CREDIT UNION DEPOSIT GUARANTEE CORPORATION Alberta

Standards of Sound Business and Financial Practices (SSBFPs)

July 3, 2026

STANDARDS OF SOUND BUSINESS AND FINANCIAL PRACTICES

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INTRODUCTION

Standards of Sound Business and Financial Practices (SSBFPs) outline the leading practices and promote strong business operations and financial stability within financial institutions. These principles provide credit unions with a framework to guide and manage their organizations prudently and responsibly.

The SSBFPs use a number of defined terms which are included in the Glossary of Terms included just before the Appendices.

The SSBFPs are comprised of two parts: SSBFPs G-1 through G-14 deal with Corporate Governance and the Board of Directors' responsibility for overseeing risk management. SSBFPs M-1 through M-13 deal with the CEO and senior management's responsibility to implement effective risk management processes. Both the Board and management should understand all 27 SSBFPs.

An enterprise risk management model policy, which sets out the role of the Board and the role of management in the risk management process, is attached as Appendix B.

APPLICATION OF SSBFPS

The SSBFPs are to be applied to the credit union, each of its subsidiaries, and any other operating entity over which it exercises a measure of control. To support interpretation, each SSBFP is accompanied by Commentary and Points to Consider.
Although the SSBFPs were originally developed for credit unions, many of the practices are equally applicable to Central. Central is therefore encouraged to adopt and implement risk management policies, processes, and procedures that are informed by and aligned with the SSBFPs.

PURPOSE OF COMMENTARY AND POINTS TO CONSIDER

The Commentary, which accompanies each of the SSBFPs, discusses briefly the intent of the SSBFP and has been written to provide an overview of operating principles.
The Commentary are not intended to impose requirements in addition to the SSBFP. The examples are for the purpose of illustration only and may not include all risks that a credit union may incur. What is important is to identify the significant risks *your* credit union encounters in its business activities and to develop policies, procedures, and processes to manage those risks effectively.

The Commentary and Points to Consider are intended to promote thought and discussion. They are not strict requirements, nor are they checklists of criteria that, individually or collectively, determine whether a credit union is meeting the SSBFPs.

These two areas may be amended to provide further detail or clarification, as the need arises.

RATIONALE FOR THE SSBFPS

Risks are not uniform across credit unions as each is engaged in different business activities and operates with its own risk tolerance. Experience has shown that well-managed institutions with robust risk-management practices are less likely to encounter difficulties of the type, or to a degree, that could result in significant losses or regulatory intervention.

STANDARDS OF SOUND BUSINESS AND FINANCIAL PRACTICES

WHAT THE SSBFPS ADDRESS

The SSBFPs set out what are considered the best business and financial practices of financial institutions. They focus on enterprise-wide governance and management. They stress that while the responsibility for the quality of risk management processes, policies, procedures, controls and internal reporting belong to the CEO on a day-to-day basis, the ultimate responsibility rests with the Board of Directors.

The Governance SSBFPs (G-1 through G-14) address the responsibilities of the Board in directing and overseeing the activities of a credit union. The care, diligence, skill and prudence exhibited by the Board of Directors have a critical influence on the credit union's viability, safety and soundness, and its ability to execute its business strategy.

Good governance is not only essential to operating effectiveness; it is a best business practice. Studies show that financial institutions with good governance processes operate more effectively and respond more quickly to changes in the marketplace, and regulators increasingly recognize the relationship between good governance and overall risk management.

The Management SSBFPs (M-1 through M-13) focus on the CEO's responsibility to ensure the risk management processes, policies, procedures and controls necessary to manage operations and risks prudently are implemented. They also ensure the Board is provided with appropriate information to enable it to assess whether the responsibilities delegated to the CEO are being discharged effectively. Appropriate reporting requires the material to be timely, relevant, accurate andcomplete.

IMPLEMENTATION OF THE SSBFPS

Implementation of the SSBFPs is a self-regulatory exercise. However, section 144(e) of the Credit Union Act identifies one of the purposes of the Deposit Guarantee Corporation as assisting credit unions in averting or alleviating financial difficulties by advising on, and reviewing, their business practices. Credit unions are encouraged to manage on an enterprise-wide basis and to develop and implement risk management policies, processes, and procedures aligned with the SSBFPs. In assessing alignment with the SSBFPs, the credit union should also consider any operations conducted through subsidiaries that may have a significant impact on consolidated operations.

The SSBFPs are an interdependent set of principles, each of which is important in their own right. For example, strategic management must be coordinated with other areas, such as risk management and the management of capital, liquidity and funding, while considering corporate governance and the control environment.

ASSESSING APPLICATION OF THE SSBFPS

It is a sound practice for a credit union to be able to determine and demonstrate on an ongoing basis, that it is following sound practices. This determination should be a by-product of governance and management processes that assess whether processes, policies, procedures, controls, and internal reporting are appropriate, effective, and prudent in both design and application. These processes should also enable the CEO to consolidate results and conclusions for the Board of Directors.

In coming to its conclusion on whether the credit union is following the SSBFPs, a Board needs to assess its own effectiveness as well as understand and approve how the CEO identifies the significant risks and approves how they are addressed. This includes how significant risks are aggregated up through different levels of the credit union and reported to the Board of Directors.

Processes implemented by the CEO may include self-assessments conducted by individuals responsible for managing the institution's operations. These self-assessments should provide evidence that significant risks are being identified and addressed, that periodic validations are being performed competently by an independent inspection/audit function, and that any significant issues are being appropriately managed.

Typically, a Board's assessment of the CEO's assertions includes testing them against periodic observations received from other sources such as internal or external auditors and regulators.

In recognition of the importance of self-assessment, a Self-Assessment suggested approach has been included in Appendix D below. The key is not so much the format used, but the process of assessing whether practices are sound and being able to demonstrate (i.e. document evidentiary support of) alignment with the SSBFPs.

MAINTAINING THE SSBFPS

The SSBFPs will be reviewed periodically to ensure they reflect recent experience, changes in the industry, risks or techniques of risk management.

G-1: UNDERSTAND AND FULFILL RESPONSIBILITIES
It is sound business and financial practice for the Board of Directors to understand its responsibilities and evaluate objectively, on a regular basis, its effectiveness in fulfilling those responsibilities.

Commentary:

Legislation and the common law create the responsibilities and accountability of directors, such as duty to exercise due diligence and to avoid self-dealing. Legislation is not limited to the Credit Union Act and Regulations but also includes the Loan and Trust Corporations Act, Consumer Protection Act, Personal Information Protection Act (PIPA), as well as others. Every transaction and line of business a credit union engages in is governed by some form of legislation.

The SSBFPs do not modify these requirements. They are founded on the principle that directors have fiduciary responsibility to the credit union and must act in the best interests of members and customers collectively. To ensure responsibilities are clearly understood and communicated, each Board should develop a written charter and provide it to all Directors. An annual review would provide an opportunity for ensuring ongoing understanding.

Directors are responsible for providing direction and oversight and ensuring that all significant issues affecting the credit union are given careful consideration. Each Board member needs to clearly understand he is accountable to one body and that is the credit union. Individually, he has no authority. All authorities lie with the Board as a whole. Directors have an obligation to act in the best interests of the credit union as a whole, at all times.

Directors need to take reasonable steps to ensure that they understand their responsibilities. Understanding can be gained through training programs such as the Credit Union Director Achievement Program and others offered by organizations such as the Institute of Corporate Directors.

A Board of Directors needs to periodically assess its effectiveness in exercising its responsibilities. A number of practices may assist a Board in doing so objectively. For example, many Boards review on a regular cycle:

- the qualifications, knowledge, experience, understanding and commitment required by directors to effectively fulfill the Board's responsibilities;
- whether there is an appropriate Board structure (including Board committees), and an appropriate composition of directors to effectively fulfill the Board's responsibilities;
- the processes for setting Board agendas and priorities;
- whether significant issues relevant to the Board's responsibilities are brought to its attention in a timely manner and dealt with promptly and effectively (ongoing use of a Board calendar may be useful in this endeavor);
- whether directors have adequate opportunity for open discussion, questions and follow-up;
- the quality (relevance, accuracy and completeness) of the information and materials provided to the Board in order to facilitate its deliberations.

Points To Consider

1. Has the Board documented its roles and responsibilities in aCharter?
2. Is the Board satisfied with the means by which the directors are made aware of their responsibilities and accountability? Is a program in place to orient new directors and provide ongoing training?
3. Is the Board satisfied that it is adequately informed about its responsibilities and accountability?
4. Does the Board understand the required mix of qualifications, knowledge, experience and commitment to effectively fulfill its role?
5. Does the Board structure (including the composition and mandate of committees) facilitate the proactive flow of information about significant issues to the Board?
6. Does the Board have a process in place to ensure all its required duties are met (e.g. annual calendar) and outstanding issues are resolved to its satisfaction?
7. Is the Board satisfied with the manner, frequency and timeliness with which significant issues are brought to itsattention?
8. Do directors have adequate opportunities for discussion, questions and follow-up in dealing with significant issues?
9. Does the Board have a process to ensure effective continuity/succession of Board members?

G-2: EXERCISE INDEPENDENT JUDGMENT
It is sound business and financial practice for the Board of Directors to exercise independent judgment in directing and overseeing the business of the credit union.

Commentary

Effective governance requires a high level of co-ordination and co-operation between a credit union's Board and its CEO. It is the Board's duty to direct and oversee a credit union's business and affairs. When a Board becomes involved in the daily operations of a credit union, it relinquishes the right to hold management accountable for the results. This necessitates that directors exercise prudent and independent judgment and requires that a Board understand the credit union's:

- business activities;
- risk profile;
- business, regulatory and legal environment in which it operates;
- ensurethat significant issues receive proper consideration; and
- regularly review operating and financial performance against expected results.

