Highlights
2000

The Canadian economy continued to expand robustly in 2000 while inflation remained low.

Productivity growth began to pick up as a result of investments in machinery, equipment, and software.

To promote greater understanding of monetary policy, the Bank began publishing a formal Update to its semi-annual Monetary Policy Report.

To make monetary policy more effective, the Bank established a new system of eight fixed dates per year for making announcements about Bank Rate changes.

The Bank stopped issuing $1000 bank notes and began to withdraw them from circulation as part of the federal government’s fight against money laundering.

In January 2001, the Bank began to issue a new series of bank notes that will stand up to the counterfeiting challenges of evolving technologies.
26 January 2001

The Honourable Paul Martin, PC, MP
Minister of Finance
Ottawa

Dear Mr. Martin,

In accordance with the provisions of the Bank of Canada Act, I am submitting the Bank of Canada’s Annual Report for the year 2000 and the Bank’s audited financial statements as at 31 December 2000.

Yours sincerely,

Gordon G. Thiessen
Governor - Gouverneur
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Our Commitment to Canadians

• To contribute to the economic well-being of Canadians by
  – conducting monetary policy in a way that fosters confidence in the value of money
  – promoting the safety and soundness of Canada’s financial system
  – supplying bank notes that are readily accepted without concerns about counterfeiting

• To provide efficient and effective central banking and debt-management services

• To communicate our objectives openly and effectively and to be accountable for our actions
Economic Performance

The Canadian economy continued its robust growth in 2000, and the trend of inflation remained low. After a difficult period for much of the 1990s, Canada’s recent solid economic performance has led to rising personal incomes, growing employment, and an unemployment rate that in 2000 was at its lowest average level in 26 years.

The recent favourable performance of the Canadian economy is by no means accidental. Rather, it is a reflection of the marked improvement in our economic fundamentals that has resulted in low and stable inflation, declining levels of public debt relative to the size of our economy, and an environment that encourages Canadians to adapt to and invest in new technology. Not only have these fundamentals helped us to weather external shocks with limited negative effects, but they also provide a base for sustained economic expansion and rising standards of living for Canadians.

But there is no room for complacency. In an increasingly globalized, competitive, and interconnected world, managing a national economy has become a very complex and demanding task. We have seen evidence of this in the fallout from the world financial crisis of 1997–98, and we see it again now with the recent developments in world oil markets and the slowdown in the U.S. economy.

This is not to say that we should seek ways to insulate ourselves from what is going on outside our borders. Quite the contrary. For it is through active participation in the global economy that Canada has grown and developed over the years. So our task is to ensure that our policies, including

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This Annual Report was completed on 26 January 2001 and signed by Gordon G. Thiessen. Mr. Thiessen retired on 31 January 2001 after serving a seven-year term as Governor, having contributed more than 35 years of distinguished service to the Bank.

Mr. David Dodge was appointed in December 2000 to replace Mr. Thiessen, effective 1 February 2001.
monetary policy, enable us to meet the challenges of the global marketplace and allow us to take full advantage of the many opportunities ahead.

In this, my final Annual Report, I would like to comment on the factors that lie behind Canada’s improved economic performance and on the importance of sustaining and extending the progress we have made so far. I will also comment on some of the initiatives undertaken by the Bank of Canada in 2000 in fulfilling our responsibilities to Canadians.

**Globalization**
The Canadian economy is now reaping the benefits from the accelerating pace of globalization over the past decade. The trade agreements that Canada forged in the late 1980s and early 1990s have ensured our increased participation in this new, more open, more competitive international economy.

Early in the 1990s, Canadian businesses recognized the need to become more globally competitive. That process required a great deal of painful and disruptive restructuring. But, by the late 1990s, the benefits became apparent in the increasing orientation of our firms towards export markets (especially in the United States) and the resulting increase in a broad range of Canadian exports.

There is no doubt in my mind that Canada must continue to seek open international markets for goods, services, and finance. Given the size of our economy, it is only through foreign trade that we can get both the benefits of large-scale production and the stimulus to minimize costs that come from the greater competition in open world markets.

**Technological change**
We are in the midst of a period of major technological change. I am not just referring to developments in the so-called high-tech industries, but also the potential application of information and communications technology across a broad range of economic sectors.

The United States is clearly ahead of the rest of the world in this process. The experience of that country is a good example of the importance of technology in achieving rising productivity and incomes. Through the first half of the 1990s, Canada lagged behind the United States in making the investments in machinery, equipment, and software necessary to take advantage of the new technology. But since 1996, there has been a surge in such investments in Canada. And it looks as if we are now beginning to see
payoffs from those investments, in terms of a pickup in our productivity growth.

Although there are some signs of overexpansion in certain sectors of the U.S. economy (e.g., the high-tech sector), ongoing investment will still be necessary for firms to take full advantage of technological innovations. If the recent gains in productivity are to continue, Canadian companies will also need to exploit the opportunities that the application of technology provides.

**Labour force training and flexibility**

For Canada to benefit fully from globalization and technological change, our workforce must be flexible and open to change—able to respond to the demands of evolving markets and new technology. But, above all, Canadian workers will need to be well trained.

I mentioned earlier the improvements we have seen in terms of growth in incomes and employment. But even with an unemployment rate that is still relatively high—at just below 7 per cent—we are encountering shortages of certain types of skilled labour.

Thus, the partnerships being formed between industries and educational institutions to improve skills will be even more important in the future. And all businesses will have to devote more time and resources to training staff, if we are to avoid skills shortages that could constrain our economic expansion.

**Fiscal policy**

Sound macroeconomic policies have been the foundation of Canada’s recent improved economic performance.

In this context, I regard the elimination of fiscal deficits—both federal and provincial—and the resulting decline in the ratio of public debt to the size of our economy, as particularly crucial.

During most of the 20 years preceding the mid-1990s’ shift in budgetary policies, governments were absorbing a major part of Canadian savings. And the resulting accumulation of public debt led to high risk premiums in our interest rates which, in turn, discouraged the investment in equipment and technology that was necessary to increase productivity.

Prudent fiscal policies have been an important factor contributing to the low interest rates and the more stable financial markets that underlie our recent favourable economic performance. These policies must stay sound.
But if our economy is to function efficiently in the future, it is also necessary to find the levels of taxation that will encourage innovation and entrepreneurship and, at the same time, provide the levels of government services that meet the needs of Canadian society at a time of rapid change.

**Monetary policy**

While the four factors I have already discussed have been, and will remain, important in promoting rising incomes and employment in Canada, it is through a fifth key factor—monetary policy—that the Bank of Canada makes its contribution to economic performance.

A policy of low and stable inflation is fundamental in helping the Canadian economy perform well and achieve its potential. Over the past nine years, the Bank of Canada has kept inflation at an average rate of close to 2 per cent.

This period of low inflation has not been free of economic shocks. But Canada’s low-inflation environment, coupled with a flexible exchange rate, has enabled our economy to adjust to these disruptions better than in the past and to operate with the confidence that interest rates will remain relatively low. Moreover, Canadians have been able to make decisions to spend, save, and invest with a greater degree of certainty, knowing that the Bank will do whatever is necessary to preserve the future value of their money. And low inflation has encouraged businesses to operate more efficiently and pay greater attention to cost control.

**The Bank of Canada’s Approach to Monetary Policy**

Part of the reason for the Bank’s success in keeping inflation low and stable was the adoption of explicit inflation-control targets in 1991.

Over the past six years, the target has been to hold the trend of inflation inside a range of 1 to 3 per cent. The Bank has succeeded in meeting that target.

A necessary ingredient in a monetary policy approach that is focused on inflation-control targets is a flexible exchange rate. Over the past couple of years, the merits of different exchange rate regimes have been debated in Canada, and the Bank has been an active participant, pointing out the benefits of exchange rate flexibility.

One of the results of adopting an explicit inflation target has been an increase in the transparency of monetary policy and in the Bank’s accountability with respect to the conduct of monetary policy.

As I look back over my term as Governor, the initiatives that the Bank has taken to become more open and to communicate more effectively have,
to my mind, been among the most important improvements in the conduct of Canadian monetary policy.

What we have learned in the process is that greater openness makes for a more effective response to monetary policy by financial markets. Moreover, when making plans for the future, the general public is better able to take monetary policy into account when the central bank is as open as it is today.

Inflation targets have also enhanced the Bank’s accountability. Once a precise objective is set for monetary policy, it is easier to hold the Bank accountable for its success in meeting that objective. In addition, the more accountable the Bank is about the conduct of monetary policy, the more determined it will be to clarify the factors influencing the inflation rate and the ability of monetary policy to respond to those factors. My experience has been, with the inflation-targeting approach, discussions with Parliament, the press, and the general public have become more positive and helpful.

I cannot stress enough the importance of the current, more effective, process of accountability. Like many other central banks around the world, the Bank of Canada has a significant measure of autonomy. This autonomy helps to ensure that monetary policy is insulated from short-term pressures and can be focused on the medium-term objective of inflation control. However, an autonomous central bank does not rest comfortably within a democratic framework unless the objectives of monetary policy are clear and the central bank can be held accountable for achieving them. That is exactly the role played by the Bank’s inflation-control targets.

Recent Initiatives at the Bank of Canada
I would like to draw attention to three important new initiatives taken by the Bank in the past year that are explained in greater detail later in this Report.

The first is the initiative to announce changes in the Bank Rate on eight pre-established dates during the year, except in extraordinary circumstances. By removing the uncertainty about the timing of interest rate changes, the Bank hopes to focus greater attention on the economic and financial situation in Canada and to increase the frequency of its communications in order to help the markets and the public anticipate the direction of policy.

The second is the initiative to outsource the systems and operations support for Canada Savings Bonds and other retail debt instruments issued by the federal government. This is an area that is quite different from the Bank’s other responsibilities, and it demands skills and experience that are
not readily developed in a central bank. We are currently engaged in negotiations with potential suppliers to outsource this part of our operations. If successful, the Bank will retain its role as fiscal agent in this area but will be mainly managing the relationship with the outsourcing supplier. Any such arrangement will need to meet a number of criteria, including cost-effectiveness and high standards for client service.

