Department of Finance Canada
Ministère des Finances Canada

Report on the Management of Canada's Official International Reserves

April 1, 2022 - March 31, 2023

Canada

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Table of Contents

Purpose of the Report

This edition of the *Report on the Management of Canada's Official International Reserves* provides details on official international reserves operations from April 1, 2022 to March 31, 2023 (the 2022–23 fiscal year).

As required under the *Currency Act*, the report provides a comprehensive account of the framework within which the Exchange Fund Account (EFA) is managed, the composition and changes in the EFA during the year, a statement of whether the strategic objectives established for the EFA have been met, and information on agents appointed to perform services concerning the EFA. This report provides an overview of the management and related financial statements of the Government of Canada's official international reserves for 2022-23.

The unaudited financial statements that appear at the end of this report are in Canadian dollars, as reported in the *Public Accounts of Canada*.

Exchange Fund Account

The EFA, which is held in the name of the Minister of Finance, represents the largest component of Canada's official international reserves. It is a portfolio that is primarily made up of liquid foreign currency securities, deposits and special drawing rights (SDRs).[1] In addition to the EFA, Canada's official international reserves include Canada's reserve position at the IMF. This position, which represents Canada's investment in the activities of the IMF, fluctuates according to drawdowns by and repayments from the IMF.

The legislative purposes of the EFA, as specified in the *Currency Act*, are to aid in the control and protection of the external value of the Canadian dollar and to provide a source of liquidity for the Government, if required. Under the *Currency Act*, the Minister of Finance has the authority to acquire, borrow, sell or lend assets held in the EFA in accordance with the *Statement of Investment Policy for the Government of Canada* (see Annex 1).

The Department of Finance Canada and the Bank of Canada jointly develop and implement the funding and investment policy of the EFA. As fiscal agent of the Government, the Bank of Canada executes funding and investment transactions and manages EFA cash flows.

A detailed description of the EFA's management framework is provided in Annex 2. The framework includes the objectives, principles and governance structure of the EFA. Annex 2 also describes the policies that pertain to foreign currency funding activities, investments, risk management, and performance measurement.

[1] SDRs are international reserve assets created by the International Monetary Fund (IMF) whose value is based on a basket of five major international currencies (the US dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling).

Executive Summary

The strategic objectives of Canada's foreign exchange reserves—to maintain an adequate level of liquidity, to preserve capital value, and, subject to these two primary objectives, to optimize returns—were again achieved during 2022-23.

Composition of the Foreign Exchange Reserves

- The market value of Canada's official international reserves increased to US$110.0 billion on March 31, 2023 from US$103.8 billion the previous year. The US$6.2 billion rise in the EFA was driven by a US$6.5 billion increase in total securities and deposits and US$0.3 billion increase in other reserve assets, which were partially offset by a decrease in SDRs of US$0.6 billion.
- As of March 31, 2023, total liquid reserves (securities and deposits) were US$81.8 billion. Investments in US dollar denominated assets accounted for the largest portion (70 per cent) of liquid reserves, followed by investments in euros (13 per cent), British pound sterling (9 per cent), and Japanese yen (8 per cent).
- The reserves portfolio is focused on investments in stable, highly rated assets (mostly highly rated sovereigns and their agencies). About 78 per cent of assets were rated AAA on March 31, 2023 with none being rated below A+.

Performance

- The EFA reported a total return[2] of 23 basis points in 2022-23, equivalent to a mark-to-market gain of US$173 million. This net gain was attributed to a yield curve effect related to favorable portfolio positioning and a positive net coupon effect whereby assets earned a higher coupon return compared to liabilities. This net gain is down from the US$565 million (75 basis points) total return registered in 2021-22, which was mainly driven by changes in the spread effect[3].
- The EFA earned an average positive spread (or net "coupon return"[4]) of 15 basis points (US$113 million), similar to the net coupon return recorded the previous year.

Financing

- EFA assets are matched by a corresponding portfolio of liabilities with similar currency holdings and durations. This asset-liability matching framework helps to limit exposing the EFA portfolio to risks from interest rate and currency movements. This ensures that the EFA portfolio remains stable and readily available for when it is most needed, while minimizing risks to the public balance sheet.
- In 2022-23, the EFA was mainly funded through cross-currency swaps and a global bond issuance.
    - New cross-currency swap funding volumes amounted to US$16.2 billion in 2022-23 and cost on average was 3-month US$ London Interbank Offered Rate (LIBOR) less 30.9 basis points (approximately equivalent to US Secured Overnight Financing Rate (SOFR) less 11.4 basis points). This funding cost was slightly higher than the average cost in the previous year, which was LIBOR less 32.6 basis points (SOFR less 20.2 basis points).
    - In April 2022, a 3-year US$3.5 billion global bond was issued to partly fund the EFA. This bond was issued at nine basis points over the corresponding 3-year U.S. Treasury.

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[2] The total return represents the net return generated by the EFA by including the changes in the market values of the assets and liabilities over the reporting period. It includes the realized coupon return, as well as the unrealized gains or losses due to changes in the market value.

[3] In late 2021, the methodology for calculating the spread effect changed to exclude the CAD spread attribution for EFA liabilities.

[4] This spread represents the difference between the yield to maturity on foreign currency fixed-income assets held in the EFA and the yield to maturity of foreign currency liabilities used to fund the assets at the time of calculation.

Report on Operations in 2022–23

Global Economic Developments

The 2022-23 fiscal year began shortly after the Russian invasion of Ukraine. This invasion, which created significant pressures on global commodity prices, alongside continued COVID-19 related supply-chain challenges and tight labour markets, further contributed to global inflationary pressures.

As a result, central banks (notably the U.S. Federal Reserve, Bank of England, and Bank of Canada), continued with the monetary tightening actions that began near the end of the 2021-22 fiscal year. The European Central Bank, which was initially facing weaker inflationary pressures and greater uncertainty, began to raise its policy interest rates in the summer of 2022. These actions to lower inflationary pressures, combined with the economic fallout from the Russian invasion of Ukraine, and a slowdown in China, weighed on global economic prospects through the year. Further economic drag was created by pressures caused by the collapse of a few regional banks in the United States and Credit Suisse in March 2023, which undermined financial market confidence and fuelled uncertainty about the future direction of interest rates and the impact on economic growth.

These macroeconomic developments and an environment that the IMF described as having "unusually high uncertainty" have impacted the value and return on Canada's foreign exchange reserve portfolio. Notably, higher central bank policy rates and rising bond yields placed downward pressure on the return of Canada's foreign exchange reserve assets through the year. The strength of the US dollar, reflecting monetary tightening and a "flight to safety" from investors, boosted the value of US dollar assets while assets denominated in euros, pound sterling, and yen were diminished.

Looking ahead, ongoing global economic and financial market uncertainty, and the impact of tighter financial conditions are expected to continue to weigh on global growth. On the positive side, global and domestic inflationary conditions have generally been easing since the beginning of 2023, and the pace of central bank policy rate increases slowed after a rapid and forceful tightening of monetary conditions. However, there remains significant uncertainty with respect to the pace of decline, and the general persistence of inflationary pressures will be key in guiding the future path of interest rates and hence financial conditions.

Strategic Objectives

The *Currency Act* stipulates that this report provide a statement of whether the strategic objectives established for the EFA have been met during the review period. These objectives—to maintain an adequate level of liquidity, to preserve capital value, and, subject to these two primary objectives, to optimize returns—were achieved during 2022-23. The planned level of liquidity was maintained for the reserves portfolio throughout the reporting period, and the portfolio's exposure to market and credit risks was managed within approved limits. In addition, the net underlying return (coupon return) was positive despite a volatile global economic and financial climate. The EFA also outperformed a benchmark portfolio of similar assets by 27 basis points, up from 2 basis points in the previous year.

Liquidity and Preservation of Capital

The market value of Canada's official international reserves increased to US$110.0 billion as at March 31, 2023, from US$103.8 billion as at March 31, 2022 (Table 1).

EFA assets (total official international reserves excluding the IMF reserve position and other reserve assets) totalled US$105.2 billion as at March 31, 2023. The level of liquid reserves (EFA assets excluding SDR holdings) amounted to US$81.8 billion, or 3.5 per cent of nominal gross domestic product, consistent with the Government's commitment to maintain holdings of liquid foreign exchange reserves at or above 3 per cent of nominal gross domestic product. Liquid reserve assets are composed primarily of debt securities of highly rated sovereigns, sub-sovereigns, agencies and supranational organizations that borrow on public markets.

Table 1

The EFA and Official International Reserves

market value in millions of US dollars, settled basis

	March 31, 2023	March 31, 2022	Change
Securities	75,033	71,104	3,929
Deposits[1]	6,802	4,283	2,519
Total securities and deposits (liquid reserves)	81,835	75,387	6,448
SDR	23,376	23,983	-607
Total EFA	105,211	99,370	5,841
IMF reserve position	4,443	4,394	49
Other reserve assets[2]	306	0	306
Total official international reserves	109,960	103,764	6,196

Note: Numbers may not add due to rounding.

[1] Cash deposits with central banks and the Bank for International Settlements.

[2] Includes the distribution of SDRs allocated to Canada by the IMF as part of the Resilience and Sustainability Trust borrowing agreement.

The largest portion of EFA liquid reserves is in US dollars given its central role as a global reserve currency and because Canada's potential foreign currency needs are mostly in US dollars. The EFA also includes euro, Japanese yen, and British pound sterling assets (Table 2). Broadly, the portfolio's share of US dollar assets remained stable, while there was a slight shift away from euros and into yen assets during the year based on more favourable returns and greater economic stability outside of Europe.

