

## **FEDERAL HOME LOAN BANK OF BOSTON CHARTER OF THE AUDIT COMMITTEE**

*This Charter is intended as a component of the flexible framework within which the Board, assisted by its committees, directs the affairs of the Bank. While it should be interpreted in the context of all applicable laws, regulations and listing requirements, as well as in the context of the Bank's Certificate of Incorporation and By Laws, it is not intended to establish by its own force any legally binding obligations.*

### **Purpose**

The purpose of the Audit Committee ("Committee") is to oversee that the Federal Home Loan Bank of Boston's (the "Bank's") management establishes, implements, and maintains accounting policies and procedures that are in compliance with applicable law, regulation, guidance, and industry standards, including Generally Accepted Accounting Principle ("GAAP") and other applicable reporting and disclosure standards (collectively "applicable requirements").

### **Composition and Independence**

The chair of the board of directors (the "Board") shall select the members of the Committee and designate its chair subject to the approval of the Board. The chair of the Board shall serve as an ex-officio member of the Committee. The Committee shall satisfy the composition requirements set forth in the Federal Housing Finance Agency's (the "FHFA's") regulations, which are, as of the date of the latest renewal of this charter:

- a minimum of five members;
- a balance of members from community financial institutions and other members;
- a balance of independent and member directors;
- the terms of the members shall be appropriately staggered so as to provide for continuity of service; and
- at least one member shall have extensive accounting or related financial management experience and be designated the Committee's financial expert.

Additionally, each member of the Committee shall satisfy the independence criteria set forth in the applicable requirements, which are, as of the date of the latest renewal of this charter, that no member of the committee can have a disqualifying relationship with the Bank or management that would interfere with the exercise of that director's independent judgment. Such disqualifying relationships include, but are not limited to:

- employment by the Bank in the current year or any of the past five years;
- accepting any compensation from the Bank other than compensation for services as a board director;
- serving or having served in any of the past five years as a consultant, advisor, promoter, underwriter, or legal counsel of or to the Bank; or

- being an immediate family member of an individual who is, or has been in any of the past five years, employed by the Bank as an executive officer.

### **Governance**

At any meeting of the Committee, a majority of the members of the Committee (not including the chair of the Board) shall constitute a quorum for the transaction of business. A majority of the members of the Committee present at any meeting, a quorum being present, shall decide questions submitted for decision. The chair of the Board may vote on any matter before the Committee, but shall not be counted in determining the number of Committee members necessary to constitute a quorum; however, if present, he shall be counted for purposes of establishing a quorum at any meeting of the Committee.

The Committee meets at least four times a year. All Committee members are expected to attend each meeting, in person or via teleconference. Written minutes shall be prepared for each meeting and a copy of such minutes forwarded to the Corporate Secretary or Assistant Corporate Secretary for filing and distribution to the Board and the FHFA.

### **Responsibilities over Internal Audit**

The Committee has the responsibility to select, evaluate and, where appropriate, replace the internal auditor. Additionally, the internal auditor:

- is appointed by the Committee;
- may be hired or removed only with the approval of the Committee;
- reports directly to the Committee on substantive matters;
- is ultimately accountable to the Committee and the Board in order to maintain independence and objectivity; and
- has access to all Bank records.

The Committee also has responsibility for oversight over the internal audit function and shall:

- review the scope of audit services required, significant accounting policies, significant risks and exposures, audit activities and audit findings;
- assess the performance and determine the compensation of the internal auditor;
- confirm that the scope of IA activities is appropriate, and review and approve the audit plan and significant changes thereto;
- confirm that IA has sufficient resources to accomplish its objectives, and approve and evaluate its staffing and budget; and
- establish executive sessions with the internal auditor.

### **Responsibilities over External Audit**

The Committee is directly responsible for overseeing the external audit function by:

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- appointing, compensating, retaining and overseeing the work of the external auditor;
- approving the external auditor's annual engagement letter and ensuring it conforms with applicable requirements;
- meeting with external auditors;
- reviewing the performance of the external auditor, including the external auditor's internal quality control procedures;
- setting clear hiring policies for employees or former employees of the external auditor;
- assuring that the external auditor submits a formal written statement regarding relationships and services which may adversely affect independence and for discussing with the external auditor any disclosed relationships that may impact objectivity and independence;
- receiving, reviewing and discussing reports from the external auditor on critical accounting policies and practices used, all alternative treatments of financial information within GAAP related to material items that have been discussed with management, ramifications of the use of such alternative treatments, and the treatment preferred by the external auditor;
- reviewing the external auditor's proposed audit scope and approach, including coordination of audit effort with internal audit;
- pre-approving any non-audit services to be performed by the external auditor;
- reviewing with the external auditor any difficulties the auditor encountered and management's response;
- assuring that adequate policies and procedures are in place so that the Committee may assess the expertise and capacity of the external auditor to fulfill its duties and obligations; and
- ensuring the rotation of the lead audit partner of the external auditor every five years.