The third important initiative I would like to mention is the production of a new series of bank notes that will stand up to the counterfeiting challenges we may face in the future from the widespread use of computer technology. A detailed announcement of the themes for the new notes and the launch of the new $10 note took place in January 2001. The new $5 note is scheduled to be issued later this year, and the higher denominations will follow over the next two to three years.

This Report provides a full account of all the Bank’s responsibilities. As always, it is the staff of the Bank who deserve recognition for their role in fulfilling those responsibilities. I would, therefore, like to thank them for their hard work and for the support they have given me, not only this past year, but throughout my term.
What the Bank Does
The Bank of Canada’s primary responsibilities, as set out in the Bank of Canada Act, are grouped into four broad areas.

Monetary Policy
The Bank’s most important responsibility is monetary policy. The goal of monetary policy is to preserve the value of money by keeping inflation low and stable. In doing so, monetary policy contributes to better economic performance and rising living standards for Canadians.

Currency
The Bank issues Canada’s bank notes. This involves note design (with particular emphasis on anti-counterfeiting features) as well as responsibility for ensuring the printing and distribution of new bank notes and the replacement of worn notes.

Central Banking Services
The Bank promotes a safe and sound financial system in Canada and provides funds-management services to the federal government. To promote a sound financial system, the Bank oversees and provides services to the major clearing and settlement systems through which financial assets are transferred and payment obligations are processed. As the federal government’s banker, the Bank provides advice on managing the public debt, handles new borrowings, maintains bondholder records, and makes payments for interest and debt redemption. It also manages the government’s foreign exchange reserves. As well, the Bank holds unclaimed balances and helps people reclaim their money.

Retail Debt Services
Millions of Canadians hold Canada Savings Bonds and other debt instruments issued by the federal government. While management of this program is under the direction of Canada Investment and Savings, an agency of the Department of Finance, the Bank is responsible for maintaining debt registers and for servicing the accounts of debtholders. In 2000, the Bank issued a Request for Proposal to outsource the operations and systems support for the program.

International Activities
In an increasingly interconnected world, the Bank of Canada’s work has many international aspects. Bank staff:

- participate in international working groups concerned with developments in the world economy and financial systems
- work closely with other central banks
- advise Canadian government agencies on international economic and financial issues
- contribute expertise to technical assistance programs for developing countries, particularly in the use of an inflation-targeting framework for monetary policy
How the Bank Works

The Bank’s responsibilities are carried out by approximately 1,800 people working on a regular, temporary, or contractual basis in 11 departments at headquarters in Ottawa and in 5 regional offices across Canada.

Our People

Bank of Canada employees know that they are part of an important public institution and contribute to its success with their expertise in a wide range of areas, from economics to bank note production. The Bank strives to create a work environment that attracts and retains the best employees to meet our responsibilities as Canada’s central bank.

A strategy for information and communications technology was completed this year to ensure that our employees continue to have up-to-date equipment to support their work and facilitate global sharing of information.

An essential element of the work environment at the Bank is our commitment to diversity in all its dimensions. Progress has continued towards enhancing the bilingual environment and increasing the representation of groups designated under the federal government’s employment equity program. Sixty per cent of staff and about 75 per cent of managers are now functionally bilingual. The Bank’s aim is to have all managers reach a fully functional level of bilingualism.

Promoting diversity also includes encouraging new ideas and creative approaches to work challenges, and this is fostered through open and honest communications. This year, special attention was given to leadership development, succession planning, and compensation issues that will support the Bank’s short- and longer-term staff requirements.

A review of the Bank’s business lines confirmed our strategic focus on the three core activities: monetary policy, currency, and central banking services. With the review of the retail debt function, including the initiative to outsource back-office operations, the corporate services departments are examining their future direction.

Changes in the mix of staff continued the trend of the last several years. The number of administrative personnel declined, while the number of professionals increased, and a significant number of contract and temporary staff continued to support various business lines. The trend of an increasing proportion of professional staff is expected to continue and, indeed, accelerate as the Bank becomes a more focused organization.
Communications and Accountability

Over the past several years, the Bank of Canada has tried to increase public awareness and understanding of the role it plays in setting monetary policy, as well as of the work it does in designing and distributing Canadian bank notes and in promoting a safe and sound financial system.

To this end, the Bank has increased the number of key monetary policy publications it issues. The Monetary Policy Report Update now supplements the full Monetary Policy Report, providing quarterly analysis of the Bank’s views on inflation and economic growth.

In 2000, the Bank established a system of eight pre-determined dates to announce changes to the Bank Rate. The press releases accompanying each announcement add another element to the stream of monetary policy communications.

As part of the continuing effort to promote awareness of the Bank’s work, senior officials have stepped up their visits to all regions of the country. In 2000, this involved seven major speeches by the Governor and close to 30 public speeches and more informal meetings by the Senior Deputy Governor and five Deputy Governors. These contacts supplement the work done by staff in five regional offices who keep in touch with local groups and associations to share information on the economy and on monetary policy.

The Bank oversees Canada’s major clearing and settlement systems. To make the public more aware of the important role it plays in this area, the Bank’s Web site will soon provide comprehensive information on these activities.

The Bank is also responsible for designing and producing Canada’s bank notes, and it realizes that an informed public is the best defence against counterfeiting. Over the past several years, the Bank has refined and expanded its currency-education program to increase awareness of the key security features on genuine bank notes. This work intensified in preparation for the introduction of a new bank note series.

The Bank is using the latest information technology to become more accessible to the Canadian public. Its Web site (www.bankofcanada.ca) offers a vast amount of material, including speeches, press releases, explanatory notes on monetary policy and bank notes, as well as detailed statistical information. In 2000, the Web site was ranked second among 24 central-bank sites reviewed by Lombard Street Research in London because of its “accessible and educational approach.” Since that rating, the site has undergone a major upgrade and expansion.
Corporate Governance

Board of Directors
The Bank of Canada Act sets out responsibilities for the Board of Directors and for the Governor. The Board is responsible for general oversight and has specific duties related to finance, human resources, and overall administration, while the Governor is responsible for monetary policy and the other businesses of the Bank. Over time, an extremely close collaboration between management and the Board has developed, and this has contributed to the smooth administration of the Bank.

The Board of Directors is composed of 12 Directors from outside the Bank plus the Governor, who is the chairman, and the Senior Deputy Governor. The Deputy Minister of Finance sits on the Board as a non-voting member. The outside Directors come from across Canada and provide an important link to the various regions of the country. Directors are appointed for three-year terms and may be reappointed.

Board Stewardship in 2000
An important aspect of the Board’s stewardship was its contribution to the development of the strategic initiatives the Bank will pursue. During 1999, the Board oversaw a process, led by management, that identified the key challenges, including those arising from the changing technological and international environment, that would influence the Bank’s core businesses in the future. In response to these challenges, management presented to the Board a number of strategic initiatives in 2000 including the enhanced communication of monetary policy and an increased focus on core responsibilities.

As part of its general oversight of the Bank, the Board has focused, over the last several years, on ensuring that the Bank has a working environment that continues to attract and retain high-quality staff. Important improvements to the total compensation regime, including the move to a performance-based pay system, were introduced, as were improvements to other aspects of the working environment, such as clearer delegation of authority and a greater commitment to employment equity and bilingualism. Another priority of the Board over the last two years has been the selection of the Bank’s management team.

In 1999, the Board approved several rounds of promotions and rotations to increase the depth of the executive management team, including changes to the Governing Council. In 2000, the Board approved a number of promotions and rotations at the entry level of senior management and took steps to prepare the next level of managers to move into senior positions in preparation for retirements at senior levels. New positions were created in Montreal and Toronto and brought into the executive management team.

During the year, the Directors also completed the most important step in succession planning by choosing a new Governor. In May, Governor Gordon Thiessen announced his intention to retire at the end of his term on 31 January 2001. The Directors conducted a comprehensive review of candidates and appointed David Dodge for a seven-year term. The appointment was approved by the Government of Canada through Order-in-Council on 20 December 2000.
Although the Board is not responsible for the conduct of monetary policy, as part of its oversight responsibility it has an interest in the effectiveness of the monetary policy formulation process—the standards employed in the gathering of information, the quality of both the staff and of the analysis they use. To gain one perspective, the Directors met in private session with the Visiting Special Adviser, Daniel Racette, an outside academic who worked with Bank management for a one-year period. For an additional comparison, Directors met privately with representatives from the International Monetary Fund. In both cases, Directors were impressed with the assessment of the Bank’s monetary policy staff and processes.

As the Bank’s strategic initiatives were implemented during the year, the Board kept them under review. One of these initiatives involved the outsourcing of the operations and systems support for the retail debt program. The Board appointed a group of Directors to monitor and advise on all aspects of the progress of this important reorganization. The Board also formed an ad hoc committee to examine the status of the staff pension fund.

Board Governance Practices

Over the years, the Board has adopted best governance practices from the public and private sectors. To continually incorporate practices appropriate to the Bank, the Board created a Corporate Governance Committee in 1996. The committee is composed of four outside Directors, one of whom is chosen by the Board to be Chair and Lead Director. The committee assesses all aspects of governance and makes recommendations for changes to the Board. Along with the chairs of the other Board committees, the Corporate Governance Committee reviewed and revised the terms of reference of each committee during 2000. As a general practice, the Lead Director and the Chair of the Human Resources and Compensation Committee meet at the end of the year with the Governor and Senior Deputy Governor to review their performances and to discuss objectives for the coming year. The Corporate Governance Committee also coordinates the views of Directors with regard to the annual evaluation of the Deputy Governors.

As a further step in ensuring that the Board operates independently of management, the Lead Director chairs a private session of outside Directors after each Board meeting. At the end of the year, Directors conducted an evaluation of the Board’s performance and concluded that it was fully exercising its stewardship of the Bank’s affairs.

Directors are paid according to a fee structure recommended by the government and approved by Order-in-Council. For 2000, the total remuneration to all Directors was $216,000.
Governing Council
The Governor, the Senior Deputy Governor, and five Deputy Governors sit on the Governing Council, which takes collective responsibility for the Bank’s affairs. This includes formulating and implementing monetary policy as well as dealing with broad organizational and strategic issues.
In 1999, the Governing Council, together with the Board of Directors, developed a strategic plan in response to such factors as globalization, technological change, changing workforce requirements, and a desire for greater transparency in monetary policy.

