



BANK OF CANADA
BANQUE DU CANADA

About the Bank

An Introduction to Canada's Central Bank



The Bank of Canada is the country's central bank.
Its mandate is to promote Canada's economic
and financial well-being.

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This booklet is available as a PDF document on the Bank of Canada's website.

The website also offers a variety of additional print and video material about the Bank and the Canadian economy.

The Bank's Compass

As a public institution and a workplace, we take our bearings from our commitment to Canadians, to excellence and to one another.

Our commitment to Canadians

To promote the economic and financial welfare of Canada, we:

- conduct monetary policy in a way that fosters confidence in the value of money
- supply quality bank notes that are readily accepted and secure against counterfeiting
- promote the safety and efficiency of Canada's financial system
- provide efficient and effective funds-management services
- communicate our objectives openly and effectively and stand accountable for our actions

Our commitment to excellence

Building on our strengths, we aim to meet our commitment to Canadians through performance that is second to none among the world's central banks.

We strive for excellence through leading-edge research and analysis, through partnerships within the Bank and with outside organizations, and through:

- innovation in all aspects of our work
- leadership that spurs us on to new success
- integrity in our business and in our actions
- diversity of people and ideas

Our commitment to one another

We aim to achieve our best in a workplace where we:

- communicate clearly and openly
- share knowledge and experience
- develop our talent and careers
- recognize those who live up to our commitments
- respect one another and our lives outside work

Top 100 Employers in Canada

The Bank was named one of Canada's Top 100 Employers for 2012, based on an assessment of its work practices, policies and communications.

Message from the Governor

The Bank of Canada is mandated to promote the economic and financial well-being of this country. As Canada's central bank, we work to preserve the value of money by keeping inflation low, stable and predictable. We promote the safety and efficiency of the financial system. As the country's sole supplier of bank notes, we are responsible for keeping Canada's currency secure. As the federal government's banker, we manage government funds and public debt.

The Bank's actions affect all Canadians, and we set very high standards for our work. Whether in pioneering a flexible inflation target, developing best practices for managing the federal government's reserves and financial obligations, or helping to manage the global financial crisis and its impact on Canada, the Bank has shown itself to be nimble, flexible and forward looking.

In addition to managing the operations of the Bank with great skill, our talented professionals

conduct innovative research. We share that research and expertise with other organizations through domestic and international forums. We also work closely with others to improve economic conditions and financial systems, both in Canada and globally.

Research carried out by the Bank's Currency Department helped to develop Canada's most recent series of bank notes, which the Bank began issuing in 2011. The new polymer notes are not only more difficult to counterfeit than paper notes, but they also last longer and are better for the environment. All denominations in this new series will be in circulation by the end of 2013.

For 2011 and again for 2012, the Bank was named one of Canada's "Top 100" employers. This designation helps to publicize what our staff already know: the Bank is a great place to work.

