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## Application Guide: Director Training and Qualifications - Director Core Competencies for Less Complex Credit Unions

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This application guide is for use by less complex credit unions. DICO considers a less complex credit union to have the following characteristics:

1. The total assets of the credit union as set out in the audited financial statements of the credit union that were placed before its members at the most recent annual meeting are less than \$50 million.
2. The credit union does not participate in commercial lending.

If either of the above two conditions do not exist, DICO will consider the credit union to be a “complex” credit union and subject to the guidance expectations for a complex credit union.

It should be reviewed in conjunction with DICO's Guidance Note: Director Training and Qualifications for Less Complex Credit Unions. At a minimum, directors of less complex credit unions are expected to attain a **GOOD** understanding of each of the core competencies and attributes as indicated within the time frames established by the credit union subject to DICO minimum expectations outlined in the Guidance Note: Director Training and Qualifications for Less Complex Credit Unions. Credit unions may wish to set a requirement for a higher competency level (e.g. Strong) to more appropriately reflect their size and complexity. Descriptions of the **STRONG** competency level are provided for purposes of reference and comparison.

This document describes director core competencies and attributes for a 'GOOD' level of understanding. Competencies are built through a combination of education, practical work experience, previous board experience and director training. A good understanding of these core competencies will help directors apply the concepts to complex issues. Less complex credit unions that are in the upper asset range for less complex credit unions or are becoming more complex may optionally consider requiring their directors to achieve a higher core competency level.

**Please Note:** Descriptions of competencies and competency levels are intended to reflect the oversight responsibilities for directors and are not intended to require much higher technical knowledge and skills required for the day to day operations of the credit union. Additional information and descriptions of higher competency levels are described in the Application Guide: Director Training and Qualifications - Director Core Competencies for Complex Credit Unions.

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### Audit and Compliance Oversight

To achieve this competency, directors should demonstrate an appropriate level of knowledge and understanding of monitoring and auditing processes required to ensure compliance with the credit union’s policies, standards of sound business practices and regulatory requirements.

| Competency Level | Audit and Compliance Oversight: Competency Attributes   |
|------------------|---|
| <b>Basic</b>     | <ul style="list-style-type: none"> <li>• Defines compares and explains:                             <ul style="list-style-type: none"> <li>➢ The role of the audit committee</li> <li>➢ The external audit process and the role of the external auditor</li> <li>➢ The role and nature of the internal audit function</li> <li>➢ DICO’s Examination process</li> <li>➢ The role of the compliance officer</li> </ul> </li> </ul>  |
| <b>Good</b>      | <p><b>Basic PLUS:</b></p> <ul style="list-style-type: none"> <li>• Understands and incorporates in their actions the processes to monitor Board and individual directors to ensure compliance with internal controls, standards of sound business and financial practices and other regulatory requirements.</li> <li>• Reads and interprets reports of the compliance officer, external auditor, internal auditor and the regulators.</li> <li>• Distinguishes between the responsibilities of the Audit Committee, the Board and other committees.</li> <li>• Interprets and draws conclusions from the reports of the compliance officer, external auditor, internal auditor and regulators.</li> <li>• Asks appropriate questions about credit union policies, practices and reports.</li> <li>• Demonstrates, through actions, a knowledge of resolution strategies to address any material weaknesses and deficiencies.</li> <li>• Contributes to the development of policies to improve controls and compliance.</li> <li>• Ensures that key decisions made by the Board align with established policies, standards of sound business practices and other regulatory and legislative requirements.</li> <li>• Follows up with management to ensure corrective action is taken to rectify deficiencies noted in reports.</li> </ul> |

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| <b>Strong</b> | <p><b>Good PLUS:</b></p> <ul style="list-style-type: none"> <li>• Analyzes results and reports and contributes to board discussions and debates on complex issues and any material variances or weakness relating to audit and compliance.</li> <li>• Interprets and confirms that corrective action taken by management to address material non-compliance situations is identified in internal, external and regulatory audit reports is appropriate.</li> <li>• Understands when it is necessary to challenge management for additional information to support conclusions or recommendations.</li> <li>• Understands when a professional, independent opinion is required.</li> <li>• Calls upon internal and/or external audit resources to investigate complex variances and non-compliance situations.</li> </ul> |
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**Board and CEO Performance**