In 2000, the Governing Council began the process of implementing the plan through a number of initiatives discussed throughout this Report. Two of the most important initiatives were the adoption of a procedure for announcing monetary policy decisions according to a pre-announced schedule and the decision to move major portions of the administration of the retail debt operations to an outside service-provider. Other initiatives included an increased concentration on aspects of financial stability and an increased involvement in international developments. The implementation of the strategic plan will further the thrust towards a central bank that is focused on its most essential responsibilities.

In addition to their collective responsibility for the affairs of the Bank, members of Governing Council are responsible for specific departments and head up different Bank-wide initiatives.

The Management Forum
Consisting of the Governing Council, Advisers, and Department Chiefs, the Management Forum meets regularly to exchange information on general management issues and to review policy proposals. This group plays a key role in medium-term planning by helping to identify strategic issues and priorities. The members also have important individual management responsibilities. The Advisers assume responsibility, under the direction of a member of Governing Council, for particular areas of research or administration. A Visiting Special Adviser, usually from a Canadian university, joins the Bank on a one-year contract to advise management and to work with staff on special studies that further the Bank’s research agenda.

The Bank’s operations are organized into 11 departments and the Department Chiefs are responsible for the operations in their own areas and for ensuring that the policies and values of the Bank are implemented. Agreements established between Department Chiefs and a member of Governing Council set out the results expected and establish financial constraints for each department.

The management of the Bank also operates through review committees that bring a wide range of views to the table. The Monetary Policy Review Committee advises Governing Council in their formulation of monetary policy and plays an important role in the assessment of economic conditions during the process leading up to the decision taken on each fixed announcement date. The Financial Stability Review Committee, created in the second half of 2000, advises Governing Council on domestic and international issues affecting the stability of the Canadian financial system.
An Account of Our Stewardship
Monetary Policy

The goal of the Bank’s monetary policy is to contribute to solid economic performance and rising living standards for Canadians by keeping inflation low and stable. To do this, the Bank strives to keep the trend of inflation, as measured by the consumer price index (CPI), within a target range of 1 to 3 per cent. This range is established jointly with the government under an agreement that continues to the end of 2001. An announcement on the target for monetary policy will be made by that time.

The Bank of Canada implements monetary policy by changing the Bank Rate, the minimum interest rate it charges on loans to financial institutions. The Bank Rate influences other short-term interest rates and other rates of return, as well as the exchange rate of the Canadian dollar. The influence on inflation from a change in the Bank Rate comes only indirectly and is usually felt over a period of 18 to 24 months. To keep its focus on underlying inflation, the Bank closely follows a measure of core consumer prices.

CPI: Why core and total?

The inflation-control targets are expressed in terms of the year-over-year rate of increase in the total CPI. This is the best available measure of the changes in the cost of living for most Canadian households. Although the targets are specified in terms of the total CPI, the Bank uses the core CPI (CPI excluding food, energy, and the effects of changes in indirect taxes) as the basis for policy actions. Core CPI inflation is, therefore, the operational target for monetary policy.

Many of the short-run movements in the total CPI are caused by fluctuations in food and energy prices that cannot be offset by monetary policy since the effects of policy are spread over longer periods. By removing these transitory influences, core CPI inflation provides a better measure of the underlying trend in inflation and is, therefore, a more appropriate guide for policy.

Provided fluctuations in food and energy prices have only temporary effects on inflation, the total and core measures of the CPI would move in a similar fashion over the medium term.

The stronger growth performance of the Canadian economy in part reflects the authorities’ commitment to sound monetary and fiscal policies, which have brought about a marked improvement in economic fundamentals. This has been manifest in continued low inflation. . . .

Meeting the Inflation Target

The Bank’s core measure of inflation remained around 1.5 per cent for most of 2000 before rising to 1.9 per cent in December. The overall consumer price index tended to rise by between 2.5 and 3.2 per cent on a twelve-month basis for most of 2000, pushed up by higher prices for gasoline, natural gas, and fuel oil.

Despite the rise in these energy prices, average private sector forecasts for the CPI have remained near the centre of the Bank’s inflation-control target range, at around 2.4 per cent for 2001 and 2.0 per cent for 2002.

Longer-term expectations of inflation, as represented by surveys of forecasters, also remained near the midpoint of the Bank’s target range. Another measure of longer-term expectations, the yield spread between conventional and inflation-indexed bonds, ended the year near the midpoint.

After growing by 4.5 per cent in 1999, the Canadian economy posted another impressive performance in 2000. It grew by close to 5 per cent, while the unemployment rate averaged 6.8 per cent, the lowest annual average since 1974. The economy benefited from strong U.S. demand, which supported rapid growth in Canadian exports in the first half of the year. Rising employment and a high level of consumer confidence boosted household spending. This strong momentum pushed the Canadian economy near capacity levels. Thus, the Bank Rate was raised by one percentage point in the first half of the year to contain future inflation pressures. Towards the end of the year, global economic expansion slowed, reflecting primarily a sharp slowdown in the U.S. economy. The Bank held the Bank Rate constant at 6.0 per cent on 5 December 2000, its first fixed announcement date, and lowered it to 5 3/4 per cent on its 23 January announcement date.

Promoting an Understanding of Monetary Policy

A number of new initiatives were taken in the past year to improve the public’s understanding of the reasoning behind the Bank’s actions.

In August 2000, the Bank began publishing a formal Update to its semi-annual Monetary Policy Report. Available as a stand-alone document and on the Bank’s Web site, the Update is published each February and August to ensure a continuous quarterly flow of information.

The Bank announced that, beginning on 5 December 2000, Bank Rate changes would be set on eight pre-established dates per year, except in extraordinary circumstances. A press release giving the reasons behind the decision about the Bank Rate will be published at 9 a.m. on each fixed date,
Governning Council and the Directors with their communications activities across Canada. This year, the Bank’s Board of Directors held one of their meetings in Calgary. An extensive program of outreach activities was organized around the Board meeting, and this allowed for two-way communication between Bank officials, industry, and local governments on economic and monetary policy issues. These activities were just one example of the outreach program across the country.

Carrying Out Research and Analysis

Research and analysis provide the foundation for formulating and implementing monetary policy. In carrying out their research, Bank economists find it very useful to meet with other researchers at conferences and seminars, as well as over the Internet. The Bank is also increasing its efforts to form partnerships with academics, research institutes, and foreign central banks.

The nature of the inflation targets themselves is an important element in the formulation of monetary policy. Since the Bank’s current agreement with the government expires at the end of 2001, one research priority in 2000 was an in-depth examination of the issues involved in choosing a target rate of inflation for monetary policy. To aid in this process, a seminar on price stability was held in June, focusing on issues related to the rate of inflation to be targeted as well as to the specific design of the targets. The seminar papers, which are posted on the Bank’s Web site, will be published shortly.

The Bank also hosted a conference to revisit the case for flexible exchange rates. Motivated largely by the introduction of

Reasons for Fixed Announcement Dates

The Bank expects that fixed announcement dates will help to make monetary policy more effective. Fixed dates will remove the uncertainty in financial markets about the timing of Bank Rate changes. They should also focus greater attention on the economic and monetary situation in Canada; underscore the medium-term perspective that underlies monetary policy; and increase the Bank’s transparency, accountability, and ongoing dialogue with the public. This should contribute to better public understanding of the factors influencing monetary policy and increase the public’s ability to anticipate the direction of policy.

which will typically be a Tuesday. Four times a year, the Monetary Policy Report or the Update will be released about two weeks after the Bank Rate announcement.

In February 2000, the Bank of Canada announced new senior positions in the Financial Markets Department in Toronto and Montreal. These positions will contribute to the Bank’s objectives of enhancing the openness and transparency of monetary policy and promoting well-functioning financial markets.

Staff in the Bank’s five regional offices maintain contact with provincial governments, industries, educational institutions, and the general public. Their quarterly surveys of firms and associations provide important input for the Bank’s analysis of the Canadian economy. Regional staff assist the
the euro in 1999 and by the recent collapse of fixed exchange rate systems in many emerging-market economies, the conference was also an opportunity to recognize the adoption of a floating rate by Canada 50 years earlier. Papers presented at the conference examined and compared the effects of various exchange rate regimes on macroeconomic performance and financial market stability in both developed and emerging-market economies. These papers are also posted on the Bank’s Web site and will be published later this year.

The Bank’s annual conference for 2001 will examine financial market structures with a focus on liquidity and the dynamics of price movements.

The Bank has been working closely with Statistics Canada to construct a new quarterly labour-compensation index that will give us a better picture of compensation trends.

The Bank has been represented on the advisory committees for a number of conferences that dealt with productivity growth and the standard of living. The Bank also hosted a workshop on advances in macroeconomic model-building. Attended by representatives of 12 central banks, this workshop allowed modellers to present their recent work and to obtain feedback. The Bank also participated in a staff exchange with the Bank of England in the financial markets area. Views on the inflation-targeting framework were exchanged with other inflation-targeting central banks through various means, including a meeting in London organized by the Bank for International Settlements.

Assessing International Developments

Both the Canadian economy and its financial markets are very open to international influences. Understanding and interpreting foreign developments is therefore extremely important. To that end, Bank officials participate in many international groups, where significant developments in the world economy are discussed. These include working parties and committees of the Organisation for Economic Co-operation and Development, the meetings of G-10 central bank governors, regular meetings held at the Bank for International Settlements, and meetings of the G-7, G-10, G-20, and the International Monetary and Financial Committee.

Until a couple of years ago, the inflation-targeting framework for monetary
policy with flexible exchange rates had been used primarily in industrial countries. There has since been enormous interest in that framework from various emerging-market economies, especially those who have had to abandon fixed exchange rates. By the end of 2000, a number of emerging-market economies (such as Brazil, Chile, Poland, and South Africa) had adopted inflation targets. Other countries, such as Peru and Thailand, are actively considering such targets as the basic framework for monetary policy. The discussion of inflation targeting in these and other countries has raised the demand for technical assistance from the Bank of Canada, especially on issues regarding the policy framework and econometric modelling.

