



PRUDENTIAL STANDARDS

Background Checks on Directors and Senior Management

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INTRODUCTION

Pursuant to Part XIII of *The Credit Union Central of Saskatchewan Act, 2016* (the Act), Credit Union Deposit Guarantee Corporation (the Corporation) may make Prudential Standards that apply to SaskCentral. The Prudential Standard (Standard) contained herein must be adhered to by SaskCentral.

I. STATEMENT OF REGULATORY PRINCIPLES

This Standard builds upon the following:

Regulatory System: The provincial prudential regulatory system is based on a tripartite division of responsibilities involving:

- SaskCentral's management and oversight processes;
- the use of independent external reviewers (i.e. the external auditor); and
- monitoring and supervision by the Corporation.

The primary responsibility for ensuring SaskCentral is soundly managed and directed rests with the board of directors and senior management of SaskCentral. Accordingly, the suitability and integrity of senior management and members of the board of directors pose an important concern for SaskCentral and the Corporation, as the safety, soundness and reputation of SaskCentral can be negatively affected by the actions of these individuals.

Supervisory Approach: The Corporation relies on SaskCentral's own internal processes for assessing the initial and ongoing suitability and integrity of these individuals. Where warranted, the Corporation applies a risk-based approach to assessing SaskCentral's processes.

II. APPLICATION OF STANDARD

This Standard outlines a number of principles to assist SaskCentral in establishing policies and procedures regarding the conduct of assessments of its Responsible Persons and indicates areas that the Corporation may focus on during supervisory reviews.

The Standard recognizes that aspects of these assessments that address the suitability of a person, such as expertise, require assessment only upon initial appointment whereas regular assessments would focus on particulars that can change over time – for example, legal proceedings against an individual or changes in professional qualifications.

While SaskCentral already has various policies and procedures in place to regularly assess the suitability and integrity of Responsible Persons to satisfy its own internal requirements (e.g., hiring policies or code of conduct) or to satisfy other statutory² or regulatory requirements, this Standard clarifies expectations with regard to fundamental aspects of such policies and procedures to minimize safety and soundness concerns, including prudential and reputation risk.

¹ For example, legislation disqualifies some candidates for the position of director of SaskCentral. The legislative reference is section 170 of the *Cooperative Credit Associations Act*, which applies pursuant to subsection 9-1(1)(b) of the Act.

This Standard should be considered prudent practices or standards that can be considered by SaskCentral in developing its own practices and procedures.

The Corporation expects SaskCentral to adopt a suitable approach to conducting assessments of its Responsible Persons that consider the nature of business, size, complexity, risk profile, structure and ownership of the organization. The supervisory process takes this into consideration in the evaluation of SaskCentral.

III. DEFINITIONS

RESPONSIBLE PERSON

For the purposes of this Standard, a Responsible Person is defined as:

- a) a director; and
- b) senior management, i.e., any person who SaskCentral determines plays a significant role in the management of SaskCentral. This could include the chief executive officer, chief financial officer and any other officer who has a functional reporting line directly to the board of directors or chief executive officer.

IV. ASSESMENT POLICY

The Corporation expects SaskCentral to have a written policy regarding the performance of assessments of the suitability and integrity of its Responsible Persons (Assessment Policy).

Entities belonging to the SaskCentral group² may have one umbrella Assessment Policy for the entire group.

The Corporation expects that the board of directors³ of SaskCentral will approve the Assessment Policy (and any material amendments thereto) of SaskCentral.

The Corporation expects that this Assessment Policy will consider the following matters in a way that prudently minimizes the risks that persons who are not suitable or do not possess the required integrity do not hold Responsible Person positions:

a) Identification of the Responsible Persons subject to Assessments

SaskCentral is expected to identify as Responsible Persons, individuals who play a significant role in the management of SaskCentral. The Corporation expects that the Board will approve the list of Responsible Persons subject to the assessments.

Only one assessment is necessary in respect of Responsible Persons identified as being a Responsible Person for SaskCentral and any organization within the group. The Board may choose not to apply the provisions of this Standard to individuals in a subsidiary of SaskCentral where the management of the subsidiary is directed by Responsible Persons of SaskCentral.

² In this Standard, "SaskCentral group" refers to SaskCentral and its subsidiaries.