To achieve this competency, directors should demonstrate an appropriate level of knowledge and understanding of the tools and methodologies for monitoring the performance and development of the CEO and also for assessing the Board’s performance to determine strengths, deficiencies and areas for improvement.

| <b>Competency Level</b> | <b>Board and CEO Performance: Competency Attributes</b>  |
|-------------------------|--|
| <b>Basic</b>            | <ul style="list-style-type: none"> <li>• Explains the reporting relationship between the Board and the CEO.</li> <li>• Explains the appropriate approach regarding performance management, feedback, and communications with the CEO.</li> </ul>   |
| <b>Good</b>             | <p><b>Basic PLUS:</b></p> <ul style="list-style-type: none"> <li>• Contributes to the development of the relationship between the Board and the CEO.</li> <li>• Applies the performance and measurement criteria for the Board and the CEO.</li> <li>• Contributes to the ongoing assessment of the CEO’s and the Board’s performance.</li> <li>• Ensures the use of objective measurement criteria is adopted.</li> <li>• Identifies opportunities for performance improvement in the CEO and Board.</li> <li>• Describes the processes and timing of Board and CEO performance planning and assessment.</li> </ul> |

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| <b>Strong</b> | <p><b>Good PLUS:</b></p> <ul style="list-style-type: none"> <li>• Contributes to the development of assessment criteria for individual directors, the Board and CEO.</li> <li>• Ensures that the CEO performance criteria and compensation are aligned with the strategic plan and key objectives.</li> <li>• Demonstrates the ability to develop communications designed to create buy-in to concepts and direction from the Board to the CEO.</li> <li>• Contributes to the development and/or enhancement of the Board’s stakeholder communications strategy.</li> <li>• Encourages other Board members to communicate effectively with the CEO.</li> <li>• Proactively manages and effectively communicates the CEO’s performance through informal and formal communication.</li> <li>• Develops and initiates the board performance planning and assessment process.</li> <li>• Recognizes when a third-party expert is required.</li> <li>• Identifies and addresses skills/performance gaps on the board and/or CEO.</li> </ul> |
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**Credit Union Operations**

To achieve this competency, directors should demonstrate an appropriate level of knowledge and understanding of how the credit union’s infrastructures inter-relate and how they enable the effective and efficient delivery of services while managing risk and regulatory requirements.

| <b>Competency Level</b> | <b>Credit Union Operations: Competency Attributes</b>  |
|-------------------------|--|
| <b>Basic</b>            | <ul style="list-style-type: none"> <li>• Defines the nature and extent of the credit union’s operations and service areas.</li> <li>• Distinguishes between the Board’s and CEO’s responsibilities related to operations.</li> <li>• Outlines the impact of operational weaknesses on depositor satisfaction and financial performance.</li> </ul>   |
| <b>Good</b>             | <p><b>Basic PLUS:</b></p> <ul style="list-style-type: none"> <li>• Understands the credit union’s operational infrastructure and how its components interrelate.</li> <li>• Understands the credit union’s business powers, major lines of business, services and delivery channels.</li> <li>• Understands the membership profile and the nature and profile of major business segments.</li> <li>• Effectively compares operational efficiency against industry standards and best practices.</li> <li>• Recognizes the impact of strategic plans and objectives on operational effectiveness and operational efficiency.</li> <li>• Asks questions and evaluates information and management recommendations on costs, benefits and risks involved in major operational decisions.</li> <li>• Recognizes and seeks third party expertise when required.</li> </ul> |

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| <b>Strong</b> | <p><b>Good PLUS:</b></p> <ul style="list-style-type: none"> <li>• Understands the nature and extent of non-core business activities including any subsidiaries.</li> <li>• Applies policy related to human resources practices, including competency requirements to senior management personnel.</li> <li>• Analyzes the strategies, data and/or recommendations to improve operational effectiveness or resolve operational weaknesses.</li> <li>• Fosters an environment of innovation in service delivery and strategies related to such innovations.</li> <li>• Discusses and evaluates policy recommendations with respect to their impact on operations.</li> <li>• Identifies and understands best practices related to operational efficiencies, such as outsourcing or collaborative strategies.</li> </ul> |
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**Financial Literacy**

To achieve this competency, directors should demonstrate an appropriate level of financial knowledge and understanding and can interpret financial reports and statements, and monitor corrective action to ensure financial goals and regulatory requirements are met.