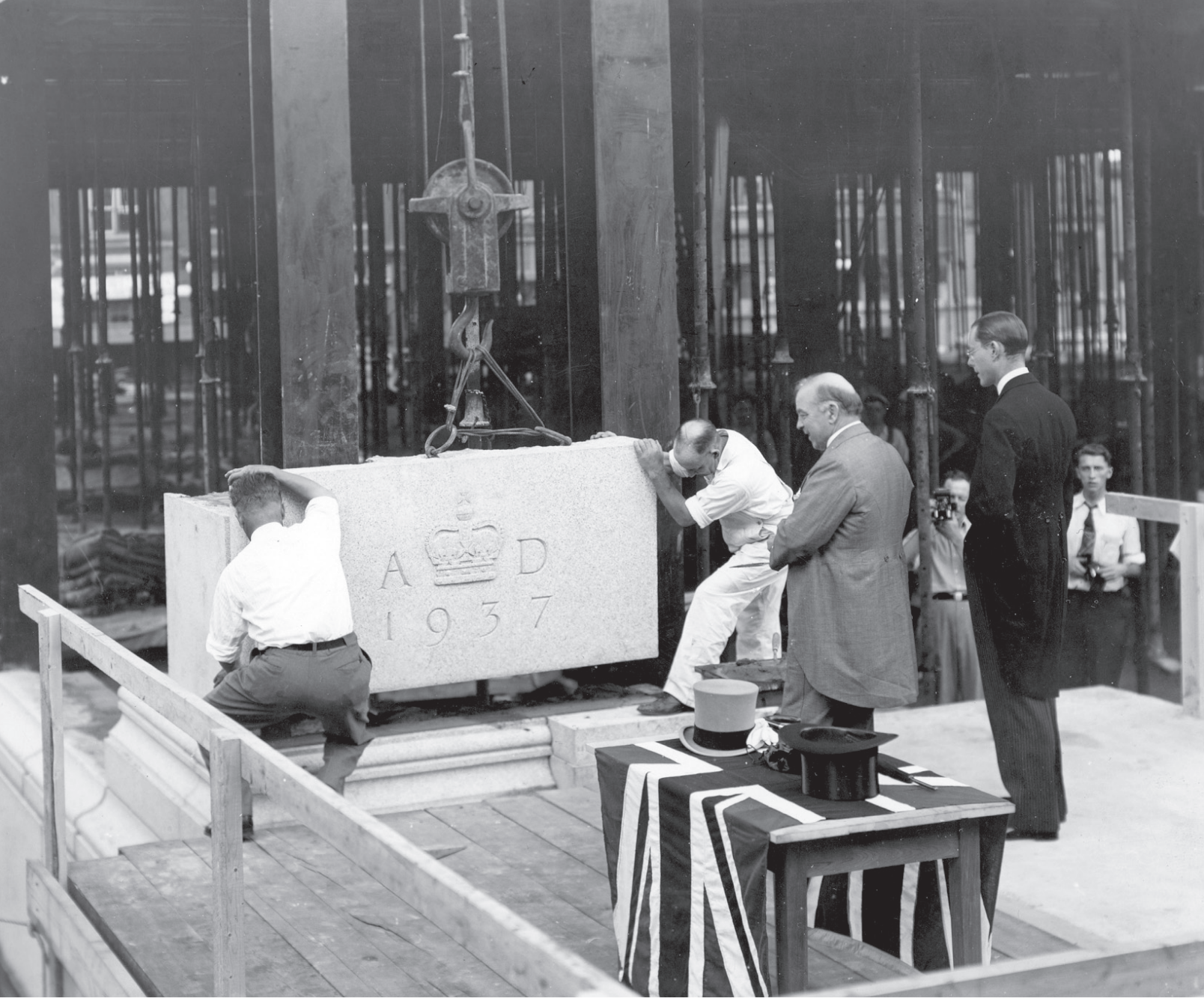
This publication provides a short introduction to the Bank of Canada. For a wealth of additional



information about the Bank and the economy, I encourage you to visit our website. We are committed to communicating openly and effectively with Canadians, and we stand accountable for our policy actions.

A handwritten signature in black ink, which appears to read "Mark Carney". The signature is fluid and cursive, with a long horizontal stroke at the end.

Governor



Prime Minister Mackenzie King (left) and the Bank's first Governor, Graham Towers (right), watch as the cornerstone of the Bank's original head office building is laid.

Milestones

The Bank of Canada Act, which established the central bank, became law in 1934. The finance minister at the time, Edgar Nelson Rhodes, noted in his 1935 budget address that he was confident the new central bank's "contribution to the economic welfare of this Dominion will be an important one."

How the Bank makes this contribution has changed over the years, but its mandate remains the same: "to promote the economic and financial welfare of Canada."

