



CPP
INVESTMENT
BOARD

TERMS OF REFERENCE FOR THE BOARD

APRIL 5, 2006

TERMS OF REFERENCE FOR THE BOARD

1.0	INTRODUCTION AND PURPOSE.....	1
2.0	PROCEDURES AND ORGANIZATION	1
2.1	Delegation to Management	1
2.2	Board Affairs	1
2.3	Delegation to Board Committees.....	2
3.0	DUTIES AND RESPONSIBILITIES.....	2
3.1	Investment Statement and Policies	2
3.2	Conflicts of Interest.....	2
3.3	Management Oversight.....	3
3.4	Strategy and Plans	4
3.5	Policies and Procedures	4
3.6	Auditor	5
3.7	Compliance Reporting and Corporate Communications	5
4.0	LEGAL OBLIGATIONS OF THE BOARD.....	6
4.1	Requirements of the Act.....	6
4.2	Other Statutory Duties and Obligations	7
4.3	Directors' Liability	7
5.0	BOARD TIMETABLE	7

TERMS OF REFERENCE FOR THE BOARD

1.0 INTRODUCTION AND PURPOSE

The objects and powers of the CPP Investment Board are outlined in the **Act** and include the following responsibilities:

- (a) to assist the CPP in meeting its obligations to contributors and beneficiaries under the CPP;
- (b) to manage amounts transferred to the CPP Investment Board under section 108.1 of the CPP in the best interests of CPP contributors and beneficiaries; and
- (c) to invest the CPP Investment Board's assets with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the factors that may affect the funding of the CPP and the ability of the CPP to meet its financial obligations on any given business day.

The **Act** prohibits the CPP Investment Board from carrying on any business or activity or exercising any power that is inconsistent with its objects or that the CPP Investment Board is restricted by the **Act** from carrying on or exercising, and provides that the CPP Investment Board shall not exercise any of its powers in a manner which is contrary to the **Act**.

The **Act** also states that the Board “shall manage or supervise the management of the business and affairs” of the CPP Investment Board. In supervising the conduct of the business, the Board, through the President, will set the CPP Investment Board standards of conduct and ensure the integrity of its operations.

These terms of reference are designed to clarify the Board’s responsibilities. The Board has also adopted **Guidelines for the Board** which provide elaboration upon the **Terms of Reference for the Board**.

2.0 PROCEDURES AND ORGANIZATION

2.1 Delegation to Management

The Board operates by delegating to Management certain of its authorities, including spending authorizations, and by reserving certain powers to itself.

2.2 Board Affairs

The Board retains the responsibility for managing its own affairs including:

- (a) providing advice to the Governor in Council regarding the selection of the Chairperson;
- (b) providing advice to the Governor in Council regarding criteria to consider in making appointments to the Board;

TERMS OF REFERENCE FOR THE BOARD

- (c) appointing, and filling vacancies on Board Committees; and
- (d) determining Chairperson and Director compensation.

2.3 Delegation to Board Committees

Subject to the By-laws and the **Act**, the Board may constitute, seek the advice of, and delegate powers, duties and responsibilities to Board Committees.

The Board may not delegate to Board Committees the power to:

- (a) adopt, amend or repeal By-laws;
- (b) establish the CPP Investment Board's Investment Statement or Investment Policies;
- (c) fill a vacancy in a Board Committee or in the office of the auditor of the CPP Investment Board;
- (d) appoint Officers and/or fix their remuneration; or
- (e) approve the CPP Investment Board's annual financial statements and any other financial statements issued by the CPP Investment Board.

3.0 DUTIES AND RESPONSIBILITIES

3.1 Investment Statement and Policies

The Board has responsibility to establish the CPP Investment Board's Investment Statement and Investment Policies and review and approve these documents at least annually.

3.2 Conflicts of Interest

The Board has responsibility to:

- (a) establish a code of conduct for Officers and Employees;
- (b) establish a code of conduct for Directors;
- (c) establish procedures for identifying potential conflicts of interest and resolving such conflicts;
- (d) designate a Board Committee to monitor application of the:
 - (i) Code of Conduct and Conflict of Interest Procedures for Officers and Employees; and

TERMS OF REFERENCE FOR THE BOARD

- (ii) **Code of Conduct and Conflict of Interest Procedures for Directors;** and
- (e) review and approve these documents when warranted.

