DUCA
Do more. Be more. Achieve more.

DUCA Financial Services Credit Union
5255 Yonge Street, 4th Floor, Toronto, ON M2N 6P4
416-223-8838 | www.duca.com

FSRA Policy Team
25 Sheppard Avenue West, Suite 100
Toronto, ON
M2N 6S6

Delivered Electronically to Daniel Padro, Director Policy – Credit Unions

September 14, 2021

DUCA Financial Services Credit Union Ltd ("DUCA" or "we") appreciates the opportunity to comment and respond to the public consultation surrounding FSRA's Sound Business and Financial Practices Rule 2021-004 ("the Proposed Rule", "Rule" or "SBFPR"). FSRA's willingness to have a conversation around our concerns is helpful and we appreciate your openness for dialogue.

We support the intent and principles behind the SBFPR and understand the opportunity at hand for the rule to further strengthen our sector. As such we are providing this feedback with the earnest desire to assist in arriving at a final version of the rule that achieves the outcomes intended.

From a broad perspective, we have concern that the proposed rule's language is ambiguous and subject to varying interpretation and/or misinterpretation. The ambiguity of various sections poses the very real risk of unintentionally drawing Boards into operational decision making and causing significant misunderstanding regarding the Board's role and responsibilities vis a vis those of the CEO and senior management groups. At worst, this raises the risk of violating the prohibition of the CUCPA section 97 (1) and (2), as well as non-compliance to the proposed rule. At best, it would result in additional costs and complexity for the sector for limited prudential benefit while hampering Credit Unions' ability to be clear, efficient and effective in key business decision making, and the prudent management of risks.

Below is a summary of general topics and key issues that DUCA has determined to be of particular importance. We trust this perspective will be useful for FSRA's consideration in combination with the communications that have been shared by Meridian, Alterna, First Ontario, DUCA, and Libro in the response letter dated August 16, 2021, along with the CCUA and other stakeholders. Additional details are included in Appendix A and B of this letter.

1: Important distinction between Rules vs. Guidelines

We understand that this rule will replace bylaw 5 and effectively come into force with the proclamation of the revised CUCPA. With this understood, the rule is legislative in nature and as such, presents significant consequence for non-compliance. Thus, it is imperative that language be as clear as possible to minimize misinterpretation. A clear and common interpretation and understanding of the requirements of the rule is critical as that determines how Boards and Management teams will implement and how FSRA supervisory staff will evaluate compliance.

2: Oversight and independence

We appreciate the intent behind several sections of the proposed rule relating to the categorization of oversight functions and their independence. We agree and support the principle and concept that key roles including the Chief Financial Officer, Chief Risk Officer, Head of Compliance, and Head of Internal Audit should have appropriate organizational status, operate professionally and effectively in discharging their responsibilities, and have appropriate profile and communications with the Board. We see this as supportive of a strong first, second, and third line of defense. However, the language of the proposed rule introduces significant interpretation and implementation challenges. It is unclear what is meant by independence in the rule and how heads of such functions can be both separate and simultaneously a part of senior management groups. The rule poses the question: "can a head of an oversight function be independent if they report to a CEO"?

Requiring that heads of oversight functions be independent of the credit union's operational activities and businesses is impractical, not conducive to maintaining a strong first, second, and third line of defense, and would require costly and complex reorganization of functional reporting relationships. In the DUCA context as with many Credit Unions, the CFO, CRO and head of Compliance are engaged deliberately in the business. Also, by virtue of their direct, functional reporting relationship to the CEO combined with the CEO's responsibility for oversight of the business, they are expected to provide input on key decisions to ensure the best interests of Members are served, good stewardship and compliance is maintained, and risks are properly identified, understood, monitored and managed.

The rule does not seem to make an appropriate distinction between the independent nature of the head of internal audit versus other heads of oversight functions. Additionally, the rule is silent about the CEO's responsibility, as delegated by the board, for oversight which suggests this responsibility can/should be entirely delegated to other heads of oversight functions. In the DUCA context as with many Credit Unions, this would be a material change to the existing definition of the CEO's responsibilities as defined by Corporate Governance Policy and significantly detrimental to the effectiveness and efficiency of the second line of defense and business oversight overall.

3: Risk Management reporting relationships

DUCA supports the importance of the Chief Risk Officer (CRO) role and considers the position to be a key position of a CEO's senior management team and critical element in having a strong second line of defense. We also agree that the CRO should regularly report to the Board and Risk Committee of the Board regarding the Credit Union's enterprise risk management policies and frameworks and the status and management of key risks. We believe the Board's delegated responsibility to the CEO for the implementation, monitoring and management of prudent and effective risk management practices, policies, procedures, and controls requires that there be a strong and constructive, functional reporting relationship with the CRO. As such, we have significant concern regarding the proposed rule indicating that the CRO or head of the risk management function be appointed by, and report to the board. This removes the hiring, performance evaluation and retention decisions from the decision rights of the CEO and eliminates the critical aspect of the CRO to CEO functional reporting relationship. Doing so significantly reduces the responsibility delegated to the CEO by the board for risk management and monitoring thus undermining the CEO's effectiveness at fulfilling this obligation. Further, this would have the unintended effect of drawing the board into the day-to-day operations of the credit union given how pervasive and integral the management and monitoring of risks is to the core business activity of the Credit Union.

