

**BANK OF CANADA
TERMS OF REFERENCE
PENSION COMMITTEE**

1. INTRODUCTION

The Bank of Canada (the “Bank”) is the administrator of the Bank of Canada Pension Plan (the “Pension Plan”) and the Bank of Canada Supplementary Pension Arrangement (the “SPA”) (collectively, the “Plans” and, singly, a “Plan”), and accordingly has established and maintains trust funds in respect of each of the Pension Plan and the SPA (the “Funds”). All benefits are calculated and paid out in accordance with the terms of the Pension Plan. The SPA supplements the pensions of those employees whose contributions and benefits exceed the maximum prescribed by the *Income Tax Act* (Canada) (“ITA”). Its terms mirror those of the Pension Plan. The Bank is also the sponsor of the Pension Plan and the SPA and performs and exercises in connection with the Pension Plan and the SPA all powers and all authorities of a Plan sponsor.

As provided for in the *Bank of Canada Pension Governance Policy* (the “Policy”), the Bank's Board of Directors (the “Board”) has established a Pension Committee (“Committee”) and has delegated to it the responsibility for carrying out the Bank's duties as administrator of the Plans and the Funds, as well as certain of the Bank's duties as sponsor of the Plans, as set out in the Policy and these Terms of Reference. The Committee shall comply with the Policy in carrying out its duties set out in these Terms of Reference.

2. GOVERNANCE

(a) Committee Membership

(i) The Committee shall comprise the Senior Deputy Governor and the following members appointed by the Board:

- not less than three or more than five directors appointed pursuant to section 9 of the *Bank of Canada Act* (“Independent Directors”); and
- three other senior officers of the Bank, as may be proposed by Bank Management.

(ii) A member shall hold office until he or she resigns, is replaced, removed or ceases to be a director.

(iii) Members of the Committee who are not officers or employees of the Bank shall be paid the same per diem rate as paid to Directors of the Bank serving on other committees of the Board and shall be reimbursed for their reasonable out-of-pocket expenses incurred in connection with the Committee in accordance with the Board's prevailing reimbursement policies.

(iv) The Committee shall be comprised of such persons who shall, individually or collectively, possess the requisite skills, knowledge or expertise deemed necessary or desirable by the Board for service on such a committee. These may include, but shall not necessarily be limited

to, the following areas of knowledge or expertise: financial/accounting, investment, legal, regulatory, governance, pension expertise, payroll/tax and human resource management.

(b) Chair

The Chair of the Committee ("Chair") shall be the Senior Deputy Governor and, if the Senior Deputy Governor is absent or otherwise unable to act as Chair, the Committee shall select another of its members to act as Chair in the absence of the Senior Deputy Governor.

(c) Secretary

The Corporate Secretary or an Assistant Secretary of the Bank, or such other qualified person as may be designated by the Chair, shall act as Secretary to the Committee.

(d) Meetings

The Committee shall establish the date, time and place of its meetings, but shall meet no less frequently than quarterly, and at such other times upon written or verbal notice from the Chair. If the position of Chair is vacant, a member of the Committee may call a special meeting. The Committee may make a decision without holding a meeting by means of a decision unanimously consented to in writing. Members of the Committee may participate in a meeting of the Committee 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.

(e) Records

The Committee shall keep minutes of its meetings. The minutes of the Committee meetings shall be duly entered in the books of the Bank. Such books shall remain in the custody of the Corporate Secretary of the Bank.

(f) Quorum

A majority of members of the Committee, of whom not less than two shall be Independent Directors, constitute a quorum for the transaction of business.

(g) Regular Reports to the Board

(i) The Chair shall report to the Board concerning matters within the Committee's purview at such times as the Board may determine, or as the Chair deems necessary or desirable in order to ensure that information that is material in nature is communicated to the Board in order to allow timely decisions to be made on required Plan governance issues.

(ii) Any report of the Committee to the Board will include the following information as necessary:

- a summary of the activities of the Committee since the last report including a description of any material issues or matters addressed or considered by the Committee, as raised by the Pension Administration Committee and/or the Pension Fund Investment Committee;
- any conflict of interest encountered or reported and its disposition;
- an update on the performance of the Funds;

- if there has been any change in any Investment Manager contemplated in subsection 9(g) during the relevant period, a summary of the factors leading up to the decision for such change, a description of the process that was undertaken to implement such change and a summary of the factors that influenced the decision of the Committee in selecting any new Investment Manager; and
- if there has been any change in any third-party providers of pension-related services during the relevant period (other than changes in Investment Managers), including actuaries, auditors, trustees, custodians, pension consultants and outsourcers of pension administration, a report on such change.