Table 2

Currency Composition of EFA Liquid Reserves

market value in millions of US dollars (share of total), settled basis

	March 31, 2023	March 31, 2022	Change
US dollars	57,309 (70%)	53,114 (70%)	4,195
Euros	10,876 (13%)	10,989 (15%)	-113
Pound sterling	7,021 (9%)	6,594 (9%)	427
Yen	6,629 (8%)	4,690 (6%)	1,939

Notes: Liquid reserves exclude SDR holdings. Numbers may not add due to rounding.

In 2022-23, EFA assets were largely invested in the debt of sovereigns, sub-sovereigns and government agencies, while holdings in supranational organization securities and cash were also sizable (Table 3). Such securities and cash holdings both enhance the liquidity and preserve the capital value of the EFA.

Table 3

Composition of EFA Liquid Reserves

market value in millions of US dollars (share of total), settled basis

	March 31, 2023	March 31, 2022	Change
Sovereigns and agencies	59,741 (73%)	57,032 (76%)	2,709
Supranationals	15,293 (19%)	14,071 (19%)	1,222
Cash	6,802 (8%)	4,283 (6%)	2,519

Notes: Liquid reserves exclude SDR holdings. Numbers may not add due to rounding.

As specified in the *Statement of Investment Policy for the Government of Canada,* to help achieve the objective of preserving capital value, an issuing entity must be deemed by Canada to have a credit rating of A- or higher to be eligible for investment in the EFA. Compliance with issuer credit limits is monitored in real time.

Based on the second highest credit rating among those provided by Moody's Investors Service, Standard & Poor's, Fitch Ratings and Dominion Bond Rating Service, most EFA assets had a credit rating of AAA (Table 4). The Government of Canada is also committed to limiting mechanistic reliance on external credit ratings, consistent with Financial Stability Board principles and G20 commitments. As such, the Bank of Canada also performs internal assessments.

Table 4

Credit Composition of EFA Liquid Reserves

market value in millions of US dollars (share of total), settled basis

	March 31, 2023	March 31, 2022	Change
AAA	58,155 (78%)	57,124 (80%)	1,031
AA+	3,542 (5%)	2,890 (4%)	652
AA	4,259 (6%)	3,627 (5%)	632
AA-	2,519 (3%)	2,787 (4%)	-268
A+	6,558 (9%)	4,675 (7%)	1,883
A	–	–	–
A-	–	–	–

Notes: Liquid reserves exclude SDR holdings. Numbers may not add due to rounding. The ratings provided by the four agencies for each security are ordered highest to lowest, with the second highest agency rating being used for the credit composition. Put another way, the highest rating agency is discarded and the highest rating of the three remaining credit rating agencies is used.

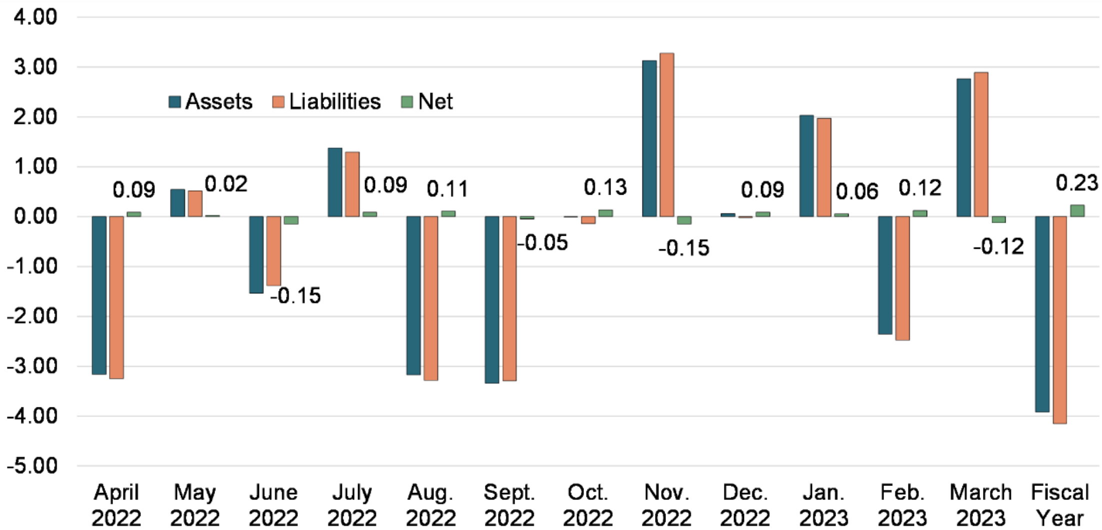
EFA Returns

The EFA is a financial asset portfolio within the *Public Accounts of Canada.* For risk management purposes and to provide transparency on the net economic return or cost to the Government of maintaining the EFA, several performance indicators are measured and tracked on a regular basis and reported to senior management at the Department of Finance Canada and the Bank of Canada. In addition, the net revenue of the EFA and corresponding cost of advances to the EFA are reported at book value. A brief overview of the portfolio's performance is provided below (a more detailed description is provided in Annex 4).

In 2022-23, the EFA earned an average positive spread (or net "coupon return") of 15 basis points, similar to the previous year. This spread represents the return accumulated due to the difference between the return earned on EFA assets and the cost of EFA liabilities.

Taking into account cash flows and unrealized changes in the market value of assets and liabilities due to changes in interest rates and credit spreads, the EFA reported a total return of 23 basis points in 2022-23 (a mark-to-market gain of US$173 million—Chart 1), down from a total return of 75 basis points (a mark-to-market gain of US$565 million) in the previous year.

Chart 1
Monthly EFA Returns
Performance of EFA and Liabilities Portfolio
(Basis points; Net return figures labelled)



Given the movements in interest rates and foreign exchange rates globally, the assets held in the EFA generated higher net revenues in 2022-23 than in 2021-22 (C$836 million versus C$709 million) (Table 5). The cost of advances to the EFA, which represents the estimated economic cost to the Government of financing the EFA, increased to C$2.1 billion, up from C$1.2 billion in the previous year.

Table 5
Summary of Main Performance Indicators

	April 1, 2022 to March 31, 2023	**April 1, 2021 to March 31, 2022**
1) Net revenue of the Exchange Fund Account (C$ millions)	836	709
2) Cost of advances to the EFA (C$ millions)	2,075	1,178
3) Measures of the net return on assets and liabilities		
Coupon return (basis points/US$ millions)	15/113	15/131
Total return (basis points/US$ millions)	23/173	75/565
4) Risk measures (at end of fiscal year)		
Total market risk (99% 10-day VaR, US$ millions)	457	312

Notes: Net revenue and cost of advances are based on actual and forecasted cash payments and receipts. The numbers are presented in Canadian dollars to be consistent with the financial statements. The measures of net return are market-based estimates and are presented in US dollars to be consistent with performance reporting for the EFA. See Annex 4 for further information on performance indicators.

Drivers of Performance

Interest Rates

As inflation pressures increased in the 2022-23 fiscal year, the U.S. Federal Reserve implemented a total of eight interest rate hikes totalling a cumulative 450 basis points of tightening that took the policy rate to a range of 4.75-5.00 per cent on March 23, 2023. In addition, on June 1, 2022, the U.S. Federal Reserve began its quantitative tightening program to reduce its securities holdings, from its peak of nearly $9 trillion. The yield on U.S. 3-month bills ended 2022-23 at 469 basis points (up from 421 basis points a year previous), while the U.S. 10-year Treasury note ended at 347 basis points (up from 113 basis points).

The European Central Bank implemented a total of six interest rate hikes totalling a cumulative 350 basis points of tightening that took its policy rate to 3.00 per cent on March 22, 2023. The European Central Bank also stopped fully reinvesting maturing securities bought under the Asset Purchase Programme in order to reduce further its balance sheet which held assets of around €7.8 trillion at the beginning of March 2023.

The gilt market and the British pound sterling both went through a period of high volatility following the U.K. government's announcement to cut taxes on September 2022. This decision led to a rapid rise in gilt yields and a sharp fall of the sterling. On September 28, the Bank of England announced an emergency bond-buying program to bring stability back to the markets.

As liquid foreign reserve assets include fixed-income securities and interest rates are inversely related to the prices of fixed-income securities, these rate hikes contributed to a decline of approximately $4.3 billion in the market value of the liquid foreign reserves between April 1, 2022 and March 31, 2023.

Credit Spreads

Credit spreads on fixed-income securities issued by supranational institutions, sovereigns and agencies in US dollars evolved alongside U.S. Federal Reserve actions and economic factors throughout the year. Credit spreads have generally widened in the U.S. and on euro-denominated securities, reflecting heightened risks in the credit market due to rising interest rates and slower economic growth. Overall, there was a decrease of approximately US$31 million in the market value of reserves due to changes in credit spreads between April 1, 2022 and March 31, 2023.

Exchange Rates

In 2022-23, exchange rate movements resulted in a decrease of US$1.8 billion in the market value of the liquid foreign reserve assets. However, the foreign reserves are managed under an asset-liability matching framework, and as such, exchange rate movements had a relatively minor impact on the Government's financial position since the decline in the market value of assets was offset by a similar decline in the value of associated liabilities.

The EFA is measured in US dollars; a decline in the value of other currencies will decrease the reported value of reserve assets denominated in those other currencies. Through 2022-23, the euro declined by two per cent against the US dollar, the British pound sterling by six per cent, and the yen by eight per cent. These currencies account for 30 per cent of EFA assets (excluding SDR holdings), hence these declines weighed on the value of the EFA.

For financial reporting purposes, the performance of the EFA is presented in Canadian dollar terms. The EFA grew by 25 per cent in Canadian dollar terms, compared to nine per cent in US dollars. Overall, through the 2022-23 fiscal year, the Canadian dollar depreciated by seven per cent versus the US dollar.

Total Market Value at Risk (Total Market VaR)—which measures the potential loss on a net basis arising from interest rate, foreign exchange rate, credit and funding spread changes that will not be exceeded 99 per cent of the time if the EFA is held over a 10-holding-day period—stood at US$457 million as at March 31, 2023, up from US$312 million at March 31, 2022[5]. This increase in the Total Market VaR was driven by greater market volatility in 2022-23 compared to the previous fiscal year when interest rates were still low and stable.