Operating Expenses

Operating expenses for the monetary policy function in 2000 were relatively unchanged from 1999 levels. The Bank spent $38.8 million in 2000 (approximately 20 per cent of its total operating expenses) on formulating and implementing monetary policy. There were increases in the resources devoted to assessing international economic and financial developments and their implications for Canadian monetary policy as well as implementing a more systematic and integrated approach to communicating monetary policy. However, these increases were offset by reductions in other areas, including computer systems costs, mainly due to the completion in 1999 of year-2000 testing and modification.

Monetary Policy Activities as a Proportion of Total Bank Expenses

- Communications $12.5 million (20%)
- Research $11.9 million
- Current analysis and projection $14.4 million

During the past two years, there has been an active debate in Canada about the possible advantages of an alternative exchange rate system. Attention has focused, in particular, on the prospective benefits of a monetary union or common currency regime between Canada and the United States. The Bank of Canada has been actively engaged in this debate, examining the advantages and disadvantages of different regimes.

While a fixed exchange rate or common currency might provide some benefits in terms of lower transactions costs and reduced exchange rate uncertainty, the evidence indicates that the macroeconomic benefits of a flexible exchange rate still dominate.

As long as Canada wants to pursue separate economic policies that are suited to its own circumstances and that require differing monetary conditions, the shock-absorber element of a floating currency serves the country well.
Currency
Every day, Canadians make millions of transactions using bank notes. They rely upon the Bank of Canada to provide a sufficient supply of quality bank notes that are secure against counterfeiting.

Launching the New Note Series
In January 2001, the Bank launched a new series of bank notes, entitled Canadian Journey, to further enhance the security of Canada’s currency.

The first note in the new series—a $10 note—went into circulation in January 2001. The $5 note will be issued later in 2001, and the remaining denominations ($20, $50, and $100) will be introduced over the next two to three years.

The last Canadian note series was introduced 16 years ago. Since then, major technological developments in bank note production have made it possible to incorporate improved security features into paper currency. These new features come at a time when affordable high-resolution colour copiers, inkjet printers, and computer scanners have increased the potential for counterfeiting.

The new series of bank notes contains security features developed in co-operation with bank note printing companies, law-enforcement agencies, and leading note-issuing authorities around the world.

The new notes also include a durable tactile feature that greatly improves the ability of blind and vision-impaired persons to recognize different denominations.

The Bank consulted Canadians across the country to ensure that the designs chosen for the new notes—the first to be designed entirely in Canada—reflect Canada’s culture, history, and achievements.

Themes for the New Note Series

<table>
<thead>
<tr>
<th>Denomination</th>
<th>Theme</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5</td>
<td>Children at Play</td>
</tr>
<tr>
<td>$10</td>
<td>Remembrance and Peacekeeping</td>
</tr>
<tr>
<td>$20</td>
<td>Arts and Culture</td>
</tr>
<tr>
<td>$50</td>
<td>Nation Building</td>
</tr>
<tr>
<td>$100</td>
<td>Exploring and Innovating</td>
</tr>
</tbody>
</table>

The Bank also worked closely with financial institutions and equipment manufacturers to ensure that the new notes will not require major changes to note-handling facilities and equipment.

New bank note technology and security features are a powerful defence against counterfeiting. Accordingly, during 2000, the Bank continued to pursue its program of research and development on bank note technology and security, even as it prepared to launch new notes. It is expected that this research will result in new or additional security features that could be incorporated during the life of the new note series. The research is also aimed at improving the overall durability of notes, thereby increasing the cost-effectiveness of bank note production.
The Incidence of Counterfeiting
Counterfeiting remains at relatively low levels in Canada—only a very small fraction of the total value of bank notes in circulation.

After rising sharply in 1998 to just under $5.2 million, owing largely to a substantial increase in the number of counterfeit $100 notes, the value of counterfeit notes found in circulation fell to some $4.2 million in 1999 and to about $3.7 million in 2000 out of a total of notes in circulation of almost $37 billion at year-end. This reduction reflects declines in the counterfeiting of $20 and $100 notes and is attributable, to some extent, to the growing effectiveness of the Bank’s currency-education program.

In the current series, counterfeit notes are readily distinguished from genuine notes by an absence of the gold-to-green colour shift in the Optical Security Device—the shiny rectangle in the upper left-hand corner of genuine $20, $50, $100, and $1,000 notes. Counterfeit notes also lack other security features found on genuine bank notes, such as the raised ink used in the portraits and the green dots or planchettes that can be peeled off.

For more information about the security features on genuine bank notes, telephone 1-888-513-8212 or visit our Web site at www.bankofcanada.ca/banknotes.

The Bank works closely with the Royal Canadian Mounted Police (who are responsible for the enforcement of Canada’s anti-counterfeiting laws) to monitor and analyze counterfeiting in Canada. This monitoring and analysis provides valuable support to counterfeiting investigators and to the Bank’s own currency-education program.

Currency Education
The most effective defence against counterfeiting is an informed public that can readily recognize the security features found on genuine bank notes.

In 2000, the Bank broadened the scope and increased the effectiveness of its currency-education program. Bank staff made some 260 presentations to cash handlers in the retail and financial services sectors, to business and civic groups, to educational institutions, and to law-enforcement agencies to increase their awareness of the key security features of genuine bank notes. Many of the presentations were made to new audiences, some in areas of the country that had not previously been visited by Bank staff. In addition, Bank staff actively
sought out audiences— for example, the managers of retail outlets—who could pass their newly acquired knowledge on to others.

The presentations were complemented by media interviews, by the information services provided directly through the 1-888 telephone line and the Bank’s Web site, by the distribution of posters, leaflets, training videos, and an information kit designed specifically for the retail sector and law-enforcement agencies, and by programs provided through the Bank’s Currency Museum.

The year 2000 marked the twentieth anniversary of the opening of the Currency Museum.

The museum has its origins in initiatives that were taken by the Bank in the late 1950s and early 1960s to develop a definitive collection of Canadian coins, tokens, paper money, and historical financial documents—something that did not exist at the time—and to make the collection accessible to the general public.

The collection, which was designated as the National Currency Collection in 1975, has grown through loans, gifts, and purchases over the years. It now comprises some 100,000 individual items, including representative collections of ancient and medieval coins as well as modern coins and paper money from many countries.

Items from the National Currency Collection have appeared on the cover of the Bank of Canada Review since 1972 and on the cover of the Monetary Policy Report since that publication was first issued in 1995.

Since it opened in December 1980, the Currency Museum has welcomed some 680,000 visitors and has served as a model for central bank museums in other countries.

The mission and operations of the Currency Museum have evolved over the years, in line with trends within the museum community at large. Over the next several years, the museum will make the treasures of the National Currency Collection more readily available to Canadians in all regions of the country through Web-based programs and exhibits on Canada’s numismatic heritage and on the roles and responsibilities of the Bank.
**International Involvement**  
Counterfeiting is an international threat. A coordinated international response is becoming increasingly important to the Bank’s ability to supply bank notes that are readily accepted without concerns about counterfeiting. Accordingly, the Bank is actively involved in a number of international initiatives with other central banks, note-issuing authorities, and equipment manufacturers and suppliers. These activities range from providing a forum for the exchange of views on all aspects of the design, production, and distribution of bank notes to the cooperative development, assessment, and implementation of bank note technology and security features.

**Withdrawing the $1,000 Note**  
Effective 12 May 2000, the Bank stopped issuing $1,000 bank notes and began to withdraw them from circulation as part of the federal government’s fight against money laundering and organized crime.

The $1,000 notes are being withdrawn over time with the help of financial institutions, which have been asked to return the notes to the Bank as they are deposited or exchanged by the public. All $1,000 notes returned to the Bank are destroyed, and the Bank has taken steps to ensure that an adequate supply of bank notes of lower denominations is available to replace the discontinued notes. The $1,000 note remains legal tender.

At the end of April 2000, there were about 3.5 million $1,000 notes in circulation, representing less than 0.4 per cent of the total number of all notes in circulation but some 10.9 per cent of the value. Between May and December 2000, 711,222 $1,000 notes were returned to the Bank and destroyed.

**Operating Expenses**  
Expenses for currency operations were $48.5 million during 2000, about 25 per cent of the Bank’s total operating expenses during the year. These expenses represent a decline of $24.2 million, or some 33 per cent, from 1999.

Most of the reduction in operating expenses in 2000 relates to:
- lower production costs for bank notes because of the advanced printing of the note order in 1999 to meet a possible increase in demand arising from year-2000 concerns
- the rescheduling of bank note production to accommodate the introduction of the new note series in 2001

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**Currency Activities as a Proportion of Total Bank Expenses**

- Production $10.0 million
- Distribution $34.2 million
- Research and development $4.3 million

25%
Central Banking Services
This function comprises two major activities: the promotion of financial stability and the provision of efficient funds-management services to the federal government.

Promoting Financial Stability
Well-functioning market economies like Canada’s require widespread confidence in their money and in their financial systems and institutions. It is essential to have a financial system in which money and financial claims issued by financial institutions and others can be reliably and efficiently created, held, and transferred. Along with other public sector bodies, the Bank of Canada has a responsibility to contribute to the stability of the Canadian and international financial system. Central banks around the world are closely examining their roles in this area, and the Bank of Canada is no exception.

Clearing and Settlement Systems
Clearing and settlement systems that process large-value or time-sensitive transactions are fundamental to the operation and stability of Canada’s economy, although they function virtually unnoticed. The Bank of Canada plays a central role through its oversight of these systems under the Payment Clearing and Settlement Act (PCSA) to promote their safety and effectiveness. The provision of accounts at the Bank of Canada to settle obligations among their participants and other services also facilitate the safe and reliable operation of these systems.

The Bank was part of a task force of 23 central banks, the International Monetary Fund, and the World Bank that identified the types of risks in major payment systems and developed a set of core principles that these systems must satisfy to be considered safe and efficient. These core principles were published by the Bank for International Settlements in final form in January 2001, and the Bank of Canada is incorporating them into its oversight guidelines. Canada’s LVTS is already in full compliance with the core principles.

