

## GOVERNANCE GUIDELINE ANNEX

### Summary of Consultation Comments and Financial Institutions Commission (FICOM) Responses

INDUSTRY COMMENT	FICOM RESPONSE
<p>Throughout the guideline FICOM uses terminology where further interpretation would be helpful.</p> <p>Terms in particular:</p> <ul style="list-style-type: none"> <li>• Members' values</li> <li>• Independent oversight function</li> <li>• Independent review</li> <li>• Financial literacy</li> </ul>	<p>FICOM interprets the noted terms in the following ways:</p> <p><b>Members' values:</b> Represent the common bond and purpose of a credit union, and reflect the reasons why an individual chooses to join a credit union over another financial institution.</p> <p><b>Independent oversight functions:</b> Functions that are responsible for providing independent enterprise-wide oversight of operational management. This includes validating whether controls and control activities are effective, and assuring whether the credit union's operations and results are reliably reported. An independent oversight function is not subject to the undue influence of management in the areas it oversees, nor is it directly involved in the management or execution of activities in those areas. To be effective, it must be independent of the processes or activities it is mandated to oversee. Some independent oversight functions include Internal Audit, risk management, and compliance.</p> <p><b>Independent review:</b> The periodic review of an oversight function by a person or group independent of the credit union and that function. The need for, or frequency of, these reviews will depend on the size and complexity of a credit union and is at the credit union's discretion.</p> <p><b>Financial literacy:</b> The ability of each director to understand and interpret a credit union's financial performance, and in particular, the relationship between a credit union's strategic plan and its financial outcomes. A director should understand the basic principles of business and finance to enable him or her to make sound decisions on behalf of members. A director should feel comfortable discussing</p>

	<p>financial issues with management and approving financial decisions, and where a director does not feel comfortable, they are responsible for gaining the necessary skills and training in a reasonable amount of time.</p>
<p>The guideline does not explicitly identify governance requirements in statute.</p>	<p>Part 4 of the <i>Financial Institutions Act</i> sets out the corporate governance requirements of British Columbia financial institutions. The areas addressed in the Governance Guideline include:</p> <ul style="list-style-type: none"> <li>• Directors’ Standard of Care and Appointment of the CEO (Part 4, Division 1)</li> <li>• Audit Committee (Part 4, Division 2)</li> <li>• Investment and Loan Committee and Policy (Part 4, Division 4)</li> </ul>
<p>CEO and director compensation disclosure is excessive and unnecessary.</p>	<p>Disclosure of executive and director compensation is a fact of information that, together with reporting of other activities, policies, and results, provides members with the relevant information to adequately evaluate the performance of the credit union and hold the board of the credit union accountable for its stewardship. Compensation disclosure is information that a member, as an owner and equity holder in the credit union, should reasonably expect to receive as part of the credit union’s annual report.</p> <p>Executive and director compensation disclosure, as set out in the Governance Guideline, is comparable to disclosure requirements for public companies, the public service, Crown corporations, and non-profit entities. Credit unions should review their compensation agreements to ensure that disclosure to members is included for the CEO and board directors.</p>

<p>The guideline confuses the role of the board with the role of management.</p>	<p>The Governance Guideline works to distinguish the roles of the board and management.</p> <p>FICOM views the board as the credit union’s architect; it defines the credit union’s risk appetite, sets the credit union’s strategy, sets the policies of the risk governance framework, hires the CEO, and monitors the implementation of the credit union’s strategy while holding management accountable. The board is the credit union’s chief oversight function.</p> <p>FICOM views management as the credit union’s builder; it establishes the procedures to meet board policy, operates the credit union according to the strategic plan, provides the board with effective information and recommends changes to policy or strategy.</p>
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