| <b>Competency Level</b> | <b>Financial Literacy: Competency Attributes</b>   |
|-------------------------|--|
| <b>Basic</b>            | <ul style="list-style-type: none"> <li>• Reviews financial reports, financial statements and operational plans &amp; budgets prepared by management.</li> <li>• Seeks clarification of those areas that are not understood.</li> <li>• Understands basic budgeting process and financial objectives and budgets.</li> <li>• Understands basic financial statements, e.g. balance sheet and income statement.</li> <li>• Reviews financial reports presented by management and asks appropriate questions.</li> <li>• Knows statutory requirements.</li> </ul>  |
| <b>Good</b>             | <p><b>Basic PLUS:</b></p> <ul style="list-style-type: none"> <li>• Understands basic financial analysis concepts and tools.</li> <li>• Can explain the nature and purpose of all financial reports prepared by management, and the purpose and uses of key financial ratios, financial trends, performance benchmarks and system/group comparison reports.</li> <li>• Identifies variances between actual financial performance and established financial budget and targets and understands the nature and extent of recommendations to address material variances.</li> <li>• Understands the concept of materiality with respect to financial statement information and variances.</li> <li>• Ensures additional explanations and information is provided for any material variances including action plans.</li> </ul> |

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| <b>Strong</b> | <p><b>Good PLUS:</b></p> <ul style="list-style-type: none"> <li>• Understands the national, provincial and local micro and macro economic factors that can affect the credit union’s operations.</li> <li>• Explains and interprets the interrelationship of financial ratios and how they impact other areas.</li> <li>• Interprets financial results and reports and ensures the board conducts sufficient oversight and discussion on recommended strategies to address and material variances.</li> <li>• Recommends the use of external resources to investigate any significant issues or “red flags” that may arise or to validate the credit union’s financial policies, plans, controls and procedures where material weaknesses persist.</li> </ul> |
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**Governance and Ethics**

To achieve this competency, directors should demonstrate an appropriate level of knowledge and understanding of the critical elements of good governance and ethics.

| <b>Competency Level</b> | <b>Governance and Ethics: Competency Attributes</b>  |
|-------------------------|--|
| <b>Basic</b>            | <ul style="list-style-type: none"> <li>• Understands the governance structure of the credit union and the responsibilities of directors and the Board.</li> <li>• Understands what corporate governance is and how it is applied to the credit union environment.</li> <li>• Explains the importance, necessity and meaning of “independent”, “accountable”, “transparency”, “prudent” and “fiduciary”.</li> <li>• Recognizes the role of ethics (code of conduct) and personal integrity in acting in the best interests of the credit union and safeguards confidential and sensitive information.</li> <li>• Explains the roles of and interrelationships between the Board; Board and regulators; Board and senior management.</li> <li>• Explains the credit union’s strategic direction and corporate values.</li> <li>• Complies with the credit union’s policies.</li> <li>• Acts in accordance with Co-operative Principles.</li> <li>• Acts with integrity and ethics in making decisions.</li> <li>• Exercises due care and diligence.</li> </ul> |



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| <p><b>Good</b></p>   | <p><b>Basic PLUS:</b></p> <ul style="list-style-type: none"> <li>• Uses existing governance framework to evaluate, create and implement policies to enhance value.</li> <li>• Contributes fully to the board and governance structures by:             <ul style="list-style-type: none"> <li>➢ asking appropriate questions,</li> <li>➢ identifying material variances or deficiencies,</li> <li>➢ being prepared for meetings,</li> <li>➢ seeking independent advice or expertise,</li> <li>➢ supporting board decisions.</li> </ul> </li> <li>• Provides sound input into the credit union’s strategic direction and plans.</li> <li>• Assesses goals, objectives, risks and opportunities relative to strategic direction.</li> <li>• Oversees the credit union’s performance relative to strategic direction and implementation.</li> </ul>   |
| <p><b>Strong</b></p> | <p><b>Good PLUS:</b></p> <ul style="list-style-type: none"> <li>• Mentors board members to enhance their competence in democratic governance.</li> <li>• Oversees the ongoing evaluation of the Board’s governance structures.</li> <li>• Assesses adequacy of governance policies, processes and procedures and code of conduct and makes recommendations for change.</li> <li>• Identifies interrelationships and evaluates inherent risks and opportunities in the financial services environment and recommends appropriate action.</li> <li>• Independently assesses impacts of decisions related to risks and opportunities.</li> <li>• Describes how changes in regulatory environment impact best practices in credit union governance.</li> <li>• Analyzes past experiences. Applies the concepts and learning to new situations.</li> <li>• Champions continuous learning within the board regarding the innovations in governance structures and how they can be incorporated into their credit union’s governance regime.</li> </ul> |

