

# Assessment Criteria

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**FOR BC CREDIT UNIONS**



Financial  
Institutions  
Commission

## **ASSESSMENT CRITERIA**

### **Glossary**

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This document outlines FICOM's intentions regarding the terms used in the Assessment Criteria.

<b>Adequacy of, appropriateness of, and extent to which</b>	These terms allow supervisors to scale the Assessment Criteria to the nature, scope complexity and risk profile of each credit union. Supervisors must use sound and informed judgement in applying the criteria to the unique circumstances of the institution. This approach is necessary because the Assessment Criteria, like the Supervisory Framework, are designed to apply to all types and sizes of credit unions supervised by FICOM.
<b>Average probability</b>	With reference to the overall net risk, this is consistent with what would be expected, on average, at a well-managed credit union. This is not a quantitative measure but a supervisor's assessment of the likelihood of a material adverse impact, derived from an understanding of the credit union and its industry.
<b>Generally accepted Industry practices</b>	This term is not a reference to codified standards, but to practices observed by FICOM to be in use at credit unions.
<b>In control</b>	Refers to that state in which a credit union is subject to effective corporate governance; is operating within an appropriate control environment, with effective strategic and risk management processes; and has demonstrated the capability and willingness to identify and effectively resolve significant control weaknesses on a timely basis.
<b>Independence</b>	The function is not subject to the undue influence of operations management in the areas it oversees, nor is it directly involved in the management or execution of the activities in those areas. To be effective, an oversight function needs to be independent of the department, process or activity it is mandated to oversee.
<b>Independent reviews</b>	Periodic reviews of risk management control (oversight) functions by a person or group independent of that function. The need for, and frequency of, these reviews will depend on the size and complexity of a credit union and is at its discretion. The practice is not usually found in smaller credit unions, because senior management and the board are normally sufficiently informed to make an independent review unnecessary. Reviews may be carried out internally; e.g., by internal audit, or by an outside consultant, depending on the objectives of the review and availability of the required expertise and resources.

<b>Key indicators</b>	Benchmarks normally used by credit unions and FICOM to measure operating performance. They include such measures as ROE, ROA, ROI, delinquency ratios, expense or efficiency ratios, and production and member retention ratios.
<b>Materiality</b>	Measures the relative significance of a credit union’s activities to the attainment of its business objectives. It is multi-dimensional, prospective and considers both qualitative and quantitative factors. Sound and informed judgement is critical in the determination of materiality.
<b>Normal adverse conditions</b>	Most Supervisory Framework assessments are qualitative assessments based on informed judgement by supervisors. These assessments take into account the economic environment, conditions in the local economy and the specific context of a credit union. Normal implies, “usual”, i.e., what is expected.
<b>Policy</b>	Refers to the guiding principles by which a credit union conducts its activities. A credit union’s regular or usual practices are a manifestation of these principles, whether written or unwritten.
<b>Senior management</b>	Includes those individuals responsible for overseeing the effective management of the credit union’s operations. They frequently have policy-making responsibilities. As the Supervisory Framework and Assessment Criteria are applicable to all credit unions, the number and titles of senior management will vary based on the size and complexity of a credit union and how it is organized.
<b>Significant Activities</b>	Activities that are material to a credit union’s operations and/or strategies, and can be lines of business, business units, or other credit union-wide processes such as treasury operations or information technology. FICOM will generally group a credit union’s activities in a manner that is consistent with the way in which the credit union is structured and managed.
<b>Substantially mitigate</b>	Used in the definition of overall net risk, means that a credit union’s risk management is sufficiently effective that the probability of a material adverse impact on its liquidity, capital and earnings is expected to be lower than average.
<b>Target levels</b>	Refers to FICOM’s and the credit union’s expected level of capital for the risk profile of the credit union.
<b>What is considered necessary</b>	Assessed in relation to each credit union’s risk profile, in the context of its safety, stability and conduct.

# COMPOSITE RISK RATING

## ROLE OF COMPOSITE RISK

The composite risk rating (CRR) is an assessment of the credit union's overall risk profile, after considering the impact of liquidity, capital and earnings on its overall net risk. It reflects FICOM's assessment of not only the safety and stability but also the business conduct of the credit union.

A credit union's CRR is assessed as **low**, **moderate**, **above average**, or **high**, with the direction of change assessed as **decreasing**, **stable** or **increasing** for a specified time frame, depending on the credit union's circumstances, and the business and economic environment.

### Low Composite Risk

A strong, well-managed credit union. The combination of its overall net risk and its liquidity, capital and earnings makes the credit union resilient to most adverse business and economic conditions without materially affecting its risk profile. Its performance has been consistently good, with most key indicators in excess of industry norms, allowing it to generate additional capital through future earnings.

Any supervisory concerns have a minor effect on its risk profile and can be addressed in a routine manner. A credit union in this category would typically have a low overall net risk coupled with acceptable liquidity, capital and earnings, or a moderate overall net risk coupled with strong liquidity, capital and earnings. Other combinations may be possible depending on the circumstances of the credit union.

### Moderate Composite Risk

A sound, generally well-managed credit union. The combination of its overall net risk and its liquidity, capital and earnings makes the credit union resilient to normal adverse business and economic conditions without materially affecting its risk profile. The credit union's performance is satisfactory, with key indicators generally comparable to industry norms, allowing it reasonable generation of additional capital through future earnings.

Supervisory concerns are within the credit union's ability to address. A credit union in this category would typically have moderate overall net risk coupled with acceptable capital and earnings, or low overall net risk coupled with capital and earnings that need improvement. Other combinations may be possible.

### Above Average Composite Risk

The credit union has issues that indicate an early warning or that could lead to a risk to its financial viability.

One or more of the following conditions are present. The combination of its overall net risk and its liquidity, capital and earnings makes the credit union vulnerable to adverse business and economic conditions. Its performance is unsatisfactory or deteriorating, with some key indicators at or marginally below industry norms, impairing its ability to earn additional capital within a reasonable timeframe. The credit union has issues in its risk management that, although not serious enough to present an immediate threat to financial viability or solvency, could deteriorate into serious problems if not addressed promptly.

A credit union in this category would typically have above average overall net risk, which is not sufficiently mitigated by liquidity, capital and earnings, or moderate overall net risk coupled with liquidity, capital and earnings that need improvement. Other combinations may be possible.

### High Composite Risk

The credit union has serious safety and stability concerns.

One or more of the following conditions are present. The combination of its overall net risk and its liquidity, capital and earnings is such that the credit union is vulnerable to most adverse business and economic conditions, posing a serious threat to its financial viability or solvency unless effective corrective action is implemented promptly. Its performance is poor, with most key indicators below industry norms, seriously impairing its ability to earn additional capital within a reasonable timeframe. A credit union in this category would have high overall net risk, which is not sufficiently mitigated by liquidity, capital and earnings, or above average overall net risk coupled with liquidity, capital and earnings that need improvement. Other combinations may be possible.

# CAPITAL

## ROLE OF CAPITAL

Capital is a source of financial support to protect a credit union against unexpected losses, and is, therefore, a key contributor to its safety and stability. Capital management is the on-going process of raising and maintaining capital at levels to support planned operations. For complex credit unions, it also involves allocation of capital to recognize the level of risk in its various activities. The assessment is made in the context of the nature, scope, complexity, and risk profile of a credit union.

## ADEQUACY OF CAPITAL

The following statements describe the rating categories used in assessing a credit union's capital adequacy and capital management policies and practices. Capital adequacy includes both the level and quality of capital. The assessment is made in the context of the nature, scope complexity, and risk profile of a credit union.

