Nova Scotia Credit Union Deposit Insurance Corporation

Guideline

Subject: Standards of Sound Business Practice Guidance Framework

Effective Date: June 1, 2024

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1.0 Introduction

1.1 NSCUDIC Standards of Sound Business Practice

On June 1st, 2024, NSCUDIC issued new Standards of Sound Business Practice (SSBP) pursuant to s. 156 (c) (i) (j) of *The Credit Union Act (*Act). Further to the Act, the new SSBP were approved by the Registrar.

All credit unions and caisse (cu/caisse) must comply with the SSBP that apply to them (s. 156). The SSBP are available at this link:

www.nscudic.org

The SSBP contain rules respecting cu/caisse capital, liquidity, investments, lending, and other matters. The SSBP also contain a set of principles that assist cu/caisse to direct and manage their institution in a prudent, effective, and appropriate manner. All previous correspondence issued by NSCUDIC continue to apply for support.

1.2 Purpose and Objective of the SSBP Guidance Framework

The purpose of this SSBP Guidance Framework is to assist cu/caisse Boards and Senior Managers with the development of governance and risk management practices and compliance with the SSBPs.

The objectives of this SSBP Guidance Framework are to:

- Establish principles for cu/caisse governance and risk management practices that contribute to the sound and prudent operation of cu/caisse and protect member deposits.
- Provide recommendations to a cu/caisse for compliance with the Standards.
- Present concepts and support (Appendix I and NSCUDIC Guidelines) to help a cu/caisse assess their compliance with the SSBPs.

NSCUDIC has developed four SSBP:

- Standard 1 – Corporate Governance
- Standard 2 – Strategic Management
- Standard 3 – Risk Management
- Standard 4 – Internal Control Structure

All cu/caisse should comply with the SSBP; however, their application will depend on size, complexity, and level of risk. A cu/caisse should demonstrate adherence to the Standards on an on-going basis, by assessing whether policies, processes, controls, and reporting are appropriate, effective, and prudent.

2.0 Standard 1 – Corporate Governance

2.1 Objective

Cu/Caisse must effectively direct, oversee, and manage their business activities and ensure that performance, accountability, and integrity are achieved.

Corporate Governance involves the following key elements:

- Leadership
- Oversight

The care, diligence, and prudence exhibited by a cu/caisse's Board and Chief Executive Officer / General Manager (CEO / GM) have a critical influence on the cu/caisse's viability, safety, and soundness, and its ability to achieve its business objectives.

Although Corporate Governance practices may differ among cu/caisse, the foundations of good governance are a Board and CEO / GM who understand and diligently discharge their responsibilities in a prudent manner.

2.2 Suggested Approach for Compliance

Leadership

Leadership is the responsibility to set direction, establish structures of governance, and foster ethical conduct. It is the duty of the Board to establish strategic direction and ensure ongoing effective governance.

The Board appoints the CEO / GM and assigns authority to the CEO / GM and Senior Management. The CEO / GM is accountable to the Board. The CEO / GM's duty is to plan, communicate, and set in motion the action undertaken by the cu/caisse to meet the Board's strategic direction.

Board of Directors Responsibilities:

- Establish the strategic direction *(Refer to Standard 2 for more information)*
- Understand the significant risks facing the cu/caisse and confirm that appropriate policies and procedures are followed to manage and mitigate risk *(Refer to Standard 3 for more information)***.**
- Establish an appropriate committee structure with documented responsibilities and authority *(Refer to Appendix II for more information)*.
- Approve the organizational structure of the cu/caisse.
- Understand the role of the Board vs. the role of CEO / GM.

- Formally establish the authority and accountability of the CEO / GM.
- Determine the desired qualifications of a CEO / GM.
- Appoint a CEO / GM with the qualifications and competencies necessary to provide prudent management and leadership.
- Approve appropriate policies *(Refer to Appendix III for more information)*.
- Establish standards for business conduct and ethical behavior for Directors, management, and staff, and obtain reasonable assurance of compliance.
- Determine the desired qualifications of Directors, ensuring a balance of expertise and experience.
- Ensure adequate Board and CEO / GM succession plans are in place.
- Encourage and provide training opportunities for Directors.
- Exercise independent judgment, contracting external resources to obtain objective advice when necessary.
- Maintain effective relations with the CEO / GM, Senior Management, members, other cu/caisse, auditors, Atlantic Central, and NSCUDIC.

CEO / GM Responsibilities

- Establish and execute plans that support the cu/caisse's strategic direction *(Refer to Standard 2 for more information)***.**
- Identify the significant risks facing the cu/caisse and implement an appropriate enterprise risk management (ERM) program *(Refer to Standard 3 for more information).*
- Develop and recommend policies for Board consideration.
- Document procedures for the effective implementation of approved policies.
- Communicate strategic plans and policies.
- Develop and recommend business conduct and ethical behaviour standards for Board consideration.
- Establish and delegate, in writing, the authority and accountability of Senior Managers and staff.
- Maintain effective relations with Board, staff, members, other cu/caisse, auditors, AC, and NSCUDIC.

Oversight

Oversight is the active stewardship and supervision of the cu/caisse's operating environment. It is the duty of the Board to evaluate and regularly review the cu/caisse's policies, compliance with regulation, and the performance of the CEO / GM. It is the CEO / GM's duty to ensure the Board has adequate information to make informed judgments, and to provide information about the cu/caisse's control environment.

Board of Directors Responsibilities

- Appoint a qualified and competent CEO/GM.
- Annually evaluate the effectiveness of the CEO / GM in managing operations in accordance with the cu/caisse's business objectives, strategies, policies, and regulatory requirements.
- Establish a process for regularly reviewing all Board policies and approve all policy changes.
- Review and approve any proposed exceptions to policy.
- Maintain an appropriate CEO / GM compensation program which does not compromise the viability, solvency, and reputation of the cu/caisse.
- Obtain reasonable assurance from the CEO / GM that the cu/caisse's operations are conducted in a control environment that supports achievement of business objectives, and effective and prudent management of its operations *(Refer to Standard 4 for more information)*.
- Seek independent/audit validation that processes, policies, procedures, and controls are implemented *(Refer to Standard 4 for more information).*
- Monitor and obtain reasonable assurance of compliance with legislation, the Standards, cu/caisse articles, and bylaws.
- Annually evaluate the quality and effectiveness of the Board's performance.
- Represent the interests of cu/caisse members.

CEO / GM Responsibilities

- Facilitate Board oversight by providing timely, accurate, relevant, and reliable reporting.
- Assess and validate the effectiveness of the control environment *(Refer to Standard 4 for more information)*.