3. BOARD APPROVALS

As delegate of the Board's responsibilities with respect to the Plans, the Committee shall submit the following matters for approval by the Board:

- any amendment to or termination of the Plans, including any merger or consolidation of the Plans with new or existing plans or any transfer of assets to or from any other plans;
- the appointment of the Plan auditors;
- the audited financial statements of the Plans;
- the Statement of Investment Policies and Procedures ("SIPP") for the Plans, containing any such amendments recommended by the Committee;
- any matters relating to Plan design or Plan costs; and
- any funding policy for the Plans, including, but not limited to:
 - asset and liability management, and
 - significant matters relating to Plan funding, such as contribution holidays, use of surplus, and solvency funding.

The Committee may also submit such other policies or recommendations for the Board's review and approval as required elsewhere in these Terms of Reference, the Policy, as may be deemed appropriate by the Committee, or as may be directed by the Board.

4. STANDARD OF PERFORMANCE

While acting as the delegate of the Bank in its capacity as administrator of the Plans, the Committee shall exercise, in the administration of the Plans and in the administration and investment of the Funds, the degree of care that a person of ordinary prudence would exercise in dealing with the property of another person. The members of the Committee who possess, or by reason of profession or business ought to possess, a particular level of knowledge or skill relevant to the administration of a pension plan or pension fund shall employ that particular level of knowledge or skill in the administration of the Plans and the Funds.

Members of the Committee may rely in good faith on the financial statements of the Plans and the Funds prepared by an accountant, or a written report of the auditor or auditors of the Plans and the Funds that have been represented to the members of the Committee as fairly reflecting the financial condition of the Plans or the Funds, as the case may be. The members of the Committee may rely in good faith on a report of an accountant, an actuary, a lawyer, a notary or other professional person whose profession lends credibility to the report.

5. COMPLIANCE WITH POLICIES

Members of the Committee shall comply with the *Code of Conduct and Plan-Related Conflict of Interest Policy for Participants* as set out in section 8 of the Policy.

6. ESTABLISHMENT OF SUBSIDIARY COMMITTEES

The Committee has established the Pension Administration Committee (“PAC”) and the Pension Fund Investment Committee (“PFIC”) as subsidiary committees. The Committee may strike such other committees as it may deem necessary to fulfill its responsibilities. The Committee shall ensure that each subsidiary committee adopts and maintains written terms of reference consistent with these Terms of Reference and shall otherwise monitor the activities of each subsidiary committee.

7. DELEGATION

If the Committee determines that it is reasonable and prudent in the circumstances, it may:

- (a) delegate to the PAC and the PFIC established in accordance with these Terms of Reference, such of its responsibilities and functions as the Committee may consider appropriate, subject to the documentation of such delegation in the Terms of Reference of any such committee and approval by Corporate Governance Committee of the Board; and
- (b) delegate to any director, officer or employee of the Bank, including the Pension Plan Director, or to any committee established by it or to any outside agent any act required to be done by it in connection with the administration of the Plans, or in the administration and investment of the Funds.

8. MEMBER EDUCATION AND ORIENTATION

The Committee shall establish and implement an appropriate orientation program for its members that shall include an overview of the Plans and the statutory and regulatory framework applicable to the Plans. In addition, it shall implement and monitor such ongoing training for its members and the members of PFIC and PAC to whom the Committee has delegated responsibilities, as it deems appropriate.

9. DUTIES OF COMMITTEE

The Committee is generally responsible for monitoring the administration of the Plans, ensuring the administration of the investments of each Fund in accordance with the provisions of the relevant Plan and the trust agreements for the Funds, as the case may be, and all applicable legislation and performing, or ensuring the performance of, the duties and obligations of the Bank, as administrator of the Plans. The Committee is also responsible for certain Plan sponsor

duties and obligations, as set out in these Terms of Reference, including duties relating to Plan amendments, funding matters and approval of actuarial assumptions.