4: Board versus CEO roles, responsibilities, and decision rights

We support and appreciate the intention of the proposed rule to ensure a clear division between the roles and responsibilities of the board and those of senior management. We believe this is crucial in (i) ensuring the board avoids violating the prohibition set out in section 97 (1) and (2) of the CUCPA, (ii) ensuring optimal effectiveness of governance, oversight and management of the credit union's activities, and (iii) safeguarding a strong first, second and third line of defense framework. However, sections of the proposed rule contradict and undermine this intent. This includes the rule's requirement that the head of the risk management function be appointed by, and report to the board rather than the CEO, and the allocation of responsibility and decision rights to the board for a range of activities normally within the CEO and management's scope of responsibility due to their operational nature. More specifically, defining the board's responsibility as "supervision", "direction", "management" and "approval" of mandates and budgets for oversight functions, risk management, the appointment, setting of performance objectives, compensation, incentives, succession plans and reviews of other members of senior management including the heads of oversight functions, in addition to the CEO.

We are concerned about the removal of substantial portions of delegated authority, responsibility, and decision rights from the CEO, in effect assigning them to the Board. This runs counter to a clear separation and effectiveness of governance, oversight and management functions of the credit union, acutely degrades a strong first, second, third line of defense framework and directly contradicts the intent of the rule to have clear distinction between roles and responsibilities of the board and those of senior management. We are significantly concerned about the unintended consequences of undermining CEO and senior management effectiveness and causing boards to move well outside their role of governance and oversight and into operational decision making.

5: Remuneration:

We appreciate and agree with the principle that compensation programs and incentives should not encourage activity or behaviour that is contrary to the best interest of the credit union or misaligns with board approved goals for the business. We believe it is important that compensation plans for all levels of the organization align with board approved compensation philosophy and policies, that pay scales and benefits are clearly defined, consistently applied and equitable, that compensation is market competitive, appropriate for job scope and performance is appropriately rewarded. We have concerns with the rule's requirement that the board should go beyond the approval and oversight of compensation policy and frameworks and should supervise, direct, manage and approve compensation and incentives beyond the CEO level. The board engaging in these activities (beyond the CEO level) puts the board into operational decision making, effectively removing responsibility ordinarily assigned to senior management, ultimately reducing efficiency and effectiveness in design and application of appropriate compensation policy and practices.

We are also concerned that the rule requires remuneration for heads of oversight functions to be independent of the business areas they oversee. This is due to the reality that roles such as the CFO, CRO and head of compliance, in the DUCA context and many other Credit Unions, are integrated and engaged directly in operations of the Credit Union. This supports effective first, second and third line of defense, engenders a culture of financial stewardship, compliance, and risk management across the organization, and ensures that compliance, financial and risk management are integral considerations of ongoing decision making. Additionally, the implementation of this part of the rule would result in: (i) misalignment of remuneration for heads of oversight functions with board approved business performance goals, (ii) unnecessary complication in compensation and incentive programs, and (iii) increased costs to maintain them.

Appendix A of this letter provides additional specifics on the topics discussed above and includes the matters raised in the response letter dated August 16, 2021 from Meridian, Alterna, First Ontario, DUCA, and Libro.

We look forward to engaging with FSRA regarding this response, with the goal of enhancing the Proposed Rule to benefit the sector and its Members.

Sincerely,

Douglas S. Conick

Doug Conick, President and CEO

Tom Vandeloo, Chair of the Board of Directors

DUCA Financial Services Credit Union Ltd.

APPENDIX A
DUCA SPECIFIC TOPICS

<table>
<tr><th colspan="2">Oversight and independence</th></tr>
<tr><th><u>Section of proposed rule:</u></th><th><u>Comments, questions and concerns</u></th></tr>
<tr><td><u>Section 1(1) (iii) and (iv</u>)
Oversight functions are defined separately and distinctly from senior management with oversight including: a) internal audit, b) risk management, c) compliance and d) finance.

Senior management includes: a) CEO, b) individuals responsible for overall management, c) heads of oversight functions, etc

<u>Section 1(5) (i), (ii)</u>
1(5) (i): Whether an individual or entity is independent is exclusively a question of fact.
1(5) (ii): Independent individual is free from influences that compromise judgment, allowing individual to act with integrity, and exercise objectivity and professional skepticism.

