Deposit Insurance
Corporation of Ontario
Société ontarienne
d'assurance-dépôts

Guidance Note:

Corporate Governance - Board of Directors

January 2018

Ce document est aussi disponible en français.

Applicability

The Guidance Note: Corporate Governance - Board of Directors (the "Guidance Note") is for use by all credit unions. It outlines DICO's expectations for sound governance for a credit union as set out in the Credit *Union and Caisses Populaires Act, 1994* (the "Act"), Ontario Regulation 237/09 (the "Regulation") and DICO By-law No.5 – Standards of Sound Business and Financial Practices ("By-law No. 5). It sets out the criteria to be used by DICO in evaluating the effectiveness of corporate governance at the credit union and will also form an input into the Differential Premium Score Determination for deposit insurance premium purposes.

The Guidance Note also provides an explanation of the fundamental concepts that form the basis of the responsibilities of the Board in implementing effective governance policies and practices to ensure the continued viability of the credit union in the best interests of its depositors and shareholders.

This Guidance Note complements the information provided in, and should be read in conjunction with, other DICO guidance notes and supporting publications available on the DICO website (www.dico.com). These publications include:

- DICO By-laws
- Guidance Notes
- Application Guides
- Handbooks
- Checklists
- Manuals
- Webinars
- Advisories
- Other additional tools

Throughout this document:

- the term "credit union" also refers to "caisse populaire" and "league".
- the term "Board" refers to either the entire Board or a committee of the Board that has been delegated a particular element of Board oversight.
- the term "Senior Management" refers to the Chief Executive Officer (CEO) and individuals who are directly accountable to the CEO. In addition to the CEO's direct reports, such as the heads of business units, Senior Management may also include the executives responsible for the oversight functions, such as the Chief Financial Officer, Chief Risk Officer, Chief Compliance Officer, Chief Internal Auditor, and Chief Actuary.
- the term "report" refers to a written report.
- The term "review' refers to review and documentation within Board/Committee meeting minutes.
- The terms "regular" or "regularly" in reference to timing of reviews and reporting will vary depending on the size and complexity of the credit union.

Contents

Introduction

Corporate governance is the framework of responsibilities and accountabilities employed by the board to effectively discharge these duties. Corporate governance is the set of professional relationships through which a credit union:

- is directed and controlled,
- manages its business practices, services and products to generate revenues, and
- makes effective decisions and issues reports to members and other stakeholders.

Section 104(1) of the Act sets out the duties of the Board to manage or supervise the management of the credit union.

Effective corporate governance is a result of both the structural elements (such as policies, sound procedures, a rigorous control environment and accountabilities) and the behavioural factors that enhance the quality of the duty of care and diligence practiced by directors and management in achieving the mandate of the Board. Good corporate governance should provide appropriate incentives for management to pursue objectives that are in the best interest of the credit union, depositors and shareholders and facilitate effective oversight of the credit union operations and its management.

The Board should effectively carry out its overall responsibility for the credit union, by establishing, communicating and monitoring the credit union's adherence to:

- the values of the organization;
- its business philosophy and strategic direction;
- its financial soundness and financial performance;
- its quality of management; and
- its risk appetite and risk tolerance with respect to the management of key inherent financial and operating risks, as well as strategic risks.

To fulfil this responsibility, the Board should:

- exercise sound unbiased judgment and decision making;
- have appropriate qualifications and competencies individually and collectively that meet training and competency requirements established in policy;
- diligently oversee a competent and independent risk management function that ensures practices and controls are robust and functioning as intended
- provide leadership in ensuring ethical behaviour at the credit union;
- follow good governance practices; and

- seek third party advice on matters for which the Board members do not have direct knowledge and/or expertise.

The Board is ultimately responsible for ensuring that the credit union is operated in a safe and prudent manner and for ensuring adherence to the standards of sound business and financial practices outlined in By-law No. 5. In fulfilling its responsibilities, the Board should also ensure that the credit union is consistently operating in accordance with co-operative principles.

This document provides information that will assist in the development of prudent corporate governance standards by the Board and to outline DICO's expectations in assessing the suitability and effectiveness of these standards at each credit union. The standards have been grouped into four main categories: Practices and Expertise, Human Resources, Risk Management, and Business Strategy and Business Plans.