<b>Strong</b>
Capital adequacy is strong for the nature, scope, complexity, and risk profile of the credit union, and its capital ratio meets or exceeds the credit union's internal target level under most adverse business and economic conditions. The trend in capital adequacy over the next 12 months is expected to remain positive. Capital management policies and practices are superior to generally accepted industry practices.
<b>Acceptable</b>
Capital adequacy is appropriate for the nature, scope, complexity, and risk profile of the credit union and its capital ratio meets or exceeds the credit union's internal target level under normal business and economic conditions. The trend in capital adequacy over the next 12 months is expected to remain positive. Capital management policies and practices meet generally accepted industry practices.
<b>Needs Improvement</b>
Capital adequacy is not always appropriate for the nature, scope, complexity, and risk profile of the credit union and, although meeting minimum regulatory requirements, may not meet, or is trending below, target levels. The trend in capital adequacy over the next 12 months is expected to remain uncertain. Capital management policies and practices may not meet generally accepted industry practices.
<b>Weak</b>
Capital adequacy is inappropriate for the nature, scope, complexity, and risk profile of the credit union and does not meet, or marginally meets, minimum regulatory requirements. The trend in capital adequacy over the next 12 months is expected to remain negative. Capital management policies and practices do not meet generally accepted industry practices.

# CAPITAL

## CAPITAL CRITERIA

The following statements describe the criteria for assessing a credit unions' capital adequacy and capital management policies and practices. The application and weighting of the individual criteria will depend on the nature, scope, complexity, and risk profile of a credit union.

Essential Elements	Criteria
<b>1. Capital Adequacy</b>	1.1 Adequacy of the levels of capital in relation to the regulatory requirement, supervisory target, the credit union's risk profile, and internal targets.
	1.2 Appropriateness of the types and mix of capital instruments and the overall quality of capital.
	1.3 Presence of regulatory arbitrage in managing capital adequacy.
	1.4 Adequacy of the level of capital to support planned business activities.
	1.5 Ability of the credit union to raise capital through earnings.
<b>2. Capital Management Policies and Practices</b>	2.1 Extent to which capital management policies and practices are enterprise-wide and supported by sufficient authority and resources
	2.2 Appropriateness of the process for developing capital management policies and practices.
	2.3 Appropriateness of capital management policies and practices.
	2.4 Extent to which the capital planning process is integrated with the credit union's strategic and business plans and provides for regular monitoring to ensure that it continues to meet regulatory minimum and target capital requirements.
	2.5 Extent to which the capital management process provides for an appropriate level of stress testing under different scenarios, including possible events or changes in environment conditions that could adversely impact the credit union.
	2.6 Adequacy of the capital plan.
<b>3. Senior Management and Board Oversight</b>	3.1 Extent to which senior management and board approval is required for: <ul style="list-style-type: none"> <li>• capital management mandate and resources;</li> <li>• capital management policies and practices; and</li> <li>• annual capital plan</li> </ul>
	3.2 Adequacy of policies and practices to provide complete, accurate and timely reports on the credit union's capital management to enable senior management and the board (or a board committee) to assess compliance with: <ul style="list-style-type: none"> <li>• the credit union's capital plan, including the results of scenario testing; and</li> <li>• regulatory capital requirements.</li> </ul>
	3.3 Adequacy of policies and practices to perform regular independent reviews to ensure the capital management complies with approved policies and practices, and regulatory requirements.

# EARNINGS

## ROLE OF EARNINGS

Earnings absorb normal and expected losses in a given period and provide a source of financial support by contributing to the credit union's capital and its ability to access liquidity externally.

## EARNINGS PERFORMANCE

The following statements describe the rating categories used in assessing a credit union's earnings and its ability to continue to generate earnings required to ensure its long-term viability. The adequacy of a credit union's earnings will be evaluated in the context of the nature, scope, complexity, and risk profile of the credit union. This evaluation considers quality, quantity and volatility of earnings.

<b>Strong</b>
The credit union has consistent earnings performance, producing returns that significantly contribute to its long-term viability, and there is no undue reliance on non-recurring sources of income to enhance earnings. Although there is some exposure to earnings volatility, the outlook for the next 12 months remains positive.
<b>Acceptable</b>
The credit union has satisfactory earnings performance, producing returns that contribute to its long-term viability, and there is no undue reliance on non-recurring sources of income to enhance earnings. Although there is some exposure to earnings volatility, the outlook for the next 12 months remains positive.
<b>Needs Improvement</b>
The credit union has inconsistent earnings performance, with returns that may, at times, be inadequate to ensure its long-term viability. It may occasionally depend on non-recurring sources of income to show a profit. The earnings outlook for the next 12 months is uncertain.
<b>Weak</b>
The credit union has consistently recorded operating losses or earnings that are insufficient to ensure its long-term viability. It may be heavily dependent on non-recurring sources of income to show a profit. The earnings outlook for the next 12 months is expected to remain negative.

# EARNINGS

## EARNINGS CRITERIA

The following statements describe the criteria for assessing a credit union's earnings performance. The application and weighting of the individual criteria will depend on the nature, scope, complexity, and risk profile of the credit union, and will be assessed collectively in evaluating its ability to generate earnings required for long-term viability.

Essential Elements	Criteria
<b>1. Historical Trends, Level and Composition</b>	1.1 Adequacy of earnings relative to the risk profile of the credit union.
	1.2 Earnings contribution from volatile and non-volatile sources of income.
	1.3 Trend and volatility of earnings.
	1.4 Level of, and reasons for, earnings variances to plan.
	1.5 Extent to which sources of income are diversified.
	1.6 Reliance on interpretations of accounting principles to enhance earnings.
	1.7 Extent to which earnings are from non-recurring sources of income.
<b>2. Peer Group Comparison</b>	2.1 Probability and earnings trends compared to its peers.
<b>3. Future Outlook</b>	3.1 Vulnerability of earnings to competition.
	3.2 Extent to which the credit union's earnings may be affected by an economic downturn or market event.
	3.3 Extent to which the credit union's earnings ensure its long-term viability.

# OVERALL NET RISK RATING

## DEFINITION OF OVERALL NET RISK

Overall net risk is the aggregate of the net risks for all significant activities within a credit union. The aggregation to overall net risk considers the relative materiality of each activity. This assessment recognizes that an activity with low materiality but high net risk may not contribute sufficiently to overall net risk to affect the rating.

Net risk for each significant activity is a function of the level of inherent risks in the activity offset by the quality of risk management for the activity as a whole. Risk management includes operational management as well as applicable oversight functions of the credit union. These oversight functions would include board of directors, senior management, risk management, internal audit, compliance and financial.

<b>Low Overall Net Risk</b>
<p>The credit union has risk management that substantially mitigates risk inherent in its significant activities down to levels that collectively have lower-than-average probability of a material adverse impact on its liquidity, capital and earnings in the foreseeable future.</p> <p>Normally, institutions in this category will have a predominance of significant activities rated as low net risk. Other combinations may be possible depending on the circumstances of the credit union.</p>
<b>Moderate Overall Net Risk</b>
<p>The credit union has risk management that sufficiently mitigates risks inherent in its significant activities down to levels that collectively have an average probability of a material adverse impact on its liquidity, capital and earnings in the foreseeable future.</p> <p>Normally, institutions in this category will have a predominance of significant activities rated as moderate net risk. Other combinations may be possible.</p>
<b>Above Average Overall Net Risk</b>
<p>The credit union has weaknesses in its risk management that, although not serious enough to present an immediate threat to solvency, give rise to high net risk in a number of its significant activities. As a result, net risks in its significant activities collectively have an above average probability of a material adverse impact on its liquidity, capital and earnings in the foreseeable future.</p> <p>Normally, institutions in this category will have a number of their significant activities rated as above average net risk with others mainly rated as moderate net risk. Other combinations may be possible.</p>
<b>High Composite Risk</b>
<p>The credit union has weaknesses in its risk management that may pose a serious threat in its financial viability or solvency and give rise to high net risk in a number of its significant activities. As a result, net risks in its significant activities collectively have a high probability of material adverse impact on its liquidity, capital and earnings in the foreseeable future.</p> <p>Normally, institutions in this category will have the majority of their significant activities rated as high net risk, or will have rated as high net risk one or more significant activities that have a pervasive impact on its operations. Other combinations may be possible. The weaknesses in risk management lead to considerable doubt about the credit union's capability and/or willingness to apply prompt and effective corrective measures to sufficiently mitigate high net risks in its significant activities.</p>

# BOARD OF DIRECTORS

## [SUBJECT TO REVIEW IN 2013]

### ROLE OF BOARD OF DIRECTORS

The board of directors provides stewardship and oversight of management and operations of the credit union. Its key responsibilities include:

- reviewing and approving organizational structure and controls;
- ensuring that management is qualified and competent;
- reviewing the approving business objectives, strategies and plans;
- reviewing and approving policies for major activities;
- providing for an independent assessment of, and reporting on the effectiveness of, organizational and procedural controls;
- monitoring performance against business objectives; strategies and plans;
- reviewing and approving sound governance policies; and
- obtaining reasonable assurance on a regular basis that the credit union is in control.