The Bank of Canada and Financial Stability
The Bank’s contribution to financial stability reflects its system-wide perspective and draws on its expertise as a monetary authority, its ability to create liquidity in the form of risk-free claims on the Bank, and its knowledge of clearing and settlement systems and financial markets. The Bank contributes to financial stability through its oversight of, and the provision of services to, major clearing and settlement systems, its role as a provider of liquidity to the financial system in both ordinary and extraordinary situations, its policy advice on financial system design and development, its monitoring of the financial system, its research into the functioning of the financial system, and finally, its collaboration with other agencies concerned about financial stability in domestic and international forums.
As part of its oversight responsibilities, the Bank is participating in the work to enhance the DCS so that, within the next two years, virtually all transactions in corporate debt and equities will be settled in this well-risk-proofed system. This system will also facilitate faster settlement of securities trades.

The objective of market participants is to settle all securities trades the day after the trade is entered into, rather than up to three days after the trade, as is the current practice for transactions involving corporate bonds, equities, and some government bonds. While it is not expected that this initiative will be implemented before 2004, preparations have already begun, since some significant changes to the clearing and settlement processes used by securities market participants will be required.

The Bank remains closely involved with the CLS Bank, an international banking industry initiative being built to reduce and control the risks associated with the settlement of foreign exchange transactions. The Bank of Canada will provide services to support this initiative and is currently testing the efficiency and reliability of these arrangements with the CLS Bank. The Bank expects to participate in tests involving other central banks, CLS Bank, and selected financial institutions in the third quarter of 2001, with a view to the system becoming operational later in the year.

In its role as the oversight agency for major clearing and settlement systems under the PCSA, the Bank has been assessed as being fully compliant with the IMF’s Code of Good Practices on Transparency in Monetary and Financial Policies. (The assessment was carried out by the IMF in 1999, and the results are posted on the IMF’s Web site—www.imf.org.) Nevertheless, the Bank is working to make more information on its oversight activities readily available. It intends to enhance its Web site to provide the relevant legislation, oversight guidelines, descriptions of the major clearing and settlement systems subject to oversight, and their risk-containment arrangements, as well as links to other Web sites carrying related information. These changes to the Bank’s Web site should be completed by the third quarter of 2001.
Other Financial Stability Activities
During 2000, other activities related to financial stability included:

- the continued provision of analysis and advice to the Department of Finance on many issues affecting the safety and efficiency of the financial system. This work focuses most notably on issues related to the payments system, including the Bank’s oversight activities, and on issues that might affect the Bank’s role as a last-resort provider of liquidity to the financial system. Legislation designed to bring about significant changes in the financial sector was introduced in June 2000 by the federal government, but was not passed before Parliament ended its activities prior to the November federal election. The government has stated that it intends to reintroduce this legislation early in 2001.

- an increase in staff resources devoted to work on financial stability in the international arena, particularly in areas of exchange rate regimes and crisis prevention and resolution (see the box below). The Bank of Canada and the Bank of England worked closely together on a possible framework for international crisis management, focusing on the roles of official and private sector entities and on the merits of temporary debt standstills.

The Bank of Canada participates in a number of international forums where information is shared and current issues are debated. Some examples are:

- **The Financial Stability Forum (FSF) and the Group of Twenty (G-20)**
  As part of its mandate to promote information exchange and to coordinate activities between national and international groups addressing financial stability, the FSF focused on issues related to highly leveraged financial institutions, offshore financial centres, capital flows, the implementation of international standards applicable to the financial sector, and deposit insurance. The G-20 has discussed issues such as exchange rate regimes, prudent debt management, the use of standards and codes, and private sector involvement in the prevention and resolution of sovereign financial crises.

- **The International Monetary and Financial Committee (IMFC)**
  The IMFC advises the IMF in its role in contributing to international financial stability. Among its recommendations, the IMFC supported the inclusion of collective-action clauses in loan contracts with national governments as a means of facilitating joint action in the event of a financial crisis. The Government of Canada agreed to include such clauses in its own future foreign bond contracts.

- **The Bank for International Settlements (BIS)**
  The Bank participates in working groups under the auspices of the BIS that address topics such as the identification and control of risks in systemically important payment systems, the understanding of, and policy issues associated with, retail payment systems, and safety and efficiency issues in securities-settlements systems. The work of these groups is usually available on the BIS Web site (www.bis.org).
• participation in meetings with other central banks that are also examining their role in contributing to financial stability and how their research activities can support this role. The Bank began to add significantly to the resources devoted to its financial stability activities and to reorganize its internal arrangements in this area. It has also focused more on fundamental research related to financial stability.

**Funds-Management Services**

**Advising on the Government’s Borrowing Program**

One of the Bank’s main tasks as fiscal agent for the federal government is to advise on the management of the federal public debt. Over the past two years, initiatives in this area have focused on modifications needed to the government’s borrowing and debt-management program as a result of its budget surpluses and declining debt levels. In particular, efforts have been directed at enhancing the liquidity of the government’s outstanding debt. A pilot bond-buyback program, introduced in 1998 for this purpose, was reviewed and made permanent in 2000. At the same time, the range of bonds eligible for buyback was increased. Over $2.8 billion in bonds was repurchased in 2000. A second buyback program, aimed at smoothing the maturity profile of the government’s near-term debt, was announced in November on a trial basis.

In a further effort to enhance market liquidity, the Bank and the government endorsed changes to the rules governing stripped Government of Canada bonds. Currently, market participants are able to strip less-liquid bonds and reassemble the stripped components to create more-liquid instruments. The changes will essentially remove the restriction on the amounts of the more-liquid bonds that can be created. This may mean that the amount of certain bonds outstanding could, at times, be greater than the size of the original issue.

Several improvements to the auction process used by the Bank to sell government treasury bills and bonds were implemented during the year, including a reduced turnaround time and greater clarity in the bidding process.

**Investing Government Funds**

Canada’s foreign exchange reserves, which are managed by the Bank for the government, increased by about US$3.6 billion in 2000. The increase resulted mainly from market operations of the Bank acting as fiscal agent for the government. The Bank also undertook to purchase foreign exchange to balance foreign-currency-denominated assets and liabilities. New investment guidelines and a more comprehensive framework for managing credit risk were introduced during the year as part of the ongoing efforts by the Bank and government to diversify the portfolio and to minimize the overall cost of carrying these foreign reserves.

The only official foreign exchange intervention conducted by the Bank during the year took place in concert with other major central banks on 22 September in support of the euro.

Changes to the rules governing the auction process for Receiver General deposits were proposed in a discussion paper issued in July. These new rules
broaden participation and introduce collateral requirements. Work is underway to assess the operational aspects of the proposed collateral requirements and the responses of market participants. The new policy and the operational framework are expected to be implemented in 2001.

Banking Agent for the Government
All Government of Canada receipts and payments received by Canadian financial institutions are forwarded to the Bank of Canada for settlement. On a daily basis, the value of these transactions processed for the government will often exceed $2 billion. While large in value, the number of items processed is very low because financial institutions consolidate the individual payment items presented to them in their branches and forward these to the Bank for bulk settlement.

These settlement payments have been channelled through the Canadian Payments Association’s (CPA) Large Value Transfer System since its introduction in early 1999. This risk-proofed, electronic payments system is now also used by the federal government to make most of its large payments directly via the Bank of Canada.

The Bank, working with the federal government and the CPA, is involved in several initiatives to further improve the efficiency and security of processing government payments and deposits. For example, a more secure and automated system for the exchange of large-value payment instructions between the Bank and Public Works and Government Services Canada was introduced in 2000.

Other Banking Services
Security Registry Services
The Bank uses the services of the Canadian Securities Registration System (CSRS) to meet its obligations under Section 427 of the Bank Act for the registration of security for certain types of loans sought from chartered banks. Primary users of the CSRS are legal firms and lending institutions that search the registry for Notices of Intention, loan renewals, or documents indicating the release of loan security.

During the year, the Bank surveyed user satisfaction with the services provided by the CSRS. Over 90 per cent of CSRS clients surveyed rated the overall quality as excellent or very good, and felt it delivered very good value. They saw the key strengths of the system as its reliability and timeliness in processing requests. The survey also led to suggestions on how the CSRS could further improve the quality of its services.

Multilateral Financial Assistance
The Bank advises and assists the government when Canada participates in multilateral financial-assistance arrangements for emerging-market economies. Only one such arrangement was in place in 2000—a facility provided to the Brazilian central bank by a group of industrial countries in December 1998. The Brazilian authorities paid all outstanding drawings on this facility early in the year.
Unclaimed Balances
Chartered banks and, effective 31 December 2000, federally chartered trust and loan companies are required to transfer to the Bank of Canada all unclaimed balances maintained in Canada in Canadian currency that have been inactive for a period of 10 years. In recent years, the Bank has introduced new methods of access through the Internet. The public’s response to, and use of, these new techniques has been gratifying. During 2000, the Bank handled more than 16,600 general inquiries, completed nearly 39,400 searches, and paid a total of $7.3 million to satisfy 8,400 claims.

To increase public access to information on unclaimed balances, the Bank operates a toll-free telephone service (1-888-891-6398) and maintains an e-mail address at uncbalances@bankofcanada.ca.

Individuals can also use a search facility on the Bank’s Web site at www.bankofcanada.ca to find out if there is an unclaimed balance to which they may be entitled. They will also be told how to claim a balance. For those without Internet access, most public libraries are now equipped with Internet stations. The public can also access information on unclaimed balances at any of the Bank’s five regional offices. (See page 58 for addresses.)

Operating Expenses

Expenses for central banking services were $31.3 million, or about 16 per cent of the Bank’s total operating expenses in 2000. This is a decrease of $1.7 million from 1999. While additional staff were required in the financial stability area, various factors contributed to the decline in the overall functional costs. These included lower administrative and computer-support costs, as well as the completion of systems preparation for the year 2000.
Retail Debt Services
As the government’s fiscal agent, the Bank provides advice and systems and operations-support services for the retail debt program. Under this program, the government issues Canada Savings Bonds (CSBs); Canada Premium Bonds (CPBs), which offer a higher interest rate at the time of issue than CSBs but are redeemable only annually; and other debt instruments held by individuals.

The program is directed by the Department of Finance through its agency, Canada Investment and Savings (CI&S), which determines the products to be offered, interest rates to be paid, and strategies for sales and marketing.

Building on work done in 1999, the Bank launched a major initiative in 2000 to investigate options for the appropriate organizational structure to provide operations and systems support for the program. The aim was to improve the cost-effectiveness of service delivery while ensuring that the Bank’s participation in the program is consistent with its strategic vision of becoming a smaller, policy-oriented organization.