Regulatory oversight and independent external audit do not relieve the Board of Directors from exercising independent judgment in directing and overseeingoperations.

Examples of how Boards facilitate independence include:

- engaging the external audit function, setting the scope of the audit
- overseeing the internal audit function, following up to ensure deficiencies are appropriately remedied
- deliberating on some matters in the absence of senior management personnel (e.g. meeting with auditors independent of management, in-camerameetings);
- appointing a committee of directors to propose nominees and ensure orientation/training for directors;
- appointing a committee to assess the Board's performance on an ongoing basis; and
- establishing a policy enabling directors to engage independent advisors, in appropriate circumstances, with the appropriate approval, at the credit union'sexpense.

Points To Consider

1. Does the Board have an adequate sense of autonomy from the CEO and other senior management?
2. Does the Board pursue matters to their conclusion (e.g. ensure delegated responsibilities have been executed)?
3. Can the Board demonstrate the exercise of independence through consistent constructive questions directed to the CEO?
4. Does the Board have an independent evaluation process to regularly and objectively assess its effectiveness, efficiency and independence?
5. Does the Board have a policy regarding the engagement of independent advisors to assist its deliberations, in appropriate instances?
6. Does the Board regularly deal with matters of strategic importance and not focus on process or mundane issues?

G-3: ESTABLISH BOARD COMMITTEE & CHIEF EXECUTIVE OFFICER'S RESPONSIBILITIES AND ACCOUNTABILITY

It is sound business and financial practice for the Board of Directors to:

(a) establish the responsibilities and authority of Board committees, including their accountability requirements;
(b) establish the responsibilities, authority and accountability requirements of the Chief Executive Officer (CEO);
(c) understand the responsibilities and authorities and accountability requirements delegated by the CEO.

Commentary

A Board of directors may appropriately discharge many of its responsibilities by delegation to Board committees or the CEO. Board committees mandated by legislation are:

- one or more credit committees
- an audit committee and a finance committee
- OR an audit and finance committee

In delegating responsibility, a Board of Directors needs to ensure there exists a clear understanding of the responsibilities of the Board, Committees and the CEO, their decision- making authorities and their accountability. This requires the development and regular review of committee Terms of Reference and the CEO Position Description. Delegation does not relieve directors of their ultimate duty and responsibility. A Board also requires timely and complete information about the actions of those to whom it delegates responsibility, in order to assure itself that those people act prudently and appropriately, and that delegated responsibilities have been executed.

Points To Consider

1. Has the Board documented the responsibilities and limits of authority for the committees (Terms of Reference) and the CEO (Position Description); are they updated periodically?
2. Do the Terms of Reference of Board committees and the CEO address their decision- making and delegation powers (including any limitations)?
3. Has the Board clearly communicated and defined its information requirements and reporting expectations related to the oversight of delegated responsibilities?
4. Are matters deliberated on by its committees reported to the Board in a timely manner and as required in legislation?
5. Has the Board set in place a process to ensure Board committees are meeting their responsibilities?

G-4: SELECT THE CEO

It is sound business and financial practice for the Board to:

(a) appoint a CEO who is suitably qualified and capable of managing the operations of the creditunion;

(b) plan for the succession of the CEO;

(c) require the CEO to provide assurance there are succession plans in place for critical senior management positions.

Commentary

The selection of the CEO is a vital Board responsibility, and the process must be a rigorous one, engaging the Board fully. Although a committee and/or outside assistance may be delegated responsibility for the initial search and screening, the final decision must be made by all directors of the Board. The CEO translates Board direction into day-to-day business activities. A Board needs to select a CEO who is competent and has the integrity to act in a prudent and appropriate manner.

Qualification relates to such things as relevant education, training and experience. Competence is a question of perceived ability and integrity. Ability typically is assessed in terms of past performance and accomplishments and expected future performance. Integrity is a question of honesty and sincerity, encompassing all aspects of judgment and conduct.

The CEO has ultimate senior management accountability to the Board of Directors. The CEO informs the Board of the selection of other senior managers. The CEO defines the duties, objectives and limits of authority of the members of management, assesses management performance and proposes a succession plan.

The development of a succession plan to address the retirement, resignation or loss (including temporary incapacity) of the CEO, and other key senior management personnel is critical to ensuring that the institution will continue to have adequate senior management capacity.

Points To Consider

1. Does the Board have the experience and ability to establish the criteria for the selection of the CEO? Is the engagement of an outside advisor to assist the Board prudent?
2. Are there up-to-date statements of qualification and position descriptions for the CEO and other key positions?
3. Does the statement of qualifications and the position description for the CEO dovetail with the Strategic Plan?
4. Does the Board have an effective process to assess the performance of the CEO; has the Board established performanceevaluation criteria?
5. Does the Board review the annual report provided by the CEO that comments generally on the quality, competency, and experience of seniormanagement?
6. Does the Board understand the responsibilities and accountability assigned to other senior management personnel?
7. Is a succession plan for the CEO and other key senior management personnel up-to- date? Is the Board provided with an annual update of the readiness of key personnel to fill in?
8. Are policies in place to ensure the Board, or executive committee are informed of a decision by the CEO to terminate a manager who reports directly to the CEO, (including at what point the Board is to be advised)?

G-5: EVALUATE THE CEO
It is sound business and financial practice for the Board of Directors to evaluate, on a regular basis, the effectiveness of the CEO in managing the operations of the credit union in accordance with the strategic and business objectives and managing the risks to which the credit union is exposed.

Commentary

Although the Board of Directors depends on the CEO's expertise to run the credit union's day-to-day activities, the Board remains ultimately responsible for monitoring and assessing the CEO. The Board needs to take reasonable steps to ensure that the CEO's performance is consistent with the Board's expectations as set out in the business and strategic plans, through regular performance evaluations.

Regular evaluation of performance enhances the accountability of the CEO to the Board and facilitates the Board demonstrating that it is overseeing the CEO's actions.

Points To Consider

1. Has the Board established performance assessment criteria for the CEO consistent with the objectives established in the credit union's strategic and business plans?
2. Are performance criteria aligned with delegated responsibilities and accountability of the CEO
3. Is the Board satisfied that those criteria are aligned with the sustainable achievement of the credit union's strategic and business objectives and provide incentives to conduct the operations in a sound and prudent manner?
4. Is the Board satisfied that the criteria for the assessment of the CEO are applied competently and objectively?
5. Has the Board completed an assessment of the CEO or received a committee report assessing the CEO during the last twelve-month period?
6. Is the engagement of an outside advisor to assist the Board in this performance process prudent?
7. Has the assessment been shared with the CEO?

G-6: REVIEW COMPENSATION

It is sound business and financial practice for the Board of Directors to satisfy itself, on a regular basis, that compensation plans are competitive and assist in providing proper incentives to management and staff to:

(a) act in the best interests of the credit union to achieve its business objectives
(b) provide for the prudent management of operations
(c) ensure adherence to processes, policies, procedures and controls
(d) avoid inappropriate risk-taking practices.

Commentary

Appropriate compensation plans assist in providing proper incentives for management and staff to act in the best interests of the credit union and to achieve its business objectives while avoiding inappropriate risk-taking practices. Compensation may include salaries, bonuses, pension contributions and other benefits such as life, disability, dental, vision, insurance plans etc.

The Board needs to satisfy itself that compensation plans support the achievement of business objectives without compromising the ongoing viability, solvency or reputation of the credit union. Special care must be taken regarding bonus or incentive programs. Independent advice may be necessary to provide expertise for more complex issues and/or significant changes to existing approaches.

Points To Consider

1. Is the Board satisfied that the compensation plans are designed to attract and retain qualified and competent individuals?
2. Are compensation plans reviewed regularly to ensure they remain market competitive?
3. Do the compensation plans suitably reflect the responsibilities of these positions?
4. Does the Board understand the compensation plans of suitable peer institutions which may include credit union and other financial institutions?
5. Is the Board satisfied that any performance-based compensation plan rewards sustained, superior performance in absolute terms and relative terms against a suitable peer group?
6. Does any performance-based compensation plan appropriately reflect factors related to the individual's contribution to the achievement ofobjectives?
7. Does the compensation plan assist in providing proper incentives for management and staff to act in the best interests of the credit union and to avoid inappropriate risk-taking?
8. Is the engagement of an outside advisor to assist the Board in compensation matters prudent?

G-7: ESTABLISH SOUND BUSINESS CONDUCT AND ETHICAL BEHAVIOR POLICIES & PRACTICES

It is sound business and financial practice for the Board of Directors to:

(a) Establish sound business conduct and ethical behavior policies and practices for the Directors, senior management and other personnel, and obtain, on a regular basis, reasonable assurance that the institution has an ongoing, appropriate and effective process for ensuring adherence to those policies and practices as referred to in the SSBFP *M-12: BusinessConduct and Ethical Behavior*,

(b) establish policies and processes that are communicated to all personnel and provide for anonymous and confidential access to the Board or committee of the Board, to report matters of serious concern regarding the operations of the credit union.

Commentary

A reputation for sound ethical behavior and appropriate business conduct is vital to obtaining and retaining the confidence of members and other stakeholders. Because credit unions are stewards of member assets, they must gain and maintain public confidence to remain viable.