3.0 Standard 2 – Strategic Management

3.1 Objective

Cu/Caisse must ensure that business operations are effectively planned, executed, and monitored.

Strategic management is the continuous planning, goal setting, monitoring and realignment undertaken by a cu/caisse to achieve its business objectives. It is an integral function of managing a cu/caisse.

Effective strategic management empowers the Board and Senior Management to set the direction for the cu/caisse over the long term, to ensure short term plans and goals support this direction, to follow a sustainable growth model to ensure its future viability and to avoid management by crisis.

Strategic Management includes the following key elements:

- Corporate Vision, Mission, and Business Objectives
- Strategic Plan

3.2 Suggested Approach for Compliance

Corporate Vision, Mission, and Business Objectives

The corporate vision is a statement that describes the cu/caisse's long term direction. The corporate mission is a statement that defines the purpose of the cu/caisse, its values, and sets standards against which future decisions are evaluated.

Business objectives articulate long and short-term operating and financial goals. They provide the parameters for establishing a strategic plan, assessing activities, and evaluating the CEO / GM's performance.

Board of Directors Responsibilities

- Determine the corporate vision and mission.
- Establish the strategic direction of the cu/caisse.
- Approve business objectives for the cu/caisse.
- Stay informed about current business and economic trends.
- Periodically review the corporate vision and mission to ensure that the statements remain relevant.
- Regularly review business objectives to ensure they align with the cu/caisse's strategic direction.

CEO / GM Responsibilities

- Draft and recommend business objectives for Board approval.

Strategic Plan

The strategic plan states how a cu/caisse will follow its strategic direction to achieve its corporate vision and mission and meet its business objectives.

The strategic plan establishes benchmarks to monitor performance. It considers the business, economic, and competitive environments, the financial position, and the significant risks facing the cu/caisse in its current and planned activities. It should plan for sustainable growth and include strategies for meeting capital and profitability targets.

A strategic plan may include the following:

- The environment in which the cu/caisse operates.
- The type of business activity that the cu/caisse will conduct.
- The channels that the cu/caisse will use to conduct the business activity.
- The significant risks the cu/caisse will be exposed to.
- The key functions and resources needed to conduct the business activity.
- The expected long and short-term operating and financial results.

When a cu/caisse prepares its annual operational plan, it should ensure that the operational objectives are integrated with and support the strategic plan and includes measurable benchmarks.

Board of Directors Responsibilities

- Understand the environment in which the cu/caisse operates.
- Understand the significant risks to which the cu/caisse is exposed.
- Approve the strategic plan and regularly review its implementation.

CEO / GM Responsibilities

- Understand the environment in which the cu/caisse operates.
- Identify risks facing the cu/caisse in achieving its strategic plan.
- Develop a strategic plan to achieve the business objectives.
- Develop a budget and annual operational plan for Board approval that supports the strategic plan.
- Implement and manage the strategic plan, operational plan, and budget.
- Regularly review the strategic plan with the Board and consider:
    - Current and anticipated conditions
    - Appropriateness of the plan given the environment, the cu/caisse's performance, and resources
    - Sustainability in both the short and long term
    - Meeting of capital and profitability targets
- Provide the Board with reliable, timely, and meaningful reports on:
    - Implementation of the strategic plan
    - Cu/Caisse performance in relation to the strategic plan, operational plan, and budget
    - Corrective action to address the areas where performance does not meet expected results

4.0 Standard 3 – Risk Management

4.1 Objective

Cu/Caisse must have a comprehensive approach to identifying, managing, and controlling business and operating risks.

A cu/caisse is exposed to a number of risks that can adversely affect its ability to achieve its business objectives. These risks can impact capital and profitability, jeopardize long term sustainability, or lead to reputation loss, among other things.

The objective of risk management is not to eliminate risk, but to manage it appropriately. A cu/caisse typically tries to manage risks within defined risk/reward tolerances, or within expected threshold levels.

Risk management practices differ among cu/caisse based on several factors such as size and complexity of business activities, significant risks, control environment, degree of centralization, experience and qualifications of management and staff, and delegation of authority.

A cu/caisse needs a comprehensive risk management framework. The required framework is Enterprise Risk Management (ERM).

Risk management practices should address, at a minimum, the following risks:

- Human Resource Risk
- Credit Risk
- Asset/Liability Management
    - Interest Rate Risk
    - Capital Risk
    - Liquidity Risk
    - Investment Risk
    - Foreign Exchange Risk
- Information Technology Risk
- Outsourcing Risk
- Fiduciary Risk
- Business Continuity Risk
- Regulatory Compliance Risk

An effective risk management framework and internal control structure should cover all operational risks. Operational risk is the risk of loss resulting from people, inadequate or failed internal processes and systems, or from external events.

All risks should be mitigated through an organization-wide effort that incorporates a three-line defense: business line processes and controls, risk management and internal oversight activities, and internal audit. This Guidance Framework provides guidance on all three lines of defense.

4.2 Suggested Approach for Compliance

Enterprise Risk Management

ERM enables a cu/caisse to employ an organization wide framework that supports the identification, assessment, and management of significant risks, and facilitates the creation of appropriate risk management practices. Atlantic Central issued **Enterprise Risk Management Guidelines** to provide supplementary guidance to the Standards and better define NSCUDIC's expectations.

A cu/caisse should implement an ERM Policy which establishes the ERM framework. The ERM Policy should include a risk management philosophy that sets the tone for the cu/caisse's approach to risk management and defines its risk culture. This policy should also establish risk appetites and tolerances for all key business risks.

The ERM Policy must define a risk identification and reporting process and involves these five components:

- Risk Identification
- Risk Assessment and Measurement
- Risk Response and Action
- Reporting
- Monitoring

Board of Directors Responsibilities

- Develop and adopt a risk management philosophy.
- Understand the key risks facing the cu/caisse and evaluate these risks regularly.
- Regularly review and approve an ERM Policy.
- Regularly review and approve appropriate and prudent risk management policies.
- Confirm that the cu/caisse has an appropriate and effective ERM process and oversee that process.

CEO / GM Responsibilities

- Identify risks, assess their significance, and determine a method for measuring and reporting those risks to the Board.
- Develop and implement the ERM Policy, framework, and process.
- Develop, recommend, and maintain appropriate and prudent risk management policies.

- Develop and implement effective risk management procedures and controls.
- Regularly review risk management procedures and controls.
- Ensure that risk management reporting systems are in place to facilitate the monitoring of significant risks.
- Provide the Board with appropriate information or reports on key or emerging risks.