3.3 Management Oversight

The Board has responsibility:

- (a) in respect of the President to:
 - (i) select, appoint and replace the President;
 - (ii) monitor and evaluate the President's performance annually;
 - (iii) approve the President's compensation (including salary adjustments and Incentive Compensation Awards) annually;
 - (iv) review the President's succession plans for Officers;
 - (v) to the extent feasible, satisfy itself as to the integrity of the President and that the President creates a culture of integrity throughout the CPP Investment Board; and
 - (vi) provide advice and counsel to the President in the execution of the President's duties.
- (b) in respect of Management and in consultation with the Human Resources and Compensation Committee and the President to annually:
 - (i) review and approve compensation framework for the CPP Investment Board;
 - (ii) review and approve compensation ranges for Officers;
 - (iii) review and approve incentive compensation plan for Employees;
 - (iv) review and approve the President's proposed salary adjustments and Incentive Compensation Awards for Employees who are Management and report directly to the President;
 - (v) to the extent feasible, satisfy itself as to the integrity of Management and that Management creates a culture of integrity throughout the CPP Investment Board; and
 - (vi) review and approve the executive compensation disclosure in the Annual Report.
- (c) in respect of Management and in consultation with the Human Resources and Compensation Committee and the President to, when warranted:
 - (i) review and approve major changes in the organizational structure of Management;
 - (ii) review and approve position descriptions of Officers; and

TERMS OF REFERENCE FOR THE BOARD

- (iii) review and approve appointments of Officers;
- (d) in respect of development and succession plans and in consultation with the Human Resources and Compensation Committee and the President, to require Management to make development and succession plans for Officers annually;
- (e) in respect of Employee Benefits in consultation with the Human Resources and Compensation Committee and the President, to review Employee Benefits and approve changes when warranted;
- (f) in respect of Employee Pension Plans and in consultation with the Human Resources and Compensation Committee and the President, to:
review and approve a plan design change(s) that constitute a change(s) in the amount or nature of the retirement benefit, as warranted;

3.4 Strategy and Plans

The Board has the responsibility to:

- (a) review and approve the strategic plan;
- (b) review and approve the Business Plan annually;
- (c) review progress in achieving the goals established in the strategic plan and Business Plan; and
- (d) alter the CPP Investment Board's direction, through Management, in light of changing circumstances.

3.5 Policies and Procedures

The Board has responsibility to:

- (a) require Management to:
 - (i) identify the principal risks of the CPP Investment Board's business; and
 - (ii) take all reasonable steps to ensure the implementation of appropriate systems to manage these risks;
- (b) direct Management to ensure systems are in place for maintaining the integrity of and implementing the CPP Investment Board's internal financial control and management information systems;
- (c) approve and monitor compliance with all major policies and procedures which govern the CPP Investment Board's operations;

TERMS OF REFERENCE FOR THE BOARD

- (d) direct Management to implement systems designed to ensure the CPP Investment Board operates at all times within applicable laws and regulations, and to the highest ethical and moral standards; and
- (e) adopt, amend or repeal By-laws.

3.6 Auditor

- (a) The Board has responsibility to:
 - (i) appoint an auditor of the CPP Investment Board annually; and
 - (ii) cause an auditor's report to be prepared annually.
- (b) The auditor is required to be independent of the CPP Investment Board. While the **Act** recognizes that independence is a question of fact, a person is deemed not to be independent in certain situations. In particular, an auditor is not independent if the auditor or any of the auditor's business partners:
 - (i) is a business partner of the CPP Investment Board or any of its Subsidiaries;
 - (ii) is a business partner of any Director, Officer or Employee;
 - (iii) is a business partner of any director, officer or employee of any Subsidiary;
 - (iv) is a Director, Officer or Employee;
 - (v) is a director, officer or employee of any Subsidiary; or
 - (vi) has been a liquidator, trustee in bankruptcy, receiver or receiver and manager of any Subsidiary within the previous two years.