Setting SSBFPs of conduct and behavior clarifies the credit union's expectations of its directors, management and staff. SSBFPs provide guidance to assist directors, management and staff in making decisions that are consistent with those expectations. Boards should consider the need for additional specialized SSBFPs for individuals who may have special duties and responsibilities as a result of the nature of their work (such as those involved in purchasing or in the credit, investment and treasury functions). As well, the Board must document proper processes for the handling of transactions defined in legislation as "related party" to ensure proper conduct of the related parties, proper handling of the transactions, and compliance.

When coupled with a means of monitoring and assessing compliance, SSBFPs of conduct can create conditions that promote sound ethical behavior, provide a means of alerting the credit union to potential problem areas and form an important element of an effective control environment. Periodic review of the SSBFPs also assists in providing assurance that they are appropriate and comprehensive.

Whistleblower Protection Policy

One means of ensuring alignment with this SSBFP is to ensure appropriate policies, processes and procedures are in place and communicated to all personnel that provide for anonymous confidential access to the Board, a committee of the Board, or a third party (such as legal counsel) to report matters of serious concern. This is commonly referred to as a whistleblower protection policy.

It is imperative that this policy:

- identify the nature of complaints to be handled in this manner (may include reporting of improper accounting, internal accounting controls or auditing matters, or other alleged or suspicious activities of a serious nature, including complaints of retaliation);
- prohibit management from interfering with the right of an employee to bring forward a serious concern;
- prohibit management from retaliating against an employee for having brought forward a serious concern.

It may be appropriate for the policies to provide for the reports to be directed to an audit function or another independent party for initial review prior to the Board's decision as to appropriate action to be

taken. It may also be appropriate for the policy to provide for management to deal with matters raised that do not involve them directly or indirectly.

Related Party Provisions

The Credit Union Act contains comprehensive legislation on non-arm's length transactions. Policies and procedures must contain direction relating to these transactions as defined in the Credit Union Act and Regulations. Policies and procedures must contain, at minimum:

- definition of a related party and relevant transactions
- prohibitions relevant to these transactions (including approval/review, pricing)
- disclosure requirements

The Board is responsible for ensuring its conduct sets the tone for the organization and is above reproach.

For further discussion on this topic, see SSBFP M-12 Business Conduct and Ethical Behavior.

Points To Consider

1. Has the Board documented what constitutes acceptable business conduct (including policies and procedures regarding related party provisions) and ethical behavior for a deposit-taking institution with fiduciary responsibility?
2. Do the SSBFPs of business conduct and ethical behavior address matters that are important to the reputation of the institution (such as conflicts of interest, confidentiality, and adherence to governing laws and regulations)?
3. Has the Board implemented a process to ensure that the behavior of directors complies with the policies of business conduct and ethical behavior? Is acknowledgement by directors documented annually? Does this include declaration of, and compliance with, related party provisions?
4. Has the Board identified positions that have special duties? Is the Board satisfied that (where appropriate) additional specialized SSBFPs have been established for individuals who have special duties?
5. Does the Board understand the practical implications of its SSBFPs?
6. Is the Board satisfied with the means and frequency (generally annually) with which it obtains reasonable assurance that the behavior of individuals complies with the institution's SSBFPs?
7. Are appropriate policies, processes and procedures in place and communicated to all personnel that provide for an anonymous confidential reporting process (commonly referred to as Whistleblower)? Do these ensure the protection of legitimate reporters, including the Board's oversight as to the final resolution?

G-8*: OVERSEE STRATEGIC MANAGEMENT*

It is sound business and financial practice for the Board of Directors to:

(a) establish the business objectives of the credit union, consider and approve the business strategy and business plans for significant operations, and review those at least once a year to ensure that they remain appropriate and prudent in light of current and anticipated business and economic environment, and resources;

(b) evaluate frequently actual operating and financial results against forecast results, in light of the credit union's business objectives, business strategy and business plans;

(c) obtain on a regular basis reasonable assurance that there is an ongoing, appropriate and effective strategic management process as referred to in SSBFP *M-1: Strategic Management Process*.

Commentary

Business objectives are the short-term and long-term operating and financial goals of the credit union. They provide the parameters for establishing a business strategy and plan, and for assessing the effectiveness of the credit union's actions and of management's performance. A business strategy is a description of how a credit union plans to achieve its business objectives. Business plans describe how it intends to conduct particular operations in implementing its business strategy.

The Board of Directors is ultimately responsible for establishing a credit union's business objectives and for ensuring there is an appropriate strategy and plans (including resources and operational capabilities) to achieve these objectives.

Periodic assessments of the business objectives, strategy and business plans ensure they are appropriate and can reasonably be expected to remain so. The evaluation of financial performance in relation to the business objectives, strategy and plans provides a means for confirming the appropriateness of the strategic direction and effectiveness in implementing the strategies and plans, and for evaluating management performance. It may be prudent to include an independent review where appropriate.

The nature, extent and frequency of assessment should be appropriate to the circumstances. Among others, these may include:
business environment, including competitive developments, market position, market image, member perception, changes in business or economic conditions, demographics, or legal and regulatory requirements;

- business strategy, including the nature, size, diversity and complexity of business activities or the introduction or discontinuance of major business activities;
- performance, including the quantity and sustainability of net income or the occurrence of significant losses or changes in earnings (in a business line or overall, in the credit union's operations). This may include independent evaluation of performance (e.g. regulators, external audit, etc.).
- experience and depth of senior management;
- confidence in the accuracy and reliability of information provided to monitor and evaluate the credit union's operations.

A strategic management process provides the mechanism through which business objectives, strategies

and plans can be established.

For further discussion on this topic, refer to SSBFP M-1 Strategic Management Process.

Points To Consider

1. Is the Board satisfied that it is allocating sufficient time for the consideration and oversight of the credit union's business objectives and business strategies? Has the Board approved the strategic and annualbusiness plan?
2. Is the Board satisfied it is focusing on the business objectives and strategies and not on the process or peripheralissues?
3. Has the Board developed an Information Technology (IT) strategy that aligns with business objectives and strategies? Does it consider the security of information as well as efficiency, effectiveness, confidentiality and integrity of the systems implemented? Does it also ensure that the credit union's usage of IT assets follow fair trade practices and undesirable activities such as use of unauthorized software are discouraged?
4. Has the Board obtained assurance that technology processes are pan–enterprise in nature and not disjointed across business functions?
5. Do the business objectives appropriately balance the desire for sustainable returns and growth and the need for safety and soundness?
6. Is the Board satisfied that the business strategy will result in value-added benefits (in terms of risk and reward) and is achievable?
7. Is the Board measuring the right indicators of success and receiving the right information to enable it to evaluate financial performance and progress in achieving the business objectives?
8. Is the Board satisfied that the frequency of strategic performance review and evaluation fits the nature of the credit union's business objectives and business strategy? A high-risk strategy would require a more frequent review andevaluation?
9. Has the Board confirmed that management has a plan to periodically conduct risk assessments of the credit union's use of information technology, including internal systems and processes, outsourced services, and the use of third-party communications and other services? Are the results of the assessments acted on as appropriate and does the Board receive adequate reporting on identified risks?
10. In activities involving outsourcing, has the Board assured that contracts are reviewed in a manner that safeguards the interests of the credit union and contract clauses are in accordance with the applicable laws? Is the authority for signing contracts properly delegated and authorized?

G-9: OVERSEE RISK MANAGEMENT

It is sound business and financial practice for the Board of Directors to:

(a) develop and adopt a Risk Management Policy;
(b) understand significant risks to whichthe credit union is exposed;
(c) understand and assess the credit union's ability to accept risk;
(d) establish appropriate and prudent risk management policies for those risks, including policies referred to in SSBFPs M-2 to M-13, as applicable;
(e) review those policies at least once a year to ensure that they remain appropriate and prudent;
(f) obtain, on a regular basis, reasonable assurance that there is an ongoing, appropriate and effective risk management process as referred to in SSBFP M-2 and that policies for significant risks are being adhered to.

Commentary

It is critical for a credit union to proactively identify and understand the significant risks it faces in achieving its business objectives through its business strategy and plans, and to demonstrate appropriate, effective and prudent management of these risks. Understanding the significant risks is fundamental to establishing a prudent business strategy and risk management policies, procedures and controls. The development of a Risk Management Policy will outline the credit union's approach to risk management and will outline the risk management responsibilities of the Board and management.

It is critical for the Board to understand and assess the credit union's financial capacity to accept risk prior to approving Risk Management Policies. The more complex the credit union's business model (e.g. alliances, joint ventures, subsidiaries, partnerships, etc.), the more difficult and also important it becomes for the Board to assess the risks. Outside expertise may be required for an effective assessment.

An ongoing awareness of the significant risks puts the Board of Directors in a position to critically assess the credit union's business strategy and plans. This enables the Board to promote a healthy risk awareness culture in the credit union. Regularly obtaining reasonable assurance there are appropriate and effective risk management processes that enable the Board to satisfy itself the credit union is in a position to proactively identify, assess, manage and demonstrate control of significant strategic, business and process level risk.

Reputation risk is a consequence of failure to manage other risks. Reputation is considered to be one of the most important factors in determining the level of confidence in a credit union and can be affected by not only the failure to manage the credit union's own risks effectively but the failure of others (contagion risk). Reputation and brand value are credit unions and the credit union system's greatest assets. Issues having positive or negative impact on reputation and brand value therefore should be carefully considered in assessing significant risks.