Human Resource Risk

Human resource risk is the risk of failure to attract or retain qualified employees, and the risk of human error, negligence, or misconduct.

Human resource risk management policies and practices may address the following:

- Recruitment
- Confidentiality of employee information
- Training/education
- Performance management
- Compensation/retention
- Succession
- Termination

Board of Director Responsibilities

- Establish a human resource and compensation philosophy.
- Regularly review and approve appropriate and prudent human resource policies that support the corporate culture.
- Review and approve compensation programs that are consistent with the compensation philosophy and do not encourage unnecessary risk taking that could lead to financial or reputational loss.

CEO / GM Responsibilities

- Develop, recommend and maintain human resource management and compensation programs and policies which are in compliance with regulatory requirements.
- Ensure the levels of authority delegated to managers and employees are reasonable and prudent and are documented and acknowledged by employees in writing.
- Maintain an organizational structure and staffing appropriate for the size and complexity of the cu/caisse.
- Document job descriptions and responsibilities for all employee positions.
- Ensure employees receive clear communication regarding their individual responsibilities and acknowledge these in writing.
- Encourage employees to maintain on-going training in line with their job duties and responsibilities.
- Recommend and maintain succession plans appropriate for the size and complexity of the cu/caisse.
- Provide the Board with appropriate reports that will enable them to monitor the effectiveness of human resource management practices.

Credit Risk

Credit risk is the potential financial loss resulting from any third party's failure to honour its obligations to a cu/caisse.

Credit risk management policies should address the following:

- Legislative compliance
- Types of credit arrangements
- Credit concentration exposure
- Credit approval authorities
- Risk rating systems
- Borrower risk evaluation and rating
- Credit impairment recognition
- Underwriting Standards

Board of Directors Responsibilities

- Establish a credit granting philosophy, risk appetite and risk tolerances.
- Regularly review and approve appropriate and prudent policies that support the credit granting philosophy.
- Review and approve credit authority levels.
- Review and approve credit concentration limit policies for borrowers, groups of associated borrowers, industrial or economic sectors or geographic regions.
- Review and discuss information and reports prepared by management showing material issues related to loan concentration, loan activity, delinquencies, etc.

CEO / GM Responsibilities

- Develop, recommend, and maintain prudent credit risk management policies and procedures.
- Recommend policies to the Board regarding the nature and types of credit the cu/caisse is willing to engage in.
- Ensure credit risk policies and processes are consistent with the CU Model Loan Policy. Any variations are supported by prudent risk management considerations.
- Recommend credit concentration limit policies to the Board for borrowers, groups of associated borrowers, industrial or economic sectors or geographic regions.
- Assign authority for approving credit to appropriate employees and obtain signed acknowledgment of this authority.
- Develop processes for evaluating and rating individual and aggregate credit risks to identify and mitigate material credit risks.

- Provide the Board with appropriate reports that will enable them to monitor the effectiveness of credit management practices and assess portfolio risk.

Asset/Liability Risks

Asset Liability Management (ALM) is the process for developing, implementing, monitoring, and revising strategies for assets and liabilities to achieve cu/caisse financial objectives within risk tolerances and other constraints.

ALM involves the active and prudent management of the balance sheet while managing interest rate risk, capital risk, liquidity risk, investment risk, and foreign exchange exposures. Effective ALM risk management policies and practices focus on ensuring a cu/caisse's ongoing sustainability.

NSCUDIC issued **Liquidity Risk Management Guidance** to provide supplementary guidance to the SSBP.

1. Interest Rate Risk

Interest rate risk is the cu/caisse's vulnerability to movements in interest rates. Basic interest rate risk management can minimize negative swings in net income. More advanced interest rate risk management allows the Board and Senior Management to strategically position the cu/caisse to take advantage of potential gains arising from changes in interest rates and member behaviour.

Interest rate risk management policies and practices should address the following:

- Risk tolerances and limits for mismatches and potential impact on earnings and capital.
- Defined roles and responsibilities for managing risks and appropriate reporting structure.
- Use of interest rate risk management tools to identify and measure risks and opportunities.
- Appropriate resources, expertise and training at the Board and management level.

2. Capital Risk

Capital risk is the potential failure to maintain sufficient quantity and quality of capital and plan for future capital requirements. Managing capital risk includes implementing a sound profitability model with margin and cost control practices, ensuring sustainable growth, and establishing and meeting capital targets in excess of legislative and prudential requirements.

Capital risk management policies and practices should address the following:

- Risk tolerances and capital targets in excess of legislative and prudential requirements.

- Sustainable growth model: short and long term strategic plans and targets for capital and profitability.
- Use of analysis and risk management tools to measure and forecast risks to capital and profitability or to identify opportunities for margin growth.

3. Liquidity Risk

Liquidity risk is a potential failure to meet day-to-day cash commitments, to maintain minimum levels of statutory liquidity or to comply with prudential requirements. Managing this risk involves understanding funding sources, liquidity needs, and business opportunities.

Liquidity risk management policies should address the following:

- Risk tolerances and liquidity targets in excess of legislative and prudential requirements.
- Sustainable growth model: short and long term strategic plans for maintaining adequate liquidity to support growth and operations.
- Use of analysis and risk management tools to measure and forecast risks to liquidity.
- Managing deposit concentration risk by ensuring sufficient diversity of liquidity sources and identifying potential alternative sources of funding.
- Where appropriate, establishment of limits on alternative sources of funding (e.g. broker and virtual deposits, or securitizations).
- Understanding AC's liquidity risk exposures and funding capacity.
- Stress testing and a crisis funding plan depending on size, complexity and level of risk.

4. Investment Risk

Investment risk is the potential loss, capital impairment, or liquidity deficiency resulting from a cu/caisse's investment strategy. This strategy includes operating within the rules for investments in land, buildings, eligible corporations, or other investments permitted under charter by-laws and the CU Act. Investment risk also includes market risk associated with holding market sensitive assets.

Investment risk management policies and practices should address the following:

- Risk tolerances and risk appetites for key investments.
- Legislative and regulatory compliance – ensuring that all investments are eligible and do not exceed regulatory limits.
- Understanding and managing potential market risk.
- Knowing the impacts of major capital investments on cu/caisse regulatory capital.

5. Foreign Exchange Risk

Foreign exchange risk is the potential negative impact on earnings and net asset values due to unpredictable changes in currency rates.

Foreign exchange risk management policies and practices should address the following:

- Risk tolerances and limits for foreign exchange risk exposure or holdings of foreign currency.
- Use of risk management tools and strategies to mitigate risks or measure/monitor exposures.