- 1935** The Bank of Canada opens for business and issues its first bank notes.
- 1941** The Bank launches the first of nine Victory Loan campaigns that together raised almost \$12 billion to help finance the war effort.
- 1950** In a pioneering move, Canada allows its currency to "float" in international markets.
- 1967** The Bank of Canada Act is amended to clarify the Bank's governance and operational independence.
- 1979** A substantial addition to the Bank's head office—two 12-storey glass towers that incorporate the original granite building—is completed.
- 1988** Governor John Crow proposes that the overriding goal of monetary policy should be "price stability."
- 1991** The Bank of Canada is the first G-7 central bank to implement inflation targeting, which provides the anchor for low and stable inflation.
- 2009** In response to the global financial and economic crisis, the Bank of Canada significantly boosts the short-term liquidity it provides to the financial sector and reduces its policy interest rate to a historic low of 0.25 per cent.
- 2011** The Bank issues Canada's first polymer bank notes, a significant advance in bank note security and durability.



Two large ornamental urns, symbolizing the storage of wealth, flank the entrance to the Bank's centre building on Wellington Street in Ottawa.

How the Bank Works

What is a central bank?

The Bank of Canada is the country's central bank. A central bank is a nation's principal monetary authority—it conducts monetary policy to manage the flow of money and credit in the economy. The goal of the Bank of Canada's monetary policy is to preserve confidence in the value of money over time.

As a central bank, the Bank of Canada has three additional responsibilities: (i) to support the stability and efficiency of the financial system; (ii) to issue bank notes that can be used with confidence; and (iii) to act as the federal government's banker.

The Bank of Canada's mandate is to promote Canada's economic and financial well-being. It is accountable to all Canadians.

Monetary policy

The ultimate objective of monetary policy is to promote solid economic performance and higher living standards for Canadians. The best way to achieve that objective is to keep inflation low, stable and predictable. This gives Canadians confidence in the future value of their money, which can help them make sound economic and financial decisions. Low and stable inflation also helps to prevent “boom-and-bust” cycles that lead to painful recessions and higher unemployment.

The cornerstone of Canada's monetary policy framework is a target for inflation, as measured by the total consumer price index. The target, set jointly by the Bank of Canada and the Government of Canada, is 2 per cent, the midpoint of a control range of 1 to 3 per cent. In November 2011, the Bank and the Government

of Canada agreed to renew the target for inflation for another five-year period.

The inflation-control target works hand in hand with Canada's flexible exchange rate. A floating currency is a key component of Canada's monetary policy framework, and helps our economy adjust to shocks.

The Bank carries out its monetary policy by influencing short-term interest rates. It does this by changing the policy rate—formally known as the target for the overnight interest rate. A change in the Bank's policy rate leads to changes in other interest rates, and therefore affects everyone's spending and borrowing decisions. The policy rate is set eight times a year, on a pre-announced schedule.

In conducting monetary policy, the Bank is equally concerned about inflation rising above or

falling below the target, and will act to bring inflation down, or to push it back up, to its 2 per cent target.

Monetary policy actions take time—typically between 18 and 24 months—to work their way through the economy and to have their full effect on inflation. For this reason, monetary policy must be forward looking, based on the Bank’s judgment about what inflation might be 18 to 24 months ahead, not what it is today. As well, Canada’s inflation-targeting framework allows the Bank to respond with flexibility to major shocks that hit our economy from time to time.

The combination of the inflation-targeting regime and a flexible exchange rate has served Canadians well since 1991, paving the way for long-term economic growth and helping to mitigate the effects of the 2008–09 global recession. Responding to those exceptional circumstances, the Bank reduced its policy interest rate in April 2009 to its lowest possible



Senior Deputy Governor Tiff Macklem and Governor Mark Carney

level and made a commitment, conditional on the outlook for inflation, to keep it at that level for more than a year in order to provide support for the economy.

Monetary policy decisions are made by the Bank’s Governing Council (see pages 15–16). The economic analysis, strategies and

policies behind these decisions are explained four times a year in the Bank’s *Monetary Policy Report*, as well as in speeches by members of the Governing Council. The Bank also explains the reasons for its interest rate decisions in a press release every time it announces its policy rate.