Throughout this Guidance Note, where the frequency of reviews, reporting and other periodic exercises is defined as "at least annually", it is expected that the frequency will increase with the level of riskiness and complexity of the activities under review (i.e. semi-annually, quarterly, monthly).

Practices and Expertise

UNDERSTANDING AND FULFILLING RESPONSIBILITIES

Directors should take reasonable steps to ensure that they understand their responsibilities. The effectiveness of the Board will depend on the overall balance of the expertise, skills, experience and knowledge that is provided by the directors as a whole.

The selection of an appropriate Chair of the Board is paramount to the success of the Board achieving its mandate. The Chair should be experienced, skillful and exhibit leadership that encourages open dialogue and debate. The Chair should promote and facilitate ongoing discussions and a high level of influence with other Board members and Senior Management and have access to all the credit union's information and staff, as required, to effectively complete its responsibilities. The Chair should also ensure that there is on-going dialogue with regulatory organizations (DICO and FSCO) both personally and through the credit union's Senior Management.

The Board should establish an appropriate work plan and meeting agendas which outline the frequency of various discussion topics and reports that it expects to receive and review in the course of fulfilling its responsibilities during the year. Board meetings should include the participation of the Senior Management team and other credit union employees, as required, to fully present the information about specific topics or to answer any questions that arise during discussions. Board minutes that provide a comprehensive overview of the items discussed and the decisions made for all resolutions should be kept for each meeting of the Board as well as each committee meeting.

At a minimum, DICO expects the Board will ensure:

- governance knowledge and expertise are appropriate for the size, complexity and risk profile of the credit union;
- supporting governance practices are sound relative to capital levels and based on the application of prudent person perspective, and fully documented;
- all directors are made aware of their responsibilities and accountability;
- the Board, as a whole, is comprised of the required mix of qualifications, knowledge, experience and commitment to effectively fulfil their role;
- timely notification of significant issues arising is received;
- it is provided with the level of information and materials needed to make well informed decisions;
- directors fully participate in Board deliberations in their oversight responsibilities;
- Board minutes are sufficiently comprehensive to provide a full record of all items discussed and reviewed during Board meetings; and
- reports provided to the Board are comprehensive, timely and accurately address all material risk areas.

EXERCISING INDEPENDENT JUDGMENT

Effective governance requires a high level of co-ordination and co-operation between the Board and its Senior Management. At the same time, the Board has a duty to direct and oversee the credit union's affairs which requires directors to exercise independent judgment. Accordingly, the Board needs to have a good understanding of the credit union's business activities, its risk profile, co-operative credit union principles and the regulatory and legal environment in which it operates and to ensure that significant issues receive proper consideration. The Board should invite third parties (including lawyers, accountants, consultants and auditors) to present information or provide advice in order to fully understand more complex topics and make appropriate decisions.

At a minimum, DICO expects the Board will:

- provide meaningful policy direction and oversight by working autonomously from the CEO and Senior Management;
- exercise independence through consistent constructive challenges to Senior Management; and
- use independent resources, as appropriate, to assist in deliberations.

TRAINING REQUIREMENTS AND QUALIFICATIONS FOR DIRECTORS AND MEMBERS OF THE AUDIT COMMITTEE

An important step in developing and maintaining a strong corporate governance structure for the credit union is the selection and training of directors that have the right set of skills and knowledge needed for the size, complexity and risk profile of the credit union.

The nomination of new directors should be completed with the goal that the new directors have the capacity to add strength to the Board. At a minimum, directors should have a sufficient understanding and knowledge of the core competencies (as outlined in "Guidance Note: Director Training and Qualifications" and described in the "Application Guide: Director Core Competencies") in order to be an effective member of the Board. Directors should have a sufficient level of financial and risk management competencies to be able to provide effective oversight. The depth of knowledge and experience required will increase with the complexity of credit union operations.

An understanding of the legal framework and regulations governing the operation are also necessary for each director. The Board should ensure that a formal on-boarding program is implemented for all new directors to help them fully understand their roles and responsibilities.

An assessment of the level of competency of each director should be undertaken at least annually to identify any skills and knowledge gaps and progress toward addressing those gaps. The Board should develop processes to objectively evaluate each director's performance to confirm areas of strength and areas for improvement in specific competencies. As outlined in subsection 92(1)(13) of the Act, directors who have not met the training requirements or qualifications established in credit union policy are disqualified from being directors and must be removed from the Board. The Board should ensure that a formal policy or procedure is in place to address enforcement of the requirements of the Act when Board members have not adhered to the credit union's policy or action plans to meet director qualifications.

