



Reference Guide for Saskatchewan Credit Unions



CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Standards of Sound Business Practice



Mission

We instill confidence in Saskatchewan credit unions by guaranteeing deposits. As an in-system regulator, we promote responsible governance by credit unions and promote the strength and stability of the credit union system.

Values

Values guide individual and organizational behaviour. The Corporation's values are reflected in its Code of Conduct, which provides a common frame of reference for staff, management and the board in fulfilling the Corporation's mission and strategic focus.

Co-operation – As part of the co-operative financial services system, we respect co-operative principles and support credit unions in enhancing their strength and development by working together.

Honesty and integrity – We perform our duties conscientiously, with the highest level of honesty and professional integrity.

Fairness – We approach issues and decisions with common sense, sound judgement, fairness and consistency.

Professionalism – We conduct ourselves in a professional manner to support and maintain the Corporation's image of a credible and professional regulator.

Leadership – We use our knowledge of the credit union system and the financial services industry to anticipate future trends and proactively respond to our environment. We demonstrate leadership provincially and nationally by advocating positive change that contributes to the strength and stability of the credit union system.

Teamwork – We work as a team to achieve goals and progress towards our common vision. We demonstrate co-operation when working with others, encouraging questions that generate innovative ideas and creative solutions.

Respect for others – We recognize that people are the key to success. We consistently treat people with dignity, respect, fairness and the highest standards of ethics.

This reference guide has been printed for use by Saskatchewan credit unions. It outlines the standards of sound business practice set by Credit Union Deposit Guarantee Corporation, in consultation with the Registrar of Credit Unions, under The Credit Union Act, 1998.

The guide has been printed by:

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Changes to the Standards of Sound Business Practice will be communicated when they take effect. An electronic version is also maintained on the Corporation's websites.

January 2011

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I General Information

1. Introduction

The Standards of Sound Business Practice Reference Guide, developed by Credit Union Deposit Guarantee Corporation (the Corporation), contains an overview of the Corporation, information on the legal framework for Saskatchewan credit unions and the Standards of Sound Business Practice (Standards) to be followed by all Saskatchewan credit unions.

The effective date of these Standards is January 1, 2011. New or revised limits and directives contained in these Standards are not retroactive.

2. Credit Union Deposit Guarantee Corporation

The Corporation is given its responsibilities, obligations and powers by The Credit Union Act, 1998.

The Corporation's mission is:

"We instill confidence in Saskatchewan credit unions by guaranteeing deposits. As an in-system regulator, we promote responsible governance by credit unions and promote the strength and stability of the credit union system."

The Corporation is governed by a board of directors consisting of:

- two individuals appointed by Credit Union Central of Saskatchewan (SaskCentral);
- the chief executive officer of SaskCentral or nominee;
- the Deputy Minister of Justice or nominee; and
- the Deputy Minister of Finance or nominee.

The business and powers of the Corporation include:

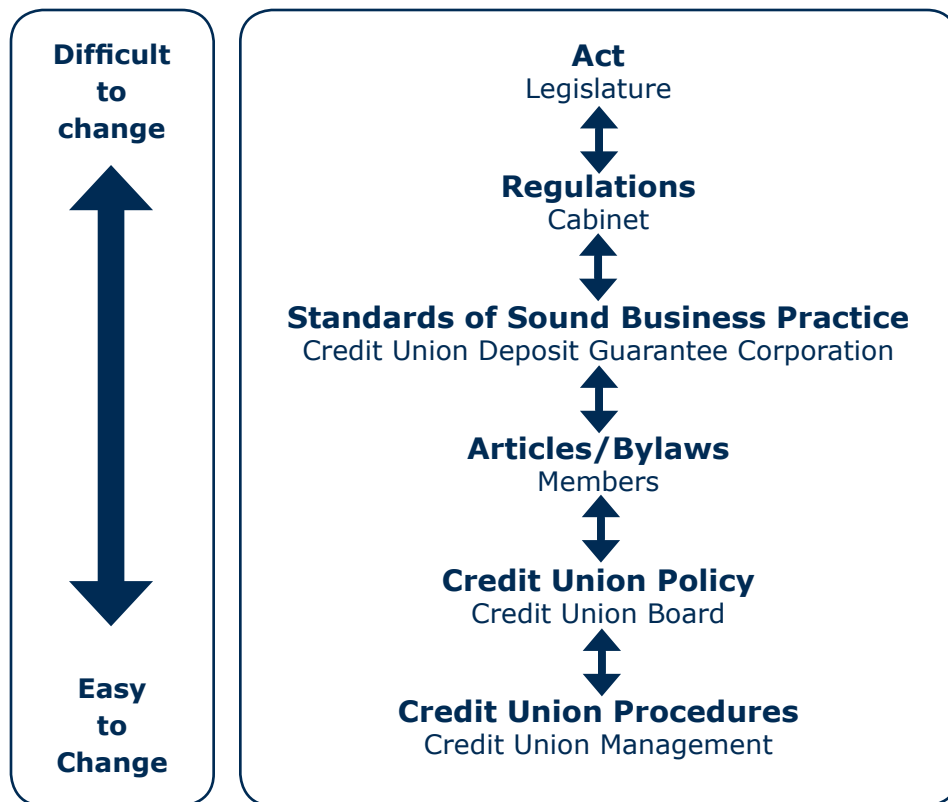
- guaranteeing deposits with credit unions;
- managing the guarantee fund;
- promoting adoption of credit union policies that manage and control risk;
- establishing and enforcing standards of sound business practice;
- establishing and enforcing financial and business practices;
- monitoring credit union performance;
- providing financial assistance to credit unions;
- prescribing, administering and supporting credit unions in obtaining insurance;
- supervising, administering and liquidating credit unions;
- acquiring and disposing of real and personal property; and
- employing any additional action reasonably necessary to achieve its business objectives.

3. Legal Framework for Saskatchewan Credit Unions

3.1 Legislative and Governance Model

Saskatchewan credit unions are regulated by the The Credit Union Act, 1998 (the Act) and The Credit Union Regulations, 1999 (the Regulations). Credit unions must comply with the Corporation’s Standards of Sound Business Practice and with credit union articles, bylaws and policies. Other provincial and federal statutes and common law create additional legal rights and obligations.

Legislative and Governance Model



3.2 Regulatory Roles

The regulation of Saskatchewan credit unions is a shared responsibility.

