurement.

6. Specific Issues

In your opinion, what are the most significant changes that have taken place in the governance of debt and reserves management over the past five years?

Overall, what improvements do you think should be made in the area of governance for debt and reserves management?

How can the Minister and senior officials ensure that they are engaged in key issues for debt and reserves management?

Do you have any overall comments on the relationship between Finance Canada and the Bank of Canada on debt and reserves management?

Other jurisdictions utilize an “external advisory committee” to help inform and review debt and reserve management operations. What is your opinion on such an arrangement? If favourable, how would you suggest such a committee be structured such that maximum benefit is derived while addressing potential conflict of interest issues?

Considering how other countries govern debt and reserves (i.e. some with independent debt management bureaus), what is your opinion of the overall structure of Canadian system?

Other comments (use a separate sheet if required).

Name:

Appendix B TBS Management Accountability Framework

Framework Established July 2003

i. Governance & Strategic Direction

The essential conditions - internal coherence, corporate discipline and alignment to outcomes -- are in place for providing effective strategic direction, support to the Minister and Parliament, and the delivery of results.

- Support to Minister, Cabinet and Parliament;
- Management framework aligned to strategic outcomes
- The right executive team
- Results-focused corporate priorities
- Strategic resource allocation/ reallocation based on performance
- Integrated agenda for management excellence
- Horizontal collaboration
- Environmental scanning

ii. Public Service Values

By their actions departmental leaders continually reinforce the importance of PS Values and Ethics in the delivery of results to Canadians (e.g.: democratic, professional, ethical and people values).

- Exemplary conduct (Customized PS values statement and ethical guidelines regularly discussed with all staff)
- PS values tailored to realities/culture of department
- Values-based management practices
- Sound advisory and recourse mechanisms in place
- Orientation, learning and other tools to support staff
- Staff assessment of organizational performance against PS values and ethics

Results and Performance

Relevant information on results (internal, service & program) is gathered and used to make departmental decisions, and public reporting is balanced, transparent, and easy to understand.

- Corporate monitoring and reporting of program, service and internal results (Staff and client survey results)
- Integrated financial and non-financial performance information used in corporate decision making
- Departmental reporting based on measurable outcomes

- Benchmark against the best
- Transparent, timely and accessible communications with citizens and Parliament

Policy and Programs

Departmental research and analytic capacity is developed and sustained to assure high quality policy options, program design and advice to Ministers.

- Sustained analytic capacity and culture of consultation, review and challenge (Recruitment/development/succession plans for policy community. Investments in policy capacity/analytic tools)
- Results focused policy and program agendas linked to government's horizontal priorities
- Citizen engagement
- Confidence of the Minister and the centre

People

The department has the people, work environment and focus on building capacity and leadership to assure its success and a confident future for the Public Service of Canada.

- Reflective of Canada
- Respectful of official language requirements
- Renewed/sustained capacity
- Supportive workplace
- Employee engagement
- Opportunities to grow
- Leadership continuum
- Recognition, rewards and sanctions

Citizen Focused Service

Services are citizen-centred, policies and programs are developed from the 'outside in', and partnerships are encouraged and effectively managed.

- Monitored, continuously improved service quality (Client satisfaction measured annually)
- Technology options fully exploited
- Empowered front-line deliverers
- Effective relationships (Collaboration with other governments and partners, information for citizens)

Risk Management

The executive team clearly defines the corporate context and practices for managing organizational and strategic risks proactively.

- Key risks identified and managed (Engagement of external stakeholders in assessing/ communicating risks)
- Risk lens in decision making
- Risk smart culture
- Capacity to communicate and manage risk in public context

Stewardship

The departmental control regime (assets, money, people, services, etc.) is integrated and effective, and its underlying principles are clear to all staff.

- Management systems that provide relevant information and early warning on resources, results and controls
- Rigorous audit/evaluation function
- Functional specialists as 'partners'
- Compliance with policies, regulations, and legislation

Accountability

Accountabilities for results are clearly assigned and consistent with resources, and delegations are appropriate to capabilities.

- Clear accountabilities and responsibilities for due process and results
- Delegations appropriate to capabilities
- Cascading commitments in PMAs

Learning, Innovation and Change Management

The department manages through continuous innovation and transformation, promotes organizational learning, values corporate knowledge, and learns from its performance.

- Strategic organizational learning, a capacity to anticipate and adjust to change, and a disposition to transformation
- A culture of innovation
- Performance as a guide to change
- Delegations as an instrument of empowerment

Corporate knowledge and memory captured and managed as strategic resources

Appendix C Detailed Evaluation Framework

3. *Stewardship and Oversight*

Government debt and reserves are the liabilities and assets of the people of Canada. Stewardship refers to how these accounts are managed for them by others, principally through the House of Commons and the Minister of Finance. The Minister does not actively or directly manage Canada's debt or reserves; rather, he discharges his stewardship responsibilities through a system of oversight.

