Board

Assessment Criteria

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OVERVIEW

The Organization for Economic Co-operation and Development (OECD) defines corporate governance as "a set of relationships between a company's management, its board, its shareholders (in a credit union and SaskCentral, its members) and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined." Corporate governance refers to oversight mechanisms, including the processes, structures and information used for directing and overseeing the management of a credit union or SaskCentral. It encompasses the means by which members of the board of directors and senior management are held accountable for their actions, and for the establishment and implementation of oversight functions and processes. The quality of corporate governance is an important factor in maintaining the confidence of members and depositors, as well as overall market confidence.

Appropriate organizational structures, policies and other controls help promote, but do not ensure good corporate governance. Governance lapses can still occur through undesirable behavior and corporate values. Effective corporate governance is not only the result of "hard" structural elements, but also "soft" behavioral factors driven by dedicated directors and management performing their duty of care to the organization. A demonstrated corporate culture that supports and provides appropriate norms and incentives for professional and responsible behavior is an essential foundation of good governance. In this regard, the board should take the lead in establishing the "tone at the top" and in setting professional standards and corporate values that promote integrity for itself, senior management and all employees.

What makes organizational structures and policies effective, in practice, are knowledgeable and competent individuals with a clear understanding of their role and a strong commitment to carrying out their respective responsibilities.

An institution's board is ultimately responsible for ensuring the organization is managed and operated in a sound and prudent manner. While the day-to-day management of operations is delegated to senior management, this delegation of authority does not abdicate boards from fulfilling their ultimate responsibility. The board is responsible for providing stewardship, including direction-setting and general oversight of the management and operations of the institution. Senior management is accountable for implementing the board's decisions and is responsible for directing and overseeing the operations of the organization. In carrying out its responsibilities, senior management may delegate some of its responsibilities to the institution's oversight functions. The oversight functions are responsible for providing enterprise-wide oversight of operational management.

KEY RESPONSIBILITIES

For more information related to regulatory requirements and expectations for the board, credit unions should refer to section 1 (Corporate Governance) of the Standards of Sound Business Practice, as well as regulatory directives and guidance. SaskCentral should refer to the prudential standards.

The board of directors is responsible for providing stewardship and oversight of management and operations of the institution on a consolidated basis. Its key responsibilities include:

- reviewing and approving the corporate governance framework, including structures, policies and practices
- reviewing and approving the corporate mission, principles and values as well as the code of conduct and market code
- reviewing and approving business objectives, strategies and plans, and monitoring performance against those plans
- reviewing and approving an appropriate enterprise risk management framework, including an overall risk appetite and appropriate risk tolerance levels
- ensuring strategic, risk and capital and liquidity management are integrated processes and the business objectives, strategies and plans are within the organization's risk tolerance with a view to balancing business objectives with an appropriate control environment and governance
- reviewing and approving organizational structure and controls
- reviewing and approving policies for major activities and risk management within those activities
- providing for an independent assessment of, and reporting on the effectiveness of, organizational and procedural controls
- ensuring management is qualified and competent, completing regular performance reviews and reviewing senior management compensation
- ensuring board and management succession plans are in place
- reviewing and approving mandate, resources and budgets for the oversight functions
- external audit plan, including audit fees and the scope of the audit engagement
- disclosure policies and processes that support transparency to members and other stakeholders ensuring decisions are prudent by exercising due diligence and reasonable care during deliberations
- obtaining reasonable assurance on a regular basis that the institution is in control

BOARD ASSESSMENT CRITERIA

1. Composition

a) compliance with the provisions of enabling legislation

b) 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

c) appropriateness of board size, range of directors' qualifications, knowledge, skills and experience, and level of commitment available to fulfill board responsibilities

d) adequacy of policies and practices to recommend the selection, approval, renewal and succession of directors

2. Roles & Responsibilities – Strategic Management

a) extent to which the board's responsibilities include approving business objectives, strategies and plans (at least annually), and regularly monitoring their execution