³ In this Standard, the term "board of directors" includes a committee of the board.

b) Timing of the Assessments

The Corporation expects the Assessment Policy would require an assessment to be conducted before a person is appointed to a Responsible Person position unless it would be imprudent to delay the appointment. In such cases, the assessment would occur as soon as practicable and in any event within a number of days specified in the Assessment Policy. The initial assessment would address all aspects of the assessment including aspects that are not subject to change as well as those that can change over time.

After the initial appointment, updated assessments of each Responsible Person would be conducted at intervals specified in the Assessment Policy, which should be no longer than five years. Updated assessments can focus only on aspects that can change over time. SaskCentral can rely on attestations from Responsible Persons to conduct update assessments. However, SaskCentral is expected to independently verify Responsible Persons' criminal records at least every seven years.

Assessments should be undertaken between intervals if SaskCentral acquires knowledge of material adverse information about a Responsible Person.

c) Key Practices

The Corporation expects that the Assessment Policy will indicate the key practices that will be followed by SaskCentral in implementing the principles of this Standard, including the key practices relating to SaskCentral's decision-making process (discussed in greater detail below). For example, the Assessment Policy could set out when and how the Assessment Policy will be disclosed to Responsible Persons and candidates for Responsible Person positions. The Corporation also expects the Assessment Policy to set out practices that will be followed if SaskCentral concludes a Responsible Person is not suitable or does not possess the required integrity, such as when and how the decision will be escalated through the organization, how and when the Responsible Person will be notified of adverse information as well as the steps that will be taken to remove a Responsible Person. SaskCentral should ensure its practices comply with all applicable legal requirements, including privacy and employment laws.

V. ASSESSMENT PROCEDURES

SaskCentral is expected to have written internal procedures outlining how the Assessment Policy will be implemented.

Where assessment procedures similar to those described in this Standard are already in place within SaskCentral to satisfy its internal policies (e.g., hiring or code of conduct) or to satisfy other regulatory requirements (e.g., public listing requirements), SaskCentral can refer to the procedures used to meet the other requirements. SaskCentral will implement its own procedures taking into account its nature, size, complexity and risk profile.

The Assessment Procedures would consider the following matters:

a) Persons or Groups that will Conduct Assessments

SaskCentral can assign the responsibility for conducting assessments of each Responsible Person to any person or group within the organization. The Corporation expects the Assessment Policy to be implemented by appropriately qualified individuals and that procedures exist to allow such individuals to escalate concerns about findings in respect of a Responsible Person or the conduct of assessments.

SaskCentral can assign responsibility for various facets of the assessments to different groups in the institution. SaskCentral can outsource some of the functions related to conducting assessments, but the Corporation expects that an appropriate person within SaskCentral will make the ultimate determination about whether a Responsible Person possesses the required suitability and integrity. Any outsourcing should comply with the Corporation's Outsourcing of Business Activities, Functions and Processes Standard and all privacy laws, as applicable.

b) Information that will be Obtained

In its Assessment Procedures, SaskCentral can identify the information it will obtain to assess the suitability and integrity of its Responsible Persons, upon initial appointment of the Responsible Persons to their positions and during subsequent update assessments.

Procedures that are in place to comply with other regulatory requirements relative to suitability and integrity (e.g., requirements related to listing or securities regulations such as National Instrument 44-101, National Policy 58-201, National Instrument 51-102 and National Instrument 52-110) can reference the procedures in place to meet these other requirements. **Procedures in place to meet these requirements will be viewed as meeting the requirements of this section of the Standard.**

When a Responsible Person is first appointed to his or her position, SaskCentral would obtain sufficient information to allow them to conclude that the Responsible Person possesses the suitability and integrity to perform properly the duties of the Responsible Person position. Such information could include:

- criminal records;
- records of securities-related sanctions or disciplinary actions by a professional regulatory body;
- evidence that the Responsible Person possesses the required education, skills, professional qualifications and experience;
- attestation that the Responsible Person has not been held liable in a civil proceeding in connection with financial or business misconduct, fraud or mismanagement of an entity; and
- attestation that the Responsible Person has no conflicts of interests that could create a material risk that the individual will be unable to discharge the duties of the Responsible Person with integrity and in the best interests of SaskCentral.

When conducting assessments at initial appointment, SaskCentral is expected to verify information using searches of databases and information made available by third parties when such independent sources are available. SaskCentral should determine in which jurisdictions and how far back verifications should be conducted, based on the

Responsible Person's history and circumstances. While attestations from Responsible Persons about certain aspects of the assessments, such as civil proceedings, are sufficient to meet the expectations of the Standard, the Corporation encourages SaskCentral to conduct its own independent verifications, if they have grounds to believe that an attestation is insufficient or inaccurate.

