

PAYMENTS CANADA

AUDIT AND FINANCE COMMITTEE TERMS OF REFERENCE

1. DUTIES AND RESPONSIBILITIES

The Audit and Finance Committee (the “Committee”) is a standing committee of the Payments Canada Board of Directors (the “Board”), which will generally assist the Board in fulfilling its responsibilities in relation to the following:

- (i) Financial monitoring and audits; and
- (ii) Financial planning.

The Committee will carry out and report to the Board regarding the following responsibilities:

(a) Financial Monitoring and Audits

- (i) Satisfy itself that Payments Canada has established a sound internal control environment and appropriate financial procedures and controls to maintain the integrity of its financial reporting;
- (ii) Monitor income and expenditure flows against approved budget during each fiscal year;
- (iii) Review significant financial statement variances from the budget and from prior years;
- (iv) Oversee the preparation of financial statements, including completeness, accuracy and timeliness, for presentation to the Board and annual meetings of Members;
- (v) Review and recommend to the Board for its approval the appointment, termination and replacement of the auditors of the financial statements and the registered pension plan open to the employees of Payments Canada (the “Plan”);
- (vi) Oversee external audits by:
 - (1) Reviewing the scope of the audit and the general audit approach annually with the external auditor;

- (2) Reviewing the results of the audit with the external auditors as well as significant findings identified by the external auditors together with management's responses;
 - (3) Reviewing Payments Canada's audited financial statements, and the audited financial statements of the Plan; and discussing significant issues regarding accounting principles, practices and significant management estimates and judgments with management and the external auditors;
 - (4) Reviewing the integrity of the organization's financial reporting processes and systems of internal control annually with the external auditors and Payments Canada;
 - (5) Reviewing the independence and performance of the external auditors on an annual basis; and
 - (6) Meeting with the auditors at least once per year without representatives of Payments Canada present;
- (vii) Review and recommend to the Board for its approval the annual audited financial statements of Payments Canada and the annual audited financial statements of the Plan; and
- (viii) Oversee internal audits by:
- (1) Annually reviewing and recommending a 3 year risk-based internal audit plan to the Board;
 - (2) Reviewing the results of internal audits with the internal auditor, significant findings identified by the internal auditor and management's responses, and reports of the internal auditor on the status of management's remediation activities;
 - (3) Annually reviewing the performance of the internal audit function and reporting to the Board;
 - (4) Regularly meeting in camera with the internal auditor; and
 - (5) Reviewing the independence and performance of the internal auditor on an annual basis and recommending the appointment or discharge of the internal auditor to the Board.

(b) Financial Planning

- (i) Oversee the development and presentation of the five-year corporate plan, and the annual operating and capital budgets of Payments Canada;
- (ii) Oversee the development and presentation of any proposals for budget amendments within each fiscal year;
- (iii) Review and make recommendations in accordance with the by-laws of Payments Canada relative to the calculation and assessment of common service dues and transaction fees in each fiscal year;
- (iv) Review and make recommendations on service fees as may be revised or otherwise implemented from time to time;
- (v) Review and make recommendations to the Board with respect to major capital expenditures;
- (vi) Make recommendations on policies relating to the investment of surplus funds and borrowing; and
- (vii) Oversee financing arrangements, including borrowing, financing, and investment related activities.

(c) Projects

Monitor, oversee and make recommendations to the Board in relation to any project in respect of which the Board delegates oversight to the Committee.

2. MEMBERSHIP

(a) Chairperson

The Board will appoint one member who is qualified to be Chair of the Committee, to serve until the next annual election of directors or otherwise until his or her successor is duly appointed. If, following the election of directors, in any year, the Board does not appoint a Chair of the Committee, the incumbent Chair of the Committee will continue in office until a successor is appointed. In the event the Chair is unable to act as Chair at any meeting of the Committee, the members of the Committee present at the meeting will elect an acting Chair of the meeting from their number on a majority basis.