As a result of its studies, the Bank has begun a process to outsource the operations and systems support for the program, while maintaining its role as fiscal agent for retail debt. The Bank considered both the public and private sectors for potential suppliers but concluded that outsourcing to the public sector would not meet all of the major criteria. Accordingly, in September, a Request for Proposal was issued to a number of pre-qualified private sector firms. Responses were received in mid-November, and by the end of the year, the Bank had almost finished evaluating proposals. The next step is the negotiation of a contract which, if successfully concluded, will result in the transition of this work from the Bank to the selected supplier by the end of 2001. The Bank will continue to be responsible for retail debt records and accounting, and there will be no impact on owners of CSBs and CPBs.

Operational Activities
The focus of the retail debt program in 2000 was to:

- continue to support the conversion to the New CSB Payroll Program
- improve customer service
- improve the efficiency and effectiveness of internal operations
- support a pilot program of direct sales by telephone

During the year, an additional 3,800 companies converted to the New Payroll Program, bringing the total to 8,700. Plans were also advanced to provide a cost-effective, Internet-based method of transmission for smaller companies that have different requirements for administrative support.

An external study rated customer-service levels in the top 25 per cent among financial institutions and the public sector. This result was achieved at the same time as customer enquiries increased 32 per cent, with growth of the New Payroll Program.

Following a successful direct-sales pilot program in the spring, the fall campaign gave individuals the option of purchasing their CSBs and CPBs by telephone.
**Operating Expenses**

Expenses for retail debt services were $75.6 million in 2000, or 39 per cent of the Bank’s total operating expenses. This is an increase of $1.7 million from 1999, reflecting increased activity, primarily to support customer transactions associated with the New Payroll Program. The government reimburses the Bank for all of these costs.
Operating Expenses

Monetary Policy, Currency, and Central Banking Services

Over the past several years, the Bank has reviewed the activities involved in its three main functions—monetary policy, currency, and central banking services. The purpose of this review was to focus more sharply on the Bank’s role as a public policy organization, the needs of its clients, and the efficiency and effectiveness of its operations. This resulted in a net reduction in operating expenses of $39 million between 1994 and 1998 to a level of $129 million.

Following an increase in expenditures in 1999 to $145 million, operating expenses in 2000 decreased by $26 million (18 per cent) to $119 million.

Preparations for the year 2000 account for most of the fluctuations in 1999 and 2000 operating expenses. Part of the bank note orders from 2000 and 2001 were advanced to 1999 to meet a possible increase in demand for notes arising from year-2000 concerns. As well, testing and modification of the Bank’s computer systems were completed in 1999 in preparation for the year 2000. As a result, expenses were higher in 1999 and lower in 2000 than they would otherwise have been. In addition to year-2000 preparations, the introduction of the new note series in 2001 led to rescheduling of bank note production, which also reduced costs in 2000.

In 2001, operating expenses for the Bank’s three main functions are expected to increase. This will result mainly from higher levels of bank note production, following the unusually low levels in 2000, and from new and expanded programs in both monetary policy and central banking services. In these latter two areas, more resources will be devoted to international and financial-stability issues in 2001.

Retail Debt Services

The Bank has been providing services for Canada Investment and Savings—the agency of the Department of Finance responsible for the retail debt program—since the agency’s inception in 1996. Over this period, expenses have grown from $42 million in 1996 to $76 million in 2000. This growth reflects changes to major computing systems and to the number of staff required to support a broader range of customer services and government debt products. The main focus of the retail debt function in 2000 continued to be the implementation of several initiatives launched over the past few years to support new services and to improve...
operational processes and systems. All expenditures required to support the retail debt program are recovered from the federal government. This has been the case since the legislation was changed in mid-1997 to allow the Bank to charge for these services.

The initiative to outsource the operations for processing Canada Savings Bonds and other retail debt instruments issued by the federal government, together with the associated restructuring of the Bank’s corporate services, will result in sizable non-recurring expenditures that will be more than offset by the savings to be realized over future years.

**Salaries**

The objective of the Bank’s compensation strategy is to maintain a market-competitive total compensation position. The Bank’s total compensation program includes base pay, re-earnable performance pay, flexible benefits, and recognition.

The Bank’s total salary expenses in 2000 increased by over 5 per cent from 1999. The Bank adjusted its salary ranges by an average of 2.4 per cent. As well, additional staff were required to support the retail debt and monetary policy functions. An increased use of contract resources to support the Bank’s business lines also contributed to the overall increase in salary expenses.

For 2001, salary range increases averaging 2.8 per cent have been implemented and the Bank’s performance pay program strengthened to maintain a market-competitive position.

**Revenue from Investments**

Total revenue from investments was $2.1 billion in 2000, an increase of 10 per cent from 1999. The main source of revenue is interest earned on holdings of federal government securities, financed primarily by the bank notes that are issued by the Bank. Net revenue paid to the Government of Canada in 2000 was $2.0 billion.

Net revenue is not a good indicator of the Bank’s management performance. The Bank deals in financial markets to achieve policy goals, not to maximize its revenues, and these revenues are highly dependent on interest rates. For these reasons, the level of operating expenses is a better indicator of the Bank’s stewardship of public resources.
Financial Statements

YEAR ENDED 31 DECEMBER 2000
Bank of Canada
Financial reporting responsibility

The accompanying financial statements of the Bank of Canada have been prepared by management in accordance with Canadian generally accepted accounting principles. The integrity and objectivity of the data in these financial statements are management’s responsibility. Management is responsible for ensuring that all information in the annual report is consistent with the financial statements.

In support of its responsibility, management maintains financial and management control systems and practices to provide reasonable assurance that the financial information is reliable, that the assets are safeguarded, and that the operations are carried out effectively. The Bank has an internal audit department, whose functions include reviewing internal controls and their application on an ongoing basis.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board. The Audit Committee reviews the Bank’s annual financial statements and recommends their approval by the Board of Directors. The Audit Committee meets with management, the internal auditor, and the Bank’s external auditors appointed by Order-in-Council.

These financial statements have been audited by the Bank’s external auditors, Caron Bélanger Ernst & Young and Raymond Chabot Grant Thornton, and their report is presented herein.

G.G. Thiessen, Governor
S.L. Kennedy, Deputy Governor

Ottawa, Canada
AUDITORS OF THE BANK OF CANADA
VÉRIFICATEURS DE LA BANQUE DU CANADA

C. P. 813, SUCCURSALE B
OTTAWA, CANADA
K1P 5P9

CARON BÉLANGER ERNST & YOUNG

RAYMOND CHABOT GRANT THORNTON

AUDITORS’ REPORT

To the Minister of Finance, registered shareholder of the Bank of Canada

We have audited the balance sheet of the Bank of Canada as at 31 December 2000 and the statement of revenue and expense for the year then ended. These financial statements are the responsibility of the Bank’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2000 and the results of its operations and cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Ottawa, Canada
16 January 2001
## Bank of Canada
### Statement of revenue and expense
#### Year ended 31 December 2000

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
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<tbody>
<tr>
<td><strong>Millions of dollars</strong></td>
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<tr>
<td><strong>REVENUE</strong></td>
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<tr>
<td>Revenue from investments, net of interest paid on deposits of $42.8 million ($47.2 million in 1999).</td>
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<td>1,910.8</td>
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<td><strong>EXPENSE by function (notes 1 and 3)</strong></td>
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<tr>
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<td><strong>118.6</strong></td>
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<td>Retail debt services – expenses</td>
<td>75.6</td>
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<td>Retail debt services – recoveries</td>
<td>(75.6)</td>
<td>(73.9)</td>
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<td><strong>118.6</strong></td>
<td><strong>144.7</strong></td>
</tr>
<tr>
<td><strong>NET REVENUE PAID TO</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>RECEIVER GENERAL FOR CANADA</strong></td>
<td><strong>1,992.4</strong></td>
<td><strong>1,766.1</strong></td>
</tr>
</tbody>
</table>

(See accompanying notes to the financial statements.)
### Bank of Canada
#### Balance sheet

**As at 31 December 2000**

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits in foreign currencies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. dollars</td>
<td>742.0</td>
<td>605.6</td>
</tr>
<tr>
<td>Other currencies</td>
<td>4.9</td>
<td>4.4</td>
</tr>
<tr>
<td><strong>Total deposits in foreign currencies</strong></td>
<td>746.9</td>
<td>610.0</td>
</tr>
<tr>
<td>Advances to members of the Canadian Payments Association</td>
<td>952.3</td>
<td>560.7</td>
</tr>
<tr>
<td>Investments (note 4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treasury bills of Canada</td>
<td>9,134.7</td>
<td>12,020.6</td>
</tr>
<tr>
<td>Other securities issued or guaranteed by</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada maturing within three years</td>
<td>8,342.5</td>
<td>7,515.1</td>
</tr>
<tr>
<td>Other securities issued or guaranteed by</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada not maturing within three years</td>
<td>15,293.8</td>
<td>12,975.7</td>
</tr>
<tr>
<td>Other bills</td>
<td>1,666.7</td>
<td>-</td>
</tr>
<tr>
<td>Other investments</td>
<td>1,500.3</td>
<td>5,130.9</td>
</tr>
<tr>
<td><strong>Total investments</strong></td>
<td>35,938.0</td>
<td>37,642.3</td>
</tr>
<tr>
<td>Bank premises (note 5)</td>
<td>162.8</td>
<td>175.2</td>
</tr>
<tr>
<td>Other assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities purchased under resale agreements</td>
<td>1,357.5</td>
<td>3,669.6</td>
</tr>
<tr>
<td>All other assets (notes 6 and 9)</td>
<td>390.6</td>
<td>405.5</td>
</tr>
<tr>
<td><strong>Total other assets</strong></td>
<td>1,748.1</td>
<td>4,075.1</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>39,548.1</td>
<td>43,063.3</td>
</tr>
</tbody>
</table>

*(See accompanying notes to the financial statements.)*
LIABILITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital paid up (note 7)</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Rest fund (note 8)</td>
<td>25.0</td>
<td>25.0</td>
</tr>
<tr>
<td>Bank notes in circulation</td>
<td>36,775.3</td>
<td>40,142.6</td>
</tr>
<tr>
<td><strong>Deposits</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government of Canada</td>
<td>16.1</td>
<td>11.8</td>
</tr>
<tr>
<td>Banks</td>
<td>1,669.2</td>
<td>1,827.8</td>
</tr>
<tr>
<td>Other members of the Canadian Payments Association</td>
<td>101.8</td>
<td>119.5</td>
</tr>
<tr>
<td>Other deposits</td>
<td>267.0</td>
<td>428.5</td>
</tr>
<tr>
<td><strong>Total deposits</strong></td>
<td>2,054.1</td>
<td>2,387.6</td>
</tr>
<tr>
<td><strong>Liabilities in foreign currencies</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government of Canada</td>
<td>584.4</td>
<td>454.5</td>
</tr>
<tr>
<td><strong>Other liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities sold under repurchase agreements</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>All other liabilities (note 9)</td>
<td>104.3</td>
<td>48.6</td>
</tr>
<tr>
<td><strong>Total other liabilities</strong></td>
<td>104.3</td>
<td>48.6</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>39,548.1</td>
<td>43,063.3</td>
</tr>
</tbody>
</table>

(See accompanying notes to the financial statements.)
Bank of Canada
Notes to the financial statements

Year ended 31 December 2000

1. Bank functions
The Bank of Canada’s primary responsibilities are set out in the Bank of Canada Act and can be grouped into four broad functions, which are described below. Net operating expenses in the Statement of revenue and expense are reported on the basis of these four corporate functions.

