

BOARD OF DIRECTORS TERMS OF REFERENCE

1. CREATION

The Board of Directors of the Bank of Canada (the “Board”) is established pursuant to Section 5 of the *Bank of Canada Act* (the “Act”).

2. MEMBERS

The membership of the Board is determined by Section 5 and Section 9 of the Act.

3. DUTIES AND RESPONSIBILITIES

The Bank of Canada (the “Bank”) is established under the *Bank of Canada Act* (the “Act”). The Act also establishes the various businesses in which the Bank shall engage. Section (5)1 of the Act provides that “The Bank shall be under the management of a Board of Directors...”. The Act also provides in Section (8)1 that “The Governor of the Bank is the chief executive officer of the Bank and on behalf of the Board has the direction and control of the business of the Bank with authority to act in connection with the conduct of the business of the Bank in all matters that are not by this Act or by the by-laws of the Bank specifically reserved to be done by the Board or by the Executive Committee”.

It follows from these two sections that the Board has certain specific powers, set out in the Act, that fall outside the authority of the Governor while the Governor has authority to act in all other businesses of the Bank. These businesses include the formulation and implementation of monetary policy, the provision of fiscal agent services to the government, the issue of currency and the provision of liquidity to the financial system. The powers reserved by the Act for the Board relate chiefly to the direction of the internal financial management and administration of the Bank and include policies with regard to staff, budget matters, internal practices, accounting and the operation of the Board. The Board and the Governor work in close cooperation in all matters since the control of financial and administrative matters by the Board may impinge on the ability of the Governor to conduct a certain business of the Bank, and vice versa.

In addition to its specific powers, the Board also has a general interest in all aspects of the Bank's management. In areas which fall under the authority of the Governor, this interest takes the form of oversight and advice. The Board exercises such oversight in part in order to assess management and to ensure that it is performing competently. This oversight also provides an opportunity for the Board to reflect its view of the public interest in advising the Governor as to how the Bank can best fulfil its responsibilities.

In particular, and without limiting the foregoing, through the various committees the Board exercises responsibility in the following areas:

3.1 Appointment of Senior Management

- (a) Pursuant to Section 6 of the Act, the Board appoints the Governor and Senior Deputy Governor with the approval of the Governor in Council and approves their terms of employment.
- (b) Pursuant to Section 7 of the Act, the Board approves the appointment and the terms of employment of Deputy Governors.
- (c) Pursuant to Section 15 of the Act and By-law 11, through the Human Resources and Compensation Committee and the Executive Committee, the Board receives quarterly reports concerning promotions and other changes for senior officers of the Bank (SO1-SO3) and an annual report concerning staffing and employment matters.

3.2 Strategic Planning, Budget Approval, Stewardship and Risk

- (a) The Board provides advice to management on the development of the Bank's Medium-Term Plan (MTP) including a discussion of the trends and challenges that may help shape the MTP and the proposed strategic direction and priorities for the Bank. The Board approves the MTP and any significant changes to it.
- (b) The Board reviews the annual Stewardship Report with a view to evaluating progress toward the achievement of the strategic objectives with special emphasis on analysis of activities to draw lessons for the future. As part of the Stewardship exercise, the Board comments on the performance of Deputy Governors to inform the performance ratings assigned by management. Once finalized, management reports on the ratings to the Human Resources and Compensation Committee.
- (c) The Board reviews and comments on the Governor's Annual Report to the Minister.
- (d) On an annual basis, the Board ensures that the Bank identifies the key areas of risk that could compromise the achievement of the strategic objectives and the measures taken to manage these risks. Once per year the Board carries out an assessment of current risks on a functional basis.

3.3 Audit and Finance

Having regard to the recommendations of the Audit and Finance Committee, the Board shall approve, if it deems to be appropriate:

- (a) The annual audited financial statements of the Bank.
- (b) The form of statement of accounts, pursuant to Section 35 of the Act.
- (c) The accounting principles to be used in the presentation of the annual statement as required by By-Law 14.
- (d) The annual audit plans and terms of engagement of the external auditors for the annual audit and review engagements of the financial statements of the Bank as well as the remuneration to be paid to the external auditors therefor.
- (e) The remuneration to be paid to the external auditors in respect of their annual audit for the statement of Government of Canada Debt Outstanding and for the Exchange Fund Account based on Management's approval of the audit plan and terms of engagement for such audit..
- (f) The scope, terms of engagement and remuneration to be paid to the external auditors for any special audit requests.

