



Risk Management Assessment Criteria

January 2017

OVERVIEW

The risk management function is responsible to provide oversight of the management of risks inherent to a provincially regulated institution. This includes providing board and senior management with assurance that risks are being effectively managed within established board approved risk tolerances and the stated risk appetite. This function develops and maintains the enterprise-risk management (ERM) framework. As part of this framework, the function identifies, measures, monitors and reports on risks on an enterprise-wide and disaggregated level.

The risk management function supports sound risk governance by providing the board (or board risk committee) and senior management with reporting that allows them to clearly understand risks being assumed by the credit union or SaskCentral, and ensures that risk-taking activities and business strategies are within the stated risk appetite of the organization. Risk information should influence the institution's decisions related to business and mitigation strategies, and risk-taking activities and be integrated with strategic and capital planning.

To be effective, it is essential the mandate of the risk management function provides for enterprise-wide authority and supports a structure that has appropriate status and independence within the institution and the function has the resources required to carry out its mandate.

Larger provincially regulated institutions, depending on their risk profile, should have an independent senior executive with distinct responsibility for the risk management function and the institution's comprehensive risk management framework across the entire organization. This executive is commonly referred to as the Chief Risk Officer (CRO). The role of the CRO should be distinct from other executive functions and business line responsibilities, and there generally should be no "dual hatting" (i.e., the Chief Operating Officer (COO), Chief Financial Officer (CFO), Chief Auditor or other senior management should not also serve as the CRO). Where dual hatting does occur (e.g., in mid-sized institutions where resource constraints may make overlapping responsibilities necessary), these roles should be compatible and should not weaken checks and balances within the institution.

In smaller, less complex organizations that have significant resource restraints, it is common for the general manager to be responsible for many or all oversight functions. This would include responsibility over risk management. Where this "multi hatting" occurs, it is important for the board to take on a more active oversight role.

KEY RESPONSIBILITIES

For more information related to regulatory requirements and expectations for the risk management function, credit unions should refer to section 2.4 (Risk Management) of the Standards of Sound Business Practice, as well as regulatory directives and guidance. SaskCentral should refer to the prudential standards.

The role of the risk management function includes evaluating the effectiveness of risk management processes to:

- identify current and emerging risks
- develop risk assessment and measurement systems

- establish risk management policies and practices that support management for each key risk identified
- develop risk tolerance limits for board and senior management approval
- monitor positions against approved risk tolerances
- report the results of risk monitoring to and facilitate understanding of results by the board (board risk committee) and senior management

RISK MANAGEMENT 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) the requirement to report on the effectiveness of risk management processes and on the organization's aggregate exposures in relation to board approved risk tolerances
 - (v) authority to follow-up on action taken by management in response to identified issues and related recommendations
- b) extent to which the function's 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 organizational structure
- d) extent to which the function is independent of day-to-day management of risks

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 carrying out its mandate
- c) sufficiency of staff development programs

4. Methodology and Practices

- a) adequacy of processes to regularly review and update risk management policies, processes and limits to take into account changes in the industry and in the risk appetite of the organization
- b) appropriateness of risk management policies, practices and limits given the organization's activities and related risks
- c) extent to which risk management policies and practices are coordinated with strategic, capital and liquidity management policies and practices
- d) extent to which risk management policies, practices and limits are documented, communicated and integrated with the organization's day-to-day business activities
- e) adequacy of policies and practices to monitor positions against approved limits and for timely follow-up on material variances
- f) adequacy of policies and practices to monitor trends and identify emerging risks,

RISK MANAGEMENT ASSESSMENT CRITERIA

and to respond effectively to unexpected significant events

- g) adequacy of policies and practices to model and measure the organization's risks

5. Reporting

- a) adequacy of policies and practices to report identified issues along with recommendations to management of the business units
- b) adequacy of policies and practices to monitor and follow up on the resolution of the identified 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
 - (iii) policies, practices and limits for managing significant risks and activities
- b) adequacy of policies and practices to report regularly to the board (board risk committee) and senior management on the effectiveness of the risk management processes, aggregate risk exposures and significant issues
- c) adequacy of policies and practices to perform periodic independent reviews on the effectiveness of the risk management function and communicate results to the board (board risk committee) and senior management

PERFORMANCE BENCHMARKS

The quality of the performance of the risk management function is demonstrated by its effectiveness in overseeing the identification and management of risks within the risk appetite and tolerances established by the board.

The Corporation will look to indicators of effective risk management 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 Risk Officer (if applicable)
- b) review of:
 - (i) board and risk committee meeting minutes
 - (ii) risk management reporting
 - (iii) reports of independent assessments of the function
- c) assessment of the function's oversight practices, including processes to identify and ensure appropriate action is taken to address identified issues of non-compliance with board approved risk tolerances

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

- a) proactively reviews and updates policies, practices and limits in response to changes in the institution's risk appetite, regulatory requirements and industry best practices
- b) integrates its policies, practices and limits with day-to-day business activities and with the institution's strategy, business activities and risk tolerances
- c) develops processes to model and measure inherent risks
- d) develops processes to identify and mitigate risks prior to implementation of new strategies
- e) monitors risk positions against approved limits and ensures material non-compliance is appropriately addressed in a timely manner
- f) develops and implements risk measurement tools to proactively identify and analyze potential adverse trends and conditions and ensure these are addressed in a timely manner
- g) proactively and effectively addresses risk management issues identified as a result of internal or external events or by other oversight functions
- h) provides regular, comprehensive reporting to the board (board risk committee) and senior management on the effectiveness of the organization's risk management processes, and ensures significant issues are escalated to the board and senior management in a timely basis