Subsequent to the initial appointment, the frequency at which verifications are updated would reflect the specific circumstances of SaskCentral and of each Responsible Person. Updates of assessments can focus only on particulars that can change over time, such as:

- criminal convictions, regulatory or civil proceedings against the Responsible Person;
- changes in status in professional organizations; and
- new or changes in conflicts of interest.

In update assessments, SaskCentral can rely on an attestation of the facts from Responsible Persons for all aspects of the assessment. In addition, SaskCentral is expected to independently verify a Responsible Person's criminal record at intervals specified in the Assessment Policy.

c) Decision-making Process

SaskCentral should document the decision-making process they will follow when an adverse finding is made with respect to a Responsible Person. For example, SaskCentral can set its own threshold about the type of adverse information it would consider material and the type of information it would gather to follow-up on the adverse information, including mitigating factors or circumstances. The decision-making process can be tailored to the unique circumstances of SaskCentral.

An adverse finding would not necessarily render a person unsuitable to hold a Responsible Person position. Each finding should be considered in relation to all surrounding circumstances (e.g., seriousness of the incident or time elapsed since incident). The Corporation expects SaskCentral to use judgement and to weigh the findings on each factor, including the materiality of the adverse information and the relevance of the factor to the Responsible Person's duties.

A Responsible Person may be found unsuitable for a particular Responsible Person position because of a lack of qualifications for that position or because of a conflict of interest related to the duties of that position. In that case, the Responsible Person may still be suitable for another Responsible Person position. SaskCentral may also redefine the duties associated with a Responsible Person position. SaskCentral must determine whether a negative finding about a Responsible Person permanently disqualifies that person (for example, absent legislative or other requirements to the contrary, whether a Responsible Person who has been suspended by a professional association can remain in the position after serving the suspension). However, where a Responsible Person is found to lack integrity because of negative findings related to the Responsible Person's character or honesty (for example, conviction for offences relating to money laundering or fraud), that Responsible Person will normally not be suitable for any Responsible Person position.

The Corporation expects that persons who do not possess the required suitability and integrity for a particular Responsible Person position will not be appointed to that position. The Corporation and SaskCentral may disagree about whether a Responsible

Person is suitable or possesses the required integrity. The Corporation will work with SaskCentral to address areas of concern. However, if the Corporation determines that SaskCentral has taken insufficient action to resolve a situation the Corporation deems to be of material risk, it has legislative authority to take remedial action⁴.

VI. ROLE OF THE BOARD OF DIRECTORS

In keeping with the responsibilities attributed to the Board in the Corporation's Corporate Governance Standard, particularly in regard to the Board's duties with respect to overall risk management, it is expected that the Board or a committee of the Board will:

- approve the Assessment Policy and significant amendments thereto;
- where it is inappropriate for another person in SaskCentral to make the determination, determine whether a Responsible Person is suitable or possesses sufficient integrity and, if not, ensure such persons do not hold Responsible Person positions. If the Responsible Person is not removed, ensure adequate measures are taken to manage the risk arising from misconduct or mismanagement, such as redefining the responsibilities of the position or removing a conflict that applies to the duties of that position; and
- receive concerns elevated by senior management regarding the suitability and integrity of a Responsible Person or regarding the manner in which the Assessment Policy is implemented.

SaskCentral may appoint the board of directors of one member of the corporate group to discharge the obligations of the boards of directors of all members of the corporate group.

VII. PROVIDING INFORMATION TO THE CORPORATION

SaskCentral is not required to provide its Assessment Policy or Assessment Procedures to the Corporation on a regular basis. However, the Corporation expects that the Assessment Policies, Assessment Procedures and information about assessments conducted in respect of each Responsible Person will be retained by SaskCentral for a reasonable length of time specified in the Assessment Policy and that such information will be readily available for examination by the Corporation upon request. As part of its regular supervisory practices, the Corporation may periodically, where warranted, verify the assessments conducted by SaskCentral in accordance with its risk-based supervisory approach.

The Corporation looks not only for evidence that SaskCentral has appropriate policies and processes in place but also for indicators that these policies and processes are understood, are being followed and that, as a result, they are effective.

⁴ The Corporation may remove directors and senior officers (section 16-10 of the Act). These powers apply independently of SaskCentral's powers and duties, regardless of whether SaskCentral is of the opinion that the Responsible Person meets the criteria of suitability and integrity.