### QUALITY OF BOARD OVERSIGHT

The following statements describe the rating categories for the assessment of the board of directors in fulfilling its overall responsibilities of stewardship and oversight of management and operations of the credit union, with due consideration to its safety and stability.

An overall rating of the board of directors considers both its characteristics and the effectiveness of its performance in carrying out its role and responsibilities in the context of the nature, scope, complexity, and risk profile of the credit union. Characteristics and examples of performance indicators that guide supervisory judgement in determining and appropriate rating are set out below.

<b>Strong</b>
The composition, role, and responsibilities, and practices of the board meet or exceed what is considered necessary, given the nature, scope complexity, and risk profile of the credit union. The board consistently demonstrates highly effective performance. Board characteristics and/or performance are superior to generally accepted governance practices.
<b>Acceptable</b>
The composition, role and responsibilities, and practices of the board meet what is considered necessary, given the nature, scope, complexity, and risk profile of the credit union. Board performance has been effective. Board characteristics and/or performance meet generally accepted governance practices.
<b>Needs Improvement</b>
The composition, role and responsibilities, and practices of the board generally meet what is considered necessary, given the nature, scope, complexity, and risk profile of the credit union, but there are some significant areas that require improvement. Board performance is generally effective but significant areas of improvement remain. These areas are not serious enough to cause prudential concerns if addressed in timely manner. Board characteristics and/or performance do not consistently meet generally accepted governance practices.
<b>Weak</b>
The composition, role and responsibilities, and practices of the board are not, in a material way, what is considered necessary, given the nature, scope, complexity, and risk profile of the credit union. Board performance demonstrates serious instances where effectiveness needs to be improved through immediate action. Board characteristics and/or performance often do not meet generally accepted governance practices.

**BOARD OF DIRECTORS**  
**[SUBJECT TO REVIEW IN 2013]**

**BOARD CRITERIA**

The following statements describe the characteristics to be used in assessing the quality of board stewardship and oversight of management and operations of the credit union, with due consideration to its safety, stability and conduct. The application and weighting of the individual criteria will depend on the nature, scope, complexity, and risk profile of the credit union and will be assessed collectively, together with board performance, in rating its overall effectiveness.

Essential Elements	Criteria
<b>1. Composition</b>	1.1 Compliance with the provisions of enabling legislation.
	1.2 Adequacy of policies and practices to regularly determine board size, range of directors' qualifications, knowledge, skills, and experience, and level of commitment required to fulfill board responsibilities.
	1.3 Appropriateness of board size, range of directors' qualifications, knowledge, skills, and experience, and level of commitment available to fulfill board responsibilities.
	1.4 Adequacy of policies and practices to recommend the selection, approval, renewal and succession of directors.
	1.5 Adequacy of policies and practices to ensure that there is sufficient unaffiliated representation on the board.
<b>2. Role and Responsibilities</b>	2.1 Adequacy of policies and practices to develop, approve, and periodically review the role and responsibilities of the board (including those of the chair/lead director) and to ensure that directors comply with sound governance practices.

**BOARD OF DIRECTORS**  
**[SUBJECT TO REVIEW IN 2013]**

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|  | <p>2.2 Extent to which the board’s responsibilities include:</p> <ul style="list-style-type: none"><li>a) appointing the CEO, establishing his/her mandate, monitoring his/her performance and approving his/her compensation;</li><li>b) approving the credit union’s organization structure;</li><li>c) approving the appointment of qualified individuals to senior management positions, monitoring their performance and approving their compensation;</li><li>d) reviewing and approving, at least annually, human resources and compensation policies and practices, including those pertaining to succession planning;</li><li>e) approving business objectives, strategies and plans, at least annually, and regularly monitoring their execution;</li><li>f) approving financial statements and related disclosures;</li><li>g) reviewing and approving, at least annually, significant risk management policies and practices, and obtaining assurances that they are being adhered to;</li><li>h) reviewing and approving, at least annually, liquidity, funding and capital management policies and plans and obtaining assurances that approved policies and plans are being adhered to;</li><li>i) approving the credit union’s communication and disclosure policies;</li><li>j) obtaining assurances on a regular basis that the credit union’s risk management, control environment and management information systems are appropriate and operating effectively;</li><li>k) requiring implementation of a system to ensure compliance with applicable laws, regulations and guidelines.</li><li>l) approving policies and practices for dealing with conflicts of interest; and</li><li>m) establishing ethical business conduct standards for the credit union and obtaining assurances that they are being adhered to.</li></ul> |
|  | <p>2.3 Appropriateness of policies and practices to periodically communicate board responsibilities to stakeholders.</p>  |

**BOARD OF DIRECTORS**  
**[SUBJECT TO REVIEW IN 2013]**

<b>3. Committees</b>	3.1 Adequacy of policies and practices to regularly review the structure and composition of board committees to insure that they provide sufficient oversight.
	3.2 Adequacy of policies and practices to establish and regularly review board committee mandates.
	3.3 Adequacy of policies and practices to ensure that there is sufficient unaffiliated representation on board committees.
	3.4 Nature and extent to which board committee mandates promote independent and comprehensive oversight, and timely and regular reporting to the board.
<b>4. Practices</b>	4.1 Adequacy of policies and practices to orient new directors, and periodically update existing directors, on their responsibilities and on the credit union's businesses and related risks.
	4.2 Adequacy of policies and practices to promote independent, effective and timely decision making.
	4.3 Adequacy of policies and practices to establish and monitor work plans for fulfilling board goals and responsibilities.
	4.4 Adequacy of policies and practices to set board agendas and priorities, arrange and conduct meetings, and record its deliberations and decisions. Extent to which these practices promote transparency in board accountabilities.
	4.5 Adequacy of policies and practices to ensure that the directors are provided with timely, relevant, accurate and complete information (including access to independent advice) to enable them to: <ul style="list-style-type: none"> <li>a) determine that responsibilities delegated to board committees and senior management are being discharged effectively; and</li> <li>b) enable directors to make informed and sound decisions.</li> </ul>
	4.6 Extent to which the directors' compensation program promotes prudent decision making with due regard to the objectives of the credit union.
	4.7 With respect to the oversight functions on which it relies (e.g., internal audit), the extent to which the board: <ul style="list-style-type: none"> <li>(a) approves the appointment of the function heads; (b) ensures that they have adequate authority, independence and resources to carry out their mandates; (c) provides appointees with unrestricted access to the board and/or its committees; and (d) requires periodic independent reviews of the functions.</li> </ul>
<b>5. Self-Assessment</b>	5.1 Adequacy of policies and practices to regularly assess the effectiveness of the board, its committees, and individual directors (including the chair) in carrying out their responsibilities.
	5.2 Appropriateness of policies and practices to communicate board achievements against its responsibilities to stakeholders.

**BOARD OF DIRECTORS**  
**[SUBJECT TO REVIEW IN 2013]**

**BOARD PERFORMANCE**

The quality of the board's performance is demonstrated by its effectiveness in providing stewardship and oversight of management and operations of the credit union to ensure the credit union is in control, its risks are appropriately mitigated and business objectives, strategies, and policies and practices are appropriate and executed effectively.