A plan to address any competency gaps should be developed to ensure directors are properly prepared to undertake their responsibilities and make an effective contribution to the oversight of the credit union. Continuous learning helps each director remain current regarding developments in governance, the operating and regulatory environment and performance issues that may impact the credit union.

At a minimum, DICO expects the Board will:

- implement an effective director candidate evaluation and nomination process;
- develop adequate director orientation and training programs aligned to the size and complexity of the credit union and ensure they are completed by all new directors;
- document director competency assessment criteria and processes and ensure they are followed including comprehensive self-assessments of individual directors; and
- create director development plans to address any competency gaps and ensure appropriate continuing education programs are completed.

ESTABLISHING THE RESPONSIBILITIES, ACCOUNTABILITY AND AUTHORITY OF THE CEO, THE AUDIT COMMITTEE AND OTHER BOARD COMMITTEES AS APPLICABLE

In assigning responsibility, the Board will ensure there exists a clear understanding of the responsibilities of the Board, committees and Senior Management and their decision-making authorities and accountability. Assigning certain responsibilities does not relieve directors of their ultimate duty of oversight. The Board also requires timely, relevant, accurate and complete information about the actions of those to whom it delegates responsibility, in order to assure itself that those persons are acting prudently and appropriately.

At a minimum, DICO expects the Board will:

- develop a statement of responsibilities for the Board, the Chair of the Board, committees, chair(s) of committees and the CEO including information about decision-making powers and limitations; and
- clearly communicate its information requirements and reporting expectations related to the oversight of delegated responsibilities.

ESTABLISHING STANDARDS OF BUSINESS CONDUCT AND ETHICAL BEHAVIOUR

The Board must provide leadership in business conduct and ethical protocol for the credit union. Setting standards of business conduct and ethical behaviour clarifies expectations and provides guidance to assist directors in making decisions that are consistent with those expectations. When combined with a means of monitoring and assessing compliance with those standards, this environment creates conditions that promote sound ethical behaviour, provide a means of alerting the credit union to potential problem areas and establish the conditions of an effective control environment. Periodic review of the standards also helps ensure they remain appropriate.

In order for the Board to function efficiently, it is critical each director performs their duties in an ethical manner, maintains confidentiality, discloses any known or potential conflicts of interest, and acts in the best interests of the credit union membership.

The Board must ensure that a code of conduct and ethical behaviour has been established for directors, committee members and employees, which addresses, as a minimum:

- the duty to comply with applicable legislation;
- the duty of confidentiality of institutional and member information;
- conflict of interest; and
- restricted party transactions.

The Board should annually review and approve the credit union’s code of conduct and obtain regular assurances that all employees are adhering to the code of conduct.

At a minimum, DICO expects the Board will:

- understand what constitutes acceptable business conduct and ethical behaviour;
- oversee the definition of and apply the credit union's standards of business conduct and ethical behaviour; and
- ensure a reporting and control system is established that provides assurance the behaviour of directors complies with the credit union's standards.

EVALUATING THE EFFECTIVENESS OF THE BOARD AND OVERSEEING THE RESPONSIBILITIES OF THE AUDIT COMMITTEE

Although the Board depends on Senior Management's expertise to run day-to-day activities, the Board remains ultimately responsible for the overall governance of the credit union. It is critical that the Board ensures these responsibilities are undertaken with reasonable care and due diligence. The Board should regularly conduct a self-assessment of the effectiveness of the Board as well as its committees' practices, with the assistance of external advisors as required. The scope and frequency of assistance from external advisors should be established by the Board. A sufficiently robust evaluation process should be implemented to help ensure the Board's governance practices remain appropriate and address all responsibilities. These practices will evolve with the credit union's growth and changing complexity and risk profile.

The Board is responsible for overseeing the Audit Committee and their duties of creating an annual audit plan, reviewing audit reports and addressing shortcomings identified during the audit process. The Board should review the written Audit Committee's report which should confirm the following activities took place:

- prepared and reviewed minutes of the Audit Committee's quarterly meetings;
- prepared a summary of deficiencies noted in the audit reports;
- developed and/or reviewed action plans to address the identified deficiencies; and
- documented progress towards rectification of outstanding deficiencies.