Inflation—the Canadian experience

Prices change constantly. Many goods and services cost more every year, while some products—electronic items, for example—may cost less over time.

Inflation is an increase in the average level of prices in the economy. In Canada, the key measure of the average level of prices is the total consumer price index (CPI). The CPI reflects the prices of a representative basket of consumer goods and services, such as food, housing, transportation, furniture, clothing and recreation.

The rate of inflation is the percentage increase in the CPI from year to year. For example, if the cost of the basket of goods and services rises from \$100 in one year to \$102 the next year, the average rate of inflation for that year is 2 per cent.

When inflation is low, stable and predictable, it does not have a significant effect on people's economic decisions. However, when inflation is high and variable, it is more difficult

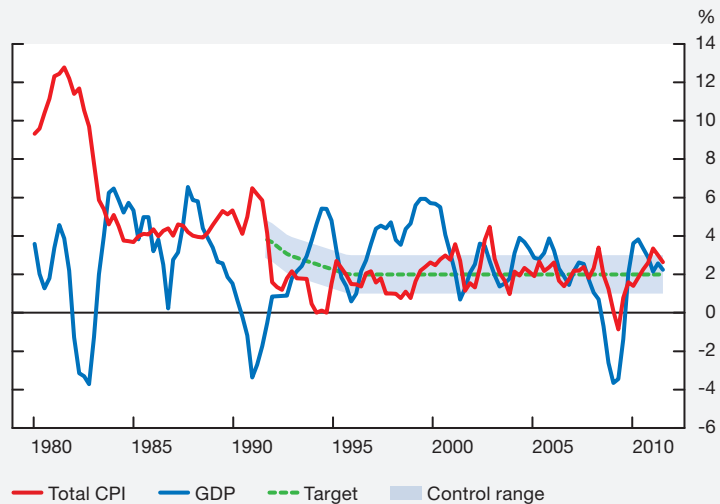
to make good economic decisions, and people on fixed incomes suffer. Canada's most recent experience with this was in 1981, when inflation reached 12.5 per cent, and the 5-year mortgage rate was over 18 per cent.

Since 1995, when Canada set the inflation-control target at 2 per cent,

inflation has remained very close to this target, providing a solid backdrop for people to make sound economic and financial decisions, and encouraging productive investments that allows the economy to grow over time.

Chart 1: Consumer price index and GDP in Canada

Year-over-year percentage change



Source: Statistics Canada

The flexible exchange rate

The value of the Canadian dollar in terms of other currencies is determined by market forces. Factors that influence this value include economic conditions in Canada and abroad, world commodity prices, and conditions in international money markets.

A flexible currency allows the central bank to follow an independent monetary policy, one that is suited to specific national circumstances. If Canadian monetary policy attempted to maintain a given (or fixed) exchange rate, it would have to respond to a variety of external forces, rather than address the specific and changing dynamics of the Canadian economy.

A flexible exchange rate also helps the economy to absorb shocks—especially external shocks that affect Canada differently than our major trading partners—and to adjust to shifting currents in the global economy.

The financial system

A healthy economy needs a sound and efficient financial system. Canada's financial system consists of:

- financial institutions, such as banks, credit unions, securities firms and insurance companies;
- financial markets, such as securities and foreign exchange markets; and
- clearing and settlement systems, through which funds or securities flow from one financial institution to another and transactions are settled.

The Bank works with other public agencies, including the Department of Finance and the Office of the Superintendent of Financial Institutions, as well as market participants, to promote the safety and efficiency of the financial system. The Bank also works extensively with international organizations to strengthen the global financial system. The Bank undertakes in-depth research in this area and twice a year publishes the *Financial System Review (FSR)*. In this publication, the Bank identifies potential risks to financial stability and highlights its own efforts and those of other regulatory authorities to mitigate these risks. The FSR also examines selected issues of importance to the health of the financial system.