Saskatchewan Legislature

The Saskatchewan Legislature establishes public policy and enacts legislation for the financial services sector.

Registrar of Credit Unions

The Registrar of Credit Unions (the Registrar) has ultimate responsibility and authority for the regulation of Saskatchewan credit unions. In regulating credit unions the Registrar's primary focus is consumer protection and the public interest. The Registrar may delegate powers and authority to the Corporation.

Credit Union Deposit Guarantee Corporation

The Corporation is the in-system regulator for Saskatchewan credit unions and focuses primarily on deposit protection and credit union solvency. The Registrar may issue and enforce directives to the Corporation.

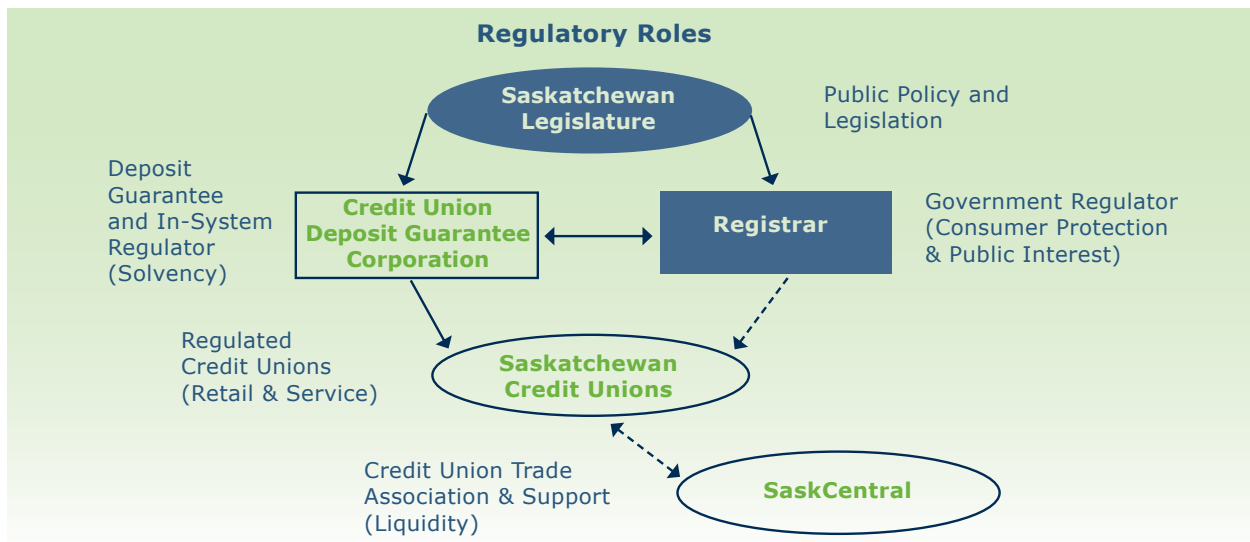
Saskatchewan Credit Unions

Credit unions are autonomous co-operative organizations with natural person powers to provide financial services. Each credit union is required to conduct business in a sound and prudent manner. Financial products and services may be provided to members and, if authorized in the credit union's articles, to non-members.

Credit Union Central of Saskatchewan

SaskCentral is controlled by Saskatchewan credit unions and acts as a trade association, service provider and manager of provincial liquidity.

Regulatory roles are illustrated below.



4. Objectives of Standards of Sound Business Practice

Prevention is one of the key strategies of the Corporation and includes:

- establishing standards of sound business practice;
- communicating the Standards;
- monitoring credit union performance relative to the Standards;
- following up with any credit union whose performance falls below the Standards; and
- intervening directly with a credit union if necessary.

Consistent with this strategy, the Act empowers the Corporation, in consultation with the Registrar, to establish sound business practices to be followed by credit unions. The Standards are approved by the Corporation's board of directors and filed with the Registrar. In addition, directives may be developed by the Corporation to bring into effect the Standards.

The objectives of the Standards are to:

- define and communicate required financial and business practice standards that protect deposits and contribute to the sound and prudent operation of credit unions;
- prescribe requirements for the policies and procedures each credit union must have to manage and control exposure to risk; and
- define roles and responsibilities of directors and management of a credit union in the context of sound business practice.

The Standards outline the credit union's responsibility for effective corporate governance and an enterprise-wide application of sound strategic management, capital management and risk management processes. The employment of prudent business practices within the context of a sound control environment is emphasized.

Effective application of the Standards will enable credit unions to manage business risk and meet the challenges of the future. The Standards are categorized under four key sections as follows:

1. Corporate Governance
2. Strategic Management
3. Capital and Profitability Management
4. Risk Management

Each section of the Standards contains requirements for credit union policy and procedure. A credit union's application of these requirements will be dependent on its size, complexity, structure, diversity and product/service offerings.

Where applicable, some sections of the Standards also provide limits and restrictions prescribed by the Corporation.

5. Non-Compliance and Exception Approvals

Where the Corporation determines a credit union is not in compliance with the Standards or required financial and business practices, the Corporation may take any necessary action. Necessary action may include, but is not limited to:

- reducing or restricting the credit union's authorities and limits;
- imposing a higher deductible on any insured losses paid by the master bond fund;
- subjecting the credit union to preventive intervention;
- issuing a compliance order; or
- placing the credit union under supervision or administration.

The Act, the Regulations and the Standards identify areas where a credit union is required to obtain approval from the Corporation. As well, any exceptions to the Standards require the Corporation's approval and will be granted only in extenuating circumstances.

A request for an approval or exception must be accompanied by a detailed business case analysis, including policy recommendations and financial projections, as well as any additional information that may be required by the Corporation.

II Standards of Sound Business Practice

1. Corporate Governance

Corporate governance is the process and structure used to direct, oversee and manage the business affairs of the credit union. Effective corporate governance enhances corporate performance, accountability and integrity.

Credit unions must develop, maintain and monitor corporate governance processes that address:

- the roles and responsibilities of:
 - individual board members,
 - boards of directors, and
 - senior management;
- business conduct; and
- control environment.

1.1 Roles and Responsibilities

Board of Directors

As provided by the Act, the credit union board of directors is responsible to:

- exercise the powers of the credit union directly or indirectly through the employees and agents of the credit union; and
- direct the management of the business and affairs of the credit union.