For the purposes of this evaluation, "stewardship and oversight" refers to the responsibilities and actions taken at the highest level by the Minister and his most senior officials (ADM rank and above) to ensure Canada's debt and reserves are effectively managed in compliance with the laws of Canada.

Objectives	**Evidence of Compliance** **Measures of Effectiveness**
1. Authorities are followed from: ▪ Parliament ▪ Cabinet ▪ Minister ▪ Deputy Minister ▪ Governor of Bank 2. The Minister and senior officials are appropriately engaged in key decisions and provide approvals where required 3. Minister and senior management oversee the system of risk management and internal controls.	Documents/reports indicating approvals for actions and/or delegation of authority Periodic (five year) review of mandate and legislative authorities External review and evaluation of operations, with reports to Minister and senior officials Timely, complete and relevant briefings for Minister and senior staff Review and approval of all key reports and publications Receives and reviews internal and external risk management reports and reports on the system of internal Control

4. *Strategic Direction and Planning*

The management of Canada's debt and reserves are guided by a strategy and plan. The strategy is high-level and is oriented towards achieving established goals. The plan is the more detailed program and methods worked out in advance to accomplish the objectives. The Minister and senior officials need to be engaged in the strategy and planning process, and provide approvals where required.

Objectives	**Evidence of compliance** **Measures of Effectiveness**
1. Minister and senior management are engaged in the development of the strategic direction, corporate plan and key policy decisions. Approvals obtained where required. 2. The strategic plan and annual work plans support the achievement of established goals.	Documents, interviews, evaluations Meaningful involvement of senior officials (e.g. timely, appropriate briefing documents) Plan is coherent, complete, oriented to objectives and provides measurable outcomes Plan used to evaluate results and performance

3. *Risk Management*

Risk management refers to the systems and procedures that ensures the accuracy of the work performed and considers the potential for, and consequences of, an error, omission or misdeed. Risk management is a critical function for Debt and Reserves Management: the consequences of an error are material; there are small number of staff who conduct and oversee operations; and, the analysis and procedures used to support decision-making is complex.

Objectives	**Evidence of compliance** **Measures of Effectiveness**
1. FMC takes responsibility for risk management 2. Organizational structure, practices and culture respects risks 3. Independent identification and assessment of risks	Documents, reports and interviews Rick Management Committee operates effectively with appropriate resources and expertise. Also operates independently from the policy and decision-making team Accuracy of internal work supported by quality control measures, including the use of latest proven risk management tools and techniques Openness in meetings with opportunity for staff to register diverging opinions (consultation, review and challenge) Orientation, training, and briefing practices address risk issues Risk management systems periodically reviewed for effectiveness, including external evaluation and regular input from stakeholders

4. *Organizational Structure*

The organizational structure refers to the internal arrangements that work together to achieve objectives. At the highest level this includes the clear assignment of responsibility and authority. Operationally, it includes procedures, review mechanisms, succession plans, training and the conduct of staff.

Objectives	**Evidence of compliance** **Measures of Effectiveness**
1. Responsibilities and authority allocated clearly and aligned with objectives 2. Partnership between Bank and Finance effectively structured and managed 3. Effectives leadership, staffing and HR practices 4. Appropriate culture/values 5. Periodic comparison of practices with others	Interviews, evaluations, documents (e.g. job descriptions, policies and procedures manual) Committees appropriately composed and responsibilities clearly defined Periodic review of Finance/BoC relationship, including possible discussions between the Minister and Governor Skills plan, e.g. Orientation, attendance at courses, conferences, training/development plans Research and analytic capacity Succession plan in place Code of conduct (e.g. dealing with conflicts, confidential information, public service values etc.) Comparisons made with other jurisdictions to ensure use of best practices

5. *Results and Performance Measurement*

This area refers to the process through which the effectiveness of staff and the organization as a whole is evaluated relative to objectives, plans and their peers.

Objective	**Evidence of compliance** **Measures of Effectiveness**
1. Effective performance measures defined with results reported to Parliament, Minister, department and public as appropriate	Documents, interviews, evaluations Timely, transparent, understandable and measurable outcomes Performance standards benchmarked against best practices and aligned with corporate objectives

6. Specific Issues

Questions were asked of participants about their views on specific issues and reforms for Debt and Reserves management. This section also enabled participants to express opinions on related matters.

Objective	Evidence of compliance Measures of Effectiveness
1. The significant changes have taken place over the past five years 2. How to ensure the Minister and senior officials are engaged in key issues 3. Evaluate the relationship between Finance and the Bank of Canada 4. How might an external advisory committee be structured 5. How does Canada's overall debt management structure compare with other jurisdictions 6. Other – making improvements	Input from study participants