The external auditor shall report directly to the Committee.

### **Oversight of the Bank's Internal Control System**

The Committee is responsible for ensuring that senior management has established and is maintaining an adequate internal control system within the Bank by reviewing the Bank's:

- internal control system and the resolution of identified material weaknesses, significant deficiencies and reportable conditions in the internal control system, including the prevention or detection of management override or compromise of the internal control system;
- programs and policies designed to ensure compliance with applicable laws, regulations and policies and monitoring the results of those compliance efforts; and
- annual audited financial statements and periodic earnings releases.

Additionally, the Committee shall establish and maintain procedures for:

- the receipt, retention, and treatment of complaints received by the Bank regarding accounting, internal accounting controls, or auditing matters; and
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- the confidential, anonymous submission by Bank employees of concerns regarding questionable accounting or auditing matters.

### **Other Duties**

The Committee is also responsible for:

- meeting periodically with management, internal auditors, and the external auditor;
- ensuring that management provides it with adequate information and reports sufficient for the Committee to carry out its duties and responsibilities;
- ensuring that both the internal auditor and the external auditor have unrestricted access to the Committee without the need for any prior management knowledge or approval;
- directing senior management to maintain the reliability and integrity of the accounting policies and financial reporting and disclosure practices of the Bank;
- reviewing the basis for the Bank's financial statements and the external auditor's opinion rendered with respect to such financial statements (including the nature and extent of any significant changes in accounting principles or the application therein);
- ensuring that policies are in place that are reasonably designed to achieve disclosure and transparency regarding the Bank's true financial performance and governance practices;
- providing an independent, direct channel of communication between the Board and the internal and external auditors;
- conducting or authorizing investigations into any matters within the audit committee's scope of responsibilities;
- ensuring that the Bank has policies in place to notify the FHFA of any accounting treatments or policies identified as having significant legal, reputation, or safety and soundness risk with a focus on accounting treatments or policies that do not employ GAAP or preferred methods;
- reviewing the policies established by senior management to assess and monitor implementation of the Bank's strategic business plan and the operating goals and objective contained therein;
- as set forth in the Bank's Up the Ladder Policy, serving as the Bank's Qualified Legal Compliance Committee for the purposes of Part 205 of the Securities and Exchange Commission's Rules of Practice; and
- reporting periodically its findings to the Board.

### **Authority and Funding to Engage Advisers**

The Committee has the authority to engage independent counsel and other advisers, as it determines necessary to carry out its duties.

The Committee determines, and the Bank shall make available appropriate funding, as determined by the Committee, for payment of:

- compensation to the external auditor engaged to prepare or issue an audit report or perform other audit, review or attest services for the Bank;
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- compensation to any independent advisers or counsel engaged by the Committee; and
- ordinary administrative expenses that are necessary or appropriate for the Committee to carry out its duties.

**Periodic Review of Audit Committee Charter,  
Applicable Requirements and Self Evaluation**

The Committee shall review and assess the adequacy of the Committee charter on at least an annual basis, and shall recommend to the Board any amendments it believes to be appropriate. The Board shall review and assess the adequacy of the Committee Charter on an annual basis, shall amend the Committee Charter whenever it deems appropriate to do so, and shall re-approve the Committee charter not less often than every three years.

The Committee shall review the applicable requirements at least once annually and shall provide the Bank's chief accountant with the materials and procedures used in the review.

Additionally, no less frequently than every two years, the Committee shall assess the need for an independent consultant or accounting firm to conduct an evaluation or more accounting policy areas, and report its findings to the Board, senior management and the Bank's chief accountant. If the Committee determines that the results of the assessment warrant a targeted evaluation, the Committee should then consider the appropriate form and scope of engagement.

The Committee shall evaluate itself no less often than annually.

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