Board of Directors Responsibilities

- Regularly review and approve appropriate and prudent ALM strategies and policies.
- Understand the cu/caisse's statutory and prudential capital and liquidity requirements.
- Establish ALM risk tolerances and targets appropriate for the cu/caisse's size, complexity, and level of risk.
- Oversee Senior Management compliance with ALM policies and targets.
- Ensure Board members have adequate resources and training to understand their role in overseeing ALM risks.

CEO / GM Responsibilities

- Develop, recommend, and maintain ALM policies, targets, and strategies.
- Ensure appropriate daily management and monitoring of ALM risks.
- Ensure compliance with Board tolerances and targets, and regulatory requirements.
- Ensure the cu/caisse follows a sustainable growth model.
- Ensure the cu/caisse has contingency plans to deal with key ALM risks.
- Define levels of authority for managing ALM risks and approving investment decisions.
- Provide the Board with appropriate reports to enable it to monitor the effectiveness of its policies and practices.
- Ensure that personnel responsible for ALM have adequate resources and training to execute their roles.

Information Technology Risk

Information Technology (IT) risk is the potential financial, operational, and reputational loss resulting from the cu/caisse's failure to safeguard IT assets and information and ensure the continuity of services and operations.

NSCUDIC issued **Information Technology Requirements** to provide supplementary guidance to the SSBP.

IT risk management policies and practices should address the following:

- Identification and analysis of key IT risks and risk tolerances
- Formal IT risk assessment process
- Robust information security control framework that meets acceptable standards for confidentiality, integrity, and availability
- Prioritization of IT security for core banking systems
- Regular IT audits that prioritize the review of information security controls and banking system security and integrity
- Establishment of disaster recovery plans

Board of Directors Responsibilities

- Establish risk tolerances with respect to IT functions.
- Ensure the cu/caisse has an appropriate IT governance framework.
- Provide strategic direction and oversight of the IT function and environment.
- Regularly review and approve appropriate and prudent IT policies.
- Ensure the cu/caisse performs regular IT audits and reviews findings.

CEO / GM Responsibilities

- Implement the IT governance framework.
- Follow the Board's strategic direction and drive the IT function.
- Develop, recommend, and maintain IT policies
- Implement a robust information security control framework that meets acceptable standards for confidentiality, integrity, and availability.
- Ensure that the IT function is audited on a regular basis with priority for review of information security controls and banking systems.
- Ensure disaster recovery plans are in place.
- Provide the Board with appropriate reports, IT risk assessments and audit findings to enable it to perform its oversight function.

Outsourcing Risk

Outsourcing occurs when a process or function that could be performed by a cu/caisse is delegated to a service provider. Outsourcing risk is the potential financial or reputational loss resulting from the failure of a service provider to perform a function adequately.

NSCUDIC issued **Information Technology (IT) and Outsourcing Guidelines** to provide supplementary guidance to the SSBP.

Outsourcing risk management policies and practices should address the following:

- Formal contracts for material outsourcing agreements
- Criteria for choosing outsourcing partners (due diligence)
- Privacy, confidentiality, and security of information
- Access to premises and technology resources
- Accuracy and timeliness of work performed
- Performance monitoring and scheduled review for material contracts
- Dispute settlements

Board of Directors Responsibilities

- Regularly review and approve appropriate and prudent outsourcing policies.
- Understand key risks related to all material outsourcing contracts.
- Understand the business case and key risks for outsourcing a business function.

CEO / GM Responsibilities

- Develop, recommend, and maintain outsourcing management policies.
- Determine circumstances in which outsourcing should be considered: cost, strategic analysis, and business case.
- Conduct due diligence on service providers to assess their capability, expertise, financial strength and track record.
- Ensure all material outsourcing agreements are subject to a formal written contract.
- Establish performance and quality standards and a right to audit in the contract to ensure security and continuity of service.
- Monitor the performance of service providers.
- Provide the Board with appropriate reports so it can understand key risks related to material outsourced contracts.

Fiduciary Risk

Fiduciary risk is the potential financial and reputational loss resulting from a breach of duty in advising a member or other third party when holding, administering, managing, or investing their assets.

Fiduciary risk management policies and practices may address the following:

- Identification of products and services where fiduciary risk may be experienced.
- Risk appetite and tolerances for offering products or services, or outsourcing functions, that carry fiduciary risk.
- Comprehensive set of approved procedures/manuals for offering these services and appropriate requirements, licensing, and training for staff.

Board of Directors Responsibilities

- Regularly review and approve appropriate and prudent fiduciary risk management policies.
- Set the cu/caisse's risk appetite and risk tolerances for offering products or services, or for outsourcing functions, that carry fiduciary risk.

CEO / GM Responsibilities

- Develop, recommend, and maintain fiduciary risk management policies.
- Ensure that all members are advised appropriately in accordance with regulatory compliance requirements relating to client investing and financial advice.
- Ensure the prudent handling of all assets held, administered, or invested on behalf of other parties according to agreements made with those parties.
- Ensure that confidential member information is protected.
- Provide the Board with appropriate reports that will enable it to monitor and evaluate any significant problems relating to fiduciary risk.

Business Continuity Risk

Business continuity risk is the potential financial, operational and reputational loss resulting from an operational incident which threatens a cu/caisse's ability to provide services to members.

Business continuity policies or plans should include organization wide plans to recover and restore functionality in the event of specified operational incidents.

Board of Directors Responsibilities

- Regularly review and approve appropriate and prudent business continuity risk policies or plans.

CEO / GM Responsibilities

- Develop, recommend, and maintain business continuity risk policies or develop specific business continuity plans.
- Manage business interruption risk including through regular testing.
- Provide the Board with appropriate reports that will enable it to monitor and evaluate any significant problems relating to business continuity risk.

Regulatory Compliance Risk

Regulatory compliance risk is the potential financial or reputational loss due to non-compliance with laws, rules, and regulations. Non-compliance can affect reputation, safety, and soundness.

NSCUDIC expects every cu/caisse to establish an effective regulatory compliance framework. The compliance framework includes processes and controls that a cu/caisse implements to manage and mitigate regulatory compliance risk.

Regulatory compliance risk management policies and practices may address the following:

- Establishment of a regulatory compliance framework to identify and manage regulatory compliance risk.
- Assignment of responsibility and accountability.
- Sufficient resources to support compliance activity including staff training and, where required, outsourcing to third parties for development or review of compliance processes, software, or applications.

Board of Directors Responsibilities

- Regularly review and approve appropriate and prudent regulatory compliance policies.
- Review reports from management regarding regulatory compliance including incidents of non-compliance.
- Review third party reports including reports from regulators (e.g. FINTRAC).