Each board member shall:

- meet qualifications pursuant to section 102 of the Act;
- act honestly and in good faith with a view to the best interests of the credit union;
- exercise the care, diligence and skill a reasonably prudent person would exercise in comparable circumstances; and
- comply and cause the credit union to comply with legislation pertaining to credit unions, orders of the Registrar, orders of the Corporation, the Standards, financial and business practice directives, and the credit union's articles and bylaws.

The credit union board of directors is ultimately responsible for ensuring the credit union is managed and operated in a sound and prudent manner.

At a minimum, the board shall:

- select, appoint and retain qualified and competent senior management with capability to manage the operations of the credit union;
- evaluate the effectiveness of senior management's performance in managing the operations of the credit union and the risks to which it is exposed;
- plan for senior management succession;
- ensure the credit union has a sound control environment that supports effective strategic management, capital management and risk management processes;
- review and approve an enterprise risk management framework, including overall risk philosophy and risk tolerance levels;
- establish a corporate mission and business objectives;
- evaluate and approve the business strategy and business plan for the credit union;
- monitor actual operating and financial results in relation to business objectives, business strategy and business plan;
- review, approve and maintain policies;
- monitor and obtain reasonable assurance of compliance with legislation, the Standards, credit union articles, bylaws and policies;
- review, approve and monitor compliance with the code of conduct and conflict of interest policies;
- establish and prescribe the mandate for board committees;
- specify the content and frequency of management reports to the board;
- establish the mandate and approve the plans for the internal and external audit functions;
- seek validation of management's assertions from the internal and external audit functions, and assurance that processes, policies, procedures and controls are in place and being adhered to;
- maintain an objective relationship with regulators and auditors that includes review and, to the extent possible, implementation of recommendations;
- obtain, on a regular basis, reasonable assurance that the credit union is in control;
- ensure the credit union has appropriate disclosure processes in place that support transparency to members and other stakeholders regarding the credit union's operations, risks and capital adequacy; and
- monitor member and community relations.

Directors shall be familiar with these standards and participate in ongoing development, as required, to fulfill their responsibilities.

Management

Management of the credit union is responsible for managing, monitoring and controlling credit union operations in accordance with legislation, the Standards and board policy. Specific policies and procedures will vary from one credit union to another.

At a minimum, management shall:

- demonstrate evidence of a clear understanding of the roles and responsibilities of the board of directors and management and their respective accountability to members;
- develop and recommend the business strategy, business plan and policies for approval by the board of directors;
- implement the business strategy, business plan and policies, as approved by the board;
- effectively coordinate capital management with strategic management and risk management processes;
- ensure policies and procedures are communicated to all people involved in credit union operations;
- develop, implement and monitor organizational procedures and controls, financial practices and reporting systems to identify and manage risk, and to ensure compliance with all regulatory requirements;
- monitor activities on an ongoing basis to ensure the code of conduct, market code and conflict of interest policies are followed by all employees;
- report relevant information on a timely basis on all aspects of credit union operations; and
- ensure effective processes are in place to facilitate the board of directors' oversight of credit union operations.

Management shall be familiar with these Standards and participate in training programs to maintain their skills and abilities to fulfill their responsibilities.

1.2 Business Conduct

Credit unions must conduct themselves in a manner that ensures business and ethical standards are followed.

Credit unions must have policy and procedure with respect to:

- development and maintenance of a code of conduct that outlines the expected business and ethical conduct of directors, officers, agents, employees, and committee members including:
 - the duty to comply with all applicable legislation,
 - the duty of confidentiality of credit union and customer information,
 - the duty of privacy of personal information, and
 - questionable practices and conflict of interest situations;
- development and maintenance of a market code that ensures good business practices and fairness to consumers through the following objectives:
 - professional standards,
 - disclosure and transparency,
 - privacy of personal information,

- fair sales practices, and
- complaint handling;
- implementation and maintenance of an effective process to monitor and ensure adherence to the code of conduct and market code;
- functions of the conduct review committee; and
- related party loans and other transactions including:
 - the transactions and classes of transactions that may be entered into,
 - individual and aggregate limits,
 - overdraft administration and control, and
 - other terms and conditions.

Credit unions must adhere to the following limits and restrictions:

- directors, officers, agents, employees, and committee members shall avoid conflicts of interest, real and perceived, between their own interests or those of their associates and the interests of the credit union or those of its customers;
- no member of the board of directors, any committee or any person who is authorized to approve a loan or other transaction shall be present during the discussion or approval of a loan or other transaction to himself/herself or associate;
- subject to section 99 and Part XI of the Act, credit unions are authorized to grant loans or enter into other transactions with a related party provided:
 - aggregate loans to any individual do not exceed the credit union's loan limit as outlined in Appendix 1, and
 - pursuant to subsection 174(4) of the Act, the aggregate of all related party transactions with the credit union cannot exceed 20% of credit union assets based on the most recent audited financial statement.

1.3 Control Environment

A credit union's control environment is the environment created by its governance and management approach, organizational structure, commitment of resources, as well as its procedures and controls and the level of adherence to these procedures and controls.

Credit unions must have policy and procedure with respect to:

- implementation of a control environment that supports achievement of business objectives, and effective and prudent management of its operations and of the risks to which it is exposed; and
- provision of timely, relevant, accurate and complete reports that enable the board of directors to assess whether the credit union has an effective control environment.

1.3.1 Audit

Inspections and audits are key elements in monitoring, assessing and validating the integrity of internal controls, the control environment and the financial statements.

Credit unions must have policy and procedure with respect to:

- role and oversight responsibilities of the audit committee;
- engagement of a qualified external auditor;
- interaction between the audit committee, internal audit and external audit;
- ensuring independence of the audit function and direct access to the audit committee; and
- reporting and resolving audit issues.

1.3.2 Compliance

Compliance is the process of adhering to applicable regulatory requirements including The Credit Union Act, 1998, The Credit Union Regulations, 1999 and the Standards of Sound Business Practice. Other provincial and federal statutes and common law create additional legal rights and obligations.

Credit unions must have policy and procedure with respect to:

- an enterprise wide framework of regulatory risk management controls to facilitate compliance with applicable regulatory requirements, including:
 - identification, assessment and communication of applicable regulatory requirements,
 - procedures for complying with regulatory requirements, regularly monitoring adherence to established controls and ensuring sufficient and timely information is communicated to senior management and the board,
 - oversight to report compliance issues to the board on a timely basis,
 - internal audit or other independent review to ensure any deficiencies within the framework are presented to the board,
 - documentation of regulatory risk management methodologies, and
 - regular reviews and improvements to address new and changing regulatory risks.