At a minimum, DICO expects the Board will:

- establish key performance indicators and criteria to measure and evaluate its own effectiveness;
- create an evaluation process that is sufficiently comprehensive and fully documented;
- implement measures to address any gaps or weaknesses identified during the evaluation process;
- review and approve the Audit Committee's Terms of Reference to ensure it is comprehensive;

- review the minutes of the Audit Committee's meetings and a status report summarizing deficiencies noted through audits and examinations and progress on action plans to rectify deficiencies;
- ensure the Audit Committee submits an annual report to the members of the credit union at the Annual Meeting pursuant to subsection 125 (9) of the Act that meets the requirements for reporting set out under subsection 27 (2) of the Regulation.

AFFIRMING A CONTROL ENVIRONMENT AND ENSURING THE CREDIT UNION IS IN CONTROL

The control environment is influenced by the credit union's risk appetite and is made up of policies as approved by the Board, operational procedures and controls, monitoring and reporting.

The Board requires a strong understanding of the risks facing the credit union to properly develop the risk appetite and risk tolerances and challenge management's assessment of risks. In turn, the Board's risk appetite and tolerances provide guidance to Senior Management regarding the maximum level of risk that the credit union should accept and drives the extent and robustness of the control environment. Senior Management should have a clear understanding of the Board's risk appetite and risk tolerances to guide the development of procedures and controls that ensure the credit union operates in control and within the credit union's risk appetite. Monitoring processes and reports by management to the Board will be completed to confirm that risks within the credit union are being controlled and are within their risk appetite.

The Board should oversee the review of policies, processes, risks and internal controls with Senior Management regularly to determine areas needing improvement with respect to efficiency or effectiveness of risk management and to identify and address any new significant risks. The Board achieves this by assigning the responsibility to the internal and external auditors of testing and verifying the control environment is working effectively to mitigate risk. The auditors identify deficiencies and provide corrective recommendations to the Board who are then responsible for ensuring the recommendations are implemented by management. The Board should also engage the services of external advisors, as required, in the creation/review of new policies, processes and controls (and periodic benchmarking with peers) to ensure the oversight structure is adequate for the size and complexity of the credit union.

When a credit union's control environment is effective, the likelihood of exposure to unwanted or unforeseen risk is reduced and the probability of achieving business objectives is increased. A credit union can demonstrate it is in control where its operations are:

- subject to proficient governance by its Board;
- managed in accordance with ongoing, appropriate and effective risk management processes: and
- conducted in an effective risk management environment.

On an annual basis, the Board is required to review and assess the operations of the credit union and confirm that it is familiar and complying with By-law No. 5.

At a minimum, DICO expects the Board will:

- ensure the management style of the CEO reflects the credit union's corporate values and support the open flow of information;
- understand the nature and extent of the self-assessment work conducted by Senior Management in compliance with By-law No. 5; and
- seek the advice of third parties, as required, to independently confirm Senior Management's assessment of the credit union's controls.

Human Resources

SELECTING AND EVALUATING THE EFFECTIVENESS OF THE CEO

The selection of CEO is a critical Board responsibility. The Board needs to select a CEO who is qualified and competent, has integrity and will act in a prudent and appropriate manner. Qualification considerations include but are not limited to education, training, experience, ability and integrity. Ability is typically demonstrated through past performance and accomplishments and the match with future plans and expectations of the organization.

The CEO has ultimate Senior Management accountability to the Board. The Board should evaluate at least annually the effectiveness of the CEO and address any issues arising. Performance standards should be established which are consistent with the strategic direction and long-term objectives of the credit union and sound business practices. Evaluation criteria should be objective and measurable.

The CEO is responsible for the selection of key senior managers, defining job responsibilities and authorities and developing a succession plan to ensure a smooth transition in the event of the departure of key Senior Management personnel.

At a minimum, DICO expects the Board will:

- maintain an up-to-date statement of qualifications and competencies for the CEO;
- establish and fully document performance standards and evaluation criteria for the CEO;
- ensure the evaluation criteria are aligned with the responsibilities and accountability of the CEO and aligned with the sustainable achievement of business objectives;
- at least annually, fully review and document the CEO's performance against these performance standards and evaluation criteria; and
- provide the CEO with appropriate remuneration that encourages the sound and prudent operation of the credit union.