**Monetary policy**
The Bank’s most important responsibility is monetary policy. The goal of monetary policy is to preserve the value of money by keeping inflation low and stable. In doing so, monetary policy contributes to better economic performance and rising living standards for Canadians.

**Currency**
The Bank issues Canada’s bank notes. This involves note design (with particular emphasis on anti-counterfeiting features) as well as responsibility for ensuring the printing and distribution of new bank notes and replacement of worn notes.

**Central banking services**
The Bank promotes a safe and sound financial system in Canada and provides funds-management services to the federal government. To promote a sound financial system, the Bank oversees and provides services to the major clearing and settlement systems through which financial assets are transferred and payment obligations are processed. As the federal government’s banker, the Bank provides advice on managing the public debt, handles new borrowings, maintains bondholder records, and makes payments for interest and debt redemption. It also manages the government’s foreign exchange reserves. As well, the Bank holds unclaimed balances and helps people reclaim their money.

**Retail debt services**
Millions of Canadians hold Canada Savings Bonds and other debt instruments issued by the federal government. While management of this program is under the direction of Canada Investment and Savings, an agency of the Department of Finance, the Bank has been responsible for maintaining debt registers and for servicing the accounts of debtholders. The Bank recovers the cost of retail debt operations on a full-cost basis.

2. Significant accounting policies
The financial statements of the Bank are in accordance with Canadian generally accepted accounting principles and conform to the disclosure and accounting
requirements of the Bank of Canada Act and the Bank’s by-laws. As all material changes in cash flow are evident from the financial statements, a separate statement of cash flow has not been prepared as it would not provide any additional useful information. The significant accounting policies of the Bank are:

a) **Revenues and expenses**
   
   Revenues and expenses are accounted for on the accrual basis.

b) **Employee benefit plans**

   The Bank sponsors a number of defined benefit plans providing pension, other post-retirement and post-employment benefits to most of its employees. The Bank accrues its obligations under these benefit plans and the related costs, net of plan assets. The costs of the plans are actuarially determined using the projected benefit method to determine the current service costs, past service costs resulting from plan amendments, and experience gains and losses in excess of the 10 per cent corridor. For the purpose of calculating the expected return on plan assets, assets are valued at fair value.

   Changes resulting from adoption of the new accounting standards for employee benefits have been applied on a prospective basis for the period ending 31 December 2000. The transitional balances are being amortized on a straight-line basis over the average remaining service periods of active plan members.

c) **Translation of foreign currencies**

   Assets and liabilities in foreign currencies are translated to Canadian dollars at the rates of exchange prevailing at the year-end. Foreign currency assets held under short-term foreign currency swap arrangements with the Exchange Fund Account of the Government of Canada, as described in note 10(a), are converted to Canadian dollars at the contracted rates. Gains and losses from translation of, and transactions in, foreign currencies are included in revenue.

d) **Advances**

   Advances to members of the Canadian Payments Association are liquidity loans which are fully collateralized and generally overnight in duration. The Bank charges interest on advances under the Large Value Transfer System (LVTS) at the Bank Rate. For advances under the Automated Clearing Settlement System, the Bank charges the Bank Rate plus a margin, which was 150 basis points at 31 December 2000 (150 basis points in 1999).

e) **Investments**

   Investments, consisting mainly of Government of Canada treasury bills and bonds, are recorded at cost and are adjusted for amortization of purchase discounts and premiums. The amortization, as well as gains and losses on disposition, are included in revenue.

f) **Bank premises**

   Bank premises, consisting of land, buildings, computer hardware/software, and other equipment, are recorded at cost less accumulated depreciation. Computer software is capitalized only when its cost exceeds $2 million. Depreciation is
calculated using the straight-line method and is applied over the estimated useful lives of the assets, as shown below.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>25 to 40 years</td>
</tr>
<tr>
<td>Computer hardware/software</td>
<td>3 to 7 years</td>
</tr>
<tr>
<td>Other equipment</td>
<td>5 to 15 years</td>
</tr>
</tbody>
</table>

**g) Special purchase and resale agreements (SPRAs)**

SPRAs are repo-type transactions in which the Bank of Canada offers to purchase Government of Canada securities from designated counterparties with an agreement to sell them back at a predetermined price the next business day. The Bank is prepared to enter into SPRAs at the policy target rate, defined as the mid-point of the operating band for the overnight interest rate (i.e., 25 basis points below the Bank Rate), if overnight funds are generally trading above the indicated target level. SPRAs are transacted with primary dealers, a subgroup of government securities distributors that have reached a threshold level of activity in the Government of Canada debt markets.

The balance sheet category *Securities purchased under resale agreements* represents the value receivable by the Bank. As such, this amount includes the purchase of treasury bills and bonds, the purchase of accrued interest on bonds, and the interest earned by the Bank. The treasury bills and bonds purchased under resale agreements are not recorded as investment assets.

**h) Deposits**

The liabilities within this category are Canadian dollar demand deposits. For members of the Canadian Payments Association, the Bank pays interest on positive balances associated with the Large Value Transfer System (LVTS) at the lower end of the operating band for the overnight interest rate (50 basis points below the Bank Rate), and on positive balances related to the Automated Clearing Settlement System at the lower end of the operating band for the overnight interest rate less a margin, which was 150 basis points at 31 December 2000 (150 basis points in 1999). On Special Deposit Accounts, which serve as collateral for LVTS participants, the Bank pays interest at the published overnight rate less a margin, which was 6.25 basis points at 31 December 2000 (6.25 basis points in 1999).

**i) Sale and repurchase agreements (SRAs)**

SRAs are reverse repo-type transactions in which the Bank of Canada offers to sell Government of Canada securities to designated counterparties with an agreement to buy them back at a predetermined price the next business day. The Bank is prepared to enter into SRAs at the policy target rate, defined as the mid-point of the operating band for the overnight interest rate (i.e., 25 basis points below the Bank Rate), if overnight funds are generally trading below the indicated target level. SRAs are transacted with primary dealers, a subgroup of government securities distributors that have reached a threshold level of activity in the Government of Canada debt markets.
The balance sheet category *Securities sold under repurchase agreements* represents the value payable by the Bank. As such, this amount includes the sale of treasury bills and bonds, the sale of accrued interest on bonds, and the interest owed by the Bank. The treasury bills and bonds sold under repurchase agreements continue to be recorded as investment assets.

**j) Insurance**

The Bank does not insure against direct risks of loss to the Bank, except for potential liabilities to third parties and where there are legal or contractual obligations to carry insurance. Any costs arising from these risks are recorded in the accounts at the time they can be reasonably estimated.

### 3. Expense by classes of expenditure

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>91.4</td>
<td>86.6</td>
</tr>
<tr>
<td>Benefits and other staff expenses</td>
<td>15.2</td>
<td>15.0</td>
</tr>
<tr>
<td>Currency costs</td>
<td>10.0</td>
<td>31.8</td>
</tr>
<tr>
<td>Premises maintenance</td>
<td>21.2</td>
<td>20.0</td>
</tr>
<tr>
<td>Services and supplies</td>
<td>36.9</td>
<td>41.6</td>
</tr>
<tr>
<td>Depreciation</td>
<td>26.0</td>
<td>28.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>200.7</strong></td>
<td><strong>223.2</strong></td>
</tr>
</tbody>
</table>

**Recoveries**

- Retail debt services: (75.6) (73.9)
- Other: (6.5) (4.6)

**Total**: 118.6 144.7

Salaries and benefits of Bank staff engaged in premises maintenance are not included in the *Salaries* or *Benefits and other staff expenses* categories, but rather as part of *Premises* expenses.

Recoveries represent the fees charged by the Bank for a variety of services.

### 4. Investments

This category includes Government of Canada treasury bills and bonds as well as other investments, which are held under short-term foreign currency swap arrangements with the Exchange Fund Account of the Government of Canada as described in note 10(a).

The Bank typically holds its investments in treasury bills and bonds until maturity. The amortized book values of these investments approximate their par values. At the year-end, the average yield on the Bank’s holdings of treasury bills, which average three months to maturity was 5.8 per cent (4.9 per cent in 1999), while the average yield for bonds maturing within three years was 6.4 per cent (6.5 per cent in 1999), and for those maturing in over three years was 6.5 per cent (6.6 per cent in 1999).
5. Bank premises

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th></th>
<th>1999</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and buildings</td>
<td>168.0</td>
<td>71.9</td>
<td>96.1</td>
<td>168.0</td>
</tr>
<tr>
<td>Computer hardware/ software</td>
<td>63.0</td>
<td>37.2</td>
<td>25.8</td>
<td>62.0</td>
</tr>
<tr>
<td>Other equipment</td>
<td>139.0</td>
<td>98.1</td>
<td>40.9</td>
<td>137.1</td>
</tr>
<tr>
<td></td>
<td>370.0</td>
<td>207.2</td>
<td>162.8</td>
<td>367.1</td>
</tr>
</tbody>
</table>

6. All other assets

This category includes accrued interest on investments of $305.1 million ($325.6 million in 1999).