(b) Composition

The Committee will have four (4) members, with at least one independent director (other than Board Chair) as referred to in paragraph 8(1)(d) of the *Canadian Payments Act* and at least one member director. Members of the Committee should be financially literate (able to read and understand financial statements) and prepared to spend the time necessary to address complex issues and to challenge both Payments Canada and auditors, when necessary. At least one member of the Committee should have advanced, executive level financial management expertise. The Board Chair is an *ex officio* non-voting member of the Committee.

(c) Non-Member Attendance

The President and CEO will be invited to attend the open portion of all Committee meetings and may be invited to *in camera* portions of meetings on the invitation of the Committee Chair. Other members of the Board may attend Committee meetings, with notification to the Committee Chair and Corporate Secretary. The Committee may, at its discretion, invite non-Committee members to attend all or part of any meeting.

(d) Removal and Vacancies

Any member of the Committee may be removed and replaced at any time by the Board. The Board will fill vacancies on the Committee as soon as it is reasonably practical to do so among the members of the Board eligible to fill the vacancy. If and whenever a vacancy exists on the Committee, the remaining members may exercise all its powers so long as a quorum remains in office.

(e) Term

Each member of the Committee will hold office until the earlier of:

- (i) The next annual meeting;
- (ii) The date the member ceases to be a director; or
- (iii) The date the director is removed from the Committee in accordance with subsection 2(d), above.

3. MEETINGS

(a) Scheduling and Calling of Meetings

Generally, Committee meetings will be scheduled to coincide with regularly scheduled Board meetings throughout the year, in the same location as the Board meeting. The Chair of the Committee, or any 2 of its members, may call additional meetings of the Committee, to address any matter of importance to the Committee that cannot be addressed during regularly scheduled meetings by providing 7 days notice to all members of the Committee and to Payments Canada. Committee meetings may be held at any place in Canada. With permission of the Committee Chair, on an exceptional basis, meetings may be held and members may attend meetings by electronic/telephonic means.

(b) Meeting without Notice

When required, the Committee may hold a meeting without notice if all members of the Committee agree to waive notice.

(c) Secretary

The Corporate Secretary of Payments Canada will, subject to any contrary direction of the Committee, act as secretary of the Committee.

(d) Quorum

A quorum at any meeting will be a simple majority of committee members, calculated using the number of committee members appointed at the most recent Board organizational meeting.

(e) Voting

At all meetings of the Committee, every question put to a vote will be decided by a majority of the votes cast on the question. In case of a tie, the Chair of the Committee will not have a second vote.

(f) In Camera Meetings

At every meeting, the Committee will hold in camera meetings with the President and CEO, and without representatives of Payments Canada present, to discuss any matter.

(g) Reporting

The Committee will report regularly to the Board on all significant matters it has addressed. The Committee will circulate minutes of its meetings to all directors in a timely fashion. Minutes circulated to non-Committee members may be redacted as required to address sensitive, confidential or personnel matters not reasonably required to be known (in writing) by the other directors.

(h) External Advisors

With approval of the Board, the Committee may retain such advisors, consultants and other experts as are reasonably required to assist the Committee in fulfilling its duties.

4. WORK PLAN

Annually, the Committee shall establish a work plan for the coming year that sets out the major tasks of the Committee for each of its planned meetings, for review and approval by the Board.

5. ASSESSMENT

At least annually, the Committee will assess its effectiveness in fulfilling its responsibilities and duties as set out in these Terms of Reference.

6. OVERSIGHT OF POLICIES

The Committee is currently responsible for overseeing and recommending changes to the Board in respect of the following policies:

- (i) Resolution for Banker and Signing Officers;
- (ii) Delegation of Authority Policy (including execution of instruments);
- (iii) Investment Policy;
- (iv) Reserve Fund Policy;
- (v) External Audit Firm Independence Policy; and
- (vi) Such other policies and guidelines as the Committee may establish from time to time.

7. REVIEW

Annually, the Committee will review these Terms of Reference to assess whether they accurately describe the duties and responsibilities of the Committee, and shall either confirm or recommend changes to the Terms of Reference to the Board.

REVISION HISTORY:

Approved: November 30, 2000

Revised: June 2007

December 5, 2013

March 19, 2014

December 3, 2015 and updated in June 2016 with new brand

December 1, 2016

February 23, 2017

June 22, 2017

November 29, 2018

November 28, 2019