<u>S.10:</u>
S.10(1):The credit union shall establish and maintain oversight functions…such that the functions have sufficient resources, status, authority and <u>independence</u>…"

S.10(2) The head of an oversight function of the credit union may be an individual employed by a third party to whom the credit union has outsourced that oversight function, so long as a member of the credit union's senior management remains accountable for the performance of such individual and oversight functions and such an arrangement has been approved by, and is overseen by, the board of the credit union.

S.10(5): Individuals responsible for conducting activities of oversight functions shall be independent of the credit union's and its subsidiaries operational activities and businesses.</td><td>S. 1(1) (iii) & (iv) and S. 1(5), expands oversight and independence beyond the internal audit function and categorizes CRO, CFO, head of compliance in a way that separates them from senior management. The language of the rule leads to the following questions and concerns:
Does oversight function responsibility include the overseeing senior management/senior management activities? If so, and oversight roles are part of senior management how can they remain "independent"
It is unclear how these parts of the rule support a strong first, second and third line of defense
There is no mention of board delegated responsibility to the CEO for overseeing operations, risk management and financial performance. As such it appears this responsibility is removed from the CEO and allocated to oversight functions. Is this the intent?
There is no distinction made between the head of internal audit and other oversight functions in terms of the independence of internal audit and its functional reporting relationship to the board audit committee, which does not align with practice at DUCA and many other regulated institutions.
S. 10 raises a concern that compliance to the rule would require reorganization to remove operational decision making and management activities from heads of oversight functions (eg: CRO and CFO) to meet the requirement of being independent of the operational activities they oversee as per S.10(5).

S. 10 (8): it is difficult to see the value and necessity of the prescriptiveness of this part of the rule. It raises practical questions about decision rights of the CEO, members of the senior management group and heads of oversight functions in terms of who can decide whom must be invited to meetings versus optional attendance and who is the arbiter of "reasonable basis"</td></tr>
</table>

S.10(8): Heads of oversight functions shall be entitled to participate in all internal meetings, including those of senior management, of the credit union and its subsidiaries, on a reasonable basis, in order to reasonably monitor and assess the credit union's and its subsidiaries activities." **Finance Function - S.14(1)(ii):** Provide accurate, reasonable, independent, reliable and risk based financial reporting and analysis to senior management and the board of the credit union. S.14(2): the head of the finance function shall: (i) advise the CEO and board, including in relation to matters described in S.14(1) and (ii) have reasonable knowledge of and opportunity to participate in all material functions of the credit union's and its subsidiaries' businesses and operations	Re: S.14(1)(ii): it is difficult to interpret "independent" from this section and there are questions as to the criteria to define what independence means beyond the usual internal and external audit oversight? Re: S.14(2): raises questions about what is meant by advising the CEO and board – what matters would this encompass beyond those described in S.14(1)? The subsection (ii) seems to contradict what is set out in S.10(5) where it states: "Individuals responsible for conducting activities of oversight functions shall be independent of the credit union's and its subsidiaries operational activities and businesses"

Risk Management reporting relationships	
Section of the draft rule:	**Comments, questions and concerns:**
S.12(2): The head of the risk management function of the credit union shall be appointed by and report to the board of the credit union	Significant concern regarding the proposed rule's requirement that the CRO or head of the risk management function should be appointed by, and report to the board. This removes the hiring, performance evaluation and retention decisions for this key role from the decision rights of the CEO and eliminates the critical aspect of the CRO to CEO functional reporting relationship. Doing so significantly reduces the responsibility delegated to the CEO by the board for risk management and monitoring thus undermining the CEO's effectiveness at fulfilling this obligation. Further, this would have the unintended effect of drawing the board into the day-to-day operations of the credit union given how pervasive and integral the management and monitoring of risks is to the core business activity of the Credit Union. With a strong, independent IA function and regular IA reviews of the ERM program, this is unnecessary and onerous

<table>
<tr><th colspan="2">Board versus CEO role, responsibilities, and decision rights</th></tr>
<tr><th><u>Section of proposed rule:</u></th><th><u>Comments, questions and concerns</u></th></tr>
<tr><td><u>Section 4 (2), (3)</u>
The board or senior management of the credit union, as applicable, shall only,
(i) appoint an individual or individuals to become a director or directors of the board of the credit union, or
(ii) propose or nominate an individual or individuals to be elected by the members as a director or directors of the board of the credit union,
who have appropriate skills, education, experience and a commitment to discharge their duties and responsibilities effectively, having regard to the nature, size, complexity, operations and risk profile of the credit union.

No individual, other than the chief executive officer of the credit union, may serve as a member of the board of the credit union unless such an individual is independent of senior management of the credit union.