**Leadership**

To achieve this competency, directors should demonstrate an appropriate level of knowledge and understanding of the attributes of leadership to motivate, influence and support others to accomplish organizational goals and encouraging on-going education to further develop competencies.

| <p><b>Competency Level</b></p> | <p><b>Leadership: Competency Attributes</b></p>  |
|--------------------------------|--|
| <p><b>Basic</b></p>            | <ul style="list-style-type: none"> <li>• Communicates ideas and opinions clearly.</li> <li>• Understands effective leadership characteristics.</li> <li>• Identifies personal leadership characteristics.</li> <li>• Builds trust through honest and open communication and mutual respect.</li> </ul> |

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| <b>Good</b>   | <p><b>Basic PLUS:</b></p> <ul style="list-style-type: none"> <li>• Identifies board dynamics including different approaches and styles.</li> <li>• Constructively influences board dynamics.</li> <li>• Utilizes communication/facilitation techniques to encourage debate, dialogue, discussion.</li> <li>• Collaborates with fellow directors to build consensus.</li> <li>• Contributes to a constructive and open environment for the expression of diverse ideas and opinions.</li> <li>• Considers resource and support requirements of strategic initiatives.</li> </ul>   |
| <b>Strong</b> | <p><b>Good PLUS:</b></p> <ul style="list-style-type: none"> <li>• Champions continuous learning and renewal within boards, including the successful recruitment of new board members, director training and continuing education.</li> <li>• Acts as an ambassador for the credit union within the community.</li> <li>• Fosters innovation, creativity and shared understanding.</li> <li>• Encourages debate and diverse opinions and mediates to reach consensus.</li> <li>• Determines when more information or outside advice is required.</li> <li>• Clearly communicates rationale for decisions to key stakeholders.</li> </ul> |

**Regulatory Environment**

To achieve this competency, directors should demonstrate an appropriate level of knowledge and understanding of the regulatory environment, policy development and the policies required to meet legal, regulatory and governance requirements.

| <b>Competency Level</b> | <b>Regulatory Environment: Competency Attributes</b>  |
|-------------------------|---|
| <b>Basic</b>            | <ul style="list-style-type: none"> <li>• Explains and describes the:               <ul style="list-style-type: none"> <li>➢ Role of the Ministry of Finance,</li> <li>➢ Financial Services Commission of Ontario,</li> <li>➢ Deposit Insurance Corporation of Ontario,</li> <li>➢ Responsibilities of directors relative to policy creation and monitoring,</li> <li>➢ Responsibilities of the Board policy creation and monitoring.</li> </ul> </li> <li>• Identifies the regulatory environment including the Credit Unions and Caisses Populaires Act (“CUCP Act”), Regulations, DICO by-laws and sound business practices as well as the credit union’s by-laws, policies and processes.</li> </ul> |
| <b>Good</b>             | <p><b>Basic PLUS:</b></p> <ul style="list-style-type: none"> <li>• Demonstrates knowledge of the CUCP Act, Regulations and other relevant legislation.</li> <li>• Understands the credit union’s by-laws and related policies.</li> <li>• Promotes regulatory compliance.</li> <li>• Identifies gaps in the credit union’s policies and compliance with regulatory requirements.</li> <li>• Initiates policy enhancements to deal with gaps.</li> <li>• Determines the policy framework i.e., the areas in which policies are required and why.</li> </ul>  |

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| <b>Strong</b> | <p><b>Good PLUS:</b></p> <ul style="list-style-type: none"> <li>• Explains the application of relevant policies and the principles upon which they are built.</li> <li>• Can interpret the CUCP Act and Regulations as well as other applicable legislation.</li> <li>• Explains the rationale for policy changes and the impact of such changes to the credit union’s compliance to policies and sound business standards and practices.</li> <li>• Contributes to strength of credit union sector through strong leadership related to compliance, improved communication and shared understanding by credit unions and the regulator on these issues.</li> </ul> |
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**Risk Management Oversight**