Exchange Fund Account Financing

The foreign currency reserve assets held in the EFA are funded in a cost-effective manner through a framework that mitigates the impacts of movements in interest rates and foreign exchange rates on the Government's fiscal position by matching the funding with the currency, term and/or duration of the reserve assets.

EFA assets are funded by borrowings from a variety of sources (Table 6). During 2022-23, EFA operations were largely financed through cross-currency swaps[6] of domestic obligations and direct foreign currency issuance.

Total cross-currency swap funding and maturities during the reporting period were US$16.2 billion and US$5.4 billion respectively. There was also a further US$1.5 billion in amendments to existing swaps executed as part of the transition from LIBOR to SOFR. The swaps were transacted in US dollars, euros, pound sterling, and yen, at various terms, and at a weighted cost equivalent to 3-month US$ LIBOR less 30.9 basis points (approximately equivalent to US SOFR less 11.4 basis points). Funding costs were slightly higher than the prior year's costs of LIBOR less 32.6 basis points (SOFR less 20.2 basis points).

The global bond[7] program is another important funding mechanism for the EFA, while other funding options, used to a lesser extent, include a short-term US dollar paper program (Canada bills[8]) and a currently dormant medium-term note program (Canada notes[9] and euro medium-term notes[10]). These funding mechanisms are useful to diversify funding sources for the EFA. A 3-year US$3.5 billion global bond was issued in April 2022. This bond was issued at nine basis points over the corresponding 3-year U.S. Treasury. The issuance received strong demand from investors in North America, Europe, and Asia, as indicated by an order book that was in excess of US$7 billion. Thanks to strong demand, this global bond issuance priced tighter than any of the 3-year US dollar bonds issued by Canada's peers over a similar timeframe.

[5] In view of the transition away from LIBOR to risk free rates, work is ongoing to improve risk metrics and reporting. Their levels are not directly comparable to estimates reported before 2021-22.

[6] A cross-currency swap agreement is a contract in which one party borrows one currency from another party and simultaneously lends the same value, at current spot rates, of a second currency to that party.

[7] Global bonds are syndicated, marketable debt instruments issued in a foreign currency with a fixed interest rate. The majority of global bonds issued by Canada are denominated in US dollars. Global bonds are issued for foreign exchange reserve funding purposes only.

[8] Promissory notes denominated in US dollars and issued only in book-entry form. Canada bills mature not more than 270 days from their date of issue, and are discount obligations with a minimum order size of US$1,000,000 and a minimum denomination of US$1,000. Delivery and payment occur in same-day funds through Citibank, N.A. in New York City. Rates on Canada bills are posted daily.

[9] Promissory notes usually denominated in US dollars and available in book-entry form. Canada notes are issued in denominations of US$1,000 and integral multiples thereof. Notes can be issued for terms of nine months or longer, and can be issued at a fixed or a floating rate. The interest rate or interest rate formula, issue price, stated maturity, redemption or repayment provisions, and any other terms are established by the Government of Canada at the time of issuance of the notes and are indicated in the Pricing Supplement. Delivery and payment occur through Citibank, N.A. The Government may also sell notes to other dealers or directly to investors. Canada notes are issued for foreign exchange reserve funding purposes only.

[10] Medium-term notes issued anywhere outside the United States and Canada. Government of Canada euro medium-term notes (EMTNs) are sold through dealers acting as a Government agent for particular transactions. The arranger for the EMTN program is TD Securities. Notes issued under this program can be denominated in EFA-eligible currencies and structured to meet investor demand. EMTNs are issued for foreign exchange reserve funding purposes only.

The level of outstanding short-term US dollar commercial paper issued under the Canada bills program was US$1.8 billion at year-end, slightly lower than the US$2.1 billion in the previous year. The average commercial paper cost was US SOFR less 20 basis points, compared to US SOFR less 1 basis point in the previous year[11]. The lower implied funding cost for the year was largely due to a lack of sovereign issued money market instruments (primarily U.S. Treasury bills), leading to heightened demand for Canada bills.

Table 6

Outstanding Foreign Currency Issuespar value in millions of US dollars

	March 31, 2023	March 31, 2022	Change
Swapped domestic issues	74,233	64,754	9,479
Global bonds	10,000	9,500	500
Canada bills	1,830	2,060	-230
Medium-term notes			
Euro medium-term notes	0	0	0
Canada notes	0	0	0
Total	86,063	76,314	9,749

Note: Liabilities are stated at the exchange rates prevailing on the given date.

International Monetary Fund Programs

As of March 31, 2023, Canada's paid-up quota in the IMF is SDR 11,023 million and SDR holdings amount to SDR 17,377 million (about US$14,847 million and US$23,406 million respectively). The Government of Canada participates in lending arrangements with the International Monetary Fund (IMF) outside of the quota system that affect Canada's official international reserves, contributing to global economic stability and cooperation. These arrangements include the multilateral New Arrangements to Borrow (NAB), the temporary bilateral borrowing agreements (BBAs), and the IMF's Resilience and Sustainability Trust (RST).

The NAB is periodically reviewed and renewed by the IMF's Board of Governors. On January 1, 2021, a NAB reform became effective, doubling the NAB credit arrangements and establishing a new NAB period through end-2025. As of March 31, 2023, Canada's NAB commitment is SDR 7,747 million, with SDR 37 million currently drawn (about US$10,710 million and US$50 million respectively).

Canada's participation in the BBAs is governed by the 2020 Note Purchase Agreement, which became effective in January 2021. With the doubling of the NAB, the BBAs were roughly halved, keeping overall borrowed resources broadly unchanged. The new BBA agreement has a term of three years (through end-2023) and is extendable by one year. Canada's bilateral credit line to the IMF is SDR 3,532 million (about US$4,883 million). The BBAs have never been activated by the IMF's Board of Directors, and no draws have been made on Canada's commitment. Amounts advanced under these arrangements are considered part of the official international reserves of Canada.

Canada, along with certain other IMF member countries, participates in the RST. Loans resulting from these arrangements are considered part of Canada's official international reserves. As of March 31, 2023, Canada's lending commitment to the RST stands at C$2,000 million.

[11] C-Bill funding cost is referring to a short-term SOFR rate, while swap funding cost is referring to a SOFR rate based on a longer term. The costs are inherently difficult to compare, as C-bills provide funding for only a short period while swaps lock in funding for a much longer period of time.

Initiatives in 2022-23

Canada's official international reserves were exposed to LIBOR with respect to some of its liabilities, specifically LIBOR-referenced floating rate cross-currency swaps. In response to the global transition from Interbank Overnight Rates, such as US$ LIBOR, to Risk Free Rates, such as the US SOFR, a LIBOR transition program was developed in 2019 to gradually eliminate Canada's exposure to LIBOR in its official international reserves. In September 2022, Canada amended its last US$ LIBOR floating-rate swap to US SOFR, essentially eliminating EFA LIBOR exposures beyond the LIBOR cessation date. As a result, the LIBOR transition program for systems, policy and legal work as well as for the International Swaps and Derivatives Association Fallbacks Protocol can be considered completed.

Annex 1: Statement of Investment Policy for the Government of Canada (August 2018)

1. Purpose of Policy

The *Statement of Investment Policy for the Government of Canada (*SIP*)* sets out the policy governing the acquisition, management, and divestiture of assets held in the Exchange Fund Account (EFA). The Minister of Finance establishes the SIP under the *Currency Act*.

2. Purposes of Exchange Fund Account

The EFA is the principal repository of Canada's official international reserves. As stated in the *Currency Act,* the purposes of the EFA are to aid in the control and protection of the external value of the Canadian dollar and provide a source of liquidity to the Government. Assets held in the EFA shall be managed to provide liquidity to the Government and to promote orderly conditions for the Canadian dollar in the foreign exchange markets, if required. The liquid foreign currency assets held in the EFA also form a key component of the Government of Canada's prudential liquidity, which is available to meet financial requirements in situations where normal access to funding markets may be disrupted or delayed.

The EFA also facilitates Government of Canada transactions with the International Monetary Fund (IMF) under the IMF Articles of Agreement. These transactions include the provision of freely usable currencies to the IMF, through the purchase and sale of special drawing rights, as well as various transactions relating to Canada's reserve position in the IMF (which does not form part of the EFA).

3. Governance

Part II of the *Currency Act* governs the management of the EFA and allows the Minister of Finance to establish an investment policy for EFA assets. The Minister of Finance may delegate the responsibility for the implementation of the approved policy to officials of the Department of Finance Canada.

The *Bank of Canada Act* provides statutory authority for the Bank of Canada to act as the Government's fiscal agent in the management of the Government of Canada's EFA.

Within the Minister of Finance's delegated authorities, the Funds Management Committee (FMC), composed of senior officials from the Department of Finance Canada and the Bank of Canada (together, "EFA officials"), prepares recommendations for the Minister of Finance and oversees the management of the EFA.

The FMC is supported by a Foreign Reserves Committee (FRC) and a Risk Committee (RC). The FRC oversees the funding of and investment of the foreign reserves and provides strategic and policy advice to the FMC related to the management of foreign reserves. The RC is an advisory body to the FMC that reviews and reports on risk exposures, highlights strategic risk issues the FMC should be aware of and identifies measures to mitigate these risks, and advises on broad risk considerations relevant to funds management activities.

Further information regarding oversight and governance is available within the *Funds Management Governance Framework*.

4. Alignment of EFA Activities with Government of Canada Policy Priorities

4.1 Guiding Principles

The SIP is based on principles that a person of ordinary prudence would apply in dealing with the property of others. The EFA shall be managed according to the fundamental principles of fiscal prudence, transparency and accountability, risk management, effectiveness and efficiency, and financial stability in order to protect the interests of Canadians.