Credit unions must adhere to the following limits and restrictions:

- credit union policies and business practices must comply with the Act, the Regulations, the Standards, financial and business practice directives, articles, bylaws and laws applicable to the credit union and its business; and
- each credit union must comply with standards, policies, limits, directives, or orders established by the Corporation from time to time, and/or established by the Registrar. Any of these may apply generally to all credit unions or to a specific credit union.

1.3.3 Financial Analysis

Financial analysis includes assessment and monitoring of financial and operational results and associated risks to support sound and prudent business decisions.

Credit unions must have policy and procedure with respect to:

- the methodologies, practices and techniques for collecting, measuring, analyzing, producing and communicating financial and operating information and related risks; and
- ensuring independence of the financial analysis function and direct access to the board of directors.

1.4 Credit Union Policy

Each credit union shall set policies to address all aspects of its operations and to manage the amount of business risk it will assume.

Credit unions must adhere to the following:

- prudent policies approved by the board of directors that govern the business of the credit union must be documented, maintained and monitored for compliance; and
- detailed control policies/procedures are to be established by management to implement the policies of the board and to provide for an effective control environment.

2. Strategic Management

Strategic management is the process of ensuring that business operations are planned, authorized, undertaken properly and monitored. Effective strategic management includes the following key elements:

- corporate mission and business objectives; and
- comprehensive business strategy and business plan.

2.1 Corporate Mission and Business Objectives

The mission represents the credit union's overall business objectives. Business objectives are the operational and financial goals that provide the parameters for establishing the business strategy and plan.

Credit unions must have policy and procedure with respect to:

- their purpose as expressed through a corporate mission;
- the process of setting specific business objectives to support the mission; and
- values and co-operative principles.

2.2 Business Strategy and Business Plan

A business strategy details how a credit union plans to achieve its mission and business objectives. It considers the business and economic environment, financial position and the significant risks it will be exposed to in conducting current and planned activities.

A business plan is a key control element that details the particular operations required to carry out the business strategy, and establishes benchmarks against which the credit union's performance can be monitored.

Credit unions must have policy and procedure with respect to:

- establishment, maintenance and monitoring of a business strategy that:
 - supports its mission and business objectives,
 - highlights market opportunities and related risks, and
 - considers internal or external changes that may impact or require changes to the business strategy; and
- establishment, maintenance and monitoring of a comprehensive business plan through which the credit union:
 - identifies particular activities required to implement the credit union's business strategy,

- forecasts results,
- highlights capital, liquidity and other financial and non-financial resource requirements, and
- establishes targets for monitoring and reporting performance.

Credit unions are required to adhere to the following limit and restriction:

- credit unions must provide the Corporation with written notice 30 days prior to opening any new service delivery outlet.

3. Capital and Profitability Management

Capital and profitability management is the ongoing determination of the level of capital and profitability needed to support operations, risks and growth.

Credit unions must have policy and procedure with respect to:

- effective coordination of capital management with strategic management and risk management processes;
- strategies for maintaining adequate capital to support operations, enterprise risks and growth;
- amounts and types of capital necessary to meet operational and regulatory requirements;
- establishment of financial performance targets and goals;
- patronage programs, dividend payments and/or redemption of capital;
- a balanced and planned growth strategy that will achieve a desired balance sheet mix consistent with organizational plans and objectives;
- product pricing and cost control practices that will take into account required profitability, risks involved and marketplace conditions;
- ongoing analysis of operations to maintain desired levels of efficiency and competitiveness; and
- disclosure to members and other interested stakeholders of the credit union's capital framework, including types of capital, terms and conditions of capital instruments and capital adequacy to support operations, risks and growth.

Credit unions must adhere to the following limits and restrictions:

- financial performance standards for capital are:
 - tier 1 capital / assets¹ **5.00%**
 - eligible capital / risk-weighted assets **8.00%**
(refer to Appendix 2 for detailed calculation)
- the total of tier 2 capital shall not exceed the total of tier 1 capital;
- credit unions are authorized to purchase membership shares, required as a condition of membership, for the purpose of cancellation;
- provided capital standards are maintained, credit unions are authorized to

¹ On conversion to International Financial Reporting Standards, credit unions may exclude from total assets:

- mortgages securitized through Canada Mortgage and Housing Corporation Programs (National Housing ACT Mortgage-Backed Securities (NHA MBS); Canada Mortgage Bond Program and the Insured Mortgage Purchase Program) up to and including March 31, 2010
- all existing and future reinvestments related to Canada Mortgage Bond/Insured Mortgage Purchase Program transactions completed up to and including March 31, 2010

- purchase, for the purpose of cancellation, membership shares otherwise not required as a condition of membership; and
- earnings shall be allocated in the following order of priority:
 - capital until the Corporation capital standards are met,
 - additional capital to support growth, development, safety and financial soundness, and
 - patronage, and/or dividends.

4. Risk Management

Risk management is a comprehensive, disciplined approach to proactively manage and control business and operating risks inherent in a credit union's business strategy and operations. It includes the following key elements:

- enterprise risk management;
- credit management;
- investment and derivative management;
- liquidity management;
- interest rate risk management;
- foreign exchange risk management; and
- operating risk management.

4.1 Enterprise Risk Management

Enterprise risk management ensures appropriate and effective risk management is applied within an entity-wide framework that supports the proactive identification, assessment and management of significant risks, overall risk aggregation and decision-making.

Credit unions must have policy and procedure with respect to:

- identification and measurement of on- and off-balance sheet risks, individually and on an aggregate basis, that the credit union may be exposed to in conducting its current and planned business operations;
- assessment of identified risks to determine those considered significant;
- prudent risk management guidelines including general risk tolerances, risk limits and the assignment of appropriate levels of risk management authority and responsibilities;
- establishment and implementation of controls to ensure management of risks in accordance with policies;
- organizational reporting structures and systems that facilitate monitoring of significant risks;
- extraordinary event planning including disaster recovery and business resumption;
- methods for reviewing the risk management framework; and

- disclosure that allows members and other interested stakeholders to assess key information on the scope of operations, risk exposures and risk management processes.

