



Compliance Assessment Criteria

January 2017

OVERVIEW

Compliance is the independent oversight function that identifies, assesses, advises on, monitors, and reports on an institution's compliance risk. Compliance risk includes legal or regulatory sanctions, financial loss, or a loss to reputation that a credit union or SaskCentral may suffer as a result of its failure to comply with all applicable laws, regulations, bylaws, codes of conduct, standards of sound business practice, or prudential standards. Compliance functions should be designed with a mandate to facilitate understanding of both prescriptive and prudential regulatory obligations and ensure processes exist to create understanding and confirm compliance with all regulatory obligations.

Compliance programs involve a number of key components, including identification and assessment of key compliance risks and scenarios, development of policies and procedures to articulate expectations of employees, training to make sure employees understand those expectations, implementation of prevention and detection controls, monitoring procedures, and investigation and enforcement practices. When combined with an organization's code of ethics, it is easy to understand why a compliance program is an important part of an organization's success.

Compliance is defined as adherence to legislative requirements, standards of sound business practice, prudential standards, and the organization's policies, procedures, articles and bylaws. The compliance function should be able to carry out its responsibilities on its own initiative in all areas of the institution on a consolidated basis.

KEY RESPONSIBILITIES

For more information related to regulatory requirements and expectations for the compliance function, credit unions should refer to section 2.3 (Compliance) of the Standards of Sound Business Practice, as well as regulatory directives and guidance. SaskCentral should refer to the prudential standards.

The compliance oversight function provides independent oversight of the management of the institution's compliance with all applicable legislation, regulations and guidelines that are relevant to the business activities of the institution. Some of its key responsibilities include:

- on a proactive basis, identifying and assessing the compliance risks associated with the organization's business activities, including the development of new products and business practices, the proposed establishment of a new business or customer relationships, or material changes in the nature of such relationships
- advising senior management on the applicable laws, regulations and standards, including keeping up to date with any developments
- establishing written guidance to staff on the appropriate implementation of laws, regulations and standards through policies and procedures and other documents such as compliance manuals, internal codes of conduct and practice guidelines
- assessing the appropriateness of internal compliance procedures and guidelines, promptly following up any identified deficiencies in the policies and procedures and, where necessary, formulating proposals for amendments
- reporting on a regular basis to senior management and, if necessary, the board or committee of the board on compliance matters
- exercising any specific statutory responsibilities (e.g., money laundering, terrorist financing)
- educating staff with respect to compliance with the applicable legislation, rules and standards, and acts as a contact point for compliance queries

COMPLIANCE ASSESSMENT CRITERIA**1. Mandate**

- a) extent to which the function has a mandate establishing:
 - (i) clear objectives and enterprise wide authority
 - (ii) authority to carry out its responsibilities independently
 - (iii) right of access to the organization's records, information and personnel
 - (iv) a requirement to express an opinion on the adequacy and effectiveness of the compliance processes and status of compliance
 - (v) authority to follow up with management on issues identified and recommendations made related to compliance
- b) extent to which the mandate is communicated within the organization

2. Organization Structure

- a) appropriateness of the stature and authority of the function head within the organization for the function to be effective in fulfilling its mandate
- b) extent to which the function head has direct access to the CEO and the board (or a board committee)
- c) appropriateness of the function's organization structure
- d) extent to which the function is independent of the organization's business activities and day-to-day compliance processes

3. Resources and Proficiency

- a) adequacy of the function's processes to determine the required:
 - (i) level of resources to effectively carry out responsibilities
 - (ii) range of qualifications, knowledge, skills and experience to fulfill its responsibilities
 - (iii) continued professional development programs to maintain/enhance staff competencies
- b) adequacy of the function's resources and appropriateness of its collective qualifications and competencies for executing its mandate
- c) sufficiency of staff development programs

4. Methodology and Practices

- a) adequacy of policies and practices to ensure that the function's approach and practices are in line with industry and regulatory compliance practices, and are appropriate for executing its mandate
- b) adequacy of policy and practices to keep abreast of new and changing legislation and changes in the organization's risk profile
- c) adequacy of policy and practices to promptly develop or amend the organization's compliance policies as legislation is introduced or amended, or as new or changing business activities impose different legislative requirements on the institution
- d) adequacy of policies and practices to document new or amended compliance policies and communicate them across the institution on a timely basis
- e) adequacy of policies and practices to assist management in identifying, addressing and integrating significant legislative or regulatory requirements into their business activities through appropriate procedural controls
- f) adequacy of policy and procedures to monitor adherence to applicable laws, regulations and guidelines across the organization to ensure that significant issues are identified and brought to senior management's attention for timely resolution, as well as to support senior management's opinion on the status of compliance
- g) adequacy of policies to review compliance practices regularly for continued effectiveness

COMPLIANCE ASSESSMENT CRITERIA

5. Reporting

- a) adequacy of policies and practices to report compliance findings and recommendations to management of the business units
- b) adequacy of policies and practices to follow up on the resolution of compliance issues

6. Functional Oversight

- a) extent to which board, or a committee of the board, approval is required for:
 - (i) appointment and/or removal of the function head
 - (ii) function's mandate and resources
- b) adequacy of policies and practices to report periodically to the board (or a board committee) and senior management on compliance issues, recommendations and status of compliance
- c) adequacy of policies and practices to perform periodic independent reviews of the function and communicate the results to the board (or a board committee) and senior management

PERFORMANCE BENCHMARKS

The quality of the compliance function's performance is demonstrated by its effectiveness in overseeing the management of the institution's compliance with all applicable legislation, regulations and guidelines.

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) discussion with directors and management, including the Chief Compliance Officer (if applicable)
- b) review of:
 - (i) practices to detect and dispose of breaches of compliance
 - (ii) reports of independent assessments of the function
 - (iii) the institution's regulatory correspondence file

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

- develops, documents and actively communicates new and amended compliance policies or requirements to all impacted areas of the institution on a consolidated basis
- proactively assists senior management in identifying, addressing, and integrating legislative and regulatory compliance requirements into the institution's business activities
- actively monitors adherence to applicable legislation, regulations and guidelines across the organization
- escalates significant breaches of compliance requirements to senior management and the board
- proactively follows up to ensure that significant issues have been addressed in a timely manner
- periodically reviews compliance practices for continued effectiveness
- coordinates and collaborates with other oversight functions