Without limiting the generality of the foregoing, the Committee shall have the following specific duties:

- a) **Benefits Administration:** The Committee shall ensure that an appropriate system of pension benefit administration is implemented and maintained, to ensure proper payment of benefits in accordance with the Plan terms and applicable legislation.
- b) **Plan Documentation and Amendments:** The Committee shall ensure that all Plan documentation is appropriately maintained and filed in accordance with applicable legislative requirements. All proposed amendments to a Plan shall be reviewed by the Committee, which shall make recommendations in respect thereof to the Board.¹
- c) **Communication and Stakeholder Relations:** The Committee shall ensure that an appropriate program of stakeholder communication is implemented and maintained, which shall reflect and include compliance with statutory disclosure obligations.
- d) **Funding Matters:** With respect to all funding matters, the Committee shall retain qualified experts and make appropriate recommendations to the Board, and without limiting the generality of this obligation, shall seek the approval of the Board with respect to the funding policy for the Plans, the cessation of employer pension contributions that is not mandated by legislation, the disposition of any surplus and actions relating to solvency funding.
- e) **Statements of Investment Policies and Procedures for Funds:** Each Fund shall be subject to a written SIPP. The Committee shall review and approve each SIPP at least annually. Each SIPP and any amendment thereto shall be approved by the Board prior to implementation.
- f) **Internal Investment Guidelines:** The Committee shall adopt Internal Investment Guidelines ("IIG") governing investment of the assets of the Funds and shall, at least annually, review the IIG and approve such changes thereto as it considers appropriate.
- g) **Appointment of Investment Managers:** The Committee will retain one or more competent, professional investment managers to invest all or a portion of the Funds and may replace such investment managers from time to time as it deems in the best interests of the Funds. As contemplated in subsection 2 (g) (ii), such replacement shall be reported to the Board. All or part of the Funds may be managed in-house.
- h) **Monitoring and Supervision of Investment Managers:** The Committee will monitor and supervise the performance of investment managers it retains.
- i) **Selection of Fund Trustees:** The Committee shall, after receiving any recommendations from the PFIC, select one or more trustees to serve as custodians of the assets of the Funds. The Committee may retain and replace such trustee or trustees from time to time as it believes appropriate.

¹Changes to Plan benefits are the responsibility of the Human Resources and Compensation Committee and are recommended to the Board for approval. Any related Plan amendments are reviewed by the Committee and recommended to the Board for approval as noted in subsection 9. b).

- j) **Appointment of Actuaries:** The Committee shall retain competent professional actuaries and replace such actuaries from time to time as it deems in the best interests of the Plans and the Funds.
- k) **Approval of Actuarial Assumptions:** The Committee shall review and, where appropriate, approve major economic actuarial assumptions for valuations and updates provided by the Bank's Financial Services Department.
- l) **Recommendation of Auditors:** The Committee shall recommend to the Board a firm of Chartered Professional Accountants who shall audit the Funds as required by the provisions of applicable legislation or as directed by the Board.
- m) **Retention of Third-Party Providers or Advisers:** The Committee shall select, retain and replace such third-party advisers or providers of pension-related services (other than investment managers and trustees) as the Committee may consider appropriate or in the best interests of the Plans and the Funds.
- n) **Pension Plan Director:** The Committee shall ensure that the Bank retains a competent Pension Plan Director to oversee the administration of the Plans. The Committee, directly, or through one of the committees contemplated in section 7, will oversee the employment of such director and will be advised in a timely fashion of the termination or end of the director's employment.
- o) **Plan Expenses:** The Committee shall adopt an Expense Policy governing the expenses to be paid from the Pension Plan and shall review it, not less than once every three years, and shall approve such changes thereto as it considers appropriate.
- p) **Compliance:** The Committee shall ensure that the Plans and the Funds are administered in compliance with their terms and prevailing statutory requirements.
- q) **Governance Review and Assessment:** The Committee shall review the pension governance processes and procedures of the Bank, including these Terms of Reference, on a regular basis, and in any case not less than once every five years, and shall make such recommendations to the Board with respect thereto as it considers appropriate and in the best interests of the Plans.
- r) **Subsidiary Committees:** The Committee shall review and approve, at least annually, the terms of reference of any subsidiary committee contemplated in section 6.

In reviewing and approving any of the matters set out above, the Committee shall take such advice as necessary from either the PAC or the PFIC, or any other committee it may strike, as it deems appropriate and in keeping with the terms of reference of such committees.

10. AMENDMENTS

The Board may amend these Terms of Reference from time to time.