<u>Section 5(2), (3)</u>
5(3): The board of the credit union is responsible for providing oversight, supervision and <u>direction</u> to management and shall oversee and <u>approve:</u>

5(3) (i):
(a) through (f)
(g) mandates & budgets for oversight functions
(h) risk management

5(3) (ii): the <u>appointment</u>, <u>setting of performance objectives</u>, compensation, incentives, succession plans and reviews of the credit union's CEO <u>and other</u> <u>members of senior management</u> including the heads of oversight functions, in accordance with 9(1)</td><td>S.4(2): Contradicts best governance practices regarding the appointment of board directors and seems directly contrary to the "democratic member control" co-operative principle.

Re: S.5(3): Raises significant concern that boards will be involved in operational decision making and that substantial portions of board delegated authority and responsibility is being removed from the CEO. The section removes from the CEO and allocates to the board the responsibility for hiring, setting performance objectives, compensation and incentive decisions and succession plans for what appears to be all members of the senior management team including oversight functions. This dramatic reduction of the CEO's existing board-delegated authority and responsibility and will serve to undermine CEO effectiveness and places the board squarely into operational matters and decision making. This section also seems directly contrary to the rule's intent to create a clear division of roles and responsibilities between board, the CEO and senior management.</td></tr>
</table>

(iii) delegations of authority by the board and by the credit union’s senior management	

Remuneration	
Section of proposed rule:	**Comments, questions and concerns**
S.9: S.9(1) The board of the credit union shall create, develop, update and implement remuneration programs, policies and practices for the members of the board, including board committees, and senior management of the credit union, and which is structured appropriately to attract, retain and motivate high-quality directors and members of senior management, proportionate to the credit union's nature, size, complexity, operations and risk profile. S.9(4): The credit union shall ensure its remuneration programs, policies and practices referred to in subsections 9(1), 9(2) of this rule, are consistent with the following: (i) employees engaged in the oversight functions are remunerated in a manner <u>that is independent of the business areas they oversee</u> and commensurate with their key role in the credit union	S.9(1) raises a concern that the board will be too engaged in operational matters if it is responsible for the creation and development and implementation of remuneration programs. This effectively shifts responsibility from management to the board and creates an inherent conflict and overlap between oversight and governance and the creation, development and implementation of remuneration policies and programs. This section should be amended to clarify that creation, development and implementation of remuneration by the board should apply only to the CEO. S.9(4)(i): raises significant issues of application due to: (i) heads of oversight functions such as the CFO and CRO are integrated and involved in the business. This supports a strong and effective second line of defense and enables risk management and financial stewardship thinking and discipline throughout the organization. (ii) misalignment of remuneration for heads of oversight functions with board approved goals for the Credit Union, (iii) unnecessary complexity of remuneration programs and additional costs to maintain them.

Stated benefits, costs and other implications	
Stated Benefits of the rule	**Comments, questions and concerns**
"... advancing FSRA's cross-sectoral priority of transitioning to principles-based regulation" *"There are likely to be minimal qualitative costs associated with the Proposed Rule."* *"... as a result of the principles-based framework and increased responsibility and accountability for credit union directors and managers, the Proposed Rule may necessitate the redistribution and reallocation of resources within credit unions."* *"Well-run and mature credit unions are not expected to incur new material financial costs in order to ensure compliance with the Proposed Rule"*	The language of the rule involves more prescription versus principles-based and significant ambiguity exists in language that raises the real risk of misinterpretation. We believe there will be material costs if the rule as currently written is brought into force. Higher costs will arise from: (i) the need for reorganization to separate operational involvement and decision making from heads of oversight functions to comply with independence requirements, (ii) additional costs at the board level given the significant increase in responsibility and involvement in Credit Union operations prescribed by the rule, (iii) reduced efficiency, effectiveness and timeliness in operational decision making due to overlapping responsibilities of the board, the CEO and senior management. We have concern that the proposed rule significantly reduces the board delegated authority and responsibility to the CEO which will materially diminish the decision rights and powers of the position and substantially reduce CEO effectiveness

Appendix B

TOPICS INCLUDED IN THE AUGUST 16th 2021 RESPONSE FROM MERIDIAN, ALTERNA, FIRST ONTARIO, DUCA AND LIBRO

Section 1: Interpretation

General Themes of Concern Within This Section

- Principles Regulation vs Prescriptive Regulation
- Independence of Oversight Functions and Feasibility
- Confusion Surrounding Proposed Language