4.2 Fiscal Prudence

The EFA is an account that forms part of the Government of Canada's balance sheet. Recognizing the importance of fiscal prudence and sustainability in public finances, the EFA shall be managed in a cost effective manner under an asset-liability matching framework, whereby the market value of assets and liabilities are matched to the extent possible by currency, term and/or duration, to mitigate the potentially negative impacts of movements in interest rates and foreign exchange rates on the Government's fiscal position. Credit risks associated with assets and liabilities are not offset under this framework and are therefore addressed by other means (see the appendix).

4.3 Promoting Financial Stability

Canada's international commitments and global regulatory initiatives to support financial stability will be taken into account in conducting EFA activity.

5. Investment Objectives

Consistent with the purpose of the EFA as defined in section 2, maintaining liquidity and preserving capital are the primary objectives for managing the EFA. Accordingly, the EFA shall hold assets that can be sold or otherwise deployed on very short notice with minimal market impact and loss of value in order to maintain a high standard of liquidity. The EFA shall hold a diversified portfolio of fixed-income assets of high credit quality, and follow leading risk management practices in order to meet the objective of preserving capital value. The EFA shall be managed to maximize return on investments once the objectives of liquidity and capital preservation are clearly met.

6. Investment Process

The EFA shall be governed by a framework that includes a formalized, top-down investment management style that provides clarity on roles, decision-making authority, and accountability to facilitate the achievement of the EFA's objectives. The Minister of Finance shall establish the risk tolerances of the portfolio through approvals of the Strategic Portfolio Parameters. The FMC shall establish the risk preferences of the portfolio through approval of the Strategic Asset Allocation. The FRC shall establish a benchmark that details asset allocations to individual counterparties deemed eligible for investment.

6.1 Strategic Portfolio Parameters

Strategic Portfolio Parameters for the EFA shall include, but are not limited to, the level of reserves, criteria for currency and asset class eligibility based on liquidity and capital preservation considerations, and portfolio risk limits. The Strategic Portfolio Parameters are included in the appendix. The Minister of Finance may except the liquid assets held in the EFA from the application of some or all the Strategic Portfolio Parameters where any of these assets are: (i) sold to provide foreign currency liquidity to the Government; (ii) sold to promote orderly conditions for the Canadian dollar in the foreign exchange markets; or (iii) sold in other similar circumstances.

6.2 Strategic Asset Allocation

The Strategic Asset Allocation shall direct the asset allocation of the portfolio in a manner that is consistent with meeting the EFA's objectives. The Strategic Asset Allocation shall provide a framework to inform the investment decision-making process and to measure progress toward achieving the EFA's objectives of maintaining liquidity and preserving capital.

6.3 Investment Benchmark

The Investment Benchmark shall be established by the FRC. It will specify investment exposures to eligible counterparties while adhering to the Strategic Portfolio Parameters (6.1) and in a manner consistent with achieving the Strategic Asset Allocation (6.2).

7. Securities Lending and Use of Derivatives

In order to meet the objectives of the EFA, officials may acquire or borrow assets, sell or lend those assets, and undertake related activities for the purposes of executing those transactions. Short sales are prohibited.

EFA officials shall only use derivatives and undertake related activities in a manner that is consistent with the objectives of the EFA of preserving capital value, maintaining a high standard of liquidity and, subject to these, optimizing returns.

8. Performance Assessment and Risk Management Reporting

EFA officials shall be responsible for measuring and monitoring the performance and risk exposures of the EFA and tracking these positions against the Strategic Asset Allocation and other appropriate indices, and providing regular reports to senior officials and the Minister of Finance.

Performance and risk measures shall be consistent with leading practices and provide timely and accurate information on the returns on EFA assets, the cost of associated liabilities and the relevant financial risks. An explanation of these measures can be found in the *Government of Canada Treasury Risk Management Framework*.

8.1 Public Reporting

The *Currency Act* requires annual reporting to Parliament on whether the objectives of the EFA have been met. This is accomplished through the annual reporting of the EFA's performance in the *Report on the Management of Canada's Official International Reserves.* In addition, the Minister of Finance provides monthly updates on the performance of the EFA, in accordance with the IMF's General Data Dissemination System standards.

The *Financial Administration Act* requires annual reporting to Parliament on the funding associated with the investments.

8.2 Commercial Confidentiality

Notwithstanding the requirement to provide timely and comprehensive information on the EFA to Canadians, the names of individual counterparties or the securities held in the EFA shall not be disclosed for reasons of financial stability and commercial confidentiality.

9. Review

The SIP shall be reviewed regularly. Until the Minister of Finance otherwise amends and approves the SIP and the governance and risk management frameworks, they shall remain in effect.

Appendix: Strategic Portfolio Parameters (August 2018)

The following Strategic Portfolio Parameters have been established to ensure that the liquid assets held in the EFA meet the primary objectives of maintaining liquidity and preserving capital. The parameters define eligible investments for the EFA and specify limits to protect the liquidity and capital value of EFA investments.

Liquidity Risk Tolerances

Liquidity risk tolerances have been established to ensure that a suitable level of EFA investments that can be readily sold during volatile market conditions is available to the Government at all times in the event that regular channels of financing are temporarily unavailable.

1. Level of Liquid Foreign Reserves

Liquid foreign reserves are held to safeguard Canada's ability to meet payment obligations in situations where normal access to funding markets may be disrupted or delayed and to support investor confidence in securities issued by the Government of Canada.

- The level for the total market value of all foreign currency-denominated investments must be maintained at or above 3 per cent of Canada's annual nominal gross domestic product.
- The composition of liquid assets shall adhere to the requirements detailed in the Government's Prudential Liquidity Plan and foreign exchange intervention framework.

2. US Dollar Holdings

Currency interventions to support orderly conditions for the Canadian dollar in the foreign exchange markets are likely to involve sales of US dollars to purchase Canadian dollars, highlighting the importance of owning the most liquid US dollar-denominated assets. Thus, at least 50 per cent of liquid foreign reserves,[12] measured on a market-value basis, must be denominated in US dollars.

As a contingency against a short-term interruption of domestic funding markets, at least 6 per cent of liquid foreign reserves on a market-value basis shall comprise U.S. Treasury bills and US dollar cash.

[12] Liquid foreign reserves comprise foreign currency securities, and deposits. Special drawing rights, which are international reserve assets created by the International Monetary Fund, are excluded in the definition of liquid foreign reserves, although they form part of the EFA.

3. Eligible Assets

Liquid foreign reserves shall be readily available to be sold or otherwise deployed with limited price impact to meet the Government's foreign currency requirements.

- Eligible assets include fixed-income securities issued by sovereigns (including central banks and government-related entities), sovereign-supported issuers, sub-sovereign entities,[13] and supranational institutions.
- Eligible assets also include deposits with commercial banks, central banks and the Bank for International Settlements, repurchase agreements, commercial paper and certificates of deposit issued by private sector entities, gold and International Monetary Fund (IMF) special drawing rights. Bonds with embedded options and holdings of securities issued by and deposits with Canadian-domiciled entities (or entities that derive a majority of their revenues from their Canadian operations) are not permitted.
- All other classes of assets not listed in this appendix are prohibited.

4. Exposure to Issuers

Three categories of asset issuers have been defined for the EFA:

i. **Reference Issuers:** These are government issuers of securities that are deemed by Canada to have reserve currency status and are actively traded, including cash.
   - The minimum exposure to this category is 35 per cent of liquid foreign reserves on a market-value basis.

ii. **High Credit Quality Issuers:** These issuers are deemed by Canada to be of very high credit quality.

iii. **Other Issuers:** These issuers are high credit quality sovereigns and other entities that meet Canada's liquidity and capital preservation requirements.

Capital Preservation Risk Tolerances

Capital preservation risk tolerances have been established to ensure that the market value of EFA assets will be relatively well preserved during times of market stress.

1. Maximum Term to Maturity

The term to maturity of individual assets is an important consideration since the value of longer-term fixed-income securities is generally more sensitive than the value of shorter-term fixed-income securities to movements in interest rates. In addition, in many instances longer-term securities are less liquid than shorter-term securities of the same issuer denominated in the same currency. Limiting the maximum term to maturity of assets aids in preserving the liquidity and capital value of assets that can be sold or otherwise deployed.

- The maximum term to maturity of individual assets held in the EFA is 10.5 years.

[13] Sub-sovereigns are defined as levels of government within a sovereign territory, and hierarchically below the sovereign. For example, this could include, but is not limited to, states, provinces or municipalities within a sovereign.

2. Other Eligible Currencies

To meet liquidity requirements and mitigate currency concentration risk, assets held as part of the liquid foreign reserves can be denominated in currencies other than US dollars, whose reference issuers satisfy the established liquidity and capital preservation constraints.

- Other eligible currencies include euros, British pounds and Japanese yen. In order to meet the Government's international commitments, assets can also be denominated in IMF special drawing rights.

3. Minimum Credit Rating for Issuers of Eligible Assets and Counterparties

In order to mitigate the negative impact of potential credit events on the Government's financial risk exposure related to the EFA, issuers of eligible assets and counterparties must be of acceptable credit quality, a determination that is informed by external credit ratings and internal credit analysis.

- Issuers must be deemed by Canada to have a credit rating of "A-" or higher.
- Counterparties for deposits, certificates of deposit, commercial paper and repurchase agreements must be deemed by Canada to have a credit rating of "A-" or higher.
- Counterparties for swaps and delivery-versus-payment transactions must be deemed by Canada to have a credit rating of "BBB" or higher.
- Reference issuers of securities that are deemed to have reserve currency status and are actively traded are exempt from the minimum credit rating requirement, since they are deemed to be the primary issuer of eligible securities in their local currency.
- The only allowable unrated investments are the following:
    1. securities issued by, and deposits with, central banks where the sovereign's credit quality is acceptable; and
    2. special drawing rights created by the International Monetary Fund.