CEO / GM Responsibilities

- Develop, recommend, and maintain regulatory compliance policies and procedures.
- Ensure that the staff assigned to perform these duties have appropriate expertise and training.
- Provide the Board with appropriate reports that will enable it to monitor and evaluate regulatory compliance risk including incidents of non-compliance.

5.0 Standard 4 – Internal Control Structure

5.1 Objective

CU/Caisse must establish and maintain effective internal controls, and ensure these controls are reviewed and validated on a regular basis.

An effective internal control structure is comprised of the following key elements:

- Internal Control Environment and Internal Controls
- Audit Function

The internal control environment is the general attitude demonstrated by a cu/caisse's Board and CEO / GM in developing and maintaining an effective system of internal controls. The control philosophy of the cu/caisse, which is often referred to as the "tone at the top", sets the foundation for all other components of internal control, providing discipline, support, and structure.

Internal controls protect the business activities, information, and assets of a cu/caisse. They commonly take the form of processes, policies, and procedures, and are embedded into business activities to manage risk and to assign responsibility to all employees.

The audit function is an important means through which a cu/caisse can validate whether internal controls are effective and reliable. The audit function provides independent verification that internal controls are operating in a manner that contributes to the effective and prudent management of the cu/caisse.

5.2 Suggested Approach for Compliance

Internal Control Environment and Internal Controls

The internal control environment will vary, depending on factors such as size, complexity, structure, and level of risk.

An internal control environment should address the following:

- A governance structure that manages and controls business operations and risk.
- Effective communications, focusing on timely, relevant, accurate, and reliable information provided to all levels of personnel.
- A set of appropriate and effective internal controls, which support risk management principles.
- A comprehensive reporting function to provide the Board with validation that the business operations/risks are effectively controlled.

Board of Directors Responsibilities

- Establish an internal control philosophy that fosters an appropriate corporate culture.
- Support the development and management of effective systems for internal controls.
- Ensure internal control weaknesses are addressed.
- Ensure the internal control environment contributes to the cu/caisse's compliance with policies and regulatory requirements.

CEO / GM Responsibilities

- Set an appropriate "tone at the top" that reflects the importance of a robust internal control environment.
- Establish an appropriate organizational structure.
- Ensure the cu/caisse has appropriate, effective, and reliable internal controls that support:
    - Monitoring of operations
    - Segregation of duties
    - Approval authorities
    - Physical and IT safeguards
    - Accounting and record keeping
    - Reporting from information systems

- Ensure that appropriate internal control procedures for approved policies are documented.
- Communicate individual responsibilities for managing and controlling business operations.

- Educate employees regarding the purpose and benefits of internal controls and the importance of respecting and complying with internal control systems.
- Regularly monitor the effectiveness of the internal control environment and all internal controls.
- Provide the Board with accurate, timely, and reliable reports regarding the effectiveness of the internal control systems.

Audit Function

The audit function validates that the internal control environment and internal controls are appropriate and effective. The audit function comprises:

- Audit Committee
- Internal Audit
- External Audit

Atlantic Central issued **Risk Management Program Manual Guidelines** to provide supplementary guidance to the SSBP.

Audit Committee
The Audit Committee serves as the primary liaison between the Board and the internal and external auditors. The Audit Committee plays a key role in overseeing the integrity of management reporting, the mandate of the external/internal audit functions, and compliance with legal and regulatory requirements.

The Audit Committee has a functional reporting relationship with the external and internal auditors. It must review audit findings with the auditors, Board, and management.

The regulatory responsibilities of the Audit Committee are identified in *The Credit Union Act Regulations 1994, c4,s.91and also the Audit Committee Mandate.*

The Board should ensure that the Audit Committee has appropriate terms of reference that are regularly reviewed and describe its functional relationship with internal and external auditors. Audit Committee members cannot include the Board Chair and should be sufficiently independent and have appropriate expertise, as a whole, to perform their function.

Internal Audit
The role of the internal audit function is to evaluate the effectiveness of the internal control environment. The mandate of the function should be established in an internal audit charter. Every key process or significant business activity should fall within the risk assessment of the internal audit function.

The internal audit function should:

- Execute the mandate approved by the Board and Audit Committee
- Independently assess compliance with internal controls
- Implement an appropriate and consistent risk-focused framework and approach
- Provide recommendations to improve processes and internal controls
- Follow-up on all recommendations
- Have access to the Audit Committee including in-camera meetings
- Provide independent reporting to the Audit Committee and the Board
- Be independent from the operations under review
- Have adequate expertise, including qualified audit professionals, and access to sufficient financial and other resources as required

External Audit
External auditors provide an independent opinion on the cu/caisse's financial statements. In performing their audits, external auditors consider relevant internal controls but do not express an opinion as to their effectiveness. Specific duties of the external auditor are identified in *The Credit Union Act.*

Board of Directors Responsibilities

- Establish the mandate, responsibilities, duties, and authorities of the Audit Committee.
- Approve the mandate of the internal audit function through the internal audit charter.
- Ensure the internal audit function has a functional reporting relationship with the Audit Committee.
- Ensure sufficient resources are allocated to the internal audit function.
- Ensure the Audit Committee regularly reviews and approves the internal audit plan.
- Seek validation that internal controls are effective, and that appropriate action is taken to address significant weaknesses or failures.

CEO / GM Responsibilities

- Ensure the audit function has access to resources to evaluate the effectiveness of internal controls.
- Review audit findings and recommendations and ensure that identified weaknesses or failures are addressed.
- Ensure that the Board and Audit Committee receive appropriate audit reports and follow-up reports on actions taken to address weaknesses or failures.

6.0 Appendix I – Concepts and Support

This Appendix provides evidence of compliance with each Standard. Within each section, there are two forms of evidence:

- **Concepts**: actions to meet expectations under an element of a given standard.

- **Support**: list of documentation and other evidence that demonstrate compliance with a standard.

The concepts and support listed in this Appendix are not exhaustive or definitive. Rather, the Appendix is intended to help cu/caisse self-assess their compliance with the Standards.