Section	Comments / Unintended Consequences and Impact
1(1) iii & iv	**Commentary** • Provided oversight functions limit how credit unions can set up their various teams and functions. Requirements for oversight leads to be fully independent (per 10(5)) will create culture, operational and feasibility challenges for sector. Is this a misinterpretation? • The listing of Senior Management roles feels prescriptive in nature and doesn't allow for flexibility within each credit union. Subsection 1(1) (iv) e) also suggests that the board will determine who will form part of senior management which encroaches on the role of the CEO. Does FSRA mean through management recommendation? • For internal audit to be truly independent from senior management they should not be classified within this group. This section links them to Senior Management requirements as a broader group, which blurs the third line of defence. Would removal of audit function create greater independence and stronger third line defence? **Unintended Consequences and Operational Impact** • Confusion in operational capabilities may occur for oversight leads, teams, and functions, could pose challenge for some organizational structures. • Internal audit may not be fully independent from management.
1(3)	**Commentary** • We would recommend the removal of the term "procedure" and "process" from this section and throughout the entire document. We believe it is adding confusion around good governance practices. Policies makes sense, and maybe FSRA could comment that procedures and processes must align to policy and are responsibility of Management. **Unintended Consequences and Operational Impact** • This section will require a full gap analysis and review of internal policy and procedures, adding cost, resources.
1(5) I, ii, iii	**Commentary** • Concerns that we are creating barriers to strong first and second line practices. Heads of oversight functions are not independent in nature of business operations, strategy and practice, which in turn serves to ensure a strong second line of defense. We believe FSRA needs to find a way to move from "independence" to "held to high standards and integrity" given professional certificates and qualifications required to support and lead these functions. Perhaps a note that this applies to the Board only would also suffice? A conversation on how FSRA views independence may be helpful here.

	• Section 10 does not create independence per 1(5) iii, we believe this might be a contradiction to earlier language within the rule. **Unintended Consequences and Operational Impact** • Will those within the teams of oversight functions be able to even be a member of the credit union, hold assets, investments, loans, and accounts? • What is the expectation of reporting lines for the CFO and CRO, as these are not clear given the current language? We suspect it is a dotted line approach to the Board, but this could be clarified further.

Section 2: Co-Operative Principles

General Themes of Concern Within This Section

- Ambiguous Language

Section	Comments / Unintended Consequences / Impact
2(1)	**Commentary** • We are happy to see FSRA note several important principles of the credit union and co-operative movement. • The language "Principles may be interpreted and defined from time to time by the Authority in writing" creates very ambiguous language and possible interpretation challenges in the future. Also unclear how FSRA may consult on principle changes to the rule. **Unintended Consequences and Impact** • Uncertainty due to language and possible intervention of FSRA using ambiguous language.

Section 3: Governance Matters Related to Members

No comments on this section.

Section 4: Composition of the Board

General Themes of Concern Within This Section

- Democratic Principles and Process
- Good Governance

Section	Comments / Unintended Consequences / Impact
4(2)	**Commentary** • This section contravenes the principle of "democratic member control" by suggesting that Senior Management can propose and appoint a Director to the Board. We feel clarity that this would be a duty of the Board only is necessary. • The term "appropriate skills, education and experience" is highly subjective. Additional clarity may be needed here if FSRA has specific expectations. Within a democratically run credit union any member who meets legal qualifications and is in good standing can run as a Director. Whether they meet any of the noted elements or not. Do individual By-Laws still ensure this democratic principle remains, is FSRA seeking to phase this out of By-Laws and other general governance policies? **Unintended Consequences and Impact** • Unfair election of Directors and impacts on individual by-laws, possible legal challenges. • View from Directors that some candidates should be excluded based on skills, education, and experience, when this would contravene democratic member control. • Clarity of roles between Senior Management and Board may get blurred • Clarity around the definition of "appropriate" will likely occur potentially causing variations in governance interpretation within the sector. FSRA may be ok and comfortable with this?

Section 5: Responsibilities of the Board of the Credit Union

General Themes of Concern Within This Section

- Good Governance
- Blurred Governance Lines
- Scope of Board Duties

Section	Comments / Unintended Consequences / Impact
5(1) ii	**Commentary** • Suggest changing the word "encourages" to "provide effective oversight" or remove it. • Suggest removal of the words "decisions and processes" to ensure Directors do not become operational in nature. We fear these words have unintended consequences. **Unintended Consequences and Impact** • Board lines between governance and operational become blurred. Having the board question every single decision would not be an effective governance tool or use of resources and time. Language within the rule allows for this to occur and in some regard pushes it.
5 (3) I, ii	**Commentary** • Wording feels prescriptive in nature and pushes back on FSRA's goals of ensuring that Boards do not become operational in nature, as well as new CUCPA Sec 97(2). Certainly, Boards provide oversight, but supervision and formal direction to Management is not a governance best practice in our eyes.