4. Credit and Market Risk

The market value of liquid foreign reserve assets can be preserved by managing credit and market risks. An asset-liability matching framework, whereby the market value of assets and liabilities are matched by currency, term, and/or duration, is used to manage adverse impacts of changes in interest and foreign exchange rates on the Government's fiscal balance. Metrics such as Value at Risk, which measure the maximum potential loss the portfolio could suffer over a given period at a given confidence level, shall be monitored by senior officials to ensure the potential negative impacts of credit and market risk are managed within acceptable levels.

Annex 2: Overview of the Exchange Fund Account Management Framework

Objectives

The objectives of foreign reserves management are to provide foreign currency liquidity to the Government, support intervention to aid in the control and protection of the external value of the Canadian dollar and promote orderly conditions for the dollar in the foreign exchange markets, if required. The liquid foreign currency assets held in the Exchange Fund Account (EFA) also form a key component of the Government of Canada's prudential liquidity, which is available to meet financial requirements in situations where normal access to funding markets may be disrupted or delayed.

The EFA, which represents the largest component of the foreign reserves, is an actively managed portfolio of liquid foreign currency securities and deposits. The key strategic objectives of the EFA are to maintain a high standard of liquidity, preserve capital value and optimize return subject to the liquidity and capital preservation objectives.

Principles

In pursuit of these objectives, the Government of Canada manages its foreign exchange reserves according to the following principles:

- **Effectiveness and efficiency:** Policy development and operations shall take into account, to the extent possible, leading practices of other comparable sovereigns. Regular evaluations shall be conducted to ensure the effectiveness and efficiency of the governance framework and borrowing and investing programs.
- **Transparency and accountability:** Information on investment and funding plans, activities and outcomes shall be made publicly available in a timely manner. Borrowing costs, investment performance and material exposures to financial risk shall be measured, monitored, controlled and regularly reported, as applicable.
- **Risk management:** Risk monitoring and oversight shall be independent of financial asset and liability management operations.
- **Fiscal prudence:** The EFA is an account that forms part of the Government of Canada's balance sheet. Recognizing the importance of fiscal prudence and sustainability in public finances, the EFA shall be funded in a cost effective manner through a funding framework that mitigates the potentially negative impacts of movements in interest rates and foreign exchange rates on the Government's fiscal position by matching the funding with the currency, term and/or duration of the reserve assets. Credit risks associated with assets and liabilities are not offset under this framework and shall be addressed by other means.
- **Financial stability:** The EFA is an account that supports Canada's preparedness for financial contingencies. As a result, the management of the EFA shall take into account Canada's international commitments and global regulatory initiatives to support financial stability.

For a complete description of the governance framework for managing the Government of Canada's financial assets and liabilities, see https://www.canada.ca/en/department-finance/programs/frameworks/funds-management-governance-framework/framework.html.

Annex 3: Changes in the Level of the Official International Reserves

The level of the official international liquid reserves changes over time due to a variety of factors. As shown in Table A3.1, over the 12-month reporting period the level of reserves increased by US$6,196 million. The increase was due to reserves management operations (US$11,113 million), which was partially offset by a loss on investments (-US$1,712 million), foreign currency debt charges (-US$1,306 million), as well as negative net government operations (-US$129 million) and revaluation effects (-US$1,770 million).

Table A3.1

Sources of Change in Canada's Official International Reserves Between March 31, 2022 and March 31, 2023

market value in millions of US dollars

	Change
Official intervention	–
Net government operations	-129
Reserves management operations	11,113
Return on investments	-1,712
Foreign currency debt charges	-1,306
Revaluation effects	-1,770
Other transactions (mostly SDR allocation)	0
Total change	6,196

Official Intervention

Official intervention involves buying or selling foreign currencies in exchange for Canadian dollars and would therefore affect the level of the official international reserves. Intervention in the foreign exchange markets for the Canadian dollar might be considered if there were signs of a serious near-term market breakdown (e.g., extreme price volatility with buyers and/or sellers increasingly unwilling to transact), indicating a severe lack of liquidity in the Canadian-dollar market. It might also be considered if extreme currency movements seriously threatened the conditions that support sustainable long-term growth of the Canadian economy. The goal would be to help stabilize the currency and to signal a commitment to back up the intervention with further policy actions, as necessary.

Since September 1998, the Bank of Canada has not undertaken any foreign exchange market intervention in the form of either purchases or sales of US dollars versus the Canadian dollar.[14,15]

Net Government Operations

During 2022-23, the Government sold liquid reserve assets with a market value of US$129 million to address a mismatch in the market value of the asset and liability portfolios. These sales are in accordance with the principles of managing the liquid foreign reserves portfolio under an asset-liability matching framework.

14 In March 2011, the Bank of Canada, acting as Canada's fiscal agent, joined central banks in the United States, Europe and Japan in a concerted intervention to stabilize the Japanese currency by selling yen in an amount equivalent to US$124 million (C$120 million).

15 Official intervention is separate from net purchases of foreign currency for government foreign exchange requirements and for additions to reserves.

Reserves Management Operations

The purchase and sale of foreign currency assets along with the issuance and maturity of debt used to fund those assets totalled US$11,113 million.

Over the reporting period, funds raised through the issuance of bonds, foreign exchange (FX) swaps, cross-currency swaps, medium-term notes and Canada bills, totalling US$34.4 billion, were higher than debt maturities totalling US$23.3 billion (including Canada bill maturities of US$14.9 billion, and cross-currency swap maturities of US$5.4 billion).

Return on Investments

Return on investments comprises interest earned on investments (US$1,716 million) and a decrease in the market value of securities resulting from changes in interest rates (-US$3,428 million). The overall effect on the official international reserves was a net loss (or negative return) of -US$1,712 million.

Revaluation Effects

Revaluation effects resulting from movements in exchange rates reflect changes in the market value of the official international reserves. Revaluation effects led to a decrease in the market value of the official international reserves of -US$1,770 million, primarily due to the depreciation of the euro, pound sterling, and yen relative to the US dollar during the reporting period.

International Monetary Fund Reserve Position

Each member country of the International Monetary Fund (IMF) is assigned a quota that represents the maximum amount of resources that it is obliged to provide to the IMF, upon request. As well, the IMF typically has on deposit with each government holdings in the form of non-interest-bearing notes and non-interest-bearing accounts. Canada's reserve position at the IMF represents the difference between Canada's quota and the IMF's holdings of Canadian dollars, which is equivalent to the cumulative amount of all the money that Canada has advanced to the IMF over the years.

Canada's reserve position at the IMF is an asset that is included as a component of the official international reserves but is not held in the EFA. As such, changes in Canada's reserve position that may result from advances, repayments or revaluations directly impact the Government of Canada's consolidated financial statements. During 2022-23 the reserve position increased over the previous fiscal year.

Detailed information on monthly levels and changes in Canada's official international reserves is provided in Table A3.2.

Table A3.2

Canada's Official International Reserves
Month-to-Month Changes
market value in millions of US dollars

Month-end	Securities	Deposits	Special drawing rights[1]	Reserve position in the IMF[2]	Other reserve assets	Total	Total monthly change
2022							
March	71,104	4,283	23,983	4,394		103,764	875
2022-23							
April	71,606	6,450	23,322	4,240		105,618	1,854
May	71,605	8,613	23,418	4,257		107,893	2,275
June	70,969	8,048	22,991	4,274		106,282	(1,611)
July	71,722	7,736	22,919	4,261		106,638	356
August	71,129	9,835	22,613	4,189		107,766	1,128
September	69,861	6,550	22,171	4,107		102,689	(5,077)
October	69,483	7,870	22,008	4,123	292	103,776	1,087
November	72,977	6,305	22,574	4,307	299	106,462	2,686
December	73,948	5,781	22,875	4,348	303	107,255	793
January	76,788	5,271	23,178	4,365	307	109,909	2,654
February	74,830	6,154	23,091	4,389	302	108,766	(1,143)
March	75,033	6,802	23,376	4,443	306	109,960	1,194
Total	n/a	n/a	n/a	n/a		n/a	6,196

Note: Numbers are from the *Official International Reserves* press release.

1 SDR-denominated assets are valued in US dollars at the SDR rate established by the IMF. A rise in the SDR in terms of the US dollar generates an increase in the US dollar value of Canada's holdings of SDR-denominated assets.

2 The reserve position in the IMF represents the amount of foreign exchange that Canada is entitled to draw from the IMF on demand for balance of payments purposes. It equals the Canadian quota, less IMF holdings of Canadian dollars, plus loans to the IMF.

Annex 4: Detailed Portfolio Return and Performance

Unless otherwise noted, the official international reserves are reported in US dollars on a market-value settled basis. This annex provides detailed technical information on indicators used to measure the portfolio's performance in four areas: 1) revenues; 2) net return on assets; 3) cost of advances to the EFA; and, 4) market and credit risk measures.

1) Revenues

Revenues include income from investments and foreign exchange gains. Data are reported in Canadian dollars, as EFA revenues are reported in Canadian dollars in the attached financial statements. In 2022-23 net revenue totalled C$836 million compared to C$709 million in 2021-22. The main categories of revenue are summarized in Table A4.1.

Table A4.1
Revenues of the Exchange Fund Account
(in millions of Canadian dollars)

	April 1, 2022 to March 31, 2023	April 1, 2021 to March 31, 2022
Net revenue from investments		
Marketable securities	371	860
Interest on deposits held in the Account	230	3
Interest on special drawing rights	611	20
Total net revenue from investments	1,212	883
Other		
Net foreign exchange loss	(376)	(174)
Net revenue for the year	836	709

2) Total Net Return on Assets

The net return on assets of the EFA is reported using a measure called "total return". It represents the net return generated by the EFA by including the changes in the market values of the assets and liabilities over the reporting period. By including the market or fair values of the EFA's assets and corresponding liabilities, the total return measure includes unrealized gains or losses, which is the difference between what an asset (or liability) is worth compared to what it cost.