The Bank helps Canada's payments systems to function smoothly. Every day, the country's largest deposit-taking financial institutions exchange billions of dollars in electronic and cheque payments through two major payments systems, the Large Value Transfer System and the Automated Clearing Settlement System. These two systems are operated by the Canadian Payments Association. At the end of each day, the net claims of each of the participating financial institutions are calculated, and funds are transferred to settle their accounts at the Bank of Canada. To assist in the efficient functioning of these systems, the Bank routinely provides overnight loans to participating institutions with a temporary shortfall of settlement balances. In an extreme situation, the Bank can also provide short-term emergency loans to a financial institution that is solvent but facing a persistent liquidity problem.

In exceptional circumstances, the Bank will also provide extraordinary liquidity to market participants to help stabilize the financial system. Temporary liquidity facilities introduced during the global financial crisis of 2007–09 played an important role in relieving financial strains and mitigating the repercussions on the Canadian economy.



The Bank works with police and prosecutors to support the deterrence of counterfeiting

Bank notes

Bank notes are an important means of payment, and the value of notes in circulation continues to grow in line with the economy. The Bank is responsible for the design, production and distribution of bank notes. (Coins are produced and distributed by the Royal Canadian Mint.)

Bank notes are an effective means of payment when people can use them with confidence, so the Bank strives to issue notes that are not only attractive, but also difficult to counterfeit.

The Bank aims to keep counterfeiting below a defined threshold of 50 counterfeit bank notes detected annually for each million genuine notes in circulation. It achieves

this goal by issuing bank notes with advanced security features, promoting the routine verification of bank notes by retailers and the public, supporting the deterrence of counterfeiting by the police and prosecutors, and maintaining the quality of bank notes in circulation. To maintain this quality, the Bank of Canada destroys worn or damaged notes and replaces them with new ones.

The Bank offers education programs to help Canadians recognize and use the security features incorporated in bank notes. These programs are targeted at businesses that conduct frequent cash transactions, such as those in the retail sector. The



New Polymer series bank notes

Bank works with law-enforcement agencies, particularly the RCMP, to monitor and analyze counterfeiting activities across the country, and it promotes counterfeiting deterrence by supporting the investigation and prosecution of counterfeiting offences.

In 2011, the Bank began issuing Canada's first polymer bank notes. The notes in this innovative series are easy to verify, difficult to counterfeit and cost less over their life cycle because they last longer than cotton-paper notes. In addition, these notes will be recycled when they are removed from circulation.

Funds management

The federal government finances its operations not only through the taxes it collects, but also by borrowing—mostly by issuing Government of Canada bonds. As well, the government maintains a fund containing assets denominated in foreign currencies to provide the government with foreign currency liquidity and, if necessary,

to promote an orderly market for the Canadian dollar. Because these debts and assets are owed and owned by the Canadian public, they must be managed prudently and efficiently.

The Bank advises on and operates the government's debt programs, invests its financial assets and manages its exposure

to financial risk. The Bank also makes and receives payments on behalf of the government, and ensures that funds are available for the government's daily operating needs.

Finally, the Bank acts as fiscal agent for the federal government's retail debt program. Under this program, the government issues Canada Savings Bonds and Canada Premium Bonds to the public. The Bank is responsible for providing policy advice, marketing and communications, and it oversees the program's operations and systems support.



The Bank's trading room

The Bank in the world

The Bank of Canada works with many international groups and institutions to monitor, assess and respond to global economic and financial developments, and to share knowledge with other central banks. These groups include the Bank for International Settlements; the Financial Stability Board; the International Monetary Fund; the World Bank; the Organisation for Economic Co-operation and Development;

and the G-7, G-10 and G-20 groups of countries. The Bank also participates in academic and central bank research seminars and conferences. Bank staff are often asked to provide advice and technical assistance to other central banks around the world.