6.1 Standard 1: Corporate Governance

Leadership

Concepts

- The Board's governance style is one of "delegating and monitoring" rather than "micro-managing".
- A list of qualifications, skill-sets, and experience for Board nominees are developed, often by a Board Nominating Committee.
- The Nominating Committee may seek out prospective Board members and inform them about their responsibilities as a Director.
- The Board is adequately informed about its responsibilities and accountability.
- The terms of reference of Board committees address the decision making powers and reporting requirements.
- The Board understands and approves the responsibilities and accountability assigned to the CEO / GM and to Senior Managers.
- The Board has the experience and competence to establish selection criteria for the CEO / GM. If necessary, external resources are obtained.
- The Board reviews the CEO / GM's contract and seeks legal or other professional advice.
- The Board establishes performance evaluation criteria for the CEO / GM.
- The Board understands acceptable business conduct and ethical behaviour for a cu/caisse and approves standards or policies for Board members and employees.
- Board members comply with business conduct and ethical behaviour policies.
- The Board understands its fiduciary responsibilities to cu/caisse members.
- Business conduct and ethical behaviour standards address matters that affect the reputation of the cu/caisse, such as conflicts of interest and adherence to governing laws and regulations.
- Employees are given a copy of the policies of business conduct and ethical behaviour when hired. There is a process for non-compliance.
- Conflict of interest is defined.
- Policies include rules governing the hiring of family members and friends of the Board, CEO / GM or other Senior Managers of the cu/caisse or subsidiaries.
- The Board establishes a budget for its work, including the professional development and training of new Board members.
- The Board has an adequate level of autonomy from the CEO / GM and other Senior Managers.
- The Board regularly holds in-camera meetings.

Support

- Succession plan for Directors and management
- Board approved ERM Policy and ERM process
- Support, including a budget, for the Board's professional development
- Appointment and terms of reference for committees along with regular reporting
- Defined roles for the Board and the CEO / GM
- Selection criteria and qualifications for Directors
- Formal selection criteria and hiring process for the selection of new CEO / GMs
- CEO / GM job description
- Board approved policy governing business conduct for Board
- Board approved policy governing the hiring of family members and friends of the Board, CEO / GM or other Senior Managers of the cu/caisse or subsidiaries
- Board approved policies governing employee business conduct and ethical behaviour
- Board approved policies governing management's ownership of private business interests
- Processes for dealing with non-compliance and conflicts of interest
- Records of in-camera meetings

Oversight

Concepts

- The Board oversees the cu/caisse's budget and its ongoing financial performance.
- The Board has the experience or support to assess the performance of the CEO / GM.
- The Board is satisfied that the performance evaluation criteria for the CEO / GM addresses the sustainable achievement of the cu/caisse's business objectives.
- The Board ensures that the CEO / GM has completed a formal performance evaluation of Senior Managers in the last 12 months.
- The Board is informed about issues in an appropriate and timely manner and uses a documented follow-up procedure to ensure that issues are resolved.
- The Board, CEO / GM and other employees are required to annually attest to their compliance with policies of business conduct and ethical behaviour.
- The Board is satisfied that the behaviour of the Directors, CEO / GM and Senior Managers comply with the policies of business conduct and ethical behaviour.
- The Board is satisfied that the cu/caisse's compensation programs are designed to attract and retain a qualified and competent CEO / GM and provide incentives to conduct business operations in a sound and prudent manner.
- The Board is informed if cu/caisse employees have business interests or investments that could be viewed as a conflict.
- The Board requires an annual attestation from the CEO / GM confirming compliance with regulatory and legislative requirements.

Support

- CEO / GM's annual performance reviews with measurable goals and objectives
- Reports or minutes with evidence of follow-up on CEO / GM's goals and objectives
- Clear and thorough Board minutes
- Regular policy reviews and approvals
- Thorough analysis and reports of financial results in Board package
- Minutes showing consideration and approval of CEO / GM proposals
- Calendar of Board activities or brought-forward lists showing Board follow-up activities
- Annual attestations by Board and CEO / GM of compliance with standards of ethical business conduct
- Board self-evaluations
- Annual budget
- Budget variance reports

6.2 Standard 2: Strategic Management

Corporate Vision, Mission, and Business Objectives

Concepts

- The Board establishes and periodically reviews the mission and vision statements.
- The Board and management are informed of current business and economic trends. This may include: engaging external resources, or attending conferences and training sessions.
- The CEO / GM establishes criteria to evaluate if the cu/caisse's is achieving its business objectives.

Support

- Board approved mission and vision statements
- Contracts with external resources, attendance at conferences, or training sessions
- Criteria for meeting business objectives

Strategic Plan

Concepts

- The Board and management hold annual strategic planning sessions.
- The Board integrates the results of its ERM process with the strategic planning process.
- The Board actively participates in the strategic planning process.
- The Board challenges the assumptions in the strategic plan.
- The strategic plan's objectives appropriately balance sustainable returns and growth with safety and soundness.
- The Board is satisfied with the plan's feasibility.
- The Board continually evaluates the progress of the strategic plan.
- The CEO / GM identifies and monitors the internal and external factors that may affect the strategic plan.
- The Board approves a budget that supports the strategic plan.

Support

- Formal strategic plan
- Progress reports on the strategic plan
- CEO / GM's business plan proposals
- Annual budget and operational plan that supports the strategic plan

6.3 Standard 3: Risk Management

Enterprise Risk Management

Concepts

- The Board defines a risk management philosophy and risk appetite and sets risk tolerances for key business and operational areas.
- The Board is satisfied that the ERM Policy and process provides relevant and timely reports and identifies all significant risks facing the cu/caisse.
- The ERM process assesses all identified or emerging risks and provides recommendations for managing those risks.

Support

- Board approved ERM Policy
- Risk management philosophy
- Defined risk appetite and risk tolerances
- Formal ERM process
- Regular reports to the Board

Human Resource Risk

Concepts

- The Board has approved a compensation philosophy and program that:
  - attracts and retains qualified staff
  - is competitive with that of other financial institutions
  - rewards good performance but does not encourage inappropriate risk-taking.
- The Board establishes and regularly reviews Human Resource Policies.
- Management and employees have access to appropriate training.
- The cu/caisse has an appropriate organizational structure with defined levels of responsibility and accountability.
- The cu/caisse has effective succession plans.
- The cu/caisse conducts periodic employee opinion surveys.

Support

- Board approved formal compensation philosophy
- Compensation program
- CEO / GM’s recommendations/proposals on compensation

- Analysis of other financial institution compensation programs
- Board approved Personnel and HR Policies
- Organizational chart
- Employee job descriptions
- Annual employee performance reviews
- Budget for employee training
- Documented levels of authority
- Succession plans
- Employee satisfaction surveys

Credit Risk

Concepts

- The Board establishes and regularly reviews Loan and Credit Concentration Policies.
- Staff responsible for lending are knowledgeable about loan policies and procedures and are given appropriate resources.
- The level of turnover in lending staff is manageable.
- The Board ensures that credit risk management practices and internal controls are prudent and appropriate, including:
    - A consistently applied internal loan risk rating system
    - Well understood regulatory risk weighting for specific credit products
    - Credit concentration limits that are adhered to
    - Lending limits that are adhered to
    - Established authority levels that are well understood and followed
    - Reporting that permits the Board to adjust credit risk strategies
- Reporting to the Board is timely, relevant and accurate to facilitate adequate oversight.
- A cu/caisse using alternative lending platforms or relying on third party service providers or intermediaries complies with NSCUDIC's **IT and Outsourcing Guidelines** and ensures compliance with the cu/caisse's loan policies.