The assessment will consider how actively the board embraces its responsibilities, bringing its collective skills and experience to bear in providing objective and thoughtful insight and guidance to the credit union. FICOM will look to indicators of effective board performance to guide its judgement in the course of its supervisory activities. These activities may include: Conversations with directors and management to determine the nature and extent of discussion, evaluation, and questioning of management at board meetings, the nature of discussions at meetings and matters raised from those discussions, and the extent of interaction of senior management with the board and/or its committees; review of how particular issues are dealt with by the board; assessment of board practices; review of minutes, etc.

Examples of indicators that could be used to guide supervisory judgement include the extent to which the board:

- a) performs a regular, in-depth review and evaluation of the credit union's business objectives and strategies, as well as events and transactions that could pose significant risks to the credit union, with a view to balancing business objectives with appropriate controls and governance;
- b) is actively involved in the selection and performance evaluation of the CEO, and other senior management as appropriate;
- c) objectively assesses, on a regular basis, the appropriateness of the overall risk tolerance, major business activities and risks of the credit union;
- d) establishes thresholds for the type and significance of issues to be brought to its attention (including adverse results, deficiencies in or breaches of limits, controls or policies, and changes in the external environment that might require a review of the operating strategy or control environment). Responds quickly to, and proactively follows up on, issues identified by management, FICOM or other regulators, in order to satisfy itself that appropriate action has been taken or resolution achieved;
- e) defines and periodically assesses for continued relevance, the type, comprehensiveness and frequency of information and reporting its needs to monitor and act on a timely basis, and ensures needed changes are made as required;
- f) actively engages in the review of materials presented by management for information purposes or for board approval, appropriately weighing salient issues and alternatives, engaging in discussions, challenging management's underlying assumptions, and requesting additional information and/or explanation;
- g) ensures its meetings provide an appropriately balanced focus on key issues and ongoing governance requirements;
- h) ensures there is sufficient opportunity for directors to meet "in camera", and seriously considers the output of such meetings;
- i) proactively engages in reviewing the mandates, resources and scope of work of the key oversight functions upon which it relies for risk management, control and compliance assurances, and ensuring that senior management appropriately supports these functions; and
- j) performs a comprehensive self-assessment against its responsibilities and promptly addresses matters identified.

\* Examples of documentation that FICOM may review in formulating its assessment of the characteristics of the board include: the curricula vitae of directors, board mandates, directors' manual, board work plans, meeting agenda and related presentation materials, minutes, and follow-up documentation related to committee decisions, and self-assessment reviews completed by directors.

# SENIOR MANAGEMENT

## ROLE OF SENIOR MANAGEMENT

Senior management is responsible for directing and overseeing the effective management of the credit union's operations. Its key responsibilities include:

- developing business objectives, strategies, plans, organization structure and controls, and policies, for board approval;
- developing and promoting sound governance practices, culture and ethics (in conjunction with the board);
- executing and monitoring the achievement of board-approved business objectives, strategies, and plans and the effectiveness of organizational structure and controls; and
- ensuring that the board is kept well informed.

## QUALITY OF SENIOR MANAGEMENT OVERSIGHT

The following statements describe the rating categories for the assessment of senior management's oversight of the credit union's activities and related risks, with due consideration to the credit union's safety and stability.

An overall rating of senior management considers both its characteristics and the effectiveness of its performance in executing its mandate, in the context of the nature, scope, complexity, and risk profile of the credit union. Characteristics and examples of performance indicators that guide supervisory judgement in determining an appropriate overall rating are set out below.

<b>Strong</b>
The mandate, organization structure, expertise and practices of senior management meet or exceed what is considered necessary, given the nature, scope, complexity, and risk profile of the credit union. Senior management has consistently demonstrated highly effective performance. Senior management characteristics and performance are superior to generally accepted management practices.
<b>Acceptable</b>
The mandate, organization structure, expertise and practices of senior management meet or exceed what is considered necessary, given the nature, scope, complexity, and risk profile of the credit union. Senior management performance has been effective. Senior management characteristics and performance meet generally accepted management practices.
<b>Needs Improvement</b>
The mandate, organization structure, expertise and practices of senior management generally meet what is considered necessary, given the nature, scope, complexity, and risk profile of the credit union, but there are some significant areas that require improvement. Senior management performance has generally been effective, but there are some significant areas where effectiveness needs to be improved. The areas needing improvement are not serious enough to cause prudential concerns if addressed in a timely manner. Senior management characteristics and/or performance do not consistently meet generally accepted management practices.
<b>Weak</b>
The mandate, organization structure, expertise and practices of senior management are not, in a material way, what is considered necessary, given the nature, scope, complexity and risk profile of the credit union. Senior management performance has demonstrated serious instances, where effectiveness needs to be improved through immediate action. Senior management characteristics and/or performance often do not meet generally accepted management practices.

# SENIOR MANAGEMENT

## SENIOR MANAGEMENT CRITERIA\*

The following statements describe the characteristics to be used in assessing the quality of senior management oversight of the credit union's activities and related risks, with due consideration to the credit union's safety and stability. The application and weighting of the individual criteria will depend on the nature, scope, complexity, and risk profile of the credit union and will be assessed collectively, together with senior management performance, in rating its overall effectiveness.

Essential Elements	Criteria
<b>1. Mandate</b>	<p>1.1 Extent to which the board has delegated to the CEO responsibility for developing and implementing policies and practices for the effective management of the credit union's operations. This may include, but is not limited to:</p> <ul style="list-style-type: none"> <li>a) strategic management;</li> <li>b) risk management;</li> <li>c) liquidity and funding management;</li> <li>d) capital management;</li> <li>e) internal control environment; and</li> <li>f) ethical business conduct.</li> </ul> <p>1.2 Adequacy of policies and practices to delegate responsibilities for the CEO to other members of senior management and to regularly review the appropriateness of the delegation.</p> <p>1.3 Appropriateness of the mandates for senior management positions and the extent to which they clearly define lines of authority, responsibility and accountability. Extent to which these mandates are communicated across the credit union.</p> <p>1.4 With respect to the oversight functions on which it relies (e.g., internal audit), the extent to which senior management (a) approves the appointment of the function heads; (b) ensures that they have adequate authority, independence and resources to carry out their mandates; (c) provides appointees with unrestricted access to senior management and/or its committees; and (d) requires periodic independent reviews of the functions.</p>
<b>2. Organization Structure</b>	<p>2.1 Adequacy of policies and practices to regularly review Senior management organization structure.</p> <p>2.2 Appropriateness of senior management organization structure.</p>
<b>3. Committees</b>	<p>3.1 Extent to which senior management committees are used to oversee the management of significant activities and related risks.</p> <p>3.2 Extent to which senior management committee mandates are clearly defined and communicated across the credit union.</p>
<b>4. Expertise</b>	<p>4.1 Adequacy of policies and practices to regularly review the range of qualifications, knowledge, skills and experience required to fulfill senior management responsibilities.</p>

## SENIOR MANAGEMENT

	4.2 Appropriateness of the range of qualifications, knowledge, skills and experience available to fulfill senior management responsibilities.
	4.3 Adequacy of policies and practices for the selection, appointment and succession of senior management.
	4.4 Extent to which management development programs are available to senior management.
<b>5. Practices</b>	5.1 Adequacy of policies and practices to establish business objectives, strategies and plans, and to monitor the credit union's performance against them.
	5.2 Adequacy of policies and practices to regularly review the credit union's liquidity, funding and capital management policies, and to obtain assurances what approved policies are being adhered to.
	5.3 Extent to which risk management policies and practices are: a) enterprise-wide; b) co-ordinated with strategic, capital and liquidity management; c) prudent in the context of the risk profile of the credit union; d) reviewed regularly for appropriateness; and e) communicated to appropriate individuals across the credit union.
	5.4 Adequacy of processes, techniques and criteria used to consistently identify, measure, monitor, control and report significant risks, and to ensure that approved risk management policies and practices are adhered to.
	5.5 Adequacy of policies and practices to ensure regular review of the organizational and procedural control environment.
	5.6 Adequacy of policies and practices to ensure compliance with applicable laws, regulations and guidelines.
	5.7 Extent to which human resource policies and practices give priority to attracting, developing and retaining high-calibre staff, and promoting good morale within the credit union.
	5.8 Extent to which compensation programs promote prudent risk taking and are aligned with the long-term strategic objectives for the credit union.
	5.9 Adequacy of policies and practices for communication and disclosure to stakeholders.
	5.10 Extent to which management policies and practices promote sound governance and ethical business conduct.