- (g) The annual budget for the Bank.

3.4 Other Human Resources and Compensation Matters

Having regard to the recommendations of the Human Resources and Compensation Committee, the Board shall approve, if it deems to be appropriate:

- (a) The human resources policies, practices and organizational structures, all of which should provide consistency with the strategic plan, support operational effectiveness and efficiency, and maximize human resources potential.
- (b) The Bank's total compensation arrangements including but not limited to retirement benefits¹, annual salary budgets; special market adjustments; performance pay; and review of the market comparator groups.
- (c) Management succession planning, management/leadership development, and talent management/workforce planning strategies.
- (d) Termination and severance policies/arrangements.
- (e) The performance of Governing Council against the annually established duties and objectives.
- (f) The remuneration, benefits and other conditions of employment of the Governor and the Senior Deputy Governor.
- (g) Any report of the Human Resources and Compensation Committee for possible publication.

3.5 Pension Plan

The Bank is both the sponsor and administrator of the Bank of Canada Pension Plan and the Supplementary Pension Arrangement (collectively, the "Plans"). The Board provides oversight of the Bank's activities in carrying out both of these roles and establishes such policies, procedures and strikes such committees as deemed necessary to exercise its oversight responsibilities. The Board's role in the governance of the Plans is set out in the *Bank of Canada Pension Governance Policy*, adopted by the Board on 22 September 2011, as amended from time to time.

3.6 Corporate Governance

Having regard to the recommendations of the Corporate Governance Committee, the Board shall approve, if it deems to be appropriate:

- (a) The terms of reference of the Board, its committees and the Lead Director.
- (b) The composition of the committees of the Board.
- (c) The appointment of the Chair of each Board committee.
- (d) The process for evaluating Board effectiveness.
- (e) The Board profile.

¹ Any amendments to the Pension Plan and the Supplementary Pension Arrangement that are required by applicable legislation or to give effect to pension benefits would be reviewed and recommended to the Board by the Pension Committee.

- (f) The Board related policies, such as travel, expense and conflict of interest guidelines.
- (g) The remuneration and allowances of directors.
- (h) Governance documents relating to business conduct and ethics (i.e. *Code of Business Conduct and Ethics for Directors, Bank Code of Business Conduct and Ethics, etc.*)

3.7 Lead Director

According to the *Process for the Selection of Lead Director* attached to the *Lead Director Terms of Reference*, the Board formalizes the selection of the Lead Director by the directors appointed under Section 9 of the Act.

As outlined in the *Lead Director Terms of Reference*, inter alia, the Lead Director leads the process (which is established by the Corporate Governance Committee), for the Board's annual self-evaluation.

3.8 Ethical Values

The Board ensures that policies are in place to ensure the corporation operates at all times within applicable laws and regulations and with due regard to ethical standards. This includes laws relating to employee health and safety, human rights, environmental protection and standards relating to conflicts of interest.

3.9 Oversight and Advice

- (a) The Board informs itself on an ongoing basis regarding all significant activities of the Bank.
- (b) In activities which fall under the authority of the Governor, including monetary policy, the Board considers and evaluates the general manner in which they are conducted.
- (c) In such activities the Board may contribute advice, including its sense of the public interest, in regard to how the Bank can best fulfil its responsibilities.

4. CHAIRPERSON

Under the Act, Section 12, the Governor is Chairperson of the Board and in his absence, under Section 8, the Senior Deputy Governor acts as Chairperson.

5. MEETING

The Board may determine the frequency and time of its meetings. By-law 1 provides for a minimum of four meetings per year. Board members may participate in a meeting of the Board by means of such telephonic, electronic or other communication facilities as permit all persons participating in the meeting to communicate adequately with each other, and a member participating in such a meeting by any such means is deemed to be present at that meeting.

6. QUORUM

The Board may determine the quorum and the method for deciding resolutions. By-law 3 provides that a quorum shall be six directors appointed pursuant to Section 9 of the Act plus either the Governor or Senior Deputy Governor.

7. DECISIONS

By-law 7 provides that the Board shall ensure that minutes are kept, recording the resolutions and proceedings of all meetings. Such records shall be kept in the custody of the Corporate Secretary of the Bank.

APPROVED BY RESOLUTION OF THE BOARD AT ITS MEETING ON
10 DECEMBER 2015.