



BANK OF CANADA

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Foreword

The financial system, which consists of financial institutions, financial markets, and clearing and settlement systems, plays an important role in a nation's economy. Sound and efficient financial systems can make a significant contribution to economic growth. But as we have seen in many countries in recent years, a financial system that is not soundly based can make problems that originate elsewhere in the economy much worse and can even be the source of problems itself.

The Bank of Canada is one of several federal and provincial agencies and organizations in Canada that promote the safety and efficiency of our financial system. Each one brings a specialized expertise to this activity. The Bank contributes a broad perspective that reflects the major activities in which it is engaged. As the monetary authority, the Bank brings a macroeconomic or systemwide point of view to issues concerning the financial sector, as well as extensive knowledge of financial markets. As the source of ultimate liquidity to the financial system (and, thus, the lender of last resort) the Bank is acutely aware of stresses that can develop in the system during times of financial turbulence. And, as the overseer of clearing and settlement systems that could pose significant risk to the financial system, the Bank has developed expertise in the design and operation of arrangements to control this risk. Finally, as fiscal agent for the Government of Canada, the Bank has a particular interest in well-functioning government debt markets.

The Bank devotes considerable resources to assessing developments and trends in both domestic and international financial systems. As the oversight agency for key clearing and settlement systems and as a participant in interagency committees, the Bank is also very involved in the policy and infrastructure developments that affect the financial system. Bank staff conduct extensive research in these areas, which enables us to better understand ongoing developments and to contribute to good policy-making. The goal of the *Financial System Review (FSR)*, which will be issued semi-annually by the Bank, is to share with financial system participants and the Canadian public the Bank's research, analyses, and judgments on various issues and developments concerning the financial system. Our hope is that through this publication, the Bank will contribute to greater understanding of such issues and promote a more informed discussion of policy and developments in Canada and abroad.

With the publication of the *FSR*, the Bank of Canada is taking another step towards increased openness and transparency. Indeed, a number of central banks and the IMF already issue similar reports, which have proven useful to those with an interest in the financial sector in their countries and around the world, and have improved awareness and discussion of developments in the financial system. We hope that the *FSR* will contribute to such a dialogue in Canada and that, working together, the public and private sectors can enhance the efficiency and stability of the Canadian financial system.

Charles Freedman
Deputy Governor and Chair
of the Editorial Committee of the
Financial System Review