The Bank has played an important role in efforts to strengthen the global financial system. For example, working with the Office of the Superintendent of Financial Institutions, the Bank was at the centre of the

development of new Basel standards for bank capital and liquidity—standards that will make the global financial system safer and more robust.

The Bank will continue to play an influential role on the international stage. In 2011, the Governor of the Bank of Canada was appointed Chairman of the Financial Stability Board, an international agency that develops and implements regulatory, supervisory and other policies in the interest of global financial stability.



The Bank is active in international forums.



The Bank of Canada's head office as seen from the Sparks Street Mall in Ottawa.

Corporate Governance, Management and Organization

The Bank of Canada is a Crown corporation, originally established by Parliament in 1934 under the Bank of Canada Act.

The Board of Directors

The Bank of Canada Act provides that the Governor is both Chief Executive Officer of the Bank and Chair of its Board of Directors. In the absence of the Governor, the Senior Deputy Governor exercises all the powers of the office. The Governor has specific authority and responsibility for the business of the Bank as set out in its mandate, including the formulation and implementation of monetary policy.

The Board of Directors provides general oversight of the management and administration of the Bank regarding such matters as strategic planning, finance and accounting, human resources, other internal policies, and the operations of the Board itself. The

Board and the Governor work together in close co-operation.

The Board and the Bank regularly review and consider the relevant best practices of other public institutions, central banks and private sector organizations with a view to continuously improving and achieving excellence in its corporate governance.

In addition to the Governor and Senior Deputy Governor, the Board is composed of 12 independent Directors and the Deputy Minister of Finance (who has no vote but provides an important link with the Department of Finance). The independent Directors are appointed by the Minister of Finance, with federal Cabinet approval, for renewable three-year terms. These Directors are chosen from outside the Bank, and typically come from every Canadian province and from diverse backgrounds. They are responsible for appointing (with the approval of Cabinet) the

Governor and the Senior Deputy Governor for seven-year terms.

The Board is responsible for reviewing the Bank's general policies and for approving its corporate objectives, plans and budget. The Board oversees the Bank's risk-management process, which identifies key areas of risk associated with the Bank's responsibilities and strategic priorities. The Bank's external auditors report directly to the Board.

The Board has no direct responsibility for monetary policy beyond its general oversight role.

The Governing Council

Under the Bank of Canada Act, the Governor is responsible for monetary policy. In practice, the Governor shares that responsibility with fellow members of the Governing Council. The Governing Council consists of the Governor, Senior Deputy Governor and four

Deputy Governors. The Governing Council works by consensus, formulating, implementing and communicating Canadian monetary policy with the support of the Bank's economics and communications departments.

Members of the Governing Council communicate regularly with parliamentarians, financial market participants, business leaders and the public to hear their views, and to inform Canadians about major economic issues and the conduct of monetary policy.

The Bank of Canada Act requires that the Minister of Finance and the Governor of the Bank consult regularly on monetary policy and its relation to general economic policy. The Act also provides that, in the case of a disagreement that cannot be resolved, the Minister can give a public, written directive to the Governor on the monetary policy to be followed. Such a directive has never been issued.

Departments

Key analytic work and functional operations are carried out in the following six Bank departments:

Canadian Economic Analysis conducts analysis of the Canadian economy and related policy issues.

Currency designs and issues bank notes that can be used with confidence, and works with partners to identify counterfeiting threats and solutions.

Financial Markets analyzes trends in financial markets and carries out operations and transactions to support the Bank's work.

Financial Stability analyzes issues relating to overall financial stability in Canada.

Funds Management and Banking oversees the funding and investment of Canada's foreign exchange reserves and the management of the federal government's wholesale and retail debt programs.

International Economic Analysis conducts analysis of the international economy and related policy issues.

Essential support services are provided by these six departments:

Audit conducts independent evaluations of internal controls to provide assurance that the Bank's risk management, control, and governance processes are effective.

Communications helps the Bank to meet its commitment to openness and transparency through a wide range of communications activities and products.