Points To Consider

1. Has the Board developed and adopted a Risk Management Policy Statement?
2. Has the Board ensured the presence of an integrated Enterprise Risk Management framework?
3. Is the Board satisfied it understands the credit union's financial capacity to accept risk?
4. Is the Board satisfied with the manner and frequency with which it is provided with an understanding about the credit union's significant risks (at the strategic, business and process level)?
5. Is the Board satisfied there are policies identifying the managers and staff responsible for managing the significantrisks?
6. Does the Board understand the policies, procedures and controls used to manage significant risks?
7. Are issues having a positive or negative impact on reputation and brand value carefully considered in the Board's assessment of the risk management process? Specifically, does the Board ensure a well-defined member communication process, including but not limited to publishing periodic member awareness on fraudulent practices such as phishing and social engineering attacks and their mitigation measures.
8. Does the Board ensure consistency in the modes of communication, including content posted on the credit union's website, advertisements, product and service brochures, transparency in charges and member complaint handling methods.
9. Is the Board satisfied that information provided to it about the overall risk profile is timely, relevant, accurate andcomplete?
10. Is the engagement of an outside advisor to assist the Board and management in working through a risk identification processprudent?

G-10*:* REPEALED AND REPLACED BY LIQUIDITY ADEQUACY STANDARDS (JUNE 2026)

G-11: OVERSEE CAPITAL MANAGEMENT

It is sound business and financial practice for the Board of Directors to:

(a) understand the capital needs of the credit union including the statutory requirement to maintain minimum levels and the underlying rationale and basis for calculating the minimum regulatory capital as set out in the *Credit Union Act and Regulations*;

(b) establish appropriate and prudent capital management policies considering significant operations, including policies on the quantity and quality of capital needed to support the current and planned operations and that reflect both the risks to which the credit union is exposed and its regulatory capital requirements;

(c) review those policies once a year, or more frequently if necessary, to ensure that they remain appropriate and prudent;

(d) obtain, on a regular basis, reasonable assurance that the institution has an ongoing, appropriate and effective capital management process as referred to in SSBFP M-9 : Capital Management and that the policies are being adhered to.

Commentary

Capital performs a number of important roles. It provides a necessary financial resource to support operations and acts as a safety net against unanticipated losses. It provides members/depositors and potential members with a means of measuring financial performance and return. The quantity and quality of capital is an important factor considered by regulators and others when assessing the safety and soundness of a credit union. A strong capital position is financial strength and engenders confidence.

Understanding a credit union's capital needs and obtaining reasonable assurance that the capital management process is appropriate and prudent enables the Board to satisfy itself that the credit union is in a position to identify, measure, monitor and manage its capital requirements and that the credit union's capital is being optimized. Additionally, the Board must ensure compliance with the Credit Union Act and Regulations, as it relates to redemption of shares and distribution of retained earnings.

For further discussion on this topic, refer to SSBFP M-9: Capital Management.

Points To Consider

1. Has the Board set appropriate and prudent capital management policies, including policies on the quality and quantity of capital needed to support the credit union's current and planned operations, and its risk profile, understanding that legislated capital requirements represent only a minimum?
2. Does the credit union have a capital plan?
3. Does the Board understand the regulatory capital requirements?
4. Does the Board understand the difference between regulatory capital requirements and additional capital requirements?
5. Does the Board understand the capital implications of new business prior to implementation of a new initiative? Are the capital implications of existing a business initiative considered?
6. Where applicable, does the Board understand the implications for capital requirements of operations conducted through subsidiaries (including legislated requirements)?
7. Is the Board aware of the potential sources of additional capital? Is the Board satisfied that the new capital would be available if required?
8. Is the Board satisfied that information provided to it about the capital management process and capital position is timely, relevant, accurate and complete?
9. Does the Board understand the impact of discretionary annual distributions (dividends and patronage) on the credit union's capital position? Does the Board approve the distributions?

G-12: AFFIRM INTERNAL CONTROL ENVIRONMENT
It is sound business and financial practice for the Board of Directors to support and encourage effective systems for internal control within the credit union. The Board must also obtain, on a regular basis, reasonable assurance that the credit union has a control environment (as referred to in SSBFP M-11: Control Environment) and be alert for signs that controls may be deteriorating.

Commentary

The credit union's control environment is created by its governance approach, management style, organizational structure, resource commitments, communication style and adherence to effective procedures and controls. The control environment is also created by the conduct of personnel and human resources policies and practices.

The control environment has a pervasive influence on risk management and control behavior of personnel. When a control environment is appropriate and effective, the likelihood of exposure to unwanted risk is reduced.

The Board must understand and ensure control shortcomings that are identified by internal or external sources such as regulators and auditors are addressed.

For further discussion on this topic refer to SSBFP M-11 Control Environment.

Points To Consider

1. Is the Board satisfied that its governance approach and control philosophy help establish an appropriate controlenvironment?
2. Does the management style of the CEO and other senior management support the open flow of information to all levels in the credit union about the management of operations and the management of risks and the related controls?
3. Is the Board satisfied that the organizational structure facilitates enterprise-wide, coordinated management?
4. Is the Board satisfied that the credit union has a sufficient number of resources (e.g. people, information, technology, financial, etc.) to manage its operations and risks?
5. Is the Board satisfied that information communicated to it about any significant weaknesses or breakdowns is timely, relevant, accurate and complete?
6. Does the Board ensure that the CEO corrects identified control weaknesses?

G-13: OVERSEE THE INDEPENDENT INTERNAL AUDIT FUNCTION

It is sound business and financial practice for the Board of Directors to:

(a) establish the mandate, responsibilities, duties and authorities of the Audit Committee, including the responsibilities and duties mandated in legislation;
(b) establish the mandate of the independent internal audit function, which includes providing the function with direct access to the Audit Committee;
(c) ensure sufficient resources are allocated to the function, and annually approve its plan and review its effectiveness each year;
(d) seek from the function, on a regular basis, validations that the credit union's processes, policies, procedures and controls are being monitored and adhered to, and that appropriate action is being taken to address any significant weaknesses or breakdowns that have been identified.

Commentary

The independent internal audit function is an important means through which a Board can objectively validate whether the credit union's processes, policies, procedures and controls are being adhered to.

It is important that the internal audit function reports to the Audit Committee on their findings and is not obliged to discuss their findings first with management. The function may in their sole discretion report their findings to management and generally the results of audits are provided to management prior to the reports being provided to the Audit Committee. An emerging best practice is to have the internal audit function report directly to the Audit Committee.

The independent internal audit function is distinct and separate from the management of operations. The function does not have responsibility for establishing or maintaining processes, policies, procedures and controls other than in their own internal area however, it may bring forward recommendations for improvements to minimize exposure and/or maximize effective use of resources. It is responsible for providing the Board and senior management with independent assurance that processes, policies, procedures and controls reviewed by the group are appropriate and have been applied competently and with integrity.

Internal audits can be performed using internal resources or be carried out by external parties, depending on the size and/or complexity of the credit union. The effectiveness of the internal audit function depends on:

- independent reporting to the Board and senior management;
- a mandate (objectives, responsibilities and accountability) that is appropriately aligned with the needs of the Board and senior management to obtain independent reviews of the adherence to its policies, processes, and controls;
- independence from operations under review;
- sufficient financial and other resources (including qualified and competent people);
- an appropriate risk-focused framework and approach that is applied consistently.

The objectivity of the internal audit function is vital to its effectiveness. Regular in-camera access to the Audit Committee by the function, facilitates obtaining assurance the function can and does act independently and ensures significant findings are reported to the Board and that necessary corrective actions are taken.

Objectivity is important as significant reliance may be placed on the work of this group by external auditors and regulators. The extent of reliance usually is derived from an evaluation of the quality, reliability and independence of the function. The reliance of others on the work may also assist the Board in satisfying itself with the appropriateness of the function's mandate, resources and work plans and in evaluating the group's performance.

For further discussion on this topic refer to SSBFP M-11 Control Environment.

Points To Consider

1. Are policies in place to ensure the Audit Committee concurs with a decision of the CEO regarding the appointment of, or change to, senior personnel in the Internal Audit Function? Does the Audit Committee review and/or approve the budget allocated to internal audit to ensure sufficient resources for the function?
2. Are policies and processes in place to permit the internal audit function to raise matters of concern directly and in-camera with the Audit Committee?
3. Does the independent internal audit function have a risk-focused approach to the planning and execution of its audits?
4. Has the Board obtained reasonable assurance from external sources that the internal audit function is competently resourced and that it conducts its work in a disciplined and consistent manner?
5. Does the Audit Committee regularly evaluate the effectiveness of the internal audit function in fulfilling its mandate and provide a report to the Board and the CEO on their evaluation?
6. Is the Board satisfied that the internal audit function has complete access to the operations and the cooperation of the individuals within the operations?
7. Is the Board satisfied with the nature, frequency, timeliness and objectivity of reports it receives from the internal audit function?
8. Is the Board satisfied that the conclusions and recommendations of the internal audit function are dealt with in an appropriate and timely manner?
9. Has the Board considered the emerging best practice of internal audit function groups reporting directly to the Audit Committee?

G-14: ENSURE THE INSTITUTION IS "IN CONTROL"
It is sound business and financial practice for the Board of Directors to obtain, on a regular basis, reasonable assurance that the credit union is in control.

Commentary

An institution is "in control" when it can demonstrate that:

- its operations are subject to effective governance by its Board,
- its operations are being managed and are aligned with ongoing, appropriate and effective strategic, risk, liquidity, funding and capital management processes,
- its operations are being conducted in an appropriate control environment;
- significant weaknesses or breakdowns related to those matters are being identified, and appropriate and timely action is being taken to address them.

A credit union need not be "perfect" to be "in control". Rather, it must know what significant issues need to be addressed and be able to demonstrate that they are being meaningfully addressed. This provides confirmation to the Board and other interested parties that the credit union is managed proactively rather than reactively.