	• Additionally, "overseeing and approving" can also be misconstrued as operational in nature. Suggested changes could focus on "guidance, advice and constructive challenge." • The board should not be approving processes and procedures. • 5(3) ii goes to far in its interpretations. The only employee of the Board should be the CEO and the current wording defines it as senior management and heads of oversight functions. It would read that the Board has final authority over all senior management roles, this would not be a form of good governance as Directors would be involved in human resource decision making and CEO team setting. We believe FSRA may have addressed this already and is open to change in language? • 5(3) i h) should be clarified- suggest "risk management framework" rather than risk management generically. • 5(3) iii the board should not be approving management's internal delegations of authority as this encroaches on management's responsibilities. • The oversight of a federally regulated financial institution by the parent's board needs to be clarified so as not to infringe on the jurisdiction of the subsidiary's regulator. **Unintended Consequences and Impact** • Clarity of scope is needed on this messaging, as it dives into operational elements, thus creating blurring of governance lines between board and management. • Board may believe they can set performance targets, compensation structures and payouts, as well as incentives and operationalize review for all senior management. We do not believe this is the intended scope, but this is our current perception which would further blur lines of governance and management duties/roles. • Clarity around the term "appointment" is needed as current perception exists that this may refer to hiring and firing of specific roles and heads of oversight functions (such as CRO) it would be helpful as this would have potentially many negative impacts on human resource decisions and organizational structure changes. • Reviewing and approving processes and procedures would unduly monopolize board time on operational matters, drawing attention away from their governance duties. This also encroaches on the role of management. • There currently doesn't exist a reciprocity agreement between FRSA and OSFI to share cross-jurisdictional information. As a result, credit unions owning federally (OSFI) regulated banks may not be able to comply with FSRA expectations for subsidiary oversight.

Section 6: Responsibilities of Senior Management of the Credit Union

General Themes of Concern Within This Section

- Clarity of Ethical Framework

Section	Comments / Unintended Consequences / Impacts
6(1) (i) and (11)	**Commentary** • Can FSRA please explain with more clarity what they expect within an "ethical framework for operational management". • The word "processes" should be removed from par 6(1) i). **Unintended Consequences and Impacts** • We have seen potential ethical frameworks through other non-financial sectors and the workload can be daunting and resource heavy. It also adds additional complexity to every decision and role from an HR lens. Clarity is needed. • The requirement for the board to approve processes would unduly monopolize board time on operational matters, drawing attention away from their governance duties. This also encroaches on the role of management.

Section 7: Ethical and Responsible Action

No comments on this section.

Section 8: Integrity in Reporting and Disclosure

General Themes of Concern Within This Section

- Clarity of Board Roles
- Good Governance Practices

Section	Comments / Unintended Consequences / Impacts
8(1)	**Commentary** • Implementation of risk controls should be only the purview of Senior Management and not that of the Board. • Clarity of roles between Board and Senior Management helpful here. **Unintended Consequences and Impacts** • Blurred lines between Board and Management in terms of operational requirements
8(2)	**Commentary** • Requirements of reporting to members feels prescriptive. We are confused beyond what we provide today in terms of full financials and reports to members at the AGM would need to be reported on and disclosed. Viability and prospects is shared in various methods with members. What additional information would be needed? **Unintended Consequences and Impacts** • Increased burden on reporting teams and Management to overcommunicate with members

	• Members receiving increased items from corporate communications and creating confusion beyond AGM requirements • Additional requirements of AGMs and resources for the communications and reporting mechanisms during the event, pre and post.
8(3)	**Commentary** • Please see comment regarding OSFI regulated subsidiary oversight under section 5(3). Determinations may be needed to understand various responsibilities and requirements for those engaging in subsidiary ownership or other ventures at a federal level. **Unintended Consequences and Impacts** • Multiple layers of regulation from both a federal and provincial standpoint around subsidiary ownership and operations.

Section 9: Fair and Responsible Compensation

General Themes of Concern Within This Section

- Compensation Structures
- Independence and Oversight
- Remuneration Relating to Risk
- Good Governance

Section	Commentary / Unintended Consequences / Impact
9(1)	**Commentary** • The board should only set and implement compensation programs for the CEO, not the rest of the credit union. • Would recommend a change in language from "create, develop, update and implement" to "oversee, challenge and approve" compensation plans. • Not opposed to the Board setting their own remuneration where appropriate **Unintended Consequences and Impact** • Current language allows the Board to dictate and change compensation structures at anytime for Senior Management. This is an important culture decision that should be made through HR functions and frameworks and aligned to strategic goals and performance, not on the whim of the Board.
9(4)	**Commentary** • What does "independent of the business areas they oversee" mean? • The CFO and CRO contribute to business decisions that impact the entire credit union and that provides strong first and second line of defense. Does this mean those roles can't have any variable compensation tied to business performance and the achievement of strategic goals? This area is confusing and feels counteractive to strong culture and lines of defense. • Each element of risk is confusing, and definitions are needed • This section is highly complex, even for larger credit unions and right now requires more clarity across the board. • In publicly traded banks, alignment of compensation with risk is usually meant to prevent short-term decisions that would influence share price. Since credit unions are not publicly traded, there is no share-based component to executive remuneration programs which removes this concern. **Unintended Consequences and Impact**

	• Senior Management needs to be cross functional in discussions and goal setting, as well as through project management and operations. Building silos will not create better functioning credit unions, nor will it decrease inherit risk. • Certain leaders will be segregated in practice, this will create general confusion and new processes that will be time consuming and costly, while not creating greater lean productivity • We may end up spending more time and resources around risk determination within salary and team structures, than focusing on decreasing it across frameworks and environments. • We are not sure how such a structure would work at a small to medium sized credit union where leaders where many hats.