Credit unions must adhere to the following limits and restrictions:

- each credit union must be able to demonstrate that business risks are identified and managed within the context of an enterprise risk management framework; and
- as prescribed by the Corporation, each credit union must participate in and comply with the following:
 - mandatory insurance programs, and
 - security equipment requirements.

4.2 Credit Management

Credit management involves managing activities where reliance is placed on loan repayment from a third party.

Credit unions must have policy and procedure with respect to:

- types of credit facilities and services offered, both on- and off-balance sheet;
- limits on aggregate credit exposure per individual, loan type, industry or economic sector warranting aggregation and taking into consideration the credit union's risk tolerance and ability to bear risk;
- analysis and approval of credit proposals and if applicable, the objectives and framework used to establish a credit scoring system;
- loan security requirements;
- security valuation processes, including method used to determine the fair market value of real property and personal property when that property is to be subject to a mortgage or other charge;
- unsecured lending;
- the maximum loan to value ratio where a mortgage or other charge on real or personal property is to be taken by the credit union;
- loan documentation requirements;
- loan re-negotiation, extension and renewal processes;
- processes to identify adverse situations and trends, including risks associated with economic, geographic and industry sectors;
- control and monitoring of the loan portfolio including portfolio risk identification and delinquency tolerances;
- timely loan analysis processes to identify, assess, and manage delinquent and impaired loans;
- collection processes including action plans for deteriorating loans;
- establishment and maintenance of appropriate levels of collective and individual allowances commensurate with the risk of the portfolio;

- overdraft control and administration;
- lending support programs;
- loan sale, securitization, purchase or participation arrangements;
- asset liquidation; and
- property management.

Credit unions must adhere to the following limits and restrictions:

- loans and overdrafts cannot exceed the prescribed limits outlined in Appendix 1;
- a loan on residential property cannot exceed 80% of fair market value; and a loan on real property other than residential, cannot exceed 75% of fair market value, unless the loan:
 - is insured by Canada Mortgage and Housing Corporation or another insurance company authorized to carry on the business of mortgage insurance in Canada and licensed in the province of Saskatchewan,
 - is secured by a specific charge on additional properties or securities, or
 - is guaranteed by a government agency;
- a credit union may only provide financial leases, as defined in section 2(1)(c) of the Regulations, to its customers; and
- upon acquisition of real or personal property through realization on a debt owed to the credit union, the credit union shall:
 - dispose of the property as soon as is practicable after acquisition, or
 - use the property for its own use, subject to the limit on ownership of real property and equipment for the credit union's own use contained in these Standards, or
 - hold the property as an investment, subject to the property being a permitted investment prescribed by the Corporation.

4.3 Investment and Derivative Management

Investment and derivative management is the process of managing on- and off-balance sheet assets to achieve desired investment objectives.

Credit unions must have policy and procedure with respect to:

- requirements for safety, liquidity and return;
- eligible investment instruments, portfolio and individual security concentration limits and term-to-maturity restrictions;
- derivative instruments purpose, types and limits;
- control, monitoring and reporting of the investment portfolio, including authorization and implementation of investment decisions and portfolio risk identification;
- selection criteria for securities dealers and other parties with whom the credit union is authorized to deal with;
- custodial arrangement of securities;

- analysis of investment default risk including a quarterly review process to evaluate and maintain accurate asset values, and minimize non-productive assets; and
- action plans for deteriorating investment positions.

Credit unions must adhere to the following limits and restrictions:

- portfolio investments are permitted in the categories of investments and within limits prescribed by the Corporation;
- inter-credit union investing, depositing and lending is prohibited;
- the yield on all investments must be in Canadian currency and interest rate based at current market rates, unless otherwise prescribed by the Corporation;
- derivatives are permitted within limits prescribed by the Corporation;
- utilize Concentra Financial or other brokers approved by the Corporation for derivative transactions; and
- investment in real property and equipment for the credit union's own use is limited to a maximum of 50% of eligible capital.

4.4 Liquidity Management

Liquidity management involves effective utilization of liquidity sources to meet day-to-day cash commitments, and the prudent use of excess liquidity.

Credit unions must have policy and procedure with respect to:

- identifying potential operating liquidity risks and ensuring all cash outflow commitments (both on- and off-balance sheet) are honored on a daily basis by performing match and funds flow analysis;
- limits on the sources, types and levels of liquid assets to meet operational and regulatory requirements;
- liquid assets that can be readily converted into cash without incurring undue capital losses or excessive costs;
- liquid assets in excess of normal operational requirements;
- diversified funding sources, including the ability to renew or replace deposits and the capacity to borrow;
- large deposits and loans requiring liquidity hedging;
- liquidity management contingency plans; and
- potential long term liquidity needs resulting from unusual business conditions.

Credit unions must adhere to the following limits and restrictions:

- maintenance of liquid assets sufficient to meet normal operating requirements and unexpected contingencies;
- SaskCentral is the manager of the provincial liquidity program. Pursuant to Regulation 18(1)(a), the financial performance standard, as established by SaskCentral, is:

SaskCentral liquidity investment

prior quarter (deposits + deposit interest payable + loans payable + loan interest payable + member shares required for membership) **10.00%**

- for the purposes of managing operating liquidity, a credit union shall maintain a line of credit with SaskCentral;
- subject to subsection 40(1) of the Act, credit unions are authorized to:
 - borrow up to 200% of eligible capital for purposes of operating liquidity and other borrowings, and
 - create a security interest in the property of the credit union to secure obligations to Concentra Financial, providing the resulting security interest shall be subordinate to and postponed in favour of any security interest granted by the credit union to SaskCentral in respect of the credit union's operating line of credit and the credit union's obligations under the provincial statutory liquidity program.

4.5 Interest Rate Risk Management

Interest rate risk is the potential impact on earnings and net assets values due to changes in market interest rates.

Credit unions must have policy and procedure with respect to:

- interest rate risk management to measure and control interest rate risk exposure including:
 - identifying material sources of interest rate risks, such as repricing risk and yield curve risk,
 - effective sensitivity techniques, including stress testing, for measuring risk positions and for evaluating the impact on those positions from changes in underlying factors,
 - maximum short- and long-term exposure limits with respect to:
 - changes in earnings, and
 - changes in aggregate net market value of on- and off-balance sheet items as a percentage of assets and eligible capital, and
 - strategies to ensure a stable and adequate net interest margin in support of required profitability.