ENSURING MANAGEMENT IS APPROPRIATELY SKILLED AND EXPERIENCED TO IMPLEMENT THE BOARD'S OBJECTIVES

Although the Board depends on Senior Management's expertise to run the day-to-day activities, the Board remains ultimately responsible for monitoring and assessing Senior Management's performance. A Board-approved Assessment policy, outlining the assessment criteria for Senior Management should be put in place, but the administration of the policy is the responsibility of the CEO. The CEO will ensure Senior Management has the necessary skills and experience consistent with the Board's objectives and are able to respond to changing and emerging conditions, both internal and external to the credit union. The Board will need to confirm that the CEO's actions are consistent with the strategic direction, strategic goals and policies approved by the Board, including the credit union's risk appetite and risk tolerances. The Board should ensure the credit union's organizational structure facilitates effective decision making and good governance.

Lines of responsibility and accountability should be clearly defined and established. The development of a succession plan to address the retirement, resignation or loss of the CEO and other key Senior Management personnel is critical to ensuring the credit union will be able to carry on operations without significant disruption.

At a minimum, DICO expects the Board will:

- receive and consider summary reports confirming that Senior Management's competencies and performance have been reviewed, on an annual basis;
- ensure training and development initiatives are in place and skills gaps are being addressed; and
- review and approve succession plans for senior management, where appropriate.

ENSURING EMPLOYEE COMPENSATION POLICY AND PROGRAMS ARE CONSISTENT WITH PRUDENTIAL INCENTIVES

It is the Board's responsibility to ensure the compensation policy and programs for all employees are well documented and provide appropriate incentives to encourage individual and team achievement while discouraging the acceptance of unsuitable risks. Compensation may include salaries, bonuses, pension contributions and other benefits. Appropriate compensation programs assist in providing appropriate incentives to employees to act in the best interest of the credit union and to discourage inappropriate risk-taking. The Board needs to satisfy itself that compensation programs support the achievement of the credit union's business objectives without compromising the on-going viability, solvency and reputation of the credit union.

At a minimum, DICO expects the Board will:

- ensure compensation policy and programs are satisfactory and fully documented;

- approve the compensation philosophy and any variable pay plans for directors, Senior Management and other personnel in order to attract and retain qualified and competent individuals;
- benchmark compensation programs against peer credit unions;
- ensure performance-based compensation rewards are appropriately rewarding the achievement of goals and objectives and contribute to the on-going viability of the credit union; and
- review the report from management outlining the results of the compensation program and ensuring performance is achieving the objectives of the program.

Risk Management

ESTABLISHING APPROPRIATE AND PRUDENT RISK MANAGEMENT POLICIES

The implementation and maintenance of an appropriate risk management framework by the Board is required as part of the effective oversight of the credit union. The risk management framework is the set of policies and processes used to identify, measure, manage and direct the level of risk the credit union is willing to accept while meeting its strategic goals. The framework also outlines responsibilities, accountabilities, limits and authorities of the Board, management and staff within the credit union. It identifies the requirements for the monitoring of credit union activities and provides guidance in addressing issues that may arise. In order to create and implement an effective risk management framework, the Board is expected to have a solid understanding of the extent of the risk they are willing to accept, the nature of the credit union's risk exposures and the impact of those risks on the capital, liquidity and operations. The Board should regularly monitor the ongoing status and severity of all major risks, and the strategies and processes in place to manage these risks.

At a minimum, the Board is expected to ensure prudent risk management policies appropriate for the size, complexity and risk profile of the credit union are developed and implemented that address the following risk management areas:

- Capital Management;
- Credit Risk Management;
- Operational Risk Management;
- IT Risk Management;
- Market Risk Management;
- Structural Risk Management;
- Liquidity Management; and
- Enterprise Risk Management

At a minimum, DICO expects the Board will:

- oversee the development of and approve risk management policies and controls that are effective and address all material risks with no material deficiencies;
- review and confirm, at least annually, the appropriateness of its risk management policies and supporting processes and controls to reflect any material change in risk profile or risk exposure;
- ensure any material changes to policy require comprehensive supporting rationale and are fully reviewed and discussed to confirm impact on risk exposures; and
- understand the relationship between managing significant risks and the achievement of business objectives and strategy.