Section 10: Status, Authority, and Independence of the Oversight Functions

General Themes of Concern Within This Section
- Credit Union Culture
- Prescriptive Structure
- Subsidiary Requirements
- Risk Management Barriers
- Increased Cost

Section	Commentary / Unintended Consequences / Impact
10(1)	**Commentary** • We recognized the importance of these functions and teams, we ask if it is necessary to create an entirely new level of leadership and frameworks for this layer of oversight managers? Feels somewhat prescriptive to push specific roles and requirements relating to organizational structure of the second line of defense. Are credit unions able to have flexibility in required roles and are smaller credit unions able to combine roles appropriate? We would like to ensure flexibility around organizational structure remains a key principle. • We would generally view these roles to already have proper authority and status within the sector, due to professional requirements, importance of work and through the functions they already perform. **Unintended Consequences and Impact** • Almost creates two tiers of oversight functions and structural leadership (Senior Management and Oversight Management) • HR and finance issues could arise given the independent nature and requirements for independent resources and status.
10(3)	**Commentary** • The level of detail appears excessive to be principles based. This feels complex and already covered in Sec 10(1) and 10(2) • Please see comment regarding OSFI regulated subsidiary oversight under section 5(3). Note that federally regulated banks are required to maintain oversight functions with unfettered access to their board. **Unintended Consequences and Impact** • Providing greater detail than required may inadvertently codify details and elements where more flexibility is intended or needed. • Possibility of more resources for each subsidiary relating to oversight functions
10(5)	**Commentary** • We are unclear how this would work in practice?

	• Decoupling specific Senior Management roles from operations is not feasible and does not make sense from a cultural standpoint. Further points noted above in Sec 9(4) • This change would be costly and is not functionally reasonable for most credit unions. Even within larger credit unions the heads of oversight functions have other duties and operational responsibilities. We believe emphasis should be that these other functions do not impede on their oversight duties and professional requirements. • Suggest removing this paragraph. 10(1) already requires that oversight functions have sufficient independence. **Unintended Consequences and Impact** • Confusion at operational levels • The need to run parallel risk and finance functions which will be costly and time consuming • Lack of feasibility for all credit unions from an operational standpoint due to requirements of staff • Providing greater detail than required may inadvertently codify details and elements where more flexibility is intended or needed.
10(7)	**Commentary** • IT will require additional resources to increases access to all areas of the business, activities, operations etc. May require changes to platforms • Has FSRA consulted legislation that would be prohibited from access (Human Resource law, corporations Act, CRA/Tax Law, record keeping legislation, etc)? • Were less prescriptive approaches considered? • Suggest removing this paragraph. This is sufficiently addressed in sections 10(1) and 10(4). **Unintended Consequences and Impact** • This level of access and change may in fact increase risk and legal liability in terms of unfettered access. • Additional cost and burden will occur to inquire into legal ramifications for each area of the business and subsidiaries around unfettered access • Insurance premiums could potentially increase with more staff accessing files and platforms • Not sure how all phone conversations, letters, etc would be recorded and reviewed within the context provided. Often workers use cell phones and recordings are not occurring with regulatory and government officials. Or if the meeting takes place in person how will a recording occur from an operational standpoint? • Providing greater detail than required may inadvertently codify details and elements where more flexibility is intended or needed.
10(8)	**Commentary** • Suggest removing this paragraph. This is sufficiently addressed in sections 10(1) and 10(4). **Unintended Consequences and Impact** • Providing greater detail than required may inadvertently codify details and elements where more flexibility is intended or needed.