Total Return on a Market-Value Basis

The total return measure is used in several different ways. It is used to compare the performance of the EFA's assets to its liabilities in order to depict the net return of the portfolio on a market-value basis. It is also used to decompose the EFA into the key sources of return. This is done by decomposing the total return measures for both the assets and liabilities through a technique called "performance attribution". Performance attribution allows management to discern what aspects of total return resulted from controllable influences as compared to those sources that are market-driven. As well, the attribution analysis provides an indication as to how well objectives of the asset-liability management framework of the EFA are being met. Table A4.2 provides an estimate of the total return on a market-value basis for the EFA as a whole and its key portfolios compared to the corresponding liabilities.

The total return of the asset benchmark is also included (-4.18 per cent versus -3.92 per cent for the EFA asset portfolio). The total net return of the EFA was 23 basis points, or a gain of US$173 million, in the fiscal year ending March 31, 2023, compared to a total net return 75 basis points, or a gain of US$565 million, in the fiscal year ending March 31, 2022. For 2022-23, the total net return reflects net returns in US dollar terms of 25 basis points for the US dollar portfolio, 11 basis points for the euro portfolio, and 75 basis points for the yen portfolio, which were partly offset by a net loss of 14 basis points for the British pound portfolio. The total net return was driven by a range of factors including the yield curve effect and coupon effect on the US dollar and euro portfolio. The total return numbers include interest flows as well as all gains or losses earned over the period, regardless of whether they were realized or not.

Table A4.2

Total Return of the EFA Compared to Liability Benchmarks

	April 1, 2022 to March 31, 2023						April 1, 2021 to March 31, 2022
	US$ portfolio	Euro portfolio	GBP portfolio	Yen portfolio	Total EFA	Total benchmark	Total EFA
EFA asset portfolio							
Return in original currency	-1.38%	-9.13%	-5.47%	-0.06%	n/a	n/a	n/a
Return in US$ (A)	-1.38%	-10.79%	-11.07%	-7.75%	-3.92%	-4.18%	-5.36%
Liability benchmarks							
Return in original currency	-1.63%	-9.25%	-5.32%	-0.87%	n/a		n/a
Return in US$ (B)	-1.63%	-10.90%	-10.93%	-8.50%	-4.15%		-6.11%
Return vs. liability benchmark in basis points (A – B) in US$	25	11	-14	75	23	-3	75

Performance Attribution of Total Return

Table A4.3 summarizes the attribution results for the EFA's US dollar and euro portfolios for the fiscal year ending March 31, 2023. Total return is decomposed into three underlying return factors: coupon and amortization, changes in credit spreads, changes in interest rates and convexity.

For 2022-23, the attribution results indicate that the yield curve effect and the coupon effect were the main drivers of returns in the EFA's US dollar and euro portfolios. The yield curve effect (the impact of changes in the general level of interest rates) demonstrates the extent to which the EFA's assets and liabilities are matched in terms of their sensitivity to changes in interest rates. Due to increased interest rates, the few mismatches between the EFA's assets and liabilities are exacerbated, leading to a larger return. The coupon effect (the difference between the yield to maturity of reserve assets and liabilities issued to fund the assets) contributed positively to return on both the US dollar and euro portfolios. The coupon return generally represents the underlying return of the portfolio if matched assets and liabilities are held to maturity.

The credit spread effect (the difference between the change in the market value of EFA assets and the foreign liabilities due to changes in the credit quality of EFA issuers and Canada) contributed to slight positive returns to the US dollar portfolio and negative returns to the euro portfolio. Due to the strong dollar performance against other currencies, the negative exchange rate effect deteriorated the return on the euro portfolio. The credit spread effect is transitory to the extent that assets are held to maturity.

Table A4.3

Performance Attribution for the US Dollar and Euro Portfolios Compared to Liability Benchmarks
April 1, 2022 to March 31, 2023
per cent

	US$ portfolio			Euro portfolio		
	Assets	**Liabilities**	**Difference**	**Assets**	**Liabilities**	**Difference**
Coupon return	3.42	3.32	0.10	2.02	1.75	0.27
Yield curve effect	-4.76	-5.11	0.35	-11.30	-11.70	0.40
Credit spread effect	-0.01	-0.04	0.03	0.03	0.23	-0.20
Residual return	-0.03	0.19	-0.22	0.13	0.47	-0.34
Return in original currency	-1.38	-1.63	0.25	-9.13	-9.25	0.12
Exchange rate effect				-1.66	-1.65	-0.01
Total return in US$	-1.38	-1.63	0.25	-10.79	-10.90	0.11

Note: Numbers may not add due to rounding.

3) Notional Cost of Advances to the EFA

From the Consolidated Revenue Fund

The cost of advances represents an estimate of the cost of maintaining the EFA by adding the cost of foreign debt payments (including the interest on cross-currency swaps) to the notional amount of foreign interest that would be paid on non-interest-bearing items or items funded in Canadian dollars. For 2022-23, the cost of advances to the EFA was C$2,075 million. EFA advances represent funds (liabilities) from the Consolidated Revenue Fund (CRF) in support of maintaining the EFA. The EFA is a stand-alone account of assets while foreign liabilities are recorded in the Department of Finance account.

Actual foreign interest charges: The proceeds from foreign currency borrowings are remitted to the CRF and concurrently advanced to the EFA. Foreign debt interest and principal repayments are charged to the CRF but are paid using the foreign assets of the EFA, reducing the amount advanced to the EFA. Actual foreign interest paid is converted into Canadian currency for the purpose of determining this portion of the notional cost of advances; for 2022-23 this value was C$1,568 million.

Notional interest charged in Canadian dollars: Because domestically funded EFA assets, SDR advances and the portion of net revenues reinvested in the EFA (i.e., cumulative net revenues of the EFA less cumulative foreign debt interest payments) are not linked to foreign liabilities, an imputed interest cost is used to approximate the notional interest charge on the portion of advances from the CRF related to those assets. For 2022-23, a weighted cost of domestic and foreign funding (2.28 per cent, up from 1.372 per cent in 2021-22) was used in calculating notional interest paid in Canadian dollars, resulting in a value of C$507 million.

4) Risk Measures

The risk management framework covers market, credit, liquidity, legal and operational risks related to the financing and investment of the foreign reserves. Risk measures are reported on a monthly basis to management at the Department of Finance Canada and the Bank of Canada.

Market Risk

Market risk stems from changes in interest rates, credit spreads and exchange rates. Several industry-standard measures of market risk exposure are employed: scenario analysis, stress testing and Value at Risk (VaR) (Table A4.4). Stress testing and scenario analysis are used to evaluate the portfolio's performance under extraordinary circumstances in the market. VaR is a statistical measure for estimating potential losses to the EFA portfolio arising from extreme but plausible market movements such as changes in interest and exchange rates.

Stress tests are regularly carried out to gauge the sensitivity of the EFA portfolio to large changes in exchange rates and interest rates, including the portfolio impact of a 1 per cent depreciation of the euro, British pound, and yen vis-à-vis the US dollar and a 3 per cent increase in interest rates across the yield curve. In addition, a stress test of cross-currency basis rates is performed. The results showed that, during the reporting period, the EFA assets and the associated liabilities (on a net basis) had very minimal exposure to currency depreciations and upward shifts in the yield curve.

In addition, some hypothetical scenario analyses that mimic market conditions during four previous extraordinary market events were regularly conducted: the 2008 financial crisis, the 2010 European debt crisis, the 2011 Japan earthquake and Brexit in 2016. The scenario analyses showed that the EFA would generally perform well during such periods of market turbulence.

Total Market VAR is regularly reported for the entire EFA portfolio and on the net position of assets and liabilities. As of March 31, 2023, the EFA had a 99-per-cent 10-day Total Market VaR of US$457 million, which implied that 99 per cent of the time, the value of the portfolio was not expected to decline by more than US$457 million, on a net basis, over a 10-trading-day period. The asset-only VaR measure estimates the possible loss in the value of EFA assets within a 10-day period during normal market conditions as a result of interest rate, exchange rate and credit spread changes. As of March 31, 2023, the Asset VaR was US$2,322 million.

Table A4.4

Market Risk Measures

(in millions of US dollars)

	March 31, 2023		March 31, 2022	
	Assets only	**Assets vs. liabilities (net)**	**Assets only**	**Assets vs. liabilities (net)**
Single factor stress tests				
1% depreciation of euro, GBP and yen	-244	-6	-221	-4
3% upward parallel shift in yield curve	-8,926	89	-9,904	54
Cross-currency basis shock	0	-434	0	-407
Scenario analyses				
2008 financial crisis	-1,777	-942	1,753	-809
2010 European debt crisis	-3,570	293	-3,540	298
2011 Japan earthquake	205	-136	145	-76
2016 Brexit	166	-87	217	-42
99% 10-day Total Market VaR		457		312
99% 10-day Asset VaR	2,322		1,395	

Credit Risk

Credit risk includes the risk that a counterparty or issuer will be unable or unwilling to meet their obligations to pay as well as the risk that the value of an instrument will change as a result of actual or perceived changes in the credit quality of a counterparty or issuer.

A collateral management framework is used for managing the credit risk to financial institution counterparties arising from the cross-currency swaps used to fund the EFA. Under this framework, Initial Margin, composed of high quality collateral, is pledged by the swap counterparties for the EFA at the initiation of the swap. In addition, Variation Margin is received or paid based on whether the market value of the swaps with each counterparty is positive or negative to the Government of Canada. The Government relies on a collateral manager and the Bank of Canada for the daily management of Initial and Variation Margin[16].