## SENIOR MANAGEMENT

<b>6. Board Oversight</b>	6.1 Extent to which board (or a board committee) approval is required for: <ul style="list-style-type: none"><li>a) the credit union's organization structure and changes thereto;</li><li>b) senior management organization structure and changes thereto;</li><li>c) senior management appointments and mandates;</li><li>d) business objectives, strategies and plans;</li><li>e) liquidity, funding and capital management policies;</li><li>f) policies and practices for managing significant activities and related risk;</li><li>g) significant human resource policies and practices; and</li><li>h) communication and disclosure policies and practices.</li></ul>
	6.2 Adequacy of policies and practices to promote full, open and timely disclosure to and discussion with the board (or its committees) on all significant issues.
	6.3 Adequacy of policies and practices established by the board (or a board committee) to regularly review senior management's performance and compensation.

## SENIOR MANAGEMENT

### SENIOR MANAGEMENT PERFORMANCE

The quality of senior management's performance is demonstrated by its effectiveness in overseeing the execution of approved strategies and effective management of the credit union's operations, with due regard to the credit union's safety and stability.

The assessment will consider the ability of senior management to achieve the credit union's business objectives effectively while maintaining an appropriate governance and control culture. FICOM will look to indicators effective senior management performance to guide its judgement in the course of its supervisory activities. These activities may include: discussions with directors and management; assessment of senior management oversight practices and how particular issues are dealt with; assessment of business plans; review of management information and audit reports; review of senior management minutes, etc.

Examples of indicators that could be used to guide supervisory judgement include the extent to which senior management:

- a) develops strategies and plans for the attainment of business objectives that are appropriate and prudent, in the context of the regulatory, competitive and economic environment, and regularly monitors the execution of approved plans to ensure that objectives are achieved or strategies are appropriately adjusted to deal with changes in business or economic condition;
- b) actively monitors adherence to approved policies, organizational and procedural controls, and compliance requirements; ensures that appropriate and timely action is taken to remedy any deficiencies that may arise, including issues brought to it by other control functions and regulators; and ensures that management information systems provide timely and relevant information to support its oversight responsibilities.
- c) is successful in attracting, developing and retaining high-calibre staff and in maintaining good morale ensures that direct reports clearly understand their responsibilities and holds them accountable for discharging them;
- d) sets an appropriate "tone from the top" performing its duties in an ethical manner and expecting the same from individuals across the credit union; and
- e) keeps the board and its committees fully apprised, on a timely basis, of market conditions, strategic opportunities and concerns, operating performance and issues that could significantly affect the well-being of the credit union. This includes the quality of information provided to the board.

\* Examples of documentation that FICOM may review in formulating its assessment of the characteristics of senior management include organization charts, mandates, job descriptions; core competencies and personnel profile; succession plans; conflict of interest policy; policies; authorities and limits; new product and initiative framework; compensation programs; strategic plans and related documents; and board minutes and information packages.

# INTERNAL AUDIT

## ROLE OF INTERNAL AUDIT

The internal audit function provides independent oversight of the effectiveness of, and adherence to, the credit union's organization and procedural controls. It may also oversee the effectiveness of, and adherence to, the credit union's compliance and risk management policies and practices.

## QUALITY OF INTERNAL AUDIT OVERSIGHT

The following statements describe the rating categories for the assessment of the internal audit function's oversight of the effectiveness of, and adherence to, the credit union's organization and procedural controls. An overall rating of the internal audit function considers both its characteristics and the effectiveness of its performance in executing its mandate in the context of the nature, scope, complexity, and risk profile of the credit union. Characteristics and examples of performance indicators that guide supervisory judgment in determining an appropriate rating are set out below.

<b>Strong</b>
The mandate, organization structure, resources, methodologies and practices of the internal audit function meet or exceed what is considered necessary, given the nature, scope, complexity, and risk profile of the credit union. Internal audit has consistently demonstrated highly effective performance. Internal audit characteristics and performance are superior to generally accepted industry practices and meet current professional standards.
<b>Acceptable</b>
The mandate, organization structure, resources, methodologies and practices of the internal audit function meet what is considered necessary given the nature, scope, complexity, and risk profile of the credit union. Internal audit performance has been effective. Internal audit characteristics and performance meet generally accepted industry practices and current professional standards.
<b>Needs Improvement</b>
The mandate, organization structure, resources, methodologies and practices of the internal audit function generally meet what is considered necessary, given the nature, scope, complexity, and risk profile of the credit union, but there are some significant areas that require improvement. Internal audit performance has generally been effective, but there are some significant areas where effectiveness needs to be improved. The areas needing improvement are not serious enough to cause prudential concerns if addressed in a timely manner. Internal audit characteristics and or performance do not consistently meet generally accepted industry practices and current professional standards.
<b>Weak</b>
The mandate, organization structure, resources, methodology and practices of the internal audit function are not, in a material way, what is considered necessary, given the nature, scope, complexity, and risk profile of the credit union. Internal audit performance has demonstrated serious instances where effectiveness needs to be improved through immediate action. Internal audit characteristics and/or performance often do not meet generally accepted industry practices and current professional standards.

# INTERNAL AUDIT

## INTERNAL AUDIT CRITERIA\*

The following statements describe the characteristics to be used in assessing the quality of the internal audit function's oversight of the effectiveness of, and adherence to, the credit union's organization and procedural controls. The application and weighting of the individual criteria will depend on the nature, scope, complexity, and risk profile of the credit union and will be assessed collectively, together with internal audit performance, in rating its overall effectiveness.

Essential Elements	Criteria
<b>1. Mandate</b>	1.1 Extent to which the function's mandate establishes: <ul style="list-style-type: none"> <li>a) clear objectives and enterprise-wide authority for its activities;</li> <li>b) authority to carry out its responsibilities independently;</li> <li>c) right of access to the credit union's records, information and personnel;</li> <li>d) a requirement to express an opinion on the effectiveness of, and adherence to, the credit union's organizational and procedural controls; and</li> <li>e) authority to follow-up with management on action taken in response to audit findings and recommendations.</li> </ul>
	1.2 Extent to which the mandate is communicated within the credit union.
<b>2. Organization Structure</b>	2.1 Appropriateness of the stature and authority of the function head within the organization for the function to be effective in fulfilling its mandate.
	2.2 Extent to which the function head has direct access to the CEO and the board (or audit committee).
	2.3 Appropriateness of the function's organizational structure.
	2.4 Extent to which the function is independent of activities its audits and day-to-day internal control processes.
<b>3. Resources</b>	3.1 Adequacy of the function's processes to determine the required: <ul style="list-style-type: none"> <li>a) level of resources necessary to carry out responsibilities;</li> <li>b) qualifications and competencies of staff; and</li> <li>c) continuing professional development programs to enhance staff competencies.</li> </ul>
	3.2 Adequacy of the function's resources and appropriateness of its collective qualifications and competencies for executing its mandate.
	3.3 Sufficiency of staff development programs.
<b>4. Methodology and Practices</b>	4.1 Adequacy of policies and practices to ensure that audit methodologies conform to generally accepted industry practices and current professional standards.
	4.2 Appropriateness of audit methodologies and practices to execute the function's mandate.
	4.3 Extent to which the function's audit methodology is risk-based and responds to changes in the credit union's risk profile.