Section 11: Internal Audit Function

General Themes of Concern Within This Section

- Internal Audit Independence and Oversight

- Subsidiary Risk Management
- Prescriptive Language

Section	Commentary / Unintended Consequences / Impact
11(1)	**Commentary** • Internal Audit should report to the Board and be independent as third line of defense, this is not clear within this section and likely should be called out. • That independence should not preclude Internal Audit from being a member of the credit union and being able to access products, loans, coaching and service in anyway. This is unclear based on the current language. • If Internal Audit reports to the Audit Committee, must it also share and report to the entire Board at the same time in the same manner? **Unintended Consequences and Impact** • Independence is critical to the IA role • Confusion currently around ability of IA to be members of the credit union based on current language • Inefficient governance due to duplication of internal audit reporting to both the audit committee and board.
11(3)	**Commentary** • Please see comments regarding OSFI regulated subsidiary oversight under section 5(3). Note that federally regulated banks are required to maintain oversight functions with unfettered access to their board. **Impact** • Confusion in relation to regulatory oversight and adherence • Two separate processes to regulate the same entity can create confusion, additional costs, burden and administrative requirements. What happens if one regulator views things differently?
11(5)	**Commentary** • This section feels prescriptive. • Please see comment regarding OSFI regulated subsidiary oversight under section 5(3). Note that federally regulated banks are required to maintain oversight functions with unfettered access to their board. • Internal Audit does not oversee the implementation of action plans; internal audit communicates and monitors implementation as the Board has authority to enforce implementation of any action plan, better language would be communicating and monitor. • Internal audit can monitor and follow-up to track closure of management action items but not oversee their implementation. **Unintended Consequences and Impact** • Internal Audit could be pulled into action planning and ongoing conversations on implementation, when not necessary or part of their role as third line of defense. • Confusion around regulatory oversight between federal and provincial regulators in relation to subsidiary risk • Providing greater detail than required may inadvertently codify details and elements where more flexibility is intended or needed.
11(6)	**Commentary** • Need to account for materiality of issues within this section. A low risk issue should not be treated in the same approach/manner as a high-risk issue.

	• Interjecting an escalation approach may be helpful, to ensure all potential risks don't become burdensome. Senior Management should have the reasonable opportunity to discuss and implement change where needed. This discussion could also mean legal or second opinions from experts or FSRA, which may take longer than "reasonably period of time". **Unintended Consequences and Impact** • Inability to properly respond to IA items, risks and potential findings with a full review (where needed). • Unnecessary escalation of immaterial items leading to inefficient governance.

Section 12: Risk Management Function

General Themes of Concern Within This Section

- CRO Hiring and Functions
- Independence of Roles

Section	Commentary / Unintended Consequences / Impact
12(1) (2)	**Commentary** • Clarity around CRO hiring and performance management would be helpful. • CRO function has direct involvement in day to day operations, clarity around ability to maintain these operations would be helpful. **Unintended Consequences and Impact** • Confusion between CRO and Oversight Heads on an operational level • Boards getting involved within operational and human resource items when it should not be their purview.

Section 13: Compliance Function

General Themes of Concern Within This Section

- Good Governance
- Compliance Oversight and Reporting

Section	Commentary / Unintended Consequences / Impact
13(2)	**Commentary** • Could Compliance function been kept under Risk umbrella and not be broken out independently? Does Sec 13(2) provide the flexibility needed? • Need to understand definition of "report to the board". **Unintended Consequences and Impact** • If the reporting structure is that of HR, performance management etc, than we have another scenario where the Board is overstepping and we would not be practicing good governance. Clarity is needed here.

Section 14: Finance Function

General Themes of Concern Within This Section

- Prescriptive Language
- Finance Team Duties
- Contradictions in Language

Section	Commentary / Unintended Consequences / Impact
14(1)	**Commentary** • Language in this section feels somewhat prescriptive and overly detailed **Unintended Consequences and Impact** • Inability to operate with ease across various teams and needs • Providing greater detail than required may inadvertently codify details and elements where more flexibility is intended or needed.
14(2)	**Commentary** • Clarity around "advise the CEO and Board" beyond items relating to 14(1). • Does 14(2) ii contradict what is set out in S. 10(5) where it states, "individuals responsible for conducting activities of oversight functions shall be independent of the credit unio's and its subsidiaries operational activities and businesses"? • We are confused with how these sections relate back to 10(5) in various manners. **Unintended Consequences and Impact** • Confusion in relation to CFO abilities to support various functions, duties and roles. • Finance does not just oversee budget, planning and financial reporting an analysis, they do that job and more. • Language does not link well to actual operational duties of the Finance Team. • Providing greater detail than required may inadvertently codify details and elements where more flexibility is intended or needed.

Section 15: Operational Management

General Themes of Concern Within This Section

- Prescriptive Language
- Independence of Senior Management
- Clarity on CFO Role

Section	Commentary / Unintended Consequences / Impact
15(1)	**Commentary** • Feels prescriptive, suggest removing procedures and processes from Board requirement (ii). • How can Senior Management do the things listed here without violating independent oversight concepts throughout the rule? **Unintended Consequences and Impact** • Credit unions may be violating independence without knowing it.
15(2)	**Commentary** • Sections feels overly detailed and prescriptive

	• CFO would be limited to an advisory role, based on current language, and then it notes they can advise but not make decisions outside scope. Not sure how that works when Senior Management would decide as a group/collective? Unintended Consequences and Impact • Confusion within Executive Teams around decision making and independence • Providing greater detail than required may inadvertently codify details and elements where more flexibility is intended or needed.