4.6 Foreign Exchange Risk Management

Foreign exchange risk is the potential impact on earnings and net asset values due to changes in foreign currency rates.

Credit unions must have policy and procedure with respect to:

- maximum limits on foreign exchange risk exposure;
- currencies permitted to incur exposure; and
- methods to analyze foreign exchange risk exposure and the financial impact of potential exchange rate changes.

Credit unions must adhere to the following limit and restriction:

- maximum net aggregate foreign currency risk exposure is 5% of eligible capital.

4.7 Operating Risk Management

Operating risk is inherent in all of a credit union's operations. The sources are varied and include items related to people, systems and processes.

Credit unions must develop, maintain and monitor risk management processes to control the following key elements:

- human resource management;
- management information systems;
- outsourcing;
- fiduciary risk;
- technology risk; and
- internal controls.

4.7.1 Human Resource Management

Sound human resource processes for directors, officers and employees that support the credit union in achieving its objectives.

Credit unions must have policy and procedure with respect to:

- development and maintenance of long-range human resource plans, including succession plans, to identify and obtain the skills and experience necessary to carry out business strategy and business plan;
- recruitment, including verification of the person's identity and credentials;
- training and development;
- termination;
- outlining the delegation of responsibility through the organizational structure and job descriptions;
- performance management;
- compensation systems;
- confidentiality of employee information;

- respectful and safe work place;
- employment contracts; and
- fidelity bonding.

Credit unions must adhere to the following limits and restrictions:

- all directors, officers, employees and committee members of the credit union, or its subsidiaries, that perform credit union duties are required to:
 - secure, prior to commencing duties with any credit union, and maintain a fidelity bond through the Corporation, and
 - meet additional bonding requirements throughout the course of their association with the credit union as prescribed by the Corporation.

4.7.2 Management Information Systems

Reliable and accurate information is critical to the credit union’s ability to make sound business decisions.

Credit unions must have policy and procedure with respect to:

- gathering and producing information to assist in identifying, assessing and monitoring business activities, financial position, corporate performance and risk exposure;
- monitoring the effectiveness of, and compliance with, policies and procedural controls, as well as reporting any exceptions identified;
- reporting accurate, relevant and timely information to appropriate persons within the credit union;
- ensuring the privacy, confidentiality and security of information;
- reporting to the board of directors the information it needs to direct the business affairs of the credit union;
- accurately reporting to members and shareholders the financial position of the credit union; and
- reporting to the Registrar, the Corporation and other regulatory bodies to meet regulatory reporting requirements.

4.7.3 Outsourcing

Outsourcing is contracting a business function to a service provider instead of performing the function internally.

Credit unions must have policy and procedure with respect to:

- circumstances in which outsourcing may be considered;
- selection of service providers, with consideration of capability, expertise and their

- compliance with applicable legislation;
- criteria for outsourced functions addressing the following:
 - privacy, confidentiality and security of information,
 - accuracy and timeliness of work performed, and
 - where applicable, the ability to identify and report on credit union assets, transaction processing and records;
- dispute settlement;
- identifying, evaluating, monitoring and controlling outsourcing related risks; and
- monitoring the performance of service providers.

Credit unions are required to adhere to the following limit and restriction:

- material outsourcing arrangements must be documented by a written contract that addresses all elements of the arrangement.

4.7.4 Fiduciary Risk

Fiduciary risk arises from the provision of advice and other dealings related to the assets of others.

Credit unions must have policy and procedure with respect to:

- types of fiduciary activities in which the credit union engages;
- products and services where fiduciary risk is incurred; and
- the provision of suitable investment advice, by persons licensed to do so, appropriate to risk tolerance and return expectations.

4.7.5 Technology Risk

Credit unions are highly dependent on information and communication technologies, and disruption to business as a result of obsolete or inadequate technology can pose significant risk.

Credit unions must have policy and procedure with respect to:

- development and maintenance of technology strategies to support achievement of credit union business strategy and plans;
- identification, development/acquisition, implementation and maintenance of technology solutions;
- establishment and maintenance of system security controls; and
- data integrity, backup and recovery.

4.7.6 Internal Controls

An internal control environment is required that includes organizational and procedural controls to:

- manage and control risks and business activities;
- support the achievement of the business strategy and business plan;
- safeguard assets;
- efficiently and effectively use resources;
- maintain reliability and integrity of the financial and operational information; and
- prevent and detect error and fraud.

Key elements of a sound internal control environment include:

- segregation of duties;
- approval authorities;
- accounting and record keeping;
- safeguarding measures; and
- valuation.

Segregation of Duties

Credit unions must have policy and procedure with respect to:

- segregation of duties between individuals and departments, where feasible, to reduce the risk of fraud, manipulation or errors.

Approval Authorities

Credit unions must have policy and procedure with respect to:

- delegation of approval and signing authorities for all business related documents and transactions, including loans and investments, to ensure decisions are made by duly authorized persons in a position to assess implications and to ensure employee, management and board activities are appropriately approved and monitored.

Accounting and Record Keeping

Credit unions must have policy and procedure with respect to:

- the completeness, accuracy and timeliness of accounting information;
- the classification, summarization and validity of transactions; and
- record retention processes that meet business requirements and comply with provincial and federal legislation.

Credit unions must adhere to the following limit and restriction:

- financial statements on the accrual basis must be prepared at least quarterly.

Safeguarding Measures

Credit unions must have policy and procedure with respect to:

- protection of members and staff from exposure to crime and injury related risks;
- safety and protection of its assets and the assets of other parties held in the credit union's care, control and custody;
- access to credit union records and accounts by authorized personnel; and
- managing cash (branch and automated teller machine) and negotiable limits at each credit union business location.

Credit unions must adhere to the following limits and restrictions:

- compliance with the minimum security equipment requirements prescribed by the Corporation; and
- cash and negotiable limits within aggregate insurance limits arranged by the Corporation on the credit union's behalf.

Valuation

Credit unions must have policy and procedure with respect to:

- a process to regularly monitor, review and quantify the quality and value of assets, liabilities and off-balance sheet instruments based on risk of loss; and
- valuation of these items by making and recording provisions for loss or other adjustments.

III Definitions

For the purposes of the Standards, a number of key definitions are provided. These definitions may be used in conjunction with the definitions found in the Act and Regulations.