3.7 Compliance Reporting and Corporate Communications

The Board has responsibility to:

- (a) in respect of financial statements:
 - (i) approve the release of quarterly financial statements issued by the CPP Investment Board; and
 - (ii) approve annual financial statements issued by the CPP Investment Board;
- (b) approve the Annual Report which contains the information required by the **Act** and the **Regulations**;
- (c) ensure the CPP Investment Board holds a public meeting once every two years in each participating province to discuss the CPP

TERMS OF REFERENCE FOR THE BOARD

Investment Board's most recent Annual Report and to give interested persons an opportunity to comment on it;

- (d) ensure the financial performance of the CPP Investment Board is adequately and promptly reported and the financial results are reported fairly and in accordance with generally accepted accounting principles;
- (e) ensure the timely reporting of any other developments that have a material effect on the performance of the CPP Investment Board and as required under the **Act** and the **Regulations**; and
- (f) ensure the CPP Investment Board has the strategies and resources in place to enable the CPP Investment Board to communicate effectively with the general public and governments.

4.0 LEGAL OBLIGATIONS OF THE BOARD

4.1 Requirements of the Act

The CPP Investment Board's statutory mandate is to assist the CPP in meeting its obligations to contributors and beneficiaries and to manage and invest assets in the best interests of beneficiaries and contributors of the CPP with a view to achieving maximum rates of return without undue risk of loss. Given this statutory mandate, the Board must meet the high standards required of a fiduciary.

The **Act** requires Directors and Officers, in exercising their powers and discharging their duties, to:

- (a) act honestly and in good faith with a view to the best interests of the CPP Investment Board;
- (b) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances; and
- (c) employ the level of knowledge or skill that he or she possesses or ought to possess by reason of his or her profession or business.

The Board is responsible for directing Management to ensure legal requirements are met, and documents and records are properly prepared, approved and maintained.

Directors, Officers and Employees must meet high standards of skill, competence and ethical conduct in order to assist the CPP Investment Board in fulfilling its fiduciary mandate.

TERMS OF REFERENCE FOR THE BOARD

4.2 Other Statutory Duties and Obligations

Directors have specific statutory duties and obligations under employment, environmental, occupational health and safety, and financial reporting law as well as under the withholding provisions of taxation laws.

Such statutes either impose additional responsibilities on corporate directors or make such directors directly liable for the actions or failure to act of the corporation.

4.3 Directors' Liability

Generally speaking, statutes impose liability on directors in one of three ways.

4.3.1 Absolute Liability

For some offences, liability is imposed whether or not the director intended to commit the offence and, in some cases, whether or not the director even knew that the offence was being committed by the corporation. This type of absolute liability is not common and arises, for example, in connection with employee wages and vacation pay under certain provincial employment standards legislation.

4.3.2 Due Diligence Defence

The second type of offence imposes liability on directors unless they can demonstrate that they acted diligently. The so-called due diligence defence allows directors to avoid liability if they followed appropriate steps or adopted adequate procedures such as making appropriate enquiries, reviewing documentation, ensuring that appropriate controls or procedures are in place and consulting experts when necessary. The due diligence defence is available for a broad range of offences including certain environmental offences.

4.3.3 Authorization, Permission or Acquiescence

The third type of offence imposes liability on directors who “authorized, permitted or acquiesced” in the commission of an offence by the corporation. A defence is typically available to directors in such circumstances where the director can prove that they took all reasonable care to comply with their obligations and that they had an honest and reasonable belief that they had done so even if such a belief was mistaken.

5.0 BOARD TIMETABLE

The timetable on the following pages outlines the Board’s annual schedule of activities.