OVERSEEING RISK MANAGEMENT POLICIES AND OBTAINING REASONABLE ASSURANCE THE CREDIT UNION IS ADHERING TO ITS RISK MANAGEMENT POLICIES FOR SIGNIFICANT RISKS

An on-going awareness and oversight of the significant risks of the credit union enables the Board to critically assess the business strategy and plans. Requiring regular assurances and supporting documentation on the effectiveness of risk management processes enables the Board to satisfy itself that Senior Management proactively identifies, assesses, manages and demonstrates control of significant strategic, business and process level risks.

At a minimum, DICO expects the Board will:

- provide stewardship, including direction setting and general oversight of risk management policies;
- obtain sufficiently comprehensive and timely reporting from Senior Management about the credit union’s performance and significant strategic, business and process level risks;
- ensure there are clear lines of responsibility and accountability for managing and reporting on specific strategic, business and process level risks; and
- confirm the risk management process enables the overall aggregation of risks in support of strategic risk management and control related decision-making.

ENTERPRISE RISK MANAGEMENT (ERM):

ESTABLISHING APPROPRIATE AND PRUDENT ENTERPRISE RISK MANAGEMENT POLICY(IES) THAT SETS OUT THE RISK APPETITE AND RISK TOLERANCES FOR ALL SIGNIFICANT RISK AREAS

ERM includes the methods and processes used by organizations to identify and manage significant risks as part of their strategic planning.

Significant risk is defined as an event or activity which may significantly or materially interfere with the achievement of a credit union's goals or an event or activity which may cause a significant opportunity to be missed.

ERM is an ongoing process and provides a framework that involves a number of key steps including risk identification, risk assessment and measurement, risk response and action, monitoring and reporting, and application of lessons learned. ERM seeks to optimize risk management by balancing the cost of risk with the cost of control for all aspects of the credit union's potential risk areas to ensure organizational objectives are met within the Board's defined risk appetite. By identifying and proactively addressing significant risks, credit unions can protect and create value for their stakeholders.

The Board plays a critical role in developing the credit union's risk appetite and overseeing the ERM framework, processes and controls. This responsibility requires an understanding of the ERM process and the nature and extent of risks facing the credit union.

At a minimum, DICO expects the Board will:

- ensure an ERM policy is structured, developed and implemented appropriate to the size and complexity of the credit union;
- confirm the ERM policy appropriately sets out the risk appetite and tolerances for all significant and emerging risks;
- develop a comprehensive and consistent set of definitions and common terms for risks and risk management that are applied on an enterprise-wide basis; and
- monitor risk levels compared to established strategic risk targets to ensure they are within acceptable parameters.

REVIEWING AND CONFIRMING THE CREDIT UNION'S RISK EXPOSURE IS ALIGNED WITH ITS RISK APPETITE AND RISK TOLERANCES

The ERM program provides a framework of qualitative and quantitative parameters to be used to measure the performance and level of risk.

At least annually, the Board should review the credit union's risk exposure and confirm risks are mitigated to within its overall risk appetite level. For any risk outside the risk tolerance level, the Board will ensure management develops a plan of remediation to mitigate the excess risk. The Board will oversee the remediation process until the risk is adequately addressed.

A critical function of the ERM regime is to identify, quantify, monitor and where necessary, mitigate emerging risks which may affect the credit union. Management continually identifies emerging risks that could have a future impact on the credit union. Emerging risks are those that may currently not be considered significant, although may become so in the future. It is important sufficient effort is undertaken to help identify and quantify potential emerging risk exposures. The Board will ensure there is documentation outlining how the emerging risk was identified or determined in order to ensure that the risk is properly reviewed as part of the ongoing risk management process.

In addition, as the size of the credit union increases, or new lines of business are added, the Board will ensure the new risks identified are within the existing risk appetite of the credit union and risk tolerances are adjusted to ensure the new risks are managed appropriately.

At a minimum, DICO expects the Board will:

- regularly monitor the status of risk exposures to ensure they align with established risk appetite and risk tolerances through reports provided by management;
- regularly review and assess the credit union's risk appetite and risk tolerances with respect to the changing factors and risks;
- reviewing risks and risk mitigation activities at least annually to ensure that the credit union is managing its risks appropriately and to identify and mitigate any new or emerging risks;
- ensure they are conducting extensive deliberations of significant and emerging risks and documenting within Board/Committee meeting minutes; and
- monitor the level of risk and remediation plans to ensure risks are being managed.