Aggregate Loans

The total loans of a borrower with an individual credit union including:

- loans where the borrower is the primary debtor;
- loans where the borrower is a guarantor; and
- loans to associates of the borrower as defined in the Act, where:
 - the source of repayment of the debt would be wholly or substantially dependent on a common source of funds,
 - the debt would be, in substance, a single loan or would substantially serve the same purpose in the same or related transaction, or
 - the debt would be dependent on the same security.

For the purposes of aggregate limits, loans to associates will only be included in the aggregate loans of the borrower where an identified financial relationship exists, as described above.

Capital

Capital elements of the credit union consists of retained earnings, contributed surplus, membership shares, investment shares, subordinated indebtedness, and general allowances to a maximum of 1.25% of risk-weighted assets.

The Corporation's approach to capital adequacy classifies capital, as follows:

Tier 1 capital is a credit union's primary capital and comprises the highest quality of capital elements. Its characteristics include:

- permanence (credit union cannot redeem investment or membership shares for a minimum of five years, credit union not obligated to redeem investment or membership shares and retraction of shares by holder not permitted);
- freedom from mandatory charge (credit union cannot offer cumulative dividends on shares); and
- subordination to rights of creditors and depositors.

Tier 2 capital is a credit union's secondary capital. Contributing to overall strength, tier 2 capital characteristics fall short of meeting tier 1 requirements for permanence or freedom from mandatory charges.

Cash or Equivalent Secured Loan

Loan secured by assignable:

- credit union deposit;
- term certificate (credit union and other financial institution);
- irrevocable letters of credit issued by Schedule 1 Canadian Chartered Banks;
- provincial or federal government guaranteed bond; or
- deferred grain ticket based on the credit union's policy and credit risk tolerance.

Directive

Policies and procedures of the Corporation prescribed to bring into effect the Standards of Sound Business Practice.

Eligible Capital

Eligible capital is the net result of including the credit union's capital elements less deductions related to intangible assets, securitization, and unconsolidated substantial investments. Eligible capital is used to calculate the credit union's risk-weighted capital and is the base for calculating limits prescribed by the Corporation.

Fidelity Bond

A bond covering an employer, or business, for loss due to embezzlement by employees or other persons holding a position of trust.

Government Guaranteed Loan

A loan under one of the following federal programs:

- National Housing Act (Canada) residential and commercial mortgages;
- Canada Small Business Financing Act (Canada); or
- Farm Improvement and Marketing Cooperative Loans Act (Canada).

In Control

The concept of "in control" refers to the ability to demonstrate operations are subject to effective corporate governance, managed in accordance with appropriate, effective and prudent strategic management, capital management and risk management processes, and supported by a sound control environment.

Loan

Includes an acceptance, endorsement or other guarantee, financial lease, conditional sales contract, overdraft, letter of credit, repurchase agreement or any other similar arrangements for obtaining funds or credit.

Local Government Body

An organization as defined within the meaning of The Cities Act, The Urban Municipality Act, 1984; The Rural Municipality Act; The Northern Municipalities Act; The Hospital Standards Act; The Education Act or The Health Districts Act.

Net Market Value Change

An indicator of the relative sensitivity of the value of on- and off-balance sheet items to changing interest rates, used to gauge how changes in interest rates will affect the economic value of the credit union.

Overdraft

Any withdrawal or payment from an account in excess of the amount on deposit that is not covered by an authorized line of credit, or funds in another account for which the credit union has written authority to transfer. This definition excludes amounts that are posted to the member's account solely for administrative purposes, and are reversed by the next outgoing clearing.

Prudent

Determined with the careful and practical judgment that would be exercised by a knowledgeable person in the financial services industry, having regard to:

- the objectives of the credit union;
- all risks to which the credit union is exposed;
- the amount and nature of the credit union's capital; and
- regulatory compliance obligations of the credit union.

Risk-Weighted Capital

Ratio that measures capital in relation to the risk in the credit union's assets and operations.

Venture Capital Investment

An investment opportunity that assumes risk in anticipation of gain, but recognizes a higher than average possibility of loss. The range of investments may include financing for new business, early stage development, expansion, restructure or buyouts.

IV Appendices

1. Loan and Overdraft Limits

Limits are based on the financial position of the credit union as indicated by its most recent audited financial statement.

Loan	Limit
<p>Aggregate loans per individual (excluding overdrafts)</p> <p>Includes</p> <ul style="list-style-type: none"> • director, officer, employee and committee member • participation loan agreements funded by the credit union <p>Note: Government guaranteed and cash or equivalent secured loans are excluded from the above limit. Notwithstanding this exclusion, an individual's aggregate loans may not exceed 5% of credit union assets.</p>	25% of eligible capital
Aggregate loans per individual local government body	10% of assets

Overdraft	Limit
<p>Overdraft per individual</p> <p>Includes</p> <ul style="list-style-type: none"> • director, officer, employee and committee member 	1% of eligible capital
Credit union aggregate overdraft	5% of eligible capital

2. Risk-Weighted Capital

2.1 Eligible Capital

Tier 1 Capital

– retained earnings (includes current year's income)	000
– contributed surplus	000
– membership shares	000
– qualifying investment shares ¹	<u>000</u>

Tier 1 Capital before deductions **000**

Deductions from tier 1 capital:

– goodwill	<000>
– intangible assets in excess of 5% gross tier 1 capital ²	<000>
– increases in equity capital resulting from securitization transactions ³	<000>
– 50% of unrated retained securitization exposures ⁴	<000>
– 50% of unconsolidated substantial investments	<000>
– deductions in excess of tier 2 capital available	<000>
– fair value gain/ loss on own use property	<000>
– fair value gain/ loss on investment property	<000>

Net Tier 1 Capital **000**

Tier 2 Capital

– qualifying investment shares ¹	000
– subordinated indebtedness	000
– collective allowance (up to 1.25% of risk-weighted assets)	000
– fair value gain/ loss on investment property	000

Tier 2 Capital before deductions **000**

Deductions from tier 2 capital:

– 50% of unrated retained securitization exposures ⁴	<000>
– 50% of unconsolidated substantial investments	<000>

Net Tier 2 Capital **000**

Eligible Capital **000**

¹ As specified by Credit Union Deposit Guarantee Corporation in its approval process pursuant to section 131(1) of The Credit Union Act, 1998.