Corporate Services provides essential services in the areas of facilities, human resources, knowledge and information management, and security.

Executive and Legal Services provides support services to the Board and the Bank's executives, and legal services to the Bank.

Financial Services provides the Bank with accounting, financial management, reporting and payment services.

Information Technology Services ensures that the Bank has the technological tools, systems and services required to meet its business needs.

The Board of Directors and the Bank's Senior Management

For a complete list of the Bank's executives, visit the Bank's website at bankofcanada.ca.

Board of Directors

Mark J. Carney, **Governor**
Tiff Macklem, **Senior Deputy Governor**
William Black, **Lead Director**,
Halifax, Nova Scotia
Philip Deck
Toronto, Ontario
Bonnie DuPont
Calgary, Alberta
Douglas Emsley
Regina, Saskatchewan
Jock Finlayson
Vancouver, British Columbia
Carol Hansell
Toronto, Ontario
Brian Henley
St. John's, Newfoundland and Labrador
Daniel Johnson
Montréal, Quebec
David Laidley
Montréal, Quebec
Leo Ledohowski
Winnipeg, Manitoba
Richard McGaw
Fredericton, New Brunswick
Michael O'Brien
Charlottetown, Prince Edward Island
Member ex officio:
Michael Horgan
Deputy Minister of Finance

Senior Management

Governor
Mark J. Carney
Senior Deputy Governor
Tiff Macklem
Deputy Governors
John Murray
Timothy Lane
Jean Boivin
Agathe Côté
General Counsel and Corporate Secretary
John Jussup
Advisers
Janet Cosier¹
Allan Crawford
Donna Howard
Sheila Niven
Lawrence Schembri
David Wolf
Dale Fleck
Special Advisers
David T. Beers
Evan W. Siddall

Department Chiefs

Audit
Carmen Prévost Vierula
Canadian Economic Analysis
Sharon Kozicki
Communications
Jill Vardy
Corporate Services
Colleen Leighton
Currency
Gerry T. Gaetz
Executive and Legal Services
John Jussup
Financial Markets
Paul Chilcott
Financial Services
Sheila Vokey
Financial Stability
Carolyn Wilkins
Funds Management and Banking
Ron Morrow
Information Technology Services
Sylvain Chalut
International Economic Analysis
Donald Coletti

¹ Chair of the Board of Directors of the Canadian Payments Association

Learn More

Key publications

Monetary Policy Report

Analysis of and outlook for the economy; provides detailed context for the Bank's monetary policy actions. Quarterly.

Financial System Review

Research, analysis and evaluation of issues and developments concerning the financial system. Twice a year.

Bank of Canada Review

Economic commentary and feature articles. Quarterly.

Business Outlook Survey

Quarterly.

Senior Loan Officer Survey

Quarterly.

Bank of Canada Banking and Financial Statistics

Monthly.

Weekly Financial Statistics

Weekly.

Senior Loan Officer Survey

Quarterly.

Of general interest

Backgrounders:

Brief explanations of various aspects of the Bank's work.

Videos:

- *"The Bank of Canada: Count on Us"* (Governor Mark Carney and Bank staff explain how the Bank promotes the economic welfare of Canadians.)
- *"Light & Space: The Architecture of the Bank of Canada"*
- The Bank also features videos on its YouTube channel about bank notes and ways to protect yourself from counterfeiting and fraud.

Regional offices

Staff at the Bank's regional offices in Vancouver, Calgary, Toronto, Montréal and Halifax are listed on the Bank's website.

Tools and information at bankofcanada.ca

Follow the Bank on Twitter and/or receive instant notification of Bank-related matters through email alerts and RSS feeds. Check the Bank's website for details.

Currency converter: Convert a Canadian-dollar amount into a foreign currency amount, or vice versa.

Inflation calculator: Determine the effects of inflation from 1914 to the present.

Interest rates: Find out Canadian money market and consumer interest rates, selected bond rates, and the Bank's official policy rate.