## INTERNAL AUDIT

Essential Elements	Criteria
<b>5. Planning</b>	5.1 Adequacy of policies and practices to review audit cycles in response to changes in the credit union's environment and risk profile.
	5.2 Extent to which the annual audit planning process clearly identifies audit objectives and scope of work.
<b>6. Reporting</b>	6.1 Adequacy of policies and practices to report audit findings and recommendations to management.
	6.2 Adequacy of policies and practices to follow-up on the resolution of audit findings and recommendations.
<b>7. Quality Assurance</b>	7.1 Adequacy of policies and practices for monitoring of audit staff to ensure that they comply with standards of professional practice and utilize approved methodology in executing their reviews.
<b>8. Senior Management and Board Oversight</b>	8.1 Extent to which board (or audit committee) and senior management approval is required for the: <ul style="list-style-type: none"> <li>a) appointment and/or removal of the function head;</li> <li>b) function's mandate and resources; and</li> <li>c) function's annual work plan.</li> </ul>
	8.2 Adequacy of policies and practices to report periodically to the board (or audit committee) and senior management on audit findings, recommendations and progress in meeting annual audit plan (including the impact of any resource limitations).
	8.3 Adequacy of policies and practices to perform regular independent reviews of the function (including feedback received from the credit union's external auditor) and to communicate the results to the board (or audit committee) and senior management.

# INTERNAL AUDIT

## INTERNAL AUDIT PERFORMANCE

The quality of the internal audit function's performance is demonstrated by its overall effectiveness in independently overseeing the effectiveness of, and adherence to, the credit union's organizational and procedural controls.

The assessment will consider how well the internal audit function promotes a sound control environment that mitigates risks, ensures that control weaknesses are appropriately dealt with, and provides the board and senior management with reasonable assurance of the effectiveness of, and adherence to, organizational and procedural controls. FICOM will look to indicators of effective performance to guide its judgement in the course of its supervisory activities. These activities may include: discussions with directors, management, including the chief internal auditor, and external auditors; review of how significant findings and management's responses to them are addressed with the audit committee; assessment of internal audit practices and reporting; review of audit plans and working paper files, etc.

Examples of indicators that could be used to guide supervisory judgement include the extent to which internal audit:

- a) is viewed by the audit committee and/or board and senior management as being effective in executing its mandate;
- b) regularly engages the audit committee on the continued appropriateness of internal audit resources and plan;
- c) proactively communicates to the audit committee significant and persistent findings and management's action related to them;
- d) reviews objectives, strategies, events, initiatives and transactions for changes that could materially impact the credit union in order to ensure risk management and control practices continue to be appropriate and effective;
- e) actively seeks information from risk management, compliance officers, external auditors, FICOM, subsidiary company auditors or other relevant sources to corroborate or enhance its risk assessment and to ensure that areas of weakness are appropriately considered in its audit plan;
- f) proactively follows-up and reports on significant issues to ensure timely resolution. Demonstrates it can cause necessary changes in the operations of the credit union in response to material weaknesses identified;
- g) appropriately consider the pervasiveness and significance of its findings, both at the individual activity level, as well as in aggregate across the institution; and
- h) appropriately differentiates between audit findings affecting safety and stability from those affecting operating efficiency, and the manner in which these are communicated and followed-up.

\* Examples of documentation that FICOM may review in formulating its assessment of the characteristics of the internal audit function include: the curricula vitae of staff, professional training programs; internal audit mandates, manuals, work plans and audit reports and relevant materials discussed with the audit committee and senior management, and follow-up documentation related to audit findings, self-assessment reviews; and audit working papers.

# FINANCIAL

## ROLE OF FINANCIAL

The financial function performs in-depth analysis of the credit union's financial and operating results independently of the business units and prepares management reports for senior management and the board. This function is generally found as a separate unit in larger credit unions.

## QUALITY OF FINANCIAL

The following statements describe the rating categories of the assessment of the financial function's independent analysis and reporting of the credit union's financial and operating results for senior management and the board.

An overall rating of the financial function considers both its characteristics and the effectiveness of its performance in executing its mandate. Characteristics and examples of performance indicators that guide supervisory judgement in determining an appropriate rating in the context of the nature, scope, complexity, and risk profile of the credit union are set out below.

<b>Strong</b>
The mandate, organization, structure, resources, methodologies, and practices of the financial function meet or exceed what is considered necessary, given the nature, scope, complexity, and risk profile of the credit union. Financial has consistently demonstrated highly effective performance. Financial function's characteristics and performance are superior to generally accepted industry practices.
<b>Acceptable</b>
The mandate, organization structure, resources, methodologies and practices of the financial function meet what is considered necessary, given the nature, scope, complexity, and risk profile of the credit union. Financial function's performance has been effective. Financial function's characteristics and performance meet generally accepted industry practices.
<b>Needs Improvement</b>
The mandate, organization structure, resources, methodologies and practices of the financial function generally meet what is considered necessary, given the nature, scope, complexity and risk profile of the credit union, but there are some significant areas that require improvement. Financial function's performance has been generally effective, but there are some significant areas where effectiveness needs to be improved. The areas needing improvement are not serious enough to cause prudential concerns if addressed in a timely manner. Financial function's characteristics and/or performance do not consistently meet generally accepted industry practices.
<b>Weak</b>
The mandate, organization structure, resources, methodologies and practices of the financial function are not, in a material way, what is considered necessary, given the nature, scope, complexity, and risk profile of the credit union. Financial function's performance has demonstrated serious instances where effectiveness needs to be improved through immediate action. Financial function's characteristics and/or performance often do not meet generally accepted industry practices.

# FINANCIAL

## FINANCIAL CRITERIA\*

The following statements describe the characteristics to be used in assessing the quality of the financial function's independent analysis and reporting of the credit union's financial and operating results for the senior management and the board. The application and weighting of the individual criteria will depend on the nature, scope, complexity, and risk profile of the credit union and will be assessed collectively, together with the financial function's performance, in rating its overall effectiveness.

Essential Elements	Criteria
<b>1. Mandate</b>	1.1 Extent to which the function's mandate establishes: <ul style="list-style-type: none"> <li>a) clear objectives and enterprise-wide authority for its activities;</li> <li>b) authority to carry out its responsibilities independently of the business units;</li> <li>c) right of access to the credit union's records, information and personnel; and</li> <li>d) a requirement to provide recommendations on strategic and/or business opportunities, as well as on management information system changes needed to enhance decision-making.</li> </ul> 1.2 Extent to which the mandate is communicated within the credit union.
<b>2. Organization Structure</b>	2.1 Appropriateness of the stature and authority of the function head within the organization for the function to be effective in fulfilling its mandate.           2.2 Extent to which the function head has direct access to the senior management.           2.3 Appropriateness of the function's organization structure.           2.4 Extent to which the function is independent of the operating units.
<b>3. Resources</b>	3.1 Adequacy of the function's processes to determine the required: <ul style="list-style-type: none"> <li>a) level of resources necessary to carry out responsibilities;</li> <li>b) qualifications and competencies of staff; and</li> <li>c) continuing professional development programs to enhance staff competencies.</li> </ul> 3.2 Adequacy of the function's resources and appropriateness of its collective qualifications and competencies for executing its mandate.           3.3 Sufficiency of staff development programs.
<b>4. Methodology and Practices</b>	4.1 Adequacy of the function's methodologies, practices and techniques, for collecting, analyzing and producing operating and financial information.

## FINANCIAL

	4.2	Extent to which the reports, produced for the board and senior management, are accurate, timely, presented using understandable formats, and include an appropriate level of key performance indicators.
	4.3	Adequacy of the function's capacity for preparing ad hoc reports for the board and/or senior management on a timely basis.
	4.4	Adequacy of policies to review the function's methodology, practices, reports and key performance indicators regularly to ensure that they continue to meet the needs of the credit union.
<b>5. Senior Management</b>	5.1	Extent to which senior management approval is required for the: <ul style="list-style-type: none"> <li>a) appointment and/or removal of the function head; and</li> <li>b) function's mandate, resources, methodologies and practices.</li> </ul>
	5.2	Adequacy of policies and practices to perform periodic, independent reviews of the function, and to communicate the results to senior management.

### Financial Performance

The quality of the financial function's performance is demonstrated by its effectiveness in providing independent analysis and reporting of the credit union's financial and operating results to senior management and the board.

The assessment will consider the effectiveness with which the financial function provides timely, accurate and insightful information, that supports effective decision making, to senior management and the board. FICOM will look to indicators of effective performance to guide its judgement in the course of its supervisory activities. These activities may include: discussions with directors and management; discussions with external auditors and appointed actuaries; review of the information provided to senior management and the board; etc.