[16] Previously reported measures such as credit VaR and expected shortfall have been omitted from this report due to ongoing work to update the methodology and review parameters necessary to reflect more precise credit risk.

Annex 5: List of Agents and Mandataries as Defined by the *Currency Act*

The *Currency Act* stipulates that this report include a list of the following agents and mandataries appointed by the Minister under subsection 17.2(3) of the Act to perform services concerning the EFA.

Bank of Canada

The Bank of Canada, as specified under the *Bank of Canada Act*, is the fiscal agent for the Government of Canada. As part of its fiscal agency responsibilities, the Bank manages the Government's foreign exchange reserves.

RBC Investor Services Trust and State Street Corporation

RBC Investor Services Trust and State Street Corporation manage the securities-lending program for the EFA. As the Government's agents and mandataries, they carry out securities lending on behalf of the Government. The program involves loaning a security from the Government to a counterparty, who must eventually return the same security, in order to earn additional return on the portfolio.

State Street Trust Company Canada, together with State Street Bank and Trust Company

State Street Trust Company Canada, together with State Street Bank and Trust Company, is responsible for managing the collateral pledged in connection with foreign exchange swaps and cross-currency swaps.

Unaudited Statement of Financial Position and Statement of Operations of the Exchange Fund Account

Year ended March 31, 2023

Statement of Financial Position (unaudited) as at March 31
(in millions of Canadian dollars)

	2023	2022
Financial Assets		
Deposits held in the Account (Note 4)	9,193	5,355
Due from Broker	134	-
Investments (Note 4)		
Marketable securities	107,771	91,752
Special drawing rights	31,768	29,992
Total investments	139,539	121,744
Total financial assets	148,866	127,099
Liabilities		
Due to the Consolidated Revenue Fund (Note 5)	148,866	127,099

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

Nick Leswick
Interim Deputy Minister
Department of Finance

Christopher Veilleux
Chief Financial Officer
Department of Finance

Statement of Operations (unaudited) for the year ended March 31
(in millions of Canadian dollars)

	2023	2022
Net revenue from investments		
Marketable securities		
Interest	1,643	851
Net gain (loss) on sale of marketable securities	(1,270)	11
Transaction costs and other	(2)	(2)
Interest on deposits held in the Account	230	3
Interest on special drawing rights	611	20
Total net revenue from investments	1,212	883
Other		
Net foreign exchange loss	(376)	(174)
Net revenue for the year	836	709

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

Notes to the Statement of Financial Position and Statement of Operations for the Year Ended March 31, 2023 *(unaudited)*

1. Authority and Objectives

The Exchange Fund Account (the Account) is governed by Part II of the *Currency Act*. The Account is in the name of the Minister of Finance and is administered by the Bank of Canada (the Bank) as fiscal agent. The *Financial Administration Act* does not apply to the Account.

The legislative purposes of the Account, as specified in the *Currency Act*, are to aid in the control and protection of the external value of the Canadian dollar and to provide a source of liquidity for the Government of Canada (the Government), if required. Under the *Currency Act*, the Minister of Finance has the authority to acquire, borrow, sell or lend assets held in the Account deemed appropriate for these purposes, in accordance with the *Statement of Investment Policy for the Government of Canada*.

Assets held in the Account are managed to aid in the control and protection of the external value of the monetary unit of Canada and to provide a source of liquidity to the Government, if required. Canada's current policy is to intervene in foreign exchange markets on a discretionary, rather than a systematic, basis and only in the most exceptional of circumstances. Since September 1998, the Bank has not undertaken any foreign exchange market intervention in the form of either purchases or sales of US dollars versus the Canadian dollar.

In accordance with the Currency Act, within three months after the end of the fiscal year the net revenue for the year is paid to the Consolidated Revenue Fund (CRF) of the Government if the amount is positive, or charged to the CRF if the amount is negative. The net income of the Account is calculated in accordance with Section 20(2) of the Currency Act. The Minister of Finance reports to Parliament on the operations of the Account within the first 60 days in which Parliament is sitting after the end of the fiscal year. These statements have been prepared by the Department of Finance.

2. Significant accounting policies

As stipulated in the *Currency Act*, the financial statements of the Account are prepared in a manner consistent with the accounting policies used by the Government to prepare its financial statements.

a) Revenue recognition

Revenue from investments is recognized on an accrual basis and includes interest earned (including the amortization of premiums and discounts) using the effective interest method, gains or losses on sales of securities, and revenues from securities-lending activities. Interest accrued on short-term deposits, deposits held under repurchase agreements, marketable securities, and special drawing rights (SDRs) is measured using the effective interest method.

b) Expense recognition

The Account's administrative, custodial, and fiscal agency services are provided and paid for by the Bank and the Department of Finance. These costs have not been recognized in the Statements.

In addition, the notional cost of the funding of the Account's assets and advances from the CRF is not recognized in these statements.

c) Financial assets

Deposits held in the Account

Deposits held in the Account consists of cash on hand and short-term deposits. Short-term deposits are measured at amortized cost and are generally held to maturity. The resulting revenue is included in Interest on deposits held in the Account using the effective interest method.

Deposits held under repurchase agreements

Deposits held under repurchase agreements, if any, are measured at amortized cost. The resulting revenue is included in Net revenue from investments in the Statement of Operations.

Marketable securities

Marketable securities are mainly comprised of sovereign, sovereign-linked and supranational issued securities, including, but not limited to treasury bills and nominal bonds. Prior to April 1, 2022, purchases and sales of securities were recognized at the settlement date. Commencing April 1, 2022, and applied prospectively, purchases and sales of securities are recognized at the trade date. Marketable securities are measured at amortized cost and are adjusted for the amortization of purchase discounts and premiums using the effective interest method over the term to maturity of the security. The carrying amount of marketable securities includes accrued interest.

On derecognition of a security, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in Net revenue from investments in the Statement of Operations.

Impairment

The Bank assesses at the end of each reporting period whether there has been a loss in the carrying value of short-term deposits, deposits held under repurchase agreements, and marketable securities. When conditions indicate that the decline in value is other-than temporary, these assets are re-measured at their recoverable amount with the amount of the impairment loss recognized in Net revenue from investments in the Statement of Operations.

Securities-lending program

Under the securities-lending program, the Account has agency agreements with two major financial institutions. Loans of securities are effected on behalf of the Account by these agents, who guarantee the loans and obtain collateral of equal or greater value from approved counterparties. These transactions can range from 1 to 31 days in duration. The securities loaned continue to be accounted for as investment assets. Income on securities-lending transactions is included in Interest in the Statement of Operations.

Derivative and embedded derivatives

The Account identifies and separates embedded derivatives from their host contracts and reports them at fair value as separate assets or liabilities in the statement of financial position. Any remeasurement gains and losses associated with these embedded derivatives will be recognized in the statement of remeasurement gains or losses.

As at March 31, 2023, the Account held no derivatives ($nil as at March 31, 2022).

Special drawing rights

Special drawing rights (SDRs) serve as the unit of account for the International Monetary Fund (IMF). The value of SDRs is based on a "basket" of five major currencies: the euro, the US dollar, the British pound sterling, the Japanese yen, and the Chinese renminbi.

SDRs are initially recognized at cost and are subsequently re-measured at each reporting date into Canadian dollars at market exchange rates.

Translation of foreign currencies and SDRs

Assets denominated in foreign currencies and SDRs are translated into Canadian-dollar equivalents at the rates prevailing as at March 31, which were as follows:

	2023	**2022**
US dollars	1.3516	1.2502
Euros	1.4657	1.3831
Japanese yen	0.0102	0.0103
British pounds sterling	1.6673	1.6421
SDRs	1.8181	1.7282

Gains or losses resulting from the translation of assets and advances from the CRF denominated in foreign currencies and SDRs, as well as from transactions throughout the year, are recognized as Net foreign exchange gain (loss) in the Statement of Operations.

Investment revenue in foreign currencies and SDRs is translated into Canadian dollars at the foreign exchange rates prevailing on the date the revenue is earned.

d) Use of estimates and measurement uncertainty

The preparation of these statements requires the Bank's management to make estimates and assumptions based on information available as of the date of the Statements. Significant judgements and estimates are primarily applied in the determination of whether an impairment exists and in the measurement of fair value where quoted prices do not exist (Note 4).

3. Changes in accounting policies

The Account adopted new accounting policies under its special framework to align with the new accounting standards issued by the Public Sector Accounting Board that became effective on April 1, 2022, namely PS 3450 Financial Instruments ("PS 3450"), PS 1201 Financial Statement Presentation ("PS 1201") and PS 3041 Portfolio Investments ("PS 3041") in accordance with PS 2120 Accounting Changes. PS 3450 addresses the recognition and derecognition, classification, measurement and disclosure of financial instruments, while PS 1201 establishes general reporting principles for disclosure of information in the financial statements. PS 3041 replaces PS 3040 Portfolio Investments in order to conform the accounting for portfolio investments with the requirements in PS 3450.

In accordance with PS 3450, the new accounting policies adopted by the Account were applied prospectively, and financial statements of prior periods were not restated upon adoption.

The new policies adopted by the Account and their related impact on the Account's financial statements were as follows:

- the Account recognized and classified all financial assets and financial liabilities in accordance with PS 3450 and there are no impacts on the opening balances related to the transition;
- the Account had no remeasurement gains or losses, hence did not introduce a new statement, the Statement of remeasurement gains and losses, which records the remeasurement gains and losses for derivatives;
- the Account's revenue from marketable securities is recognized and measured using the effective interest method. There is no impact on the opening balances related to the transition;
- for instruments classified at cost or amortized cost, the Account included any unamortized discounts or premiums previously recognized as at March 31, 2022, in the instruments' opening carrying values as at April 1, 2022. There was no impact on the opening balances related to the transition to the effective interest rate;
- the Account assessed whether there is an other-than temporary impairment in the carrying value of marketable securities. There was no impact on the opening balances related to the transition.