The effectiveness of the process for ensuring control can be enhanced by having an understanding at the Board level of the work conducted by the senior management team, as well as the validation process periodically conducted by the independent internal audit function, to enable conclusions to be reached on whether the institution is "in control".

For further discussion of this topic refer to SSBFP M-13: Process to Ensure Control.

Points To Consider

1. Does the Board understand the nature and extent of the self-assessment work conducted by senior management to enable conclusions to be reached on whether the institution is "in control"?
2. Does the Board understand the nature, extent, and effectiveness of the validation process conducted by the internal auditfunction?
3. Does the Board receive enterprise-wide reports about all significant weaknesses (including those arising from the usage of IT) or breakdowns and the actions taken or plans to address them?
4. Is the Board satisfied with its own process to ensure identified weaknesses are being addressed effectively?
5. Is senior management’s assessment of whether the institution is "in control" consistent with the observations of outside parties (e.g. external auditors, regulators)?

M-1: STRATEGIC MANAGEMENT PROCESS

It is sound business and financial practice for the CEO and senior management to ensure that the institution has an ongoing, appropriate and effective strategic management process to:

a. stay informed about current business and economic trends;
b. develop business objectives for Board consideration and approval;
c. develop strategies and action plans to meet business objectives;
d. submit the strategies and action plans for Board consideration and approval;
e. implement and manage the strategic business plan approved by the Board;
f. review the strategic business plan regularly and ensure it remains appropriate to the credit union's environment, performance and resources; and
g. provide the Board with reports that will enable it to assess whether there is an ongoing, appropriate and effective strategic management process.

Commentary

A business strategy is a detailed description of how an institution plans to achieve its business objectives. It includes:

- the type of business activities that will be conducted;
- the geographic areas in which those operations will be conducted;
- the distribution channels that will be used in conducting them;
- the significant risks to which the credit union will be exposed in conducting them;
- the key functions and resources that will be needed to conduct them;
- the short- and long-term operating and financial results expected from them.

An entity-wide business strategy provides a baseline to ensure that new initiatives are evaluated against the credit union's business objectives, and actual activities are subject to ongoing strategic review.

Credit unions are subject to continuous change in their environments, which in turn affect their business plans. These changes reflect:

- evolving market and product competition,
- competition levels,
- financial and technological innovation,
- changes to regulatory requirements, and
- the need to attract and retain talented people.

Identifying the significant risks inherent in a business strategy helps to ensure appropriate integration of the strategic and risk management processes and that the assumptions on which the business strategy are predicated are appropriate to the institution's circumstances and condition. By identifying resource requirements, a business strategy helps to achieve effective allocation of resources.

By setting performance expectations (including the level and sustainability of return in light of the level of risk undertaken, the capital and funding required to undertake operations and the need to maintain and preserve capital, liquidity and funding), a business strategy facilitates review of the effectiveness of a business activity and its management, and provides strategic parameters for the credit union's business plans.

A business plan is a detailed description of how a credit union plans to conduct particular operations in implementing its business strategy.
Business plans help to ensure that business activities will be conducted within the context of chosen business objectives and strategy. They also provide the basis for:
assignment of responsibilities to individuals managing specific business activities;
assessment of the achievement of strategic and performance expectations;
evaluating the institution's business strategy.

Points To Consider

1. Are alternative business strategies developed and critically assessed in terms of their likelihood of achieving the strategic business objectives?
2. Are alternative business strategies reviewed with the Board?
3. Are the internal and external factors that may require changes in the business strategy or plans identified and monitored?
4. Have criteria been established to evaluate performance in achieving the business objectives, strategy and plans?
5. Are individuals with decision-making responsibility made aware of the business objectives and strategy as well as the relevant business plans and performance measures?

The terms "business objectives", "business plan", and "business strategy" are defined in the Glossary of Terms

M-2: RISK MANAGEMENT PROCESS

It is sound business and financial practice for the CEO and senior management to ensure that the credit union has an ongoing and effective risk management process for:

(a) identifying risks, including new and/or emerging risks to which the credit union is or will be exposed (on or off-balance sheet, directly or through one or more of its subsidiaries, or indirectly through outsource suppliers) in conducting its current and planned operations;
(b) determining criteria for measuring each identified risk;
(c) assessing whether identified risks constitute significant risks in relation to its capacity to absorb therisk;
(d) developing appropriate risk management policies to include:
- aggregate exposure limits for identified significant risks
- submitting to the Board of Directors for its consideration and approval, policies for managing significant risks
- requirement for reviewing the risk management policies at least once a year to ensure that they remainappropriate;

(e) measuring the different types of risk to which the credit union is or may be exposed in relation to a single risk (i.e. a single borrower or counterparty) and/or concentrated risks (i.e. exposure to specific industry segments);
(f) taking action to manage the risks in accordance with the policies;
(g) establishing effective processes, procedures and controls for managing the risks, monitoring adherence to those processes, procedures and controls, and reviewing them on a regular basis to ensure that they remain effective;
(h) providing the Board of Directors with appropriate reports on the management of significant risks;
(i) establishing processes to deal with and respond to extraordinary events;
(j) providing the Board of Directors with appropriate reports that will enable it to assess whether the credit union has an ongoing, appropriate and effective risk management process, in relation to its capacity to absorb the risk.

Commentary

Risk Management Process: Risk management processes can be implemented in many ways. Irrespective of the approach adopted, a credit union must be able to demonstrate that its risk management processes are appropriate and effective, and that they are applied on an entity-wide basis that facilitates the proactive identification, assessment and management of significant risks.

No process of risk management can completely immunize the credit union against all risks particularly "surprises" or “extraordinary events”. However, an effective risk management process facilitates:

- evaluating the appropriateness of business strategies;
- optimal allocation of human, capital and other resources;
- a determination that the institution is "in control". (Refer to M-13: Process to Ensure Control for the definition of “in control”).

Risk Identification and Measurement: Credit unions may be subject to a number of strategic, business, financial, and process level risks, including:

- those that are largely beyond its influence and largely beyond its control (e.g. fires, floods, pandemic, etc.);
- those over which the institution has influence but limited control (e.g. privacy or unwarranted lawsuits);
- those over which the institution has influence and significant control (e.g. fiduciary risk through the delivery of wealth management services).

Risks may arise from direct exposures or through exposures taken on by subsidiaries. Regardless of the origin, the expectation is that a credit union will have effective processes and techniques in place to identify and measure risk exposure.

A credit union should be in a position to demonstrate that its measurement of risk reflects all the risk exposures (i.e., credit, market, etc.) and all sources of exposure (i.e. direct and indirect through subsidiaries or agents).

Risk Assessment: Effective risk management includes the assessment of the potential significance of identified risks – eventually including the aggregation of a risk across operations and the operations of any subsidiaries or agents (i.e. enterprise wide).

Risk assessment, whether quantitative or qualitative, should be appropriate to the nature, size and complexity of the risk. A credit union should be in a position to demonstrate that its assessment techniques and criteria are appropriate and effective.

Risk Management Policies: The policies specify the tolerance, limits or parameters governing the extent to which a credit union is willing to assume risk and the scope within which individuals are empowered to act. Risk tolerances must be established after consideration of the credit union’s capacity to absorb risk. Risk management policies typically are established within the context of an overall policy framework which usually delegates the responsibility for establishing risk tolerance limits and policies and for monitoring, managing and reporting on risk. Policies will reflect the nature of the risks. For example, although the establishment of risk limits facilitates the management of certain risks, (e.g., credit or market risk), some operational risks (e.g., certain technology-related risks) cannot always be addressed by the application of limits. The credit union should be in a position to demonstrate that its policies address all significant aspects of risk, that its policies are consistent with the achievement of its business objectives, are prudent, and regularly revisited in light of actual or anticipated changes in circumstances. The credit union should have an umbrella corporate risk policy that clearly establishes that it is every staff member’s responsibility to manage risks.

Management of Risks: A credit union must be in a position to demonstrate its significant risks are appropriately and effectively managed within each activity that is exposed to risk.

Risk management procedures and controls occur at all levels and in all operations. They include activities such as approval authorities, verifications, reconciliation, and segregation of duties; as well as systems to measure, monitor and provide information about risk exposures. Collectively, they need to form an integrated system designed to ensure that necessary actions are being taken to facilitate the achievement of business objectives.

The management of risk is facilitated by integrating and building systems into the credit union's operations, assigning ownership for the management and control of specific risks to competent individuals, and providing them with sufficient and appropriate resources and tools to achieve expectations.

Having responsibility for the results of risk taking ensures that individuals making relevant decisions:

- understand the risks they are taking on behalf of the credit union;
- understand their accountability for the management and control of those risks;
- incorporate that understanding into their decision-making.

Built-in controls support risk management by reinforcing that front-line responsibility rests with the individuals who directly manage the operation, and therefore in the best position to provide reasonable assurance that the management and control processes for which they are responsible are appropriate and effective.

Reinforcing ownership is particularly important in ensuring that individuals do not assume that risk management and control is only the responsibility of others. This may be achieved by means such as:

- implementing incentives to support the early identification and mitigation of risk management weaknesses and encouraging timely disclosure of breakdowns;
- linking the assessment of the effectiveness of risk management to overall performance assessment.

Risk management and control processes, no matter how well designed and applied, can provide only reasonable assurance of achievement of risk management objectives. There are inherent limitations in all systems, including the realities that judgment can be faulty, breakdowns can occur because of mistakes and the fact some rules can be circumvented. It is therefore important that risk management be supported by an effective control environment.

