

CHARTER

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

FEDERAL RESERVE BANK OF CHICAGO

AUTHORITY

The Audit Committee of the Federal Reserve Bank of Chicago's Board of Directors operates under the bylaws of the Bank consistent with the policies of the Board of Governors of the Federal Reserve System. The Committee, acting on behalf of the Board of Directors, performs the functions necessary to assess and ensure the effectiveness and independence of the Bank's internal audit function.

PURPOSE

To assist the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, risk management process, the audit process, compliance with laws, regulations and the code of conduct, including System activities for which the District has responsibility.

ORGANIZATION

Charter

- At least annually, or as conditions dictate, the Audit Committee shall review and update this Charter and obtain approval from the full Board of Directors of any substantive changes.

Members

- The Audit Committee will have a minimum of four members consisting of the Chair of the Board of Directors ("Chair"), who will serve as an ex-officio voting member, and at least three other directors who will be appointed annually by the Chair for one-year terms commencing the first of January. The Audit Committee Chair will be designated by the Chair. Committee vacancies will be filled by the Chair as soon as practicable when membership falls below the level of four Committee members.
- All members will be free from any relationship that, in the opinion of the Board of Directors, would interfere with the exercise of his or her independent judgment as a member of the Audit Committee.
- All members of the Audit Committee should be financially literate (i.e., able to understand financial statements and general finance concepts), and at least one member should have banking, accounting, or other relevant financial proficiency.

Meeting and Resources

- The Audit Committee will meet at least four times per year and has authority to convene additional meetings as circumstances require. The meetings will be scheduled to permit adequate and timely discussions of audit results, losses and irregular occurrences, and other matters of concern to the Audit Committee, and to hold an executive session with the General Auditor whenever other officers of the Bank attend Audit Committee meetings.* The Audit Committee shall report regularly to the Board of Directors on its activities and will make recommendations to the Board as appropriate.

- The Audit Committee shall have resources and authority appropriate to discharge its duties and responsibilities. The Committee shall have direct and unrestricted access to management and non-management personnel, all Bank records and the external auditors.
- Minutes for the meetings of the Audit Committee shall be prepared to document the Committee's discharge of its responsibilities.

Performance and Evaluation

- The Audit Committee shall conduct an annual self-assessment of the Committee's performance.

RESPONSIBILITIES

The Audit Committee will carry out the following responsibilities:

Internal Control and Financial Statements

- Obtain from the General Auditor an independent and objective assessment of the adequacy and effectiveness of the controls over: (1) financial reporting, (2) effectiveness and efficiency of operations, (3) compliance with laws and regulations, and (4) safeguarding of assets, at such regular meetings and at other times as necessary.*
- Review reports from the General Auditor, management, and the external auditor, as appropriate, about significant risks or exposures and assess the controls established by management. Ensure that the Bank's enterprise risk management, control and governance processes are adequate and effective.
- Review the organization's financial statements, including any material changes in accounting principles or practices used in preparing the financial statements. Review management's assertion and the external auditor's opinion as to whether the financial statements are presented in accordance with accounting principles and on the effectiveness of internal controls over financial reporting.
- Review any significant disagreement among management and the external auditor or the General Auditor in connection with the preparation of the financial statements.

Internal Audit

- Review and approve an annual internal audit plan that provides for audits in which the scope and frequency are reasonably expected to ensure an appropriate level of audit attention for both local and System level responsibilities, and to coordinate with any external audit conducted at the direction of the Board of Governors.*
- Review and approve an annual internal audit budget that is sufficient to carry out an effective audit program, to review performance against budget, and to determine whether any significant variances from existing System and Reserve Bank guidelines are justified.*
- Assess the effectiveness and independence of the internal audit function, including compliance with The Institute of Internal Auditors' *International Professional Practices Framework for Internal Auditing consisting of the Core Principles for the Professional Practice of Internal Auditing, Definition of Internal Auditing, Code of Ethics and the Standards*.
- Formally evaluate the performance of the General Auditor, following guidelines set forth by the Reserve Bank for evaluating the performance of other officers.*
- Review and approve any changes to Internal Audit's charter.

* Required by BoG Guidance

External Auditor

- Meet with the external auditors to discuss the Reserve Bank's financial statements and issues arising from the annual external audit. Audit Committee members should be prepared to answer inquiries from the external auditors, especially concerning fraud and the mitigation of fraud risk.*
- Consult at least annually with the external auditor out of the presence of management and internal audit about the adequacy of controls, the fair presentation of the organization's financial statements, updates in developments affecting the Bank's external financial reporting and certain other matters required under generally accepted auditing standards.
- Following completion of the external audit, review with management, the external auditor and the General Auditor any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
- Review the performance of the external auditor and provide recommendations as appropriate.

Compliance

- Inquire of the General Counsel or designee of any material violations of the code of conduct.
- Review with the organization's General Counsel or designee, any legal matter that could have a significant impact on the organization's financial statements. Review the Litigation Report prepared by the Legal Department at least annually.
- Engage independent counsel and other advisors as it determines necessary to carry out its duties.*

Complaints

- Establish procedures for (1) the confidential, anonymous submission by employees of complaints and concerns regarding questionable accounting, internal accounting control, or auditing matters; and (2) the receipt, retention, and treatment of such complaints and concerns.*
- Periodically, review management's (General Council's) recommended changes to the Bank's Anti-Fraud and Financial Wrongdoing Policy. Formal Committee approval is required only for substantive changes to the Policy.

Reporting Responsibilities

- Bring before the Board of Directors any matters reported by the Board of Governors, General Auditor, or external auditors that warrant the Board's attention, and to ensure that audit recommendations and concerns receive proper attention by Bank management.*
- Recommend to the Board of Directors, or a designated subset of the Board, a review of all actions affecting the salary or classification of the General Auditor.*
- Recommend to the Board of Directors the appointment and termination (including separation payments) of the General Auditor, and to concur with any reassignment of the General Auditor to another position in the Reserve Bank.*

Other Responsibilities

- In light of the Board of Governors responsibility for banking supervision and regulation oversight, the Committee will not oversee supervisory activities of financial institutions, receive information on the health of financial institutions, or monitor discount window activities of financial institutions.
- Perform any other activities consistent with this Charter, the Bank's By-laws, Board of Governors Rules and Regulations and governing law, as the Audit Committee or the Board of Directors deems necessary or appropriate.

* Required by BoG Guidance