Support

- Model Loan Policy and CUCM Manuals
- Board approved Loan and Credit Concentration Policies
- Credit granting philosophy and risk tolerances approved by the Board
- Requirements for training and expertise
- Credit Committee minutes
- Attestations of adherence to loan policies
- Approved and acknowledged credit granting authority limits
- Internal loan risk rating tools
- Credit submissions that facilitate appropriate decision-making
- Appropriate and timely reports to the Board or committees, including:
    - Monthly and quarterly reports such as:
        - Reports on overdrafts
        - Delinquencies
        - Allowance for doubtful accounts
        - Loan renegotiations and extensions
        - Loan exceptions
        - Director loans
            - Staff loans

        - Large dollar loans
        - Overdue loan reviews
        - Special purpose loans
        - Syndicated Loans
        - Loans declined or conditionally approved by AC Lending Services
    - Semi-Annual and Annual reports such as:
        - Syndications
        - Risk rating
        - Credit concentration
        - Demand loans
        - Loans recommended for write-offs
        - Assigned lending limits
        - Audit reports
        - Loan transaction review summary reports
        - Special lending products
        - Ad hoc reports as warranted (e.g. exposure to specific industries at risk, credit staffing issues including unusual turnover, reports on economic conditions)
- Effective internal audit of the credit process to assess the quality of new submissions and annual reviews.

CU/Caisse management should review periodic federal guidance on lending from the Office of the Superintendent of Financial Institutions (OSFI), e.g. *OSFI B-20: Residential Mortgage Underwriting Practices and Procedures*. This guidance provides good examples of prudent mortgage lending practices.

Asset/Liability Risks

1. Interest Rate Risk

Concepts

- The cu/caisse has sufficient resources, expertise, and training to develop and execute an interest rate risk strategy.
- The Board establishes and regularly reviews ALM/Interest Rate Risk Policies and sets risk appetites and risk tolerances.
- Interest rate risk management tools are used and are appropriate for the size, complexity, and level of risk of the cu/caisse.
- Management information systems provide accurate and timely data to allow for timely analysis and decision making.
- The Board receives reports that are timely, relevant, and accurate.

Support

- Board approved ALM/Interest Rate Risk \Policies
- Risk appetites and risk tolerances
- Appropriate interest rate risk management tools
- Assignment of responsibility for interest rate risk management
- Appropriate training for Board and staff
- Board reporting with accurate and timely information

Atlantic Central has released **ALM Guidelines** that provide supplementary guidance to the SSBP. Under the SSBP, all cu/caisse are prohibiting from purchasing derivatives for the purpose of speculation.

2. Capital Risk

Concepts

- The Board establishes and regularly reviews ALM/Capital Risk Policies.
- The Board is aware of legislated minimums for Capital Requirements.
- Capital targets that exceed legislated requirements and NSCUDIC's Intervention Guidance.
- The Board and CEO / GM ensure that capital risk is prudently managed, including ensuring sustainable growth.
- When approving operational decisions such as investments in subsidiaries or purchases of fixed assets and loan portfolio composition, the cu/caisse considers the impact on risk weighted capital.
- The Board considers whether its Capital Risk Policy creates member expectations for dividends, surplus share allocations, etc.
- The Board understands the importance of retained earnings as a form of capital.

- Capital/ALM risk management tools are used and are appropriate for the size, complexity, and level of risk of the cu/caisse. These tools comply with **ALM Guidelines**.
- The Board regularly reviews capital performance/trends measured against specific targets and strategic goals.
- The Board receives reports that are timely, relevant, and accurate.

Support

- Board approved ALM/Capital Risk Management Policies
- Risk appetites and risk tolerances
- Appropriate capital risk management tools
- Board reporting

3. Liquidity Risk

Concepts

- The Board establishes and regularly reviews ALM/Liquidity Policies.
- The Board understands legislated minimums for liquidity and expectations set out by NSCUDIC.
- The Board understands the risks of ineffective liquidity management in order to avoid shortfalls or inefficient use of excess liquidity.
- Liquidity is regularly monitored to ensure the cu/caisse meets short and long term operating needs.
- Deposit concentration risk is managed by ensuring sufficient diversity of liquidity sources/types and identifying potential alternative sources of funding.
- The Board is aware of the risks of relying on non-traditional sources (e.g. brokered, virtual, and wholesale deposits, securitization) and ensures this risk is managed.

- Liquidity risk management tools are used and are appropriate for the size, complexity, and level of risk of the cu/caisse.
- The Board understands liquidity risk exposures and funding capacity of Atlantic Central.
- The Board regularly reviews liquidity performance/trends measured against specific targets and strategic goals.
- The Board receives reports that are timely, relevant, and accurate.

Support

- Board approved ALM/Liquidity Risk Management Policies
- Liquidity targets
- Risk appetites and risk tolerances

- Appropriate liquidity risk management tools
- Board reporting

NSCUDIC has released Liquidity **Risk Management Requirements** that provide supplementary guidance to the SSBP.

4. Investment Risk

Concepts

- The Board establishes and regularly reviews an Investment Policy that considers strategic goals.
- The cu/caisse ensures that all investments comply with regulatory requirements and limits.
- The cu/caisse understands Atlantic Centrals role as the manager of statutory and excess liquidity investments and is aware of investment restrictions.
- The Board understands the impact of investments (including subsidiaries) on its operations and risk weighted capital.
- The Board receives reports that are timely, relevant, and accurate.

Support

- Board approved ALM/Investment Policies
- Risk appetites and risk tolerances
- Board reports
- Adequate support and analysis for investment proposals

5. Foreign Exchange Risk

Concepts

- The Board establishes and regularly reviews the ALM/Foreign Exchange Risk Policies and sets risk appetites and risk tolerances.
- The cu/caisse has appropriate limits regarding foreign currency holdings.
- Appropriate authority levels and limits have been established for personnel.
- The Board receives reports that are timely, relevant, and accurate.