TERMS OF REFERENCE FOR THE BOARD

BOARD TIMETABLE

Cross Reference to Committee	Source			Fiscal 2007								
	Statute /Reg	Terms of Reference		Apr	May	June	Aug	Oct	Nov	Dec	Feb	
HRCC		2.2 (d)	Determine Directors' and Chairperson's Compensation								*	
		3.1	INVESTMENT STATEMENT AND POLICIES									
Investment			Review and approve, at least annually, the Investment Statement and the Investment Policies		*							
		3.2	CONFLICTS OF INTEREST									
Governance	8(2)		Receive report on effectiveness of conflict of interest policies, guidelines and procedures annually			*						
		3.3	MANAGEMENT OVERSIGHT									
HRCC		(a)	Select, appoint and replace the President; monitor and evaluate the President's performance; approve the President's compensation (including annual and long-term incentive compensation awards); review the President's succession plans for Officers; and provide advice and counsel to the President in the execution of the President's duties		*							
HRCC		(b)	Review and approve compensation principles for the CPP Investment Board; compensation ranges for Officers; incentive compensation plan for Employees; salary adjustments and incentive compensation awards for Employees who are Management and report directly to the President; and the executive compensation disclosure in the Annual Report		*							
HRCC	13(1)	(c)	Review and approve major changes in the organizational structure of Management; position descriptions of Officers; and appointment of Officers (ongoing)									
HRCC		(d)	Require plans are made for Management development and succession		*							
HRCC		(e)	Review Employee Benefits and approve changes when warranted		*							
HRCC		(f)(i)	Review and approve changes to the Employee Pension Plans design if the change constitutes a change in the amount or nature of the retirement benefit, as warranted									

TERMS OF REFERENCE FOR THE BOARD

Cross Reference to Committee	Source			Fiscal 2007							
	Statute /Reg	Terms of Reference		Apr	May	June	Aug	Oct	Nov	Dec	Feb
		3.4	STRATEGY AND PLANS								
		(a)	Review and approve strategic plan								
		(b)	Review and approve Business Plan annually	*							
		(c)	Review progress in achieving the goals established in the Strategic Plan and Business Plan (ongoing)		*		*		*		*
		(d)	Alter CPP Investment Board' direction, through Management, in light of changing circumstances (ongoing)								
		3.5	POLICIES AND PROCEDURES								
Audit		(a)	Identify principle risks and implement appropriate systems to manage them		*						
Audit		(b)	Maintaining and implementing internal financial control and management information systems		*						
Audit		(c)	Approve and monitor compliance with all major policies and procedures which govern operations (ongoing)		*		*		*		*
Audit		(d)	Ensure operation within applicable laws and regulations, and to the highest ethical and moral standards (ongoing)		*		*		*		*
		(e)	Adopt, amend or repeal by-laws when warranted								
		3.6	AUDITOR								
Audit	42	(a)	Appoint auditor and cause auditor's report to be prepared annually				*				
		3.7	COMPLIANCE REPORTING AND CORPORATE COMMUNICATIONS								
Audit	39(6)	(a)(i)	Approve the release of quarterly financial statements		*		*		*		*
Audit	39(7)	(a)(ii)	Approve annual financial statements		*						
Audit	51(1)	(b)	Approve Annual Report		*						
	52(1)	(c)	Ensure that public meetings held once every two years								
Audit		(d)	Ensure that financial performance is adequately and promptly reported and the financial results are reported fairly and in accordance with generally accepted accounting principles		*		*		*		*

TERMS OF REFERENCE FOR THE BOARD

Cross Reference to Committee	Source			Fiscal 2007								
	Statute /Reg	Terms of Reference		Apr	May	June	Aug	Oct	Nov	Dec	Feb	
Audit		(e)	Ensure timely reporting of any developments that have a material effect on the performance of the CPP Investment Board (ongoing)									
		(f)	Ensure communications policy in place									
			GUIDELINES FOR THE BOARD (S. 2.3)									
			Approve changes when warranted to Terms of Reference for the Board; Terms of Reference for a Director; Terms of Reference for the Chairperson; Terms of Reference for the President; Terms of Reference for the Governance Committee; Terms of Reference for the Audit Committee; Terms of Reference for the Human Resources and Compensation Committee; Terms of Reference for the Investment Committee; and such other aspects of the Governance Manual as may be required	*								
			GUIDELINES FOR THE BOARD (S. 4.4)									
			Appoint/re-appoint Committee Chairs and Committee members	*								