4. Financial instruments

Fair value of financial assets
(in millions of Canadian dollars)

	March 31, 2023		March 31, 2022	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Deposits held in the Account				
US dollars	8,306	8,306	4,596	4,596
Euros	630	630	387	387
Japanese yen	96	96	19	19
British pounds sterling	161	161	353	353
Total deposits held in the Account	9,193	9,193	5,355	5,355
Due from Broker	134	134		
Investments				
Marketable securities				
US dollars	73,074	69,015	63,690	61,804
Euros	15,780	14,069	14,079	13,351
Japanese yen	8,883	8,863	5,861	5,845
British pounds sterling	10,034	9,329	8,122	7,890
Total marketable securities	107,771	101,276	91,752	88,890
SDRs	31,768	31,768	29,992	29,992
Total investments	139,539	133,044	121,744	118,882
Total financial assets	148,866	142,371	127,099	124,237

The estimated fair values of marketable securities are based on quoted market prices and include accrued interest. If such prices are not available, the fair value is determined by discounting future cash flows using an appropriate yield curve. During the year, and in the prior year, no marketable securities were written down to reflect an other-than temporary impairment in value.

The fair values of financial instruments are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1

Unadjusted quoted prices in active markets for identical assets or liabilities, which represent actual and regularly occurring arm's-length market transactions

Level 2

Inputs other than quoted prices included in Level 1, which are observable for the assets or liabilities either directly (e.g., prices for similar instruments, prices from inactive markets) or indirectly (e.g., interest rates, credit spreads)

Level 3

Unobservable inputs for the assets or liabilities that are not based on observable market data as a result of inactive markets (e.g., market participant assumptions)

Estimated fair values for financial instruments are designed to approximate amounts for which the instruments could be exchanged in a current arm's-length transaction between knowledgeable, willing parties. The fair value hierarchy requires the use of observable market inputs wherever such inputs exist. In measuring fair value, a financial instrument is classified at the lowest level of the hierarchy for which a significant input has been considered.

The fair values disclosed for all financial assets are classified as Level 2 instruments in the fair value hierarchy. The fair value measurement of securities is based on observable inputs from market data and implied valuations. This method does not rely on solely quoted prices nor consider all factors that market participants would consider in setting a price. There were no transfers of securities between levels during the period.

Collateral pledged

As part of its operations, the Account is required to pledge collateral in respect to credit facilities granted by its European clearing house. Collateral pledged must have a fair value of a minimum of US$250 million, post a reduction applied to the value of an asset commensurate with its risk, in equivalent securities. As at March 31, collateral pledged and held for the purposes of maintaining the credit facilities was as follows, in their pre-haircut CAD equivalent:

Collateral pledged
(in millions of Canadian dollars)

	March 31, 2023		March 31, 2022	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Marketable Securities	442	438	409	401
Total	442	438	409	401

Securities lending

As at March 31, 2023, there were no loaned securities in the Account's investments ($nil at March 31, 2022).

Credit risk

Credit risk is the risk that a counterparty or guarantor to a financial contract will cause a loss to the Account by failing to discharge its obligations in accordance with agreed upon terms. The Account's exposure to credit risk primarily arises from its deposits held in the Account and marketable securities.

To ensure that the Account's asset portfolio is prudently diversified with respect to credit risk, the *Statement of Investment Policy* prescribed by the Minister of Finance specifies limits on holdings by class of issuer (sovereign, agency, supranational, corporation or commercial financial institution), by individual issuer or counterparty, and by type of instrument.

The *Statement of Investment Policy* also specifies the treatment of holdings that do not meet eligibility criteria or limits due to exceptional circumstances such as ratings downgrades.

The following table presents the credit rating of marketable securities held by the Account, based on the second highest external rating among those provided by Moody's Investors Service, Standard & Poor's, Fitch Ratings and Dominion Bond Rating Service.

Credit Rating of Marketable Securities
(in millions of Canadian dollars)

As at March 31, 2023	Carrying Value
AAA	36,101
AA+	52,020
AA	6,591
AA-	3,843
A+	333
A	8,883
	107,771

Concentration of credit risk

Concentrations of credit risk occur when a significant proportion of the portfolio is invested in securities subject to credit risk with similar characteristics or subject to similar economic, political or other conditions. The Account may hold fixed income securities of highly rated sovereigns, central banks, government-supported entities and supranational organizations. The Bank broadly defines highly rated sovereigns as those with a credit rating as equivalent to BBB or higher. To be eligible for investment, an entity must have an acceptable credit rating informed by external credit ratings and internal credit analysis. The Account may also make deposits and execute other transactions, up to prescribed limits, with commercial financial institutions that meet the same rating criteria.

The following table presents the concentration of credit of the marketable securities held by the Account.

Concentration of Marketable Securities
(in millions of Canadian dollars)

As at March 31, 2023	EUR		GBP		JPY		USD		Total	
	$	%	$	%	$	%	$	%	$	%
Securities issued by sovereigns	4,149	30	3,393	36	8,863	100	44,498	64	60,903	60
Securities issued by sub-sovereign entities	1,037	7	588	6	-	-	3,479	5	5,104	5
Securities issued by supranational entities	4,522	32	3,985	43	-	-	12,162	18	20,669	20
Securities issued by implicit agencies	4,361	31	1,363	15	-	-	8,876	13	14,600	15
Total fair value of securities	14,069	100	9,329	100	8,863	100	69,015	100	101,276	100
Carrying value of securities	15,780		10,034		8,883		73,074		107,771	

As stipulated in the *Currency Act*, the Minister of Finance may appoint agents to perform services concerning the Account, including lending of securities. Securities lending involves loaning a security to a counterparty, who must eventually return the same security, in order to earn additional return on the portfolio. Through the securities-lending program, agents can lend securities only up to a prescribed maximum amount and only to approved counterparties. Each borrower must enter into a Securities Loan Agreement with at least one of the agents.

Borrowers are also required to provide collateral for securities borrowed according to a specific list approved by the Government, with collateral limited to specific security types, terms to maturity, and credit ratings. The agents also provide an indemnity in the event of default by the borrower. The Account enters into securities lending transactions in order to increase its return on investments.

Market risk

Market risk is the potential for adverse changes to the fair value or future cash flows of a financial instrument due to changes in market variables, such as interest rates, foreign exchange rates, and other market prices.

a) Interest rate risk

The Account is exposed to market risk through interest rate risk, as the Account’s cash equivalents, marketable securities and SDRs consist substantially of interest-bearing assets.

Interest rate risk is managed, with due consideration of the risk to the Government, through an asset-liability management policy. This policy utilizes a strategy of matching the duration structure and the currency of the Account’s assets with the foreign currency borrowings of the Government which notionally finance the Account’s assets.

b) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk is present for the Account on a standalone basis as the Account’s assets and liabilities are substantially denominated in US dollars, euros, Japanese yen, British pounds sterling or SDRs.

Currency risk is managed, with due consideration of the risk to the Government, through an asset-liability management policy. This policy utilizes a strategy of matching the duration structure and the currency of the Account’s assets with the foreign currency borrowings of the Government which notionally finance the Account’s assets.

c) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or currency risk. The Account is not exposed to significant other price risk.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities. The Account is only exposed to liquidity risk through its Due to Consolidated Revenue Fund liability. While this amount is due to the Government of Canada on demand, it would be highly unlikely for the Government to call upon this obligation. In the event that the obligation must be met, the Account has sufficient, liquid, assets that it can dispose of to generate the necessary payment.

The following table presents a maturity analysis of the financial assets and liabilities of the Account.

Maturity Analysis
(in millions of Canadian dollars)

As as March 31, 2023	Due on demand	Within 90 days	Within 4 to 12 months	Within 1 to 5 years	In more than 5 years	Total
Financial Assets						
Deposits held in the Account	9,193	-	-	-	-	9,193
Investments						
US dollars	-	5,293	3,458	36,703	35,897	81,351
Euros	-	167	546	4,780	11,188	16,681
Japanese yen	-	53	2,083	3,418	3,370	8,924
British pounds sterling	-	43	570	7,246	3,069	10,928
SDRs	31,768	-	-	-	-	31,768
	40,961	5,556	6,657	52,147	53,524	158,845
Liabilities						
Due to Consolidated Revenue Fund	148,866	-	-	-	-	148,866
	148,866	-	-	-	-	148,866
Net maturity difference	(107,905)	5,556	6,657	52,147	53,524	9,979

5. Due to the Consolidated Revenue Fund (CRF)

The Account is funded by the Government through interest-free advances from the CRF. Advances to the Account from the CRF are authorized by the Minister of Finance under the terms and conditions prescribed by the Minister of Finance. Pursuant to Section 19 of the *Currency Act*, these advances are limited to US$150 billion by order of the Minister of Finance effective March 26, 2015.

The CRF advances the proceeds of the Government's borrowings in foreign currencies and allocations of SDRs by the IMF to the Account. Subsequent repayments of foreign currency debt are made using the assets of the Account and result in reductions of foreign currency advances from the CRF.

The Account requires Canadian-dollar advances to settle its purchases of foreign currencies. Canadian dollars received from sales of foreign currencies are remitted to the CRF. This, together with foreign currency payments made on behalf of the Government, causes reductions in the level of outstanding Canadian-dollar advances and can result in overall net deposits of Canadian-dollars by the Account with the CRF.

As at March 31, advances from the CRF were composed of the following currencies:

Currency composition of advances from the CRF
(in millions of Canadian dollars)

	2023	2022
US dollars	90,650	75,708
Euros	16,815	14,490
Japanese yen	8,907	5,854
British pounds sterling	9,852	8,020
SDRs	25,456	24,197
Total foreign currencies	151,680	128,269
Canadian dollars	(3,650)	(1,879)
Net revenue	836	709
Total	148,866	127,099