BOARD ASSESSMENT CRITERIA

3. Roles & Responsibilities – Risk Governance

a) adequacy of policies and practices to develop, approve and periodically review the role and responsibilities of the board (including those of the chair) and to ensure that directors comply with sound corporate governance practices

b) extent to which the board's responsibilities include:
   - (i) review and approving, at least annually, significant risk management policies and practices, and obtaining assurances that they are being adhered to
   - (ii) 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
   - (iii) obtaining assurances on a regular basis that the organization's risk management, control environment and management information systems are appropriate and operating effectively
   - (iv) approving policies and practices for dealing with conflicts of interest
   - (v) establishing standards of ethical business conduct for the organization and obtaining assurances that they are being adhered to

4. Roles & Responsibilities – Senior Management Oversight

a) extent to which the board's responsibilities include:
   - (i) appointing the CEO, establishing his/her mandate, monitoring his/her performance and approving his/her compensation
   - (ii) approving the institution's organizational structure
   - (iii) approving the appointment of qualified individuals to senior management positions, monitoring their performance and approving their compensation
   - (iv) reviewing and approving (at least annually), human resources and compensation policies and practices, including those pertaining to succession planning
   - (v) requiring implementation of a system to ensure compliance with applicable laws, regulations and guidelines

5. Roles & Responsibilities – Transparency and Disclosure

a) extent to which the board's responsibilities include:
   - (i) approving the organization's communication and disclosure policies
   - (ii) approving financial statements and related disclosures

b) appropriateness of policies and practices to periodically communicate board responsibilities to stakeholders

c) appropriateness of policies and practices to communicate board achievements against its responsibilities to stakeholders

6. Board Committees

a) adequacy of policies and practices to regularly review the structure and composition of board committees to ensure they provide sufficient oversight

b) adequacy of policies and practices to establish and regularly review board committee mandates

c) nature and extent to which board committee mandates promote independent and comprehensive oversight, with timely and regular reporting to the board

7. Board and Committee Evaluation

a) 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

BOARD ASSESSMENT CRITERIA
8. Practices a) adequacy of policies and practices to orient new directors, and periodically update existing directors, on their responsibilities and on the organization's businesses and related risks b) adequacy of policies and practices to promote independent, effective and timely decision-making c) adequacy of policies and practices to establish and monitor work plans for fulfilling board goals and responsibilities d) 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. e) adequacy of policies and practices to ensure the directors are provided with timely, relevant, accurate and complete information (including access to independent advice) to enable them to: (i) determine that responsibilities delegated to the board committees and senior management are being discharged effectively (ii) enable directors to make informed and sound decisions f) with respect to the oversight functions on which it relies, the extent to which the board: (i) approves the appointment of the function heads (ii) ensures they have adequate authority, independence and resources to carry out their mandates (iii) provides oversight function heads with unrestricted access to the board and/or its committees (iv) requires periodic independent reviews of the functions

PERFORMANCE BENCHMARKS

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

The Corporation will look to indicators of effective performance to guide its judgment in the course of its supervisory activities. These activities may include:
a) discussions with directors, senior management and heads of oversight functions
b) review of information provided to the board
c) assessment of the board's oversight practices

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

- performs a regular, in-depth review and evaluation of the institution's business objectives and strategies, as well as events and transactions that could pose significant risks to the organization, with a view to balancing business objectives with appropriate controls and governance
- is actively involved in the selection and performance evaluation of the CEO, and other senior management as appropriate
- objectively assesses, on a regular basis, the appropriateness of the overall risk tolerance, major business activities and risks of the organization
- 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, internal or external audit, risk management, Credit Union Deposit Guarantee Corporation or other regulators, in order to satisfy itself that appropriate action has been taken or resolution achieved
- defines and periodically assesses for continued relevance, the type, comprehensiveness and frequency of information and reporting it needs to monitor and act in a timely basis, and ensures needed changes are made as required
- actively engages in the review of materials presented by management for information purposes or for board approval, appropriately considering significant issues and alternatives, engaging in discussions, challenging management's underlying assumptions, and requesting additional information and/or explanation
- ensures its meetings provide an appropriately balanced focus on key issues and ongoing governance requirements
- ensures there is sufficient opportunity for directors to meet in-camera, and seriously considers the output of such meetings
- 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 the functions
- performs a comprehensive self-assessment against its responsibilities and promptly addresses matters identified