² Computer software that is classified as an intangible asset solely due to the requirements of CICA Handbook, Part 1, International Financial Reporting Standards: IAS 38, will continue to be classified as a capital asset for the purposes of calculating Tier 1 capital and Eligible Capital.

³ Includes capitalized future margin and gains on sale.

⁴ The amount deducted is limited to the capital that would have been required had the assets remained on the credit union's balance sheet.

2.2 Risk-Weighted Assets⁵

Total risk-weighted assets = risk-weighted on- and off-balance sheet assets + risk-weighted assets equivalent for operational risk.

Assets	Weighting Factor
Investments/Loans	
Cash	0.00
SaskCentral - deposits/senior debt	0.00
Concentra Financial - deposits/senior debt	0.20
SaskCentral/Concentra Financial - shares/subordinated debt	1.00
Federal government guaranteed	0.00
Provincial government guaranteed	
Rated AAA to AA	0.00
Rated A	0.20
Rated BBB	0.50
Local government guaranteed	
Rated AAA to AA	0.20
Rated A	0.50
Unrated or below A rated	1.00
Canadian schedule I banks	
Rated AAA to AA	0.20
Rated A	0.50
Corporate senior debt/Asset-backed securities	
Rated AAA to AA	0.20
Co-operatives	
Rated AAA to AA	0.20
Rated A	0.50
Unrated or below A rated	1.00
Unconsolidated substantial investments (equity accounting method)	0.00
Canada Student Loans	0.20
Venture capital investments	1.50
Other investments	1.00
Loans secured by cash or equivalent	0.00
Loans secured by federal/provincial government guarantee	0.00
Residential mortgage loans	
Insured	0.00
Uninsured	0.35
Commercial/Agricultural mortgage loans	1.00
Non-mortgage loans and revolving credit facilities (Consumer/Commercial/Agricultural)	
Aggregate loans exposure < \$250,000, excluding residential mortgages	0.75
Aggregate loans exposure > \$250,000, excluding residential mortgages	1.00

⁵ Balance sheet values will be used to determine risk-weighted assets for all assets, except for available for sale fixed income investments and loans. For those asset classes, amortized cost will be used as the basis for risk weighted assets.

Assets	Weighting Factor
Past Due Loans > 90 Days, net of individual allowance	
Uninsured residential loans	1.00
Loans except residential, if individual allowance > 20%	1.00
Loans except residential, if individual allowance < 20%	1.50
Other Assets	
Fixed assets	1.00
Accounts receivable/accrued interest/other assets	1.00
Foreclosed property	1.00
Intangible assets less than 5% of gross tier 1 capital ²	1.00
Intangible assets in excess of 5% of gross tier 1 capital ²	0.00
Goodwill	0.00
Securitization - retained securitization exposure	0.00
Derivative asset related amounts	0.00

Derivatives and Off-Balance Sheet Commitments (Notional amount x conversion factor x weighting factor)	Conversion Factor	Weighting Factor
Derivatives		
Interest rate swaps	0.01	0.20
Forward rate agreements	0.01	0.20
Purchased options	0.20	0.20
Credit derivatives	1.00	1.00
Commitments (Any obligation to extend credit or purchase loans or other assets. This includes approved loans not yet disbursed, unused portions of revolving credit facilities and commercial letters of credit)		
Unused portions of revolving credit facilities		
Unconditionally cancellable, annual review	0.00	Equivalent on balance sheet weighting factor
All other	0.50	
Approved loans not yet disbursed		
Maturity under 1 year	0.20	
Maturity over 1 year	0.50	
Commercial letters of credit	1.00	
Asset purchase agreements	1.00	

Risk-Weighted Assets Equivalent for Operational Risk

Risk-weighted assets equivalent for operational risk = capital charge for operational risk x 12.5

Where: capital charge for operational risk = 15% of 3 year average of net interest income and non-interest income

Note: Multiplying the capital charge by 12.5 equates to an 8% charge against capital (12.5 is the reciprocal value of 8%)

Operating Principles



Our principles provide direction on how to carry out the Corporation's roles and responsibilities. They are what make us unique. These philosophical insights have contributed to the Corporation's notable success throughout its history and provide guidance in shaping the Corporation's future.

Self-Regulation

As an in-system regulator, we support and encourage a successful credit union system by working with the Registrar of Credit Unions and the credit union system to balance prudential regulation with market forces.

We recognize the need for credit unions to evolve in the marketplace and we support a strong and prosperous credit union system by:

- focusing on the future of the financial services industry
- striving towards leading edge approaches and industry best practices
- developing flexible and enabling approaches to effective and efficient regulation

Our role is to regulate, not to manage. Our actions demonstrate our preference to prescribe rather than restrict, and demonstrate our respect for a credit union's right to determine its own destiny.

We believe that effective deposit protection is accomplished through investments in prevention, including:

- analyzing credit union performance on an ongoing basis to ensure early identification of potential risks
- communicating our expectations
- sponsoring and promoting programs that strengthen the knowledge and skills of credit union decision makers

Authority, Responsibility and Accountability

Authority

We clearly communicate to all stakeholders our authority to take action to protect deposits. The Corporation has the authority to act to fulfill its deposit protection responsibilities in the best interests of the credit union system.

Responsibility

We exercise great care and judgment in carrying out the authority that has been granted to us.

We are responsible to act when others are either unwilling or unable to take action on matters concerning credit union and system solvency and the safety of deposits.

Accountability

We demonstrate accountability through fiscal responsibility.

We pursue economical business solutions to protect deposits and minimize costs to the credit union system.

Our operating methods demonstrate effective and efficient use of system resources.

Objectivity and Independence

Our actions are free of any influence, interest or relationship that would impair professional judgment or objectivity.

We act independently and in the best interests of the Corporation to protect depositors' funds.

We carry out our responsibilities fairly and consistently, basing decisions on careful analysis of facts.

Openness

We communicate openly and consistently with all stakeholders.

We respect our stakeholders' rights to privacy and confidentiality of information.

We value the opinions and ideas of our stakeholders and take care to ensure that we consult with them on matters that affect them.

Collaborative Relationships

Through constructive relationships with our stakeholders, we create opportunities to enhance the overall quality and effectiveness of our results.

We believe that the best solutions are arrived at by working with others to build common understanding and to identify and achieve common goals.

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