7. Capital paid up

The authorized capital of the Bank is $5.0 million divided into 100,000 shares with a par value of $50 each. The shares are fully paid and, in accordance with the Bank of Canada Act, have been issued to the Minister of Finance, who is holding them on behalf of the Government of Canada.

8. Rest fund

The rest fund was established in accordance with the Bank of Canada Act and represents the general reserve of the Bank. The rest fund was accumulated out of net revenue until it reached the stipulated maximum amount of $25.0 million in 1955.

9. Employee benefit plans

The Bank sponsors a number of defined benefit plans providing pension, other post-retirement and post-employment benefits to most of its employees. The following table provides information about these plans.

<table>
<thead>
<tr>
<th></th>
<th>Pension benefit plan</th>
<th>Other benefit plans</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2000</td>
<td>1999</td>
</tr>
<tr>
<td>For the year</td>
<td>Millions of dollars</td>
<td>Millions of dollars</td>
</tr>
<tr>
<td>Bank contributions</td>
<td>1.4</td>
<td>5.3</td>
</tr>
<tr>
<td>Employees’ contributions</td>
<td>0.3</td>
<td>4.2</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>19.8</td>
<td>21.5</td>
</tr>
<tr>
<td>Benefit plan expense (revenue)</td>
<td>(12.3)</td>
<td>(4.6)</td>
</tr>
</tbody>
</table>
The significant actuarial assumptions (weighted averages when across plans) used in calculating the accrued benefit obligations are as follows.

<table>
<thead>
<tr>
<th>Pension benefit plan</th>
<th>Other benefit plans</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>As at December 31</strong></td>
<td><strong>2000</strong></td>
</tr>
<tr>
<td>Accrued benefit obligation</td>
<td>444.2</td>
</tr>
<tr>
<td>Fair value of plan assets</td>
<td>657.8</td>
</tr>
<tr>
<td>Funded status-plan surplus (deficit)</td>
<td>213.6</td>
</tr>
<tr>
<td>Accrued benefit asset (liability)</td>
<td>39.0</td>
</tr>
</tbody>
</table>

The significant actuarial assumptions (weighted averages when across plans) used in calculating the accrued benefit obligations are as follows.

<table>
<thead>
<tr>
<th>Pension benefit plan</th>
<th>Other benefit plans</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Discount rates</strong></td>
<td><strong>2000</strong></td>
</tr>
<tr>
<td>Expected rates of return on plan assets for the year</td>
<td>6.06%</td>
</tr>
<tr>
<td>Rate of compensation increase</td>
<td>3.00% + merit</td>
</tr>
</tbody>
</table>

i) Other benefit plans comprises only post-employment benefits in 1999. Post-retirement benefits are included starting in 2000.

ii) Because 2000 is a transition year, the beginning-of-year discount rates for 2000 of 6.13% for the pension benefit plan and 6.10% for other benefit plans are different from the end-of-year rates for 1999 shown above.

iii) Because 2000 is a transition year, the beginning-of-year expected rate of return for 2000 of 6.09% for the pension benefit plan is different from the end-of-year rate for 1999 shown above.

iv) The discount rate in 1999 for the pension benefit plan grades over 2 years from 6.08% to the ultimate rate of 5.35% shown above. Similarly, the discount rate in 1999 for other benefit plans grades over 2 years from 3.125% to the ultimate rate of 2.75% shown above.

v) Starting in 2000, interest rates for Government of Canada marketable bonds are used. These rates are different than those employed by the Bank for funding valuations of the pension benefit plan.

For measurement purposes, a 9.0% annual rate of increase in the per capita cost of covered hospital and drug benefits was assumed. The rate was assumed to decrease gradually to 4.5% over 10 years and remain at that level thereafter. The per capita cost of other health care benefits was assumed to increase at 3.0% per annum.

10. Commitments

a) Foreign currency contracts

In the ordinary course of business, the Bank enters into commitments involving the purchase and sale of foreign currencies. In particular, the Bank enters into short-term foreign currency swap arrangements with the Exchange Fund Account (EFA) of the Government of Canada as part of its cash-management operations within the Canadian banking system. These transactions, which are made with the concurrence of the Minister of Finance under a standing authority, involve the temporary acquisition by the Bank of foreign currency investments from the EFA. These investments are paid for in Canadian dollars at the prevailing exchange rate with a commitment to reverse the transaction at the same rate of exchange at a
future date. The fair values of these investments are not materially different from their book values. At the year-end, the average yield for these investments was 6.1 per cent (5.5 per cent in 1999).

As well, the Bank of Canada is a participant in two foreign currency swap facilities with foreign central banks. The first, amounting to US$2 billion, is with the U.S. Federal Reserve. The second, amounting to Can$1 billion, is with the Banco de México. There were no drawings under either facility in 2000 or 1999.

All commitments outstanding at 31 December are settled in the subsequent year. A summary of these outstanding commitments follows.

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign currency contracts – purchases</td>
<td>133.0</td>
<td>117.6</td>
</tr>
<tr>
<td>– sales</td>
<td>1,654.5</td>
<td>5,299.9</td>
</tr>
</tbody>
</table>

At 31 December 2000, outstanding foreign currency contracts included sale commitments of $1,521.5 million ($5,182.4 million in 1999) under swap arrangements with the EFA.

b) Investment contracts

In the ordinary course of business, the Bank enters into commitments involving the purchase and sale of securities. All commitments outstanding at 31 December are settled in the subsequent year. A summary of these outstanding commitments follows.

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment contracts – purchases</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>– sales</td>
<td>1,358.3</td>
<td>3,675.0</td>
</tr>
</tbody>
</table>

Outstanding sale investment contracts of $1,358.3 million, at an interest rate of 5.75 per cent under Special Purchase and Resale Agreements, were settled by 5 January 2001 ($3,675.0 at the end of 1999 at an interest rate of 4.75%).
GOVERNING COUNCIL

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Malcolm D. Knight, Senior Deputy Governor

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Sheryl Kennedy    Pierre Duguay

L. Theodore Requard, Corporate Secretary

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Vaughn O’Regan  David J. Longworth  John D. Murray
Roy Flett  Daniel W. MacDonald
Angela Redish

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Nicholas Close, Deputy Chief
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James F. Dingle, Research Adviser³
John Kuszczak, Research Adviser

International
James E. Powell, Chief
Sheila Niven, Deputy Chief
Kevin J. Clinton, Research Adviser
Lawrence L. Schembri, Research Adviser

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Frank J. Mahoney, Director and Chief Accountant
Richard A. J. Julien, Director
Claude Montambault, Director

Debt Administration Office
Roy Flett, Adviser, Retail Debt Operations
Dale Fieck, Director

Audit
Peter Koppe, Internal Auditor

1. Also Chair of the Board of Directors of the Canadian Payments Association, replacing Serge Vachon, who is retiring effective 31 March 2001.
2. Visiting Special Adviser
3. Also Deputy Chairman of the Board of Directors of the Canadian Payments Association
   * On leave of absence

Note: Positions as of 12 January 2001.
Bank of Canada Regional Offices

Atlantic provinces
1583 Hollis Street
Halifax, Nova Scotia
B3J 1V4

Quebec
1501 McGill College Avenue, Suite 2030
Montreal, Quebec
H3A 3M8

Ontario
150 King Street West, Suite 2000
Toronto, Ontario
M5H 1J9

Prairie provinces, Nunavut, and Northwest Territories
404 - 6th Avenue, SW, Suite 200
Calgary, Alberta
T2P 0R9

British Columbia and Yukon
900 West Hastings Street, Suite 300
Vancouver, British Columbia
V6C 1E6

Note: Positions as of 3 January 2001

Publications

Monetary Policy Report and Update
A detailed summary of the Bank’s policies and strategies as well as a look at the current economic climate and its implications for inflation. Report published in May and November; Update published in February and August. Without charge.

Bank of Canada Review
A quarterly publication that contains economic commentary and feature articles. By subscription.

Bank of Canada Banking and Financial Statistics
A comprehensive package of Canadian data. Published monthly. By subscription.

Weekly Financial Statistics
A 20-page package of banking and money market statistics. By subscription.

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Telephone: (613) 782-8248 / E-mail: publications@bankofcanada.ca

Internet

http://www.bankofcanada.ca
Provides timely access to press releases, speeches by the Governor, most of our major publications, and current financial data.

Public information

For general information on the role and functions of the Bank, contact our Public Information office.

Telephone: 1-800-303-1282
Fax: (613) 782-7713

For information on unclaimed bank balances
Telephone: 1-888-891-6398
E-mail: ucbalances@bankofcanada.ca
We want our Annual Report to be useful to you. Your feedback through this questionnaire will help us improve the product! Please take a few minutes to fill in and return the postage-paid form.

1. Do you feel that the Bank of Canada's role as Canada's central bank is clearly communicated in this Annual Report?

☐ Yes
☐ No

2. Which sections of our Annual Report have you read? (Tick as many boxes as apply.)

☐ All of them
☐ Statement from the Governor
☐ Monetary Policy
☐ Central Banking Services
☐ Financial Summary
☐ About the Bank
☐ Currency
☐ Retail Debt Services
☐ Financial Statements

3. What is your overall impression of the following elements of the Report? (1 = "Poor"; 5 = "Excellent")

Design

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Readability

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4. To which category do you belong?

☐ Banking/financial services
☐ Corporation/business
☐ Government
☐ Education/research
☐ Other (Please specify)

5. How did you receive your copy of our Annual Report?

☐ On distribution list
☐ Specifically asked for a copy
☐ From one of the Bank's regional offices
☐ At a presentation by Bank staff
☐ Other (Please specify)

6. What use do you make of our Annual Report?

☐ General information
☐ Teaching
☐ Financial/economic research
☐ Investment advice
☐ Other (Please specify)

7. What are your suggestions for changing our Annual Report?

THANK YOU FOR YOUR TIME
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BANK OF CANADA
234 WELLINGTON ST
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