REGULATORY GUIDELINE

Financial Reporting and Disclosure Guideline

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TABLE OF CONTENTS

I. INTRODUCTION

This regulatory guideline is a Regulatory Guidance Document as contemplated by the Standards of Sound Business Practice (the Standards). It supplements and expands upon section 1, Corporate Governance and section 2.1, Financial Management of the Standards and must be adhered to by Saskatchewan credit unions.

The Standards specify the principles and requirements for effective corporate governance and financial management frameworks. This guideline identifies requirements and expectations to help credit unions fulfill their financial reporting and disclosure responsibilities to members and other key stakeholders. Key principles and considerations are presented to support credit unions in developing accounting and disclosure policies and practices related to operations, risks, as well as capital and liquidity adequacy.

II. EARLY ADOPTION

Early adoption of International Financial Reporting Standards (IFRS) which have been finalized, with a future mandatory effective date determined, will be considered on a standard-by-standard basis once a particular IFRS is issued in final form. If early adoption is allowed, we will communicate this separately to credit unions. Otherwise, credit unions should not early adopt IFRSs.

III. ACCOUNTING FOR FINANCIAL INSTRUMENTS DESIGNATED AS FAIR VALUE OPTION

IFRS 9

IFRS 9 allows entities to designate a financial asset or financial liability at fair value through profit or loss upon initial recognition. This option is referred to as the “Fair Value Option.” The following provides guidance to credit unions applying the Fair Value Option.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION’S (THE CORPORATION’S) GUIDANCE ON THE FAIR VALUE OPTION

The Corporation expects all credit unions using the Fair Value Option to meet the following expectations:

1. apply the Fair Value Option to meet the criteria set forth in IFRS 9 in form and in substance;
2. have appropriate risk management systems (including related risk management policies, procedures and controls) in place prior to initial application of the Fair Value Option for a particular activity or purpose and on an ongoing basis;
3. not apply the Fair Value Option to instruments for which they are unable to reliably estimate fair values; and
4. provide supplemental information to assist the Corporation in assessing the impact of a credit union’s use of the Fair Value Option.

IFRS 9 GUIDANCE ON THE FAIR VALUE OPTION

The Corporation understands that credit unions using the Fair Value Option may apply IFRS 9, as amended from time to time, including paragraphs 4.1.5 and 4.2.2.

For Paragraphs 4.1.5 and 4.2.2(a), credit unions may apply the Fair Value Option under this criterion if:
(a) consistent with a documented risk management strategy, it eliminates or significantly reduces[1] the measurement or recognition inconsistency of measuring financial assets or liabilities together on a different basis[2], and
(b) the fair values are reliable at inception and throughout the life of the instrument.

For Paragraph 4.2.2(b), credit unions may apply the Fair Value Option under this criterion if:
(a) the credit union has a documented risk management strategy to manage the group of financial instruments together on a fair value basis and can demonstrate that significant financial risks are eliminated or significantly reduced, and
(b) the fair values are reliable at inception and throughout the life of the instrument.

USING THE FAIR VALUE OPTION FOR LOANS

Notwithstanding the above, the Fair Value Option should not be used for loans and mortgages. However, credit unions are advised that there is opportunity to request the Corporation's approval to use the Fair Value Option for loans and mortgages to companies with annual gross revenue in excess of $62.5 million. Credit union demand for this option is not anticipated to be high but with demonstrated need, the option will be considered.

IV. DISCLOSURE

BOARD POLICY

Credit unions are expected to have a formal board-approved disclosure policy. The intent of the policy should be to ensure that the appropriate disclosures are in place to encourage member confidence in the credit union. It should address the credit union's method for determining what will be disclosed and the controls over the disclosure process. The policy should include a process for independently evaluating the suitability of disclosures, including both their content and frequency. The appropriate level of disclosure depends on the nature, scope and complexity of the credit union, and the materiality of the information.

Credit unions may refer to a number of best practice examples of disclosure policies on relevant websites (e.g. many Canadian federally regulated financial institutions post disclosure policies in the governance section of their websites).