Support

- Board approved ALM/Foreign Exchange Policies
- Documented levels of authority and limits
- Foreign exchange risk tolerances

Information Technology Risk

Concepts

- The Board establishes and regularly reviews IT Policies.
- The IT governance framework guides the cu/caisse's strategic direction and the Board's oversight of the IT function and environment.
- The Board is satisfied that information security is prioritized in compliance with the **IT and Outsourcing Guidelines**.
- General audits of the IT function, particularly information security controls, are performed on a regular basis in compliance with the **IT and Outsourcing Guidelines**.
- Management is monitoring and managing IT risks according to risk tolerances established by the Board using an ERM framework.

Support

- Board approved IT Policies
- Regular IT risk assessments
- A robust information security framework that includes information security controls.
- Internal audits that prioritize the review of information security controls
- Board reports including IT proposals, security reviews, and third party testing

Outsourcing Risk

Concepts

- The Board establishes and regularly reviews Outsourcing Policies.
- The cu/caisse retains responsibility for outsourced functions.
- Outsourcing activities do not subject the cu/caisse to undue risk and liability.
- Formal contracts and due diligence is mandatory for all material outsourcing arrangements.
- Disruptions to the third party service provider's business will not cause unacceptable business disruptions.
- Outsourcing risk has been considered and mitigated when appropriate.
- Mitigating risks from outsourcing of banking system functions is prioritized.

Support

- Board approved Outsourcing Policy that complies with the **IT and Outsourcing Guidelines.**
- Formal contracts for material outsourcing arrangements
- Reports or audits assessing the security, reliability and performance of the third party service provider

Fiduciary Risk

Concepts

- The Board establishes and regularly reviews Fiduciary Risk Policies.
- Procedures and controls ensure compliance with applicable laws and regulatory requirements for providing financial advice and services to members.
- Cu/Caisse employees are trained to meet their fiduciary responsibilities and are certified to meet regulatory requirements.

Support

- Board approved Fiduciary Risk Policy
- Documentation of appropriate employee training and certification
- Reports from regulatory bodies
- Reporting to Board on fiduciary issues

Business Continuity Risk

Concepts

- The Board establishes and regularly reviews Business Continuity plans or policies.
- The Board is aware of possible events or threats that could disrupt key business activities.
- The cu/caisse is prepared to respond to identified events or threats and has formal policies and procedures in place that are relevant and tested.

Support

- Board approved Business Continuity plans or policies
- Disaster recovery plans
- Regular testing and reports to the Board
- Back-up sites, files, and support

Regulatory Compliance Risk

Concepts

- The Board establishes and regularly reviews Regulatory Compliance Policies.
- The Board ensures that a regulatory compliance framework has been implemented.
- The Board is satisfied that the responsibility and accountability for overseeing compliance with regulatory issues has been properly assigned.

Support

- Board approved Regulatory Compliance Policies (e.g. FINTRAC, Privacy)
- Reports to Board on compliance
- Federal and provincial legislation (e.g. *The Credit Union Act,* PIPEDA)
- Published directives or guidelines from regulators (NSCUDIC, FINTRAC, etc.)
- Published manuals from Atlantic Central
- Documentation of appropriate employee training
- Internal audits, external reviews, or self-assessments including attestations for compliance

Communication or reports with regulators (e.g. FINTRAC reports, NSCUDIC exam reports, etc.)

6.4 Standard 4: Internal Control Structure

Internal Control Environment and Internal Controls

Concepts

- The Board is satisfied that its governance approach and control philosophy establishes an appropriate control environment.

- The Board is satisfied that sufficient and appropriate resources are allocated to control operations.
- The Board receives reports on internal control weaknesses and follow-up that is timely, relevant, and accurate.
- The organizational structure supports segregation of duties and ensures appropriate approval authorities.
- Employees understand the importance of internal controls to the safety and soundness of the cu/caisse.
- The Board is satisfied that effective policies help employees meet their responsibilities.
- The management style of the CEO / GM and Senior Managers encourage open communication about control issues.
- Employee performance expectations include compliance with internal control.

Support

- Formal organization chart
- Board policies governing internal controls
- Documented internal control procedures
- Periodic reporting to the Board on internal controls
- Documented authority levels and segregation of duties
- Evidence of employee understanding and support of internal controls

Audit Function

Concepts

- The Board is satisfied that management addresses control weaknesses identified by internal or external auditors and third parties.
- The internal audit function validates and assesses compliance with internal controls and risk management practices.
- The internal audit function takes a risk-based approach to auditing cu/caisse operations.
- Every key process or significant business activity falls within the risk assessment of the internal audit function.
- The internal audit function is independent from the operations under review and functionally reports to the Audit Committee and the Board.
- The internal audit function has the necessary expertise and staff receive appropriate training.
- The members of the Audit Committee have the necessary expertise or receive appropriate training.

Support

- Terms of reference for the Audit Committee
- Internal audit charter
- Internal audit plans
- In-camera meetings with the internal auditor and Audit Committee
- Internal audit reports
- External audit and third party reports
- Documented responses and follow-up of internal control weaknesses

7.0 Appendix II – CU/Caisse Committees

Section 90 of *The Credit Union Act* (Act) enables the Board to create committees of Directors and delegate to the committees any of the powers of the Directors.

The Act requires the cu/caisse to establish an Audit Committee.

7.1 Governance Considerations

The committee and governance structure will vary between cu/caisse based on their size, complexity, and level of risk.

The Board should ensure that terms of reference are established and reviewed regularly for each committee. Each committee should maintain minutes and report regularly to the Board.

In addition to the Audit Committee which is required by legislation, cu/caisse typically establish a number of committees, including: Executive Committee, Governance Committee, Human Resources Committee, Risk Committee, Nominating Committee, and various ad hoc committees.

8.0 Appendix III – Suggested CU/Caisse Policies

The following is a non-exhaustive list of policies that are suggested for cu/caisse:

- Board Governance Policies
- Loan (credit granting) and Credit Concentration Policies
- Personnel (human resources management) Policies
- Privacy Policy
- Whistleblower Policy
- FINTRAC or related compliance Policies (e.g. Anti-Money Laundering and Terrorist Financing Policy, FATCA)
- Fiduciary Risk Policy
- Information Technology Policy
- Membership Policy
- Communication Policy
- Outsourcing Policy
- Enterprise Risk Management (ERM) Policy
- Asset Liability Management (ALM) Policies
    - Interest Rate Risk Policy
    - Foreign Exchange Risk Policy
    - Capital Risk Policy
    - Liquidity Risk Policy
    - Investment Risk Policy
- Business Continuity Policies
- Disaster Recovery Policy