Senior Management
Assessment Criteria

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P.O. Box 3030 2055 Albert Street, Regina, SK S4P 3G8 | Ph: (306) 566-1286 Fx: (306) 566-1770 | www.cudgc.sk.ca

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 an institution. 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 and senior management are ultimately accountable for the organization’s safety and soundness, and its compliance with legislation and the Standards or the prudential standards. 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.

The composition of the senior management will vary from institution to institution. Senior management is comprised of the Chief Executive Officer (CEO) or General Manager (GM) and individuals who are directly accountable to the CEO/GM. In addition to the CEO’s direct reports, such as the heads of business units, senior management may also include individuals responsible for the oversight functions such as the Chief Financial Officer, Chief Risk Officer, Chief Internal Auditor and Chief Compliance Officer, or the equivalent for each position.

KEY RESPONSIBILITIES

For more information related to regulatory requirements and expectations for senior management, 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.

Senior management is responsible for directing and overseeing the effective management of the organization's operations. This includes managing, monitoring and controlling the organization's operations on a consolidated basis and in accordance with legislation, the Standards or the prudential standards and board policy. Its key responsibilities include:

- developing and promoting sound corporate governance practices, culture and ethics (in conjunction with the board)
- developing business objectives, strategies, plans, organizational structure and controls, and policies for board approval, consistent with the institution's board-approved risk appetite and tolerance
- implementing and maintaining an appropriate enterprise risk management framework and an effective control system that continuously assesses all of the material risks that could adversely affect the achievement of the institution's objectives
- executing and monitoring the achievement of board approved business objectives, strategies, and plans and the effectiveness of organizational structure and controls
- ensuring the board is kept well informed and facilitating board understanding of significant activities and key risks
- developing an appropriate compensation policy for all human resources
- ensuring the institution's oversight functions have the resources to perform their work and that they have the capacity to offer objective opinions and advice to the board

SENIOR MANAGEMENT ASSESSMENT CRITERIA

1. Mandate

a) extent to which the board has delegated to the CEO responsibility for developing and implementing policies and practices for the effective management of the organization's operations. This may include, but is not limited to:
   (i) strategic management
   (ii) risk management
   (iii) liquidity and funding management
   (iv) capital management
   (v) internal control environment
   (vi) ethical business conduct

b) adequacy of policies and practices to delegate responsibilities from the CEO to other members of senior management and to regularly review the appropriateness of the delegation

c) appropriateness of the mandates for senior management positions and the extent to which they clearly define lines of authority, responsibility and accountability, and the extent to which these mandates are communicated across the organization

d) with respect to the oversight functions on which it relies, the extent to which senior management:
   (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 senior management and/or its committees
   (iv) requires periodic independent reviews of the functions

2. Organizational Structure

a) adequacy of policies and practices to regularly review senior management organizational structure

SENIOR MANAGEMENT ASSESSMENT CRITERIA
b) appropriateness of senior management organizational structure **3. Senior Management Committees** a) extent to which senior management committees are used to oversee the management of significant activities and related risks b) extent to which senior management committee mandates are clearly defined and communicated across the organization **4. Resources and Proficiency** a) adequacy of policies and practices to regularly review the range of qualifications, knowledge, skills and experience required to fulfill senior management responsibilities b) appropriateness of the range of qualifications, knowledge, skills and experience available to fulfill senior management responsibilities c) adequacy of policies and practices for the selection, appointment and succession of senior management d) extent to which management development programs are available to senior management **5. Practices – Strategic Management** a) adequacy of policies and practices to establish business objectives, strategies and plans, and to monitor the institution's performance against them b) extent to which human resource policies and practices give priority to attracting, developing and retaining high-caliber staff, and promoting good morale within the organization c) extent to which compensation programs promote prudent risk taking and are aligned with the long-term strategic objectives for the organization **6. Practices - ERM** a) adequacy of policies and practices to regularly review the institution's liquidity, funding and capital management policies, and to obtain assurances that approved policies are being adhered to b) extent to which risk management policies and practices are: (i) enterprise-wide (ii) coordinated with strategic, capital and liquidity management (iii) prudent in the context of the risk profile of the organization (iv) reviewed regularly for appropriateness (v) communicated to appropriate individuals across the organization c) adequacy of processes, techniques and criteria used to consistently identify, measure, monitor, control and report significant risks, and to ensure that approved risk management policies and practices are adhered to d) adequacy of policies and practices to ensure regular review of the organizational and procedural control environment e) adequacy of policies and practices to ensure compliance with applicable laws, regulations and guidelines **7. Practices – Facilitate Board Oversight** a) adequacy of policies and practices for communication and disclosure to stakeholders b) appropriateness of senior management's role in facilitating board oversight c) extent to which management policies and practices promote sound corporate

SENIOR MANAGEMENT ASSESSMENT CRITERIA
governance and ethical business conduct **8. Board Oversight** a) extent to which the board (or a board committee) approval is required for: (i) the institution's organizational structure and changes thereto (ii) senior management organizational structure and changes thereto (iii) senior management appointments and mandates (iv) business objectives, strategies and plans (v) liquidity and capital management policies (vi) policies and practices for managing significant activities and related risks (vii) significant human resource policies and practices (viii) communication and disclosure policies and practices b) adequacy of policies and practices to promote full, open and timely disclosure to and discussion with the board (or its committees) on all significant issues c) adequacy of policies and practices established by the board (or a board committee) to regularly review senior management's performance and compensation d) extent to which the board oversees that senior management models the behaviours consistent with the values established

PERFORMANCE BENCHMARKS

The quality of senior management's performance will be demonstrated by its effectiveness in overseeing the execution of approved strategies and effective management of the institution's operations, with due regard to the organization's safety and soundness.

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 and senior management
c) assessment of senior management's practices
d) assessment of the board's oversight practices

Examples of indicators that could be used to guide supervisory judgment include the extent to which senior management:
- develops strategies and plans for the attainment of business objectives that are appropriate and prudent, in the context of the regulatory, competitive and economic environment, and regularly monitors the execution of approved plans to ensure that objectives are achieved or strategies are appropriately adjusted to deal with changes in business or economic conditions
- achieves the business objectives effectively while maintaining an appropriate governance and control culture
- develops, implements and monitors an effective enterprise risk management framework
- actively monitors adherence to approved policies, organizational and procedural controls, and compliance requirements
- ensures that appropriate and timely action is taken to remedy any deficiencies that may arise, including issues brought to it by other control functions and regulators
- ensures that management information systems provide timely and relevant information to support its oversight responsibilities

- is successful in attracting, developing and retaining high-caliber staff and in maintaining good morale and ensures that direct reports clearly understand their responsibilities and holds them accountable for discharging them
- sets an appropriate “tone from the top”, performing its duties in an ethical manner and expecting the same from individuals across the institution and its subsidiaries
- keeps the board and its committees fully apprised, on a timely basis, of market conditions, strategic opportunities and concerns, operating performance and issues that could significantly affect the well-being of the institution. This includes the quality of information provided to the board and the facilitation of board understanding by setting out and analyzing all reasonable options for the board, and making well-supported recommendations.