MANAGEMENT'S DISCUSSION AND ANALYSIS

[1] "Significantly reduce" is to be determined by the credit union and subject to internal and external audit review. The Corporation does not expect credit unions to use effectiveness tests similar to those required for hedge accounting in their assessment of whether the "significantly reduce" criterion is met.
[2] A credit union may satisfy this requirement by a documented and implemented strategy which may include, but is not limited to, the following strategies to eliminate or significantly reduce risk:
1. asset liability matching in duration and amount;
2. assets which are approximately matched in amount to the liabilities and have a higher (or lower) duration within a documented range;
3. assets which are less than the liabilities but have a higher duration within a documented range; or
4. assets which exceed the liabilities but have a lower duration within a documented range.

Credit unions are required to include a management's discussion and analysis (MD&A) section with their annual financial statements. MD&A disclosures are an important source of information for the credit union's members and other key stakeholders. These disclosures are generally the starting point for stakeholders in assessing the organization's profitability and health. Together, the financial statements and MD&A form the groundwork for credit union reporting.

MD&A is to be written in a straightforward and clear manner. It should provide stakeholders with relevant, comparable information over reporting periods in order to convey understanding of the credit union's past, current and future prospects. The credit union should provide detail appropriate to the nature, scope and complexity of the organization.

Credit unions are expected to disclose information related to:

- management's analysis of results of operations, financial condition, reasons for changes from the prior reporting period and a discussion of key trends
- risks and uncertainties important to senior management and credit union stakeholders
- information that makes it possible to identify future risks and evaluate management's plans for the future
- information that is not revealed in financial statements
- risk information discussed in financial statement notes
- topics covered in this guideline, including corporate governance, risk management, liquidity management and capital management

A number of best practice guides for MD&A have been published. In Canada, the Chartered Professional Accountants of Canada website has many resources available.

CORPORATE GOVERNANCE

Corporate governance disclosures are intended to provide members and other key stakeholders with assurance that the credit union is well managed and operated in a sound and prudent manner. Disclosures should be at a level of detail appropriate to the nature, scope and complexity of the credit union and the materiality of the information.

Credit unions are expected to disclose information related to their:

- purpose and ethics, including
  - vision, mission and values
  - co-operative principles
  - code of conduct
  - market code
  - community involvement and corporate social responsibility initiatives
  - privacy policy
- executive management, including
  - structure
  - profiles
- board of directors, including
  - mandate and responsibilities
  - structure
  - profiles
  - nomination process
  - remuneration and meeting attendance
  - approaches towards
    - continuing education
    - assessing the board's performance

- committees, including
  - mandates and responsibilities
  - members

A number of best practice guides for governance disclosures have been published. In Canada, the *Toronto Stock Exchange's Corporate Governance – A guide to good disclosure* is used as a best practice by many non-listed entities.

RISK MANAGEMENT

Risk management disclosures provide assurance that management is balancing risk taking and risk mitigation. In order to provide this assurance, credit unions are expected to disclose information that allows members and other key stakeholders to assess key information on the scope of operations, risk exposures and risk management processes. Disclosures are expected to be at a level of detail appropriate to the scope, nature and complexity of the credit union and the materiality of the information.

Generally accepted accounting principles (GAAP) set out specific qualitative and quantitative disclosures related to financial instruments. They specifically address, but are not limited to, credit, liquidity and market risk. Required qualitative disclosures include:
- explanation of the risk
- exposures to the risk and how it arises
- objectives, policies and processes used to measure and manage the risk

Additionally, credit unions are expected to disclose information about their enterprise risk management framework, including:
- overview of the risk management framework
- definitions of and approaches to monitoring each key risk, including those that are not set out in GAAP (e.g. operational risk)
- responsibility within the credit union for managing risk
- summary of the policies and procedures intended to minimize exposure to excessive concentrations of risk

In most cases, a summary of the information is all that is required. The disclosure is expected to provide enough detail to describe the risks associated with the credit union and assure members and other key stakeholders that risk is appropriately managed and balanced.

CAPITAL AND LIQUIDITY MANAGEMENT

Disclosures of capital and liquidity management programs provide members and other key stakeholders with assurance that the credit union is taking appropriate steps to protect members. They are intended to encourage confidence in the strength and sustainability of the organization.

GAAP sets out specific qualitative and quantitative disclosures related to capital and liquidity management. Credit unions are required to disclose information that allows stakeholders to evaluate the credit union's objectives, policies and processes for managing capital and liquidity. Credit unions are expected to provide sufficient qualitative discussion around capital and liquidity to facilitate understanding of the results and data provided.