Extraordinary Event Planning: The management of risks ordinarily relates to the management of known or reasonably foreseeable events for which scenario, stress and shock testing usually take place. However, significant negative events can occur that are difficult to plan for including natural disasters, negative media coverage or litigation. Extraordinary event planning, including Business Continuity Plans, provides a means to focus appropriate resources on identifying and implementing remedial action to minimize the impact of a distress situation and the disruption associated with it.

Risk Management Reporting: Effective risk management includes having the Board periodically receive reports on:

- the nature and magnitude of all significant risks;
- the processes, policies, procedures and controls in place to manage these significant risks;
- the overall effectiveness of the risk management process – including highlighting risk management problems and the actions that have been or will be taken to address them.

Where the management of a particular risk is distributed among several business activities, there should be a means to aggregate exposures and create a consolidated assessment of the risks and risk management activities.

More frequent reports are provided:

- in anticipation of changes in the nature and scope of significant risks;
- to reflect significant new information about matters such as market developments and emerging economic or other trends that may have an impact on significant risks;
- to report unexpected risk outcomes, performance results or changes in key risk management personnel.

Points To Consider

1. Is there a comprehensive and consistent set of definitions and common terms for risks and risk management that are applied on an enterprise-wide basis?
2. Are there unambiguous lines of responsibility and accountability for managing and reporting on specific strategic, business and process level risks?
3. Are individuals at all levels aware of the risks related to their responsibilities and the requirement for them to manage these risks?
4. Does the risk management process enable the overall aggregation of risks in support of strategic risk management and control related decision-making?
5. Do risk management priorities focus on issues that are most important to the achievement of business objectives and strategy, rather than on issues that are the easiest to address?
6. Are incentive compensation programs designed to discourage undue risk taking?
7. Is the Board kept fully apprised of significant risks and the processes or other means used to manage them?

M-3: CREDIT RISK

It is sound business and financial practice for a credit union to have adequately documented:

(a) appropriate policies on the areas and types of credit in which the credit union is willing to engage; and

(b) appropriate and prudent policies on exposure limits for a single risk (i.e. a single borrower or counterparty), for associated or connected borrowers, for specific industries or economic sectors, for geographic regions and for other credit exposures warranting aggregation, that consider all other risks, both on and off-balance sheet, to which the credit union is exposed.

It is sound business and financial practice to have procedures and controls for managing credit risk, including:

(a) defined and prudent levels of decision-making authority for approving credit exposures;

(b) an effective assessment and rating system for credit risk;

(c) an ongoing, appropriate and effective process for managing credit exposures that warrant special attention;

(d) an effective methodology for identifying, estimating, providing for and recording credit impairments;

(e) providing the Board of Directors with appropriate reports that will enable it to assess whether the credit union has effective credit management processes, and extent of portfolio risks.

Commentary

The principal credit risk credit unions incur is in their lending portfolios. The terms credit and credits are used extensively in discussions of this SSBFP. It is important to keep in mind these terms are interchangeable with the words loans or lending when the credit risks associated with loans are being considered.

Credit risk is inherent in any business activity where reliance is placed on payment from a third party. These include such things as:

- traditional lending;
- commitments to extend credit;
- investments in debt instruments (i.e. commercial paper, corporate bonds)
- settlement of clearing obligations;
- settlement of spot, forward and other derivative transactions.

For credit unions, credit risk is the principal business risk. Deterioration in credit quality has been the most common reason for a credit union becoming subject to regulatory control and placing in jeopardy a credit union's safety and soundness. Deterioration in credit quality is generally accompanied by impairment of capital, liquidity and profitability.

The following **must** be considered in developing lending policies:

1. **Legislative Compliance:** requirements under *The Credit Union Act and Regulations* and all relevant legislation must be considered in the development of lending policies. Policies should align with guidelines issued by the Credit Union Deposit Guarantee Corporation.
2. **Types of Credit Arrangements:** Establishing defined target markets for credit (e.g. personal, commercial etc.), credit criteria (e.g. loan to value ratios) and approved types of credit products (e.g. mortgages, lines of credit, etc.) enables a credit union to ensure that credit risk is assumed within acceptable parameters.
3. **Credit Exposure Limits:** Risk diversification, setting acceptable maximums is a basic tenet of safety and soundness. Concentrations of credit risk can take many forms, such as maximum levels of exposure to:
    - a single borrower or counterparty;
    - a particular group of associated or connected borrowers, or counterparties;
    - an industry or economic sector;
    - a group of industries or economic sectors that are markedly interrelated
    - a geographic region.

Generally, concentration is considered excessive when potential losses related to credit exposures are large relative to the credit union's capital or net income. Excessive credit risk concentration has been a leading cause of solvency problems in financial institutions.

Credit unions may set credit risk exposure limits in various ways and must be in a position to demonstrate its limits are based on factors that are meaningful to the prudent management of its credit risks.

Given the community focus of credit unions, credit exposure is often centered in one geographic area. In these instances, geographic diversification of credit risk may be difficult. There may be compensating controls such as limiting loan-to-value or placing default insurance on a portion of the portfolio.

In certain circumstances, avoiding concentrations may be extremely difficult. In such cases, a credit union should not forego undertaking prudent credit exposures solely on the basis of concentration, nor should it engage in credit activities it does not fully understand simply for the sake of diversification. Rather, credit unions can use alternative means to manage the potential negative consequences associated with concentration risk. Among others, these include:

- holding allowances;
- holding additional capital and liquidity;
- risk transfers, such as credit sales, securitization, syndication programs, etc.

4. **Credit Risk Approval and Impairment Recognition Authorities:** Defined levels of credit risk management authority provide reasonable assurance that:
    - credit decisions are made within established limits;
    - changes to credit terms are made only by authorized individuals;
    - problem credits are recognized in an effectivemanner;
    - credit losses areminimized.

    Approval limits (i.e. discretionary lending limits) may relate to knowledge/expertise, size, security or other criteria (e.g. industry sector, geographic region, etc.). Authorities may be absolute, incremental or a combination and may be individual, joint or shared within a group or committee.

    The degree of delegation of authority will differ among credit unions depending on a number of factors, including:
    - the ability of the credit union to absorb potential losses (i.e. level and quality of capital);
    - the size, nature and complexity of credit activities;
    - the quality of the credit portfolio;
    - the degree of market responsiveness required;
    - the types of risks beingassessed;
    - the experience and expertise of credit risk management personnel;
    - the credit union's control environment.

5. **Credit Risk Rating System:** Risk rating systems perform important risk management functions. These include:
    - providing a common and consistent basis for concluding and reporting on the assessment of the risk of individual credits and the credit portfolio;
    - providing a basis for making risk/reward and credit pricingdeterminations;
    - facilitating the allocation of capital against credit activities;
    - facilitating the measurement of profitability and the assessment of the credit union's overall credit risk management performance;
    - facilitating the identification of situations that may warrant special attention as well as those that may require the establishment of credit impairments.

    The rating system used should have sufficient gradations to meaningfully differentiate the relative risks posed. Risk rating definitions should be sufficiently detailed and descriptive, applied consistently and reviewed regularly to ensure that they continue to meaningfully differentiate degrees of risk. Risk rating systems should follow the guidelines established by the Credit Union Deposit Guarantee Corporation.

6. **Borrower Risk Evaluation and Rating Processes:** The most significant credit risk that a credit union faces are the credit worthiness of its borrowers. Credit quality may be affected by factors internal to the borrower or external factors such as the borrower's business, industry, geographic location or the credit quality of any associated and connected borrowers.

   Credit problems often stem from operational issues related to lack of or weak skills in specific industries (e.g. agriculture, oil and gas) and disregarding or inadequately evaluating and rating credit quality. Effective credit risk evaluation and rating processes facilitate good credit risk management by:
   - shaping credit decisions;
   - aligning credit pricing with risk/return expectations;
   - analyzing the level and trends in the quality of individual credits and credit portfolio;
   - highlighting individual credits or segments of the portfolio that may warrant special attention or the recognition of actual or likely credit loss.

   Relatively insignificant individual credit exposures (e.g., could be a single-family residential mortgage portfolio) may not require the same degree of analysis and assessment as more significant exposures to more complex borrowers or counterparties. It is expected that management will conduct sufficient analysis of a borrower's credit quality to reflect the nature and potential impact of its credit risks. Credit unions are encouraged to implement the borrowers risk rating system provided by the Credit Union Deposit Guarantee Corporation.
7. **Managing Credit Exposures that Warrant Special Attention:** Early recognition of potential adverse situations and trends, coupled with prompt corrective action, are key factors in minimizing credit impairment. Adverse credit risk situations include such circumstances as exceptions to policy and potential deterioration in the credit quality of single and associated credits, industries or economic sectors or geographic regions.
8. **Credit Impairment Recognition:** A systematic method for recognizing credit impairments assists in providing assurance that:
   - credit risk exposures are subject to a disciplined assessment to ensure loans will ultimately be repaid
   - all relevant factors affecting credit quality are reflected in the estimate of the recoverable amount;
   - impairments are identified and dealt with quickly;
   - impairments are valued on a prudent and conservative basis reflecting current market conditions and valuations;
   - impairments reflect generally accepted accounting principles and regulatory guidelines for accounting for credit impairment;
   - recognition of interest or other types of income relating to credit impairments reflects generally accepted accounting principles and regulatory guidelines.