To achieve this competency, directors should demonstrate an appropriate level of knowledge and understanding of the risk management framework for identifying, measuring and managing significant risks and events that may impact the credit union’s objectives.

| Competency Level | Risk Management Oversight: Competency Attributes   |
|------------------|--|
| <b>Basic</b>     | <ul style="list-style-type: none"> <li>• Understands the areas of risk to which the credit union may be exposed.</li> <li>• Understands the risk management framework and policies of the credit union.</li> <li>• Understands the purpose and requirements DICO By-law #5.</li> <li>• Understands DICO’s examination process.</li> <li>• Explains the role of the Board in risk management oversight.</li> </ul>  |
| <b>Good</b>      | <p><b>Basic PLUS:</b></p> <ul style="list-style-type: none"> <li>• Explains and describes the nature of risks and risk management activities related to:               <ul style="list-style-type: none"> <li>➢ Governance</li> <li>➢ Capital management</li> <li>➢ Credit risk management</li> <li>➢ Operational risk management</li> <li>➢ Market risk management</li> <li>➢ Structural risk management</li> <li>➢ Liquidity risk management</li> </ul> </li> <li>• Understands the significant risks to the credit union.</li> <li>• Understands criteria for measuring risk.</li> <li>• Understands the nature and extent of any material outsourcing, subsidiaries and securitization transactions.</li> <li>• Describes the extent of any material non-core business activities and subsidiaries.</li> <li>• Understands the Board’s risk assessment tools and risk management reports.</li> <li>• Monitors risk management activities.</li> <li>• Identifies areas of significant risk exposure in management reports.</li> </ul> |

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|               | <ul style="list-style-type: none"> <li>• Interprets the results of the DICO examination and internal/external auditors and makes decisions to manage and address identified risks.</li> </ul>   |
| <b>Strong</b> | <p><b>Good PLUS:</b></p> <ul style="list-style-type: none"> <li>• Understands what an Enterprise Risk Management framework is.</li> <li>• Assesses the credit union’s risk appetite and tolerances.</li> <li>• Provides direction to management on implementation of an enterprise risk management system.</li> <li>• Integrates all elements of enterprise risk management into the strategic risk management process.</li> <li>• Confirms the capacity of the credit union to withstand risk exposure levels.</li> <li>• Interprets risk management policies and recommends changes to mitigate excessive exposure.</li> <li>• Ensures strategic objectives are integrated into the ERM.</li> </ul> |

**Strategic Planning**

To achieve this competency, directors should demonstrate an appropriate level of knowledge and understanding of the strategic planning process and contribute to the development of the strategic direction, core values and the strategic goals and objectives for the credit union.

| <b>Competency Level</b> | <b>Strategic Planning: Competency Attributes</b>   |
|-------------------------|--|
| <b>Basic</b>            | <ul style="list-style-type: none"> <li>• Understands the vision, mission and core values of the credit union.</li> <li>• Is aware of the organization's strategies and plans through ongoing review, monitoring and discussion and is aware of their role in the process.</li> <li>• Describes the strategic planning process and tools.</li> <li>• Seeks information about the strategic management process and related management reporting.</li> </ul>  |
| <b>Good</b>             | <p><b>Basic PLUS:</b></p> <ul style="list-style-type: none"> <li>• Applies knowledge of corporate goals, strategies and objectives to evaluate reports and recommendations presented by management.</li> <li>• Uses independent and objective oversight when evaluating the reports and recommendations presented by management.</li> <li>• Collaborates with fellow directors to build a consensus on strategic plans and initiatives.</li> <li>• Participates in the development and communication of the credit union’s vision, mission, and corporate values.</li> </ul> |

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| <b>Strong</b> | <b>Good PLUS:</b> <ul style="list-style-type: none"><li>• Seeks information in areas such as the credit union’s concerns, the competitive environment and industry trends and standards.</li><li>• Explains the measures of success.</li><li>• Recognizes and promotes potential strategic opportunities.</li><li>• Weighs the risk/benefit of the credit union’s strategic initiatives in identifying their impact and establishing priorities.</li><li>• Identifies and communicates the indicators and measures for success for the credit union.</li><li>• Analyzes capacity and competencies in staffing and financial resources for strategic initiatives.</li></ul> |
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