Examples of indicators that could be used to guide supervisory judgement include the extent to which financial function:

- a) produces reports, independently of the business areas being report on, for senior management and the board that are accurate, timely and understandable, and that include an appropriate analysis of key performance indicators, and highlights matters requiring senior management and board attention;
- b) proactively provides insightful recommendations on strategic and/or business opportunities;
- c) responds quickly to requests for ad hoc reports;
- d) actively engages the CEO or board chair in discussion to confirm that its reports and presentations continue to meet the needs of senior management and the board;
- e) proactively reconsiders, on a regular basis, the adequacy of management information systems to provide effective and timely decision-making.

\* Examples of documentation that FICOM may review in formulating its assessment of the characteristics of the financial function include: mandates, policies and procedures manuals, resource plans; job descriptions and personnel profiles; reports and presentations prepared for senior management and the board or any of its committees; meeting minutes and information packages; and management information systems.

# RISK MANAGEMENT

## ROLE OF RISK MANAGEMENT

Provides independent oversight of the management of risk inherent in the credit union's activities, and responsible for ensuring that effective processes are in place for:

- identifying current and emerging risks;
- developing risk assessment and measurement systems;
- establishing policies, practices and other control mechanisms to manage risks;
- developing risk tolerance limits for senior management and board approval;
- monitoring positions against approved risk tolerance limits; and
- reporting results of risk monitoring to senior management and the board.

## QUALITY OF RISK MANAGEMENT OVERSIGHT

The following statements describe the rating categories for the assessment of the risk management function's oversight of the management of risks inherent in the credit union's activities to ensure that they are suitably mitigated.

An overall rating of the risk management function considers both its characteristics and the effectiveness of its performance in executing its mandate, in the context of the nature, scope, complexity, and risk profile of the credit union. Characteristics and examples of performance indicators that guide supervisory judgement in determining an appropriate overall rating are set out below.

<b>Strong</b>
The mandate, organization structure, resources, methodologies and practices of the risk management function meet or exceed what is considered necessary, given the nature, scope, complexity, and risk profile of the credit union. Risk management has consistently demonstrated highly effective performance. Risk Management characteristics and performance are superior to generally accepted risk management practices.
<b>Acceptable</b>
The mandate, organization structure, resources, methodologies and practices of the risk management function meet what is considered necessary, given the nature, scope, complexity, and risk profile of the credit union. Risk management performance has been effective. Risk management characteristics and performance meet generally accepted risk management practices.
<b>Needs Improvement</b>
The mandate, organization structure, resources, methodologies and practices of the risk management function generally meet what is considered necessary, given the nature, scope, complexity, risk profile of the credit union, but there are some significant areas that require improvement. Risk management performance has generally been effective but there are some significant areas where effectiveness needs to be improved. Areas of improvement are not serious enough to cause prudential concerns if addressed in a timely manner. Risk management characteristics and/or performance do not consistently meet generally accepted risk management practices.
<b>Weak</b>
The mandate, organization structure, resources, methodologies and practices of the risk management function are not, in a material way, what is considered necessary, given the nature, scope, complexity, and risk profile of the credit union. Risk management performance has demonstrated serious instances where effectiveness needs to be improved through immediate action. Risk management characteristics and/or performance often do not meet generally accepted risk management practices.

# RISK MANAGEMENT

## RISK MANAGEMENT CRITERIA\*

The following statements describe the characteristics to be used in assessing the quality of the risk management function's oversight of the management of the credit union's activities and related risks, with due consideration to the credit union's safety and stability. The application and weighting of the individual criteria will depend on the nature, scope, complexity, and risk profile of the credit union and will be assessed collectively, together with risk management performance, in rating its overall effectiveness.

Essential Elements	Criteria
<b>1. Mandate</b>	1.1 Extent to which the function's mandate establishes: <ul style="list-style-type: none"> <li>a) clear objectives and enterprise-wide authority for its activities;</li> <li>b) authority to carry out its responsibilities independently;</li> <li>c) right of access to the credit union's records, information and personnel;</li> <li>d) a requirement to report regularly on the effectiveness of the credit union's risk management processes and on its aggregate exposures compared to approved limits; and;</li> <li>e) authority to follow-up on action taken by management in response to identified issues and related communications.</li> </ul>
	1.2 Extent to which the function's mandate is communicated within the credit union.
<b>2. Organization Structure</b>	2.1 Appropriateness of the stature and authority of the function head within the organization for the function to be effective in fulfilling its mandate.
	2.2 Extent to which the function head has direct access to the CEO and the board (or a board committee).
	2.3 Appropriateness of the function's organizational structure.
	2.4 Extent to which the function is independent of day-to-day management of risks.
<b>3. Resources</b>	3.1 Adequacy of the function's processes to determine the required: <ul style="list-style-type: none"> <li>a) level of resources necessary to carry out responsibilities;</li> <li>b) qualifications and competencies of staff; and</li> <li>c) continuing professional development programs to enhance staff competencies.</li> </ul>
	3.2 Adequacy of the function's resources and appropriateness of its collective qualifications and competencies for carrying out its mandate.
	3.3 Sufficiency of staff development programs.
<b>4. Methodology and Practices</b>	4.1 Adequacy of process to regularly review and update risk management policies, processes and limits to take into account changes in the industry and in the risk appetite of the credit union.
	4.2 Appropriateness of risk management policies, practices, and limits given the credit union's activities and related risks.

## RISK MANAGEMENT

	4.3	Extent to which risk management policies and practices are co-ordinated with strategic, capital and liquidity management policies and practices.
	4.4	Extent to which risk management policies, practices and limits are documented, communicated and integrated with the credit union's day-to-day business activities.
	4.5	Adequacy of policies and practices to monitor positions against approved limits and for timely follow-up on material variances.
	4.6	Adequacy of policies and practices to monitor trends and identify emerging risks, and to respond effectively to unexpected significant events.
	4.7	Adequacy of policies and practices to model and measure the credit union's risks, including stress testing.
<b>5. Reporting</b>	5.1	Adequacy of policies and practices to report identified issues along with recommendations to management of business units.
	5.2	Adequacy of policies and practices to monitor and follow up on the resolution of identified issues.
<b>6. Senior Management and Board Oversight</b>	6.1	Extent to which board (or a board committee) and senior management approval is required for the: <ul style="list-style-type: none"> <li>a) appointment and/or removal of the function head;</li> <li>b) function's mandate and resources; and</li> <li>c) policies, practices and limits for managing significant risks and activities.</li> </ul>
	6.2	Adequacy of policies and practices to report regularly to the board (or a board committee) and senior management on the effectiveness of the credit union's risk management processes, aggregate exposures and significant issues.
	6.3	Adequacy of policies and practices to perform periodic independent reviews of the function, including communicating results to the board (or a board committee) and senior management.

# RISK MANAGEMENT

## RISK MANAGEMENT PERFORMANCE

The quality of the risk management function's performance is demonstrated by its effectiveness in overseeing the identification and management of risks, with due regard to the credit union's safety and stability.

The assessment will consider the effectiveness with which the risk management function anticipates, identifies and measures risks in a dynamic operating environment and oversees management of those risks within the tolerance limits established by the board. FICOM will look to indicators of effective risk management performance to guide its judgement in the course of its supervisory activities. These activities may include: discussions with directors and management, including the chief risk officer<sup>1</sup>; assessment of the risk management function's oversight practices and how particular issues, such as breaches in approved limits, are dealt with; review of risk management reports and reports of independent assessments of the function; review of board or risk management committee minutes, etc.