Points To Consider

1. Have credit risk policies been documented that set out the requirements established in SSBFP M-3?
2. Are the factors that may affect individual and aggregate credit risk exposures being monitored on an ongoing basis?
3. Are credits reviewed for risk assessment and for compliance with policy and approved procedures by individuals who are independent of those conducting credit activities?
4. Are discretionary lending limits assigned based on lender's capability and appropriate for the composition of the portfolio?
5. Are credit risks monitored at the individual transaction, operations and portfolio levels?
6. Are exceptions to credit risk policies and risk quality reported in a timely manner to individuals with credit risk management decision-making responsibility, including the Board?
7. Is there a reporting process that provides the Board and senior management with sufficient information to assess the efficiency and effectiveness of the credit management processes and the portfolio risk?

M-4: INVESTMENT RISK

It is sound business and financial practice for a credit union that is exposed to investment risk to have adequately documented:

(a) appropriate policies on the types of financial instruments and other investments, both on and off-balance sheet, in which the credit union is willing to invest; and

(b) appropriate policies on exposure limits for a single issuer, groups of associated issuers, types of financial instruments and other investments or assets, for industries or economic sectors, for geographic regions and for other market exposures warranting aggregation, that consider all other risks, both on and off-balance sheet, to which the credit union is exposed.

It is sound business and financial practice for a credit union that is exposed to investment risk to have procedures and controls for managing that risk, including:

(a) defined and prudent levels of decision-making authority for approving exposures;

(b) fixed quality and return expectations for those exposures;

(c) list of suitably qualified securities dealers and other counterparties with whom the credit union will deal;

(d) reliable data and effective techniques, such as stress testing and shock testing, for assessing nature, quality and value of the exposures and for evaluating the extent of risk to which the institution is or will be exposed under current and reasonably foreseeable scenarios;

(e) effective techniques for back-testing against actual results the assessments and evaluations made using the data and techniques referred to in paragraph (d);

(f) an effective methodology for identifying, estimating, providing for and recording impairments,

(g) providing the Board with appropriate reports that will enable it to assess whether there are ongoing, appropriate and effective investment management processes, and the investment portfolio risks.

Commentary

In addition to the need for an investment policy to be a sound business practice, the Credit Union Act requires all credit unions to have documented investment policies approved by the Board of Directors and the Credit Union Deposit Guarantee Corporation. The complexity of the policy is in direct relation to the complexity of the investment requirements of each credit union.

Investment risk is inherent in the business activities of a credit union that expose it to financial instruments or other assets (on or off-balance sheet) that derive their values from market rates or prices. These may include stocks, bonds, debentures, and derivative transactions. Investment risk results from a decline in the market value of the financial instrument or other assets. Investment risk is assumed by credit unions as part of an overall financial strategy.

The investment risk exposure will vary depending on the market's assessment of the instrument or asset across a variety of dimensions, including market for the instrument or asset, quality, current interest rates, perceived direction of interest rates and maturity. Effective management of investment risk involves managing the risk/reward relationship of market rates or prices. Investment risk is not limited to direct investments but may include financial instruments held as collateral in lending operations.

The Investment Risk SSBFP is focused on financial instruments or other assets that are purchased and/or sold in organized markets (e.g. the bond market), while SSBFP M-5, Interest Rate and Foreign Exchange Risk, is focused on activities that typically do not directly involve market transactions (such as traditional lending).

Types of Financial Instruments and Other Investments: The policy must establish the types of marketable financial instruments or other assets, in which the credit union may invest and establish appropriate limits and criteria for those investments, including:

- a listing of the types of marketable financial instruments and other assets in which the credit union is authorized to invest;
- establish limits for investment in each type of marketable financial instrument and other assets;
- establish limits for investments in individual issuers for each type of marketable financial instrument and other asset;
- establish criteria for acceptable investments or counterparties in the case of derivatives;
- provide for diversification.

Market Risk Exposure Limits: Market exposure limits help to ensure that investment positions are appropriately diversified and do not exceed prudent levels of exposure to:

- an issuer or group of associated issuers;
- a type or class of financial instrument or another asset.

The appropriate level of concentration is a matter of judgment. The objective of investment risk management is to manage the risk within self-imposed limits.

Market Exposure Authorities: Defined levels of approval authority help ensure investment risk activities are undertaken appropriately and that exposures do not exceed the limits established.

The degree of delegation will depend on a number of variables, including:

- the extent and quality of the control environment related to investment risk management;
- the size, nature and complexity of risks assumed;
- the degree of responsiveness required;
- the experience and abilities of the individuals responsible for carrying out the investment and management activities.

Selection of Securities Dealers and Other Counterparties: It is essential that institutions have confidence in the capacity of the securities dealers and other counterparties with whom they deal to fulfill their commitments, and in the capabilities of any person on whom they rely for recommendations on investment alternatives, portfolio strategies or the timing and pricing of transactions. When investment activity is a significant business activity for the credit union, the securities dealers and other counterparties must be considered as key partner suppliers.

Investment Risk Monitoring: Managing investment risk requires an understanding of the nature and characteristics of the exposures. Continuous and prospective evaluations of exposures provide an effective means of ensuring that portfolio performance and quality meet investment risk management policies and objectives, and that the portfolio is not unduly concentrated. Back testing is an effective way of evaluating the robustness of a forecasting tool or model.

Accounting Guidelines for Financial Instruments: Credit unions must be aware of classifications of all investments and investment pools (held to maturity, available for sale, held for trading). These classifications affect the treatment of gains and losses arising from the fair-valuing of the instruments that are treated.

Points To Consider

1. Is the current investment policy appropriate to the credit union's needs, does it meet the requirements of the SSBFP, and has it received the approval of the Board and the Corporation?
2. Does the investment risk strategy consider historic, current and prospective factors that affect the value of transactions and portfolios?
3. Does the credit union have an effective means or methodology for monitoring the risk factors that affect the value of transactions and portfolios?
4. Do the returns generated, relative to the level of risk taken, support the overall investment risk strategy?
5. How accurate have the credit union's projections been about the level of risk assumed and the level of return related thereto?
6. Are there procedures in place to provide the Board of Directors and senior management with timely, relevant, accurate and complete reports that will enable them to assess whether the credit union has ongoing, appropriate and effective investment management processes? Does the reporting clearly identify investment portfolio risks?

M-5: INTEREST RATE AND FOREIGN EXCHANGE RISK

1. It is sound business and financial practice for a credit union to have appropriate policies on the types and extent of interest rate and foreign exchange risk to which it is willing to be exposed.
2. It is sound business and financial practice to have procedures and controls for managing these risks, including:
   (a) defined and prudent levels of decision-making authority;
   (b) effective techniques for measuring the credit union's interest rate and foreign exchange risk positions and for evaluating the impact of changes in market conditions;
   (c) providing the Board with appropriate reports that will enable it to assess whether there is an ongoing, appropriate and effective interest rate and foreign exchange risk management.

Commentary

A credit union is exposed to interest rate risk when cash flows associated with asset and liability maturities (on and off-balance sheet) are impacted differently by movement in market interest rates. These include re-pricing date, final maturity, and currency.

Interest rate risk arises when a credit union's principal and interest cash flows or the market value changes from on and off-balance sheet items as a result of changing interest rates. The amount at risk is a function of the magnitude and direction of interest rate changes, the size and maturity structure of the mismatch position, and member behavior in exercising options in various products.

Foreign exchange risk arises from currency mismatches in a credit union's assets and liabilities that are not subject to a fixed exchange rate against the Canadian dollar. The risk continues until the mismatched position is covered. The amount at risk is a function of the magnitude of potential exchange rate changes and the size and duration of the foreign currency exposure.

The approach to managing these risks will differ among credit unions depending on a number of factors, such as:

- the nature, size and complexity of the asset and liability structure (on and off-balance sheet);
- the existence of embedded options in the asset and liability structure and the potential for members to exercise those options;
- the frequency, volatility and direction of changes in interest rates and market prices underlying these positions;
- the nature, size and complexity of the credit union's other risks and overall risk profile;
- the ability to absorb potential losses through earnings, which losses arise through changes in interest rates or changes in currency valuations;

- the capital, liquidity and funding requirements;
- the capital position of the credit union
- the capability to respond to changes in interest rates and market prices in a timely and effective manner in order to manage the potential impact of asset and liability structure risk on earnings, capital and liquidity.

Risk Management Policies: The establishment of risk tolerances relating to balance sheet structure and income projections helps to ensure that:

- balance sheet structure risks are managed within established limits.
- significant interest rate and foreign exchange risks do not undermine the achievementof business objectives.

The objective of all asset liability management is not the elimination of risk but management of risk within self-imposed limits set after careful consideration of a range of reasonably probable scenarios and the institution's ability to absorb potential loss.

The limits set need to be revisited on a regular basis to reflect changes to underlying factors, the volatility of the factors, and to the institution's overall risk tolerance and profile.

Risk Management Procedures and Controls: Managing interest rate and foreign exchange risks requires a clear and timely understanding of the amount at risk as well as the underlying factors that impact on the risk. Sufficient information must be readily available to permit appropriate action to be taken within acceptable time periods. The longer it takes to reduce, eliminate or reverse an unwanted exposure the greater the possibility of an undesired outcome.

In addition to utilizing gap analysis to assess repricing risk, credit unions with complex balance sheets should subject their balance sheet and income statement to simulation modeling against reasonably foreseeable scenarios to determine any potential financial impacts.

The use of hedging techniques is one means of managing risk. Hedging should be conducted within the framework of a well-developed strategy that assesses:

- the objectives and limitations of using hedging instruments;
- whether the skills and experience of management, and the capacity of position risk reporting systems, are appropriate to the nature and extent of the proposed instruments;
- the nature and risks of the proposed instruments;
- the cost-effectiveness of the proposed instruments.