Required qualitative disclosures related to capital and liquidity include:
- what the credit union manages as capital

- the credit union's regulatory capital requirements
- whether the credit union meets the regulatory capital requirements
- how the credit union meets its capital management objectives
- the credit union's regulatory liquidity requirements
- whether the credit union meets the regulatory liquidity requirements
- consequences of not complying with regulatory standards

In their qualitative disclosure, credit unions are expected to include:

- the approach to assessing capital adequacy for current and future operations
- the target for risk-weighted capital
- the target for the Liquidity Coverage Ratio (LCR)
- changes in the LCR over time
- concentration of funding sources

Required quantitative disclosures related to capital and liquidity include:

- tier 1 capital and its components
- tier 2 capital and its components
- deductions from capital
- risk-weighted assets and its components
- the stock of High Quality Liquid Assets and its components
- Net Cash Outflows and its components

Capital and liquidity disclosure is to include a level of detail that provides members and other key stakeholders with assurance that the credit union is adequately capitalized and is maintaining an adequate stock of high quality liquid assets. For additional guidance regarding capital and liquidity disclosure, credit unions may refer to the Office of the Superintendent of Financial Institutions' website.

COMPLIANCE ORDERS, INCLUDING SUPERVISION AND ADMINISTRATION OF A CREDIT UNION

The Corporation may issue an Order of Compliance pursuant to section 464 of *The Credit Union Act, 1998* (the Act), or place a credit union under supervision or administration pursuant to section 466 of the Act if it determines that to do so is in the best interests of the credit union or its members, security holders, shareholders, creditors, depositors or consumers because the credit union poses a risk to the deposit guarantee fund, or is not in compliance with:

- applicable legislation
- the Standards of Sound Business Practice or any order issued by the Corporation

Credit unions that have received an Order of Compliance or have been placed under supervision or administration must disclose as much in their next annual report.

FREQUENCY AND LOCATION OF DISCLOSURES

The frequency of disclosure will depend on the type of information. For the majority of the information covered by this guideline, credit unions are expected to make their disclosures at least annually unless GAAP requires more frequent disclosures.

Credit unions should determine the appropriate methods of disclosure based on the information to be disclosed, resources available and ease of accessibility by stakeholders. Financial disclosures are to be attached to, or included in, the notes of financial statements. To complement traditional paper-based methods of disclosure, credit unions are strongly encouraged to disclose information in an easily accessible and user-friendly way on their website.

In order to satisfy section 259 of the Act, the Corporation expects credit unions to make available, at every annual general meeting, their full set of financial statements including the report of the auditor and any additional information the board feels necessary to disclose. The Corporation does not consider summary financial statements suitable to satisfy the disclosure requirements contained in the Act.

DISCLOSURE RESTRICTIONS AND LIMITATIONS

There is certain information that credit unions cannot disclose. This includes:

- confidential information such as results of supervisory assessments, risk ratings (including composite risk) and staged ratings assigned by the Corporation
- information about employees or members covered by privacy legislation

Credit unions are not expected to disclose proprietary information that would harm its competitive position if disclosed.

OTHER DISCLOSURE REQUIREMENTS

Board and management are to consider whether the disclosure requirements contained in other regulatory guidelines and directives issued by the Corporation are applicable their credit union.

V. SUPERVISORY CONSIDERATIONS

As part of regular monitoring of credit union financial performance, the Corporation will examine financial and non-financial reporting to determine whether the disclosure requirements contained in this guideline have been appropriately implemented and incorporated into credit union financial reporting. The review of a credit union’s disclosures will depend on the organization’s nature, scope and complexity, and the materiality of the information.

To facilitate the Corporation’s monitoring of adherence to the requirements contained in the guideline, all credit unions are required to provide their annual report to the Corporation, in addition to their audited financial statements. The deadline for submission of the annual report and audited financial statements can be found in the Regulatory Reporting Submissions Filing Instruction.

VI. AUDIT EXPECTATIONS

Credit unions are required to submit financial and statistical information to the Corporation that is accurate in all material respects. Section 2.2 of the Standards requires a credit union's internal audit program to include regulatory financial and statistical reporting. As such, credit unions are expected to ensure that regulatory submissions are periodically reviewed for accuracy by the internal audit function or an independent third-party service provider.