Examples of indicators that could be used to guide supervisory judgement include the extent to which the risk management function:

- proactively updates that could be used to guide supervisory judgement include the extent to which the risk management function;
- integrates its policies, practices and limits with day-to day business activities and with the credit union's strategic, capital and liquidity management policies;
- models and measures inherent risks and actively participates in the development of new initiatives to ensure processes are in place to appropriately identify and mitigate risks prior to implementation;
- monitors risk positions against approved limits and ensures that material breaches are addressed on a timely basis;
- uses risk measurement and monitoring tools that are sensitive enough to provide early warning indicators of adverse trends and conditions; proactively analyzes these trends and conditions; and follows up to ensure that they are addressed on a timely basis;
- proactively and effectively addresses risk management issues identified as a result of internal or external events, or by other control functions; and
- provides regular, comprehensive, reports to the board (or a board committee) and senior management on the effectiveness of the credit union's risk management processes and ensures that significant issues are escalated to senior management and the board on a timely basis.

\* Examples of documentation that FICOM may review in formulating its assessment of the characteristics of the risk management function include organizational charts, mandates, job descriptions, core competencies and personnel profiles; risk management policies, authorities and limits; systems documentation and testing; new product and initiative framework; and reports prepared for senior management and the board (or a board committee).

<sup>1</sup> References to chief risk officer include any other positions responsible for risk management.

# COMPLIANCE

## ROLE OF COMPLIANCE

The compliance function provides independent oversight of the management of the credit union's compliance with laws, regulations, and guidelines relevant to the activities of the credit union in the jurisdictions in which it operates.

## QUALITY OF COMPLIANCE OVERSIGHT

The following statements describe the rating categories for the assessment of the compliance function's oversight of the credit union's compliance with applicable laws, regulations and guidelines.

An overall rating of the compliance function considers both its characteristics and the effectiveness of its performance in executing its mandate. Characteristics and examples of performance indicators that guide supervisory judgement in determining an appropriate rating in the context of the nature, scope, complexity and risk profile of a credit union are set out below.

<b>Strong</b>
The mandate, organization structure, resources, methodologies and practices of the compliance function meet or exceed what is considered necessary, given the nature, scope, complexity, and risk profile of the credit union. Compliance has consistently demonstrated highly effective performance. Compliance characteristics and performance are superior to generally accepted industry practices.
<b>Acceptable</b>
The mandate, organization structure, resources, methodologies and practices of the compliance function meet what is considered necessary, given the nature, scope, complexity, and risk profile of the credit union. Compliance performance has been effective. Compliance characteristics and performance meet generally accepted industry practices.
<b>Needs Improvement</b>
The mandate, organization structure, resources, methodologies and practices of the compliance function generally meet what is considered necessary, given the nature, scope, complexity, and risk profile of the credit union, but there are some significant areas that require improvement. Compliance performance has generally been effective, but there are some significant areas where effectiveness needs to be improved. The areas needing improvement are not serious enough to cause prudential concerns if addressed in a timely manner. Compliance characteristics and/or performance do not consistently meet generally accepted industry practices.
<b>Weak</b>
The mandate, organization structure, resources, methodologies and practices of the compliance function are not, in a material way, what is considered necessary, given the nature, scope, complexity, and risk profile of the credit union. Compliance performance has demonstrated serious instances where effectiveness needs to be improved through immediate action. Compliance characteristics and/or performance often do not meet generally accepted industry practices.

# COMPLIANCE

## COMPLIANCE CRITERIA\*

Essential Elements	Criteria
<b>1. Mandate</b>	1.1 Extent to which the function’s mandate establishes: <ul style="list-style-type: none"> <li>a) clear objectives and enterprise-wide authority for its activities;</li> <li>b) authority to carry out its responsibilities independently;</li> <li>c) right of access to the credit union’s records, information and personnel;</li> <li>d) a requirement to express an opinion on the effectiveness of the compliance processes and status of compliance; and</li> <li>e) authority to follow-up with management on issues identified and recommendations made related to compliance.</li> </ul>
	1.2 Extent to which the mandate is communicated within the credit union.
<b>2. Organization Structure</b>	2.1 Appropriateness of the stature and authority of the function head within the organization for the function to be effective in fulfilling its mandate.
	2.2 Extent to which the function head has direct access to the CEO and the board (or a board committee).
	2.3 Appropriateness of the function’s organizational structure.
	2.4 Extent to which the function is independent of the credit union’s business activities and day-to-day compliance processes.
<b>3. Resources</b>	3.1 Adequacy of the function’s processes to determine the required: <ul style="list-style-type: none"> <li>a) level of resources necessary to carry out responsibilities;</li> <li>b) qualifications and competencies of staff; and</li> <li>c) continuing professional development programs to enhance staff competencies.</li> </ul>
	3.2 Adequacy of the function’s resources and appropriateness of its collective qualifications and competencies for executing its mandate.
	3.3 Sufficiency of staff development programs.
<b>4. Methodology and Practices</b>	4.1 Adequacy of policies and practices to ensure that the function’s approach and practices are in line with industry and regulatory compliance practices and are appropriate for executing its mandate.
	4.2 Adequacy of policies and practices to keep abreast of new and changing legislation and changes in the credit union’s risk profile.
	4.3 Adequacy of policies and practices to promptly develop or amend the credit union’s compliance policies as legislation is introduced or amended or as new or changing business activities impose different legislative requirements on the credit union.
	4.4 Adequacy of policies and practices to document new or amended compliance policies and communicate them across the credit union on a timely basis.
	4.5 Adequacy of policies and practices to assist management in identifying, addressing and integrating significant legislative or regulatory requirements into their business activities through appropriate procedural controls.

## COMPLIANCE

Essential Elements	Criteria
<b>4. Methodology and Practices (Cont'd)</b>	4.6 Adequacy of policies and practices to monitor adherence to applicable laws, regulations and guidelines across the credit union in order to ensure that significant issues are identified and brought to senior management's attention for timely resolution, as well as to support senior management's opinion on the status of compliance.
	4.7 Adequacy of policies to review compliance practices regularly for continued effectiveness.
<b>5. Senior management and Board Oversight</b>	5.1 Extent to which board (or a board committee) and senior management approval is required for the: <ul style="list-style-type: none"> <li>a) appointment and/or removal of the function head; and</li> <li>b) function's mandate and resources.</li> </ul>
	5.2 Adequacy of policies and practices to report periodically to the board (or a board committee) and senior management on compliance issues, recommendations and status of compliance.
	5.3 Adequacy of policies and practices to perform periodic, independent reviews of the function, and to communicate results to the board (or a board committee) and senior management.
<b>COMPLIANCE PERFORMANCE</b>	
<p>The quality of the compliance function's performance is demonstrated by its overall effectiveness in overseeing management of the credit union's compliance with applicable laws, regulations and guidelines as well as its conduct of business and fair treatment of members and employees.</p> <p>The assessment will consider the effectiveness with which the compliance function actively promotes appropriate conduct of business and fair treatment of members and employees and compliance with applicable laws, regulations and guidelines throughout the credit union, ensuring that breaches are identified and resolved on a timely basis. FICOM will look to indicators of effective performance to guide its judgement in the course of its supervisory activities.</p> <p>These activities may include: discussions with directors and management, including the chief compliance officer; review of practices to detect and dispose of breaches of compliance; review of reports of independent assessments of the function; the credit union's regulatory correspondence file; review of consumer complaints, etc.</p> <p>Examples of indicators that could be used to guide supervisory judgement include the extent to which compliance:</p> <ul style="list-style-type: none"> <li>a) develops, documents and actively communicates new and amended compliance policies or requirements to all impacted areas of the credit union;</li> <li>b) proactively assists management in identifying, addressing and integrating significant legislative or regulatory compliance requirements to all impacted areas of the credit union;</li> <li>c) actively monitors adherence to applicable laws, regulations and guidelines across the credit union;</li> <li>d) escalates significant breaches of compliance requirements to senior management and the board;</li> <li>e) proactively follows up to ensure that significant issues are addressed on timely basis; and</li> <li>f) periodically reviews compliance practices for continuing effectiveness.</li> </ul>	

\* Examples of documentation that FICOM may review in formulating its assessment of the characteristics of the compliance function include: mandate, policies, processes, standards of practice and planning; personnel's curricula vitae; training programs; assessment reports; management committee minutes and related presentations; board presentations; and compliance self-assessment reporting.



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