Business Strategy and Business Plans

ESTABLISHING THE BUSINESS OBJECTIVES OF THE CREDIT UNION CONSISTENT WITH CO-OPERATIVE PRINCIPLES AND APPROVING THE CREDIT UNION'S BUSINESS STRATEGY AND BUSINESS PLANS

A business strategy is a detailed description of how a credit union plans to achieve its business objectives. It includes the type of business activities that will be conducted, the significant risks inherent in conducting them, the key functions and resources needed to conduct, and the short and long-term operating and financial results expected to be achieved. A business plan is a detailed description of how a credit union plans to conduct its operations in implementing its business strategy. Business plans help to ensure business activities will be conducted prudently within the context of established business objectives, strategy and risk appetite and tolerances.

The Board and Senior Management work together to develop the business strategy and the strategic plan. The Board's involvement in the development of the strategic plan will vary depending on the size and complexity of the credit union. The Board is responsible for final approval and ensuring the performance of the credit union is aligned with this strategy. Management creates a business plan and budget that implements the strategic plan and objectives approved by the Board. The Board reviews and approves the business plan and budget and ensures they support the achievement of strategic objectives. The Board requires Senior Management to provide timely and accurate information in order to make well informed decisions about the issues and opportunities facing the credit union.

At a minimum, DICO expects the Board will:

- ensure the business strategy and business plans are prudent and within the Board's risk appetite with full Board review, consideration and discussion before approval;
- allocate sufficient time for consideration and oversight of the business objectives and business strategies;
- balance the desire for sustainable returns and growth with the need for safety and soundness; and
- review and critically assess alternative business strategies developed by Senior Management in terms of their risk and likelihood of achieving the business objectives.

EVALUATING THE CREDIT UNION'S ACTUAL OPERATING AND FINANCIAL RESULTS AGAINST BUSINESS PLANS AND ADDRESSING ANY MATERIAL VARIANCES

The Board ensures the strategic plan is met by regularly evaluating the variation between the actual operating and financial results against the business plan and budget. The review should be completed with the goal of determining if the credit union is actually achieving the results as desired.

This evaluation of performance provides a means for confirming the appropriateness of the strategic direction and effectiveness in implementing the strategies and plans, as well as for judging management's performance. The Board should ensure any material variances are identified and appropriately addressed. The Board should continue to monitor the areas of concern until the situation is fully resolved.

At a minimum, DICO expects the Board will:

- review internal and external factors that may necessitate changes in the business strategy and plans;
- establish criteria to evaluate performance in achieving the business objectives, strategy and plans;
- determine and request the information required to properly evaluate performance and progress towards achieving the business objectives;
- establish through a Board approved policy the frequency of strategic performance review and evaluation that aligns with the nature of the business objectives and strategy; and
- monitor the implementation of the business plans and ensure any material variances are proactively and effectively resolved.

DICO Assessment Criteria

DICO will also assess the degree to which the Board has implemented appropriate governance practices and process, and the extent to which:

- governance practices are well established and appropriate and fully documented;
- board reports are comprehensive, timely and accurately address all material risk areas;
- directors participate fully in Board deliberations in their oversight responsibilities;
- CEO evaluation criteria are objective, well documented and address key responsibilities;
- risk management policies are satisfactory and address all significant risks;
- the Board is actively engaged in oversight of risk management policies and obtains sufficiently comprehensive reporting and supporting information;
- the business strategy and business plans are prudent with full Board review and consideration and discussion before approval; and
- the business plan implementation is effectively monitored, and any material variances are proactively and effectively resolved.

These assessment criteria supplement the specific assessment criteria set out in other DICO Guidance Notes.

Under By-law No. 5, at least annually, the Board shall review and assess the operations of the credit union and submit to DICO within 75 days of the end of the financial year, a Board resolution, in the form outlined in Appendix A of that by-law confirming:

- management has provided a representation letter to the Board regarding its assessment of adherence to management's responsibilities under the standards of sound business and financial practices; and
- the Board of Directors is familiar with, and is acting in compliance with, the standards of sound business and financial practices.

A sample Management Representation Letter is included in the "Self-Assessment Workbook: Corporate Governance – Board of Directors".

A sample Board resolution is included in the "Self-Assessment Workbook: Corporate Governance – Board of Directors".