Points To Consider

1. Does the credit union have adequate treasury expertise to manage its interest rate and foreign exchange risk, or should an independent advisor be retained?
2. Is the potential impact of the risk positions on the credit union's earnings and capital regularly reported to senior management and the Board?
3. Are underlying assumptions regarding member behavior (e.g. prepayments, deposit withdrawals, etc.) stress and back-tested?
4. Are contingency plans in place for responding to significant adverse changes in factors that impact asset and liability structure risk exposures?
5. Are all situations in which asset and liability structure risk limits are exceeded brought to the attention of an appropriate level of senior management and the Board in order that positions, limits, strategies, etc. can be evaluated, where appropriate?
6. Are the results obtained from the measurement systems back-tested to actual results, to ensure their accuracy
7. Is a party independent of the function retained to ensure policy parameters are met, procedures are sound and being followed, and the credit union is not exposed to undue risk (e.g. external auditor)?
8. Are there procedures in place to provide the Board and senior management with timely, relevant, accurate and complete reports that will enable them to assess whether the credit union has effective interest rate and foreign exchange management processes, and to assess the risks?

M-6: FIDUCIARY RISK

1. It is sound business and financial practice for a credit union to have appropriate and prudent policies on the types of fiduciary activities in which it is willing to engage.
2. It is sound business and financial practice for a credit union that is exposed to significant fiduciary risk either directly or indirectly through subsidiaries and/or contractual arrangements with a key partner/supplier (e.g. investment dealer) to have procedures and controls for managing that risk, including:
   (a) an effective process for ensuring that assets held, administered, managed or invested on behalf of members/customers are dealt with prudently and in accordance with the agreements and arrangements made between the credit union and members/customers;
   (b) an effective process for ensuring that the investment advice provided to members/customers is suitably represented and appropriate in light of their risk tolerances and reward expectations ;
   (c) an effective process for ensuring that confidential information provided by members/customers either directly or indirectly through subsidiaries and/or contractual arrangements with a key partner/supplier is properly safeguarded;
   (d) providing the Board of Directors with appropriate reports that will enable it to assess whether the credit union has effective Fiduciary Risk management processes; and that Fiduciary Risk is being managed within acceptable risk tolerances.

Commentary

A number of business activities involve fiduciary risk. These may include:

- brokerage activities
- investment planning and other advisory services
- trust and estate administration
- agency activities
- mutual or investment fund management

Many credit unions have contractual arrangements with a key partner/supplier to provide wealth-management products and services. These contractual arrangements may provide for dually employed individuals and set out the responsibilities of the key partner/supplier and the credit union. It is important for the credit union to identify the risks it assumes as a result of the contractual arrangements it has entered into.

For most credit unions, fiduciary activities are an increasingly significant aspect of their business and fiduciary risk is an increasingly important consideration in their risk management processes.

Defining the fiduciary activities in which the credit union will engage and identifying the risks it assumes as a result of the contractual arrangements it has entered into with outsourced suppliers, enables it to ensure that fiduciary risks are identified and assessed and that adequate policies, procedures and controls are implemented to manage the fiduciary risks.

Fiduciary risk differs from the risks that credit unions face as intermediaries, as it arises from dealing with or advising on the assets of others. Fiduciary risk relates to the requirement to conduct activities in a manner consistent with the members stated objectives and to place the interests of that member above those of the credit union.

Fiduciary risk management requires an understanding of the member/customer relationship. Fiduciary activities, despite the contractual arrangements with outsource suppliers which may transfer some of the fiduciary risk to the supplier continue to carry reputation, legal and financial risks that may have a significant impact on a credit union's ability to achieve its business objectives. For example, improper administration or use of trust assets or improper or unsuitable investment advice can expose a credit union to litigation and financial or reputation loss.

Examples of fiduciary activities provided either directly or indirectly through subsidiaries, agents, contracted key partner/suppliers (note: this list contains examples only and is not an exhaustive list):

- Wills and Estate Administration
- Safekeeping Agreements
- Operation of RRSP/RIF/RESP Trusts
- Trust Accounts opened by true "Trusts"
- Operation of informal "in trust for XXXXX" accounts
- Operation of trust accounts in subsidiaries such as insurance
- Self-Directed RRSP/RIF
- Financial Planning – providing investment advice
- Full-Service Brokerage
- Discount Brokerage
- Online Brokerage
- Personnel assisting, managing or offering advice or recommendations on management of members' personal affairs
- Employee Pension Plans
- Safety Deposit Boxes

Points To Consider

1. Has the credit union identified the fiduciary activities and the relevant risk it has assumed as a result?
2. Are fiduciary agreements and arrangements, including contractual arrangements with key partners or suppliers, subject to legal review to ensure that they are in conformity with the applicable laws and regulations?
3. Are the fiduciary risks assumed in its contractual arrangements with key partners or suppliers identified and do adequate procedures and controls exist to deal with those risks?
4. Do adequate procedures and controls exist for ensuring compliance with applicable laws and regulatory requirements, within both the credit union and the contracted key partners or suppliers?
5. Do adequate procedures and controls exist for ensuring compliance with the terms of the credit union's fiduciary agreements and arrangements with the member/customer, within the credit union and the contracted key partners or suppliers?
6. Are independent reviews of fiduciary activities within the credit union and the contracted outsource suppliers regularly conducted to ensure that such activities conform with applicable laws and regulatory requirements and with the terms of the institution's fiduciary agreements and arrangements with its member/customer?
7. Are senior management and the Board aware of significant legal actions against any institution they deal with, for reasons of breach of fiduciary duty?
8. Does the credit union ensure member's transactions and balances are properly recorded and regularly reported tothem?
9. Has a regular reporting system been implemented to ensure the Board is kept appraised of fiduciary risks the credit union is exposed to, and the processes utilized to manage those risks within acceptable risk tolerances?

M-7: OPERATIONAL RISK

It is sound business and financial practice for a credit union to effectively manage the exposure to operational risks including:

(a) identifying the risks;
(b) having appropriate policies;
(c) having procedures and controls to manage the risks.

Sound elements for managing the specific exposure to operational risk would include:
Where a credit union uses outsourced services in conducting significant operations, it has policies and processes for:

(a) the circumstances in which outsourced services may be used;
(b) the criteria for selecting capable and reliable providers;
(c) the performance and quality SSBFPs for the services, products and business activities as well as the conduct of activities for the provision of such services including the transfer of information;
(d) monitoring the performance and the risks associated with the key partners or suppliers.

To manage personnel risk, the credit union has policies and processes for:

(a) attracting and retaining a sufficient number of qualified personnel to achieve the business objectives and implement the business strategy and business plans;
(b) defining and establishing levels of decision-making authority;
(c) establishing segregation of incompatible responsibilities;
(d) providing clear communication to personnel of their responsibilities;
(e) providing for an effective organizational structure;

To manage process risk, the credit union has policies and processes for:

(a) documentation of significant processes, policies, procedures and controls;
(b) documentation of valuation methods and accounting principles for the appropriate valuation of, and accounting for, the credit union's assets and liabilities, both on and off-balance sheet;
(c) maintaining accurate and complete records of financial and other key information;
(d) maintaining management information systems that provide timely, relevant, accurate and complete information to facilitate day-to-day management of the operations and the risk to which the credit union is exposed.

To manage technology risk, the credit union has policies and processes for:

(a) ongoing and effective technology development and maintenance processes for ensuring that the technology environment is, and continues to be, aligned with its business strategy, business plans, operational needs and that the risks to which the credit union is exposed are appropriately managed;
(b) assurance that the technology is authorized, tested and documented before it is introduced, and that the technology environment is updated as required

Commentary

Operational risk is embedded in all of a credit union's operations, including those activities supporting the management of other risks. Sources of operational risk are numerous and variable.

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic or reputational risk. It includes:

- outsourcing risk
- personnel risk
- process risk
- technology risk

The management of operational risks generally relates to the management of known or reasonably foreseeable events. However, significant negative external events can occur that are difficult to plan for, such as natural disasters, pandemics, negative media coverage or litigation. Extraordinary event planning, including Disaster Recovery and Business ContinuityPlans provide a means to focus appropriate resources on identifying and implementing remedial action to minimize the impact of a process failure or negative external event.

Points To Consider

1. Is there a process for identifying significant operational risks?
2. Does the credit union have appropriate policies and processes established to manage the exposures created by the varied operational risks? And is there a formal process to review these policies?

OUTSOURCING RISK

Credit unions are increasingly relying on external contractors or third parties (including related parties) to provide products, services or business activities that they would otherwise provide themselves. Business activities may include many of the services credit unions often acquire from third parties, such as information technology, collections, etc. Outsourcing arrangements include service provider contracts, strategic alliances, partnerships and joint ventures. The risks associated with outsourcing do not accrue only to arm's length suppliers of traditional credit union services but may also include partners providing other services (e.g. an insurance agency).

Points To Consider

1. Does the credit union have adequate procedures and controls to ensure high quality and reliable service from external contractors?
2. Is the credit union satisfied that its outsourcing activities do not subject it to contingent liability?
3. Is the credit union satisfied that disruptions to the external contractor's business will not likewise cause disruptions at the credit union?
4. Does the external contractor have a satisfactory Business Continuity or Disaster Recovery Plan?
5. Are business cases required prior to contracting with a third party? Does the business case require Board approval?
6. Does the credit union record where operational risk-related losses occur within its operations, including those with third parties?
7. Are operational risk-related losses fully costed and recorded in a database to facilitate ongoing operational riskmanagement?
8. Are third parties contractually required to have business continuity plans related to backup and recovery processes and standby arrangements up-to-date and tested?
9. Does the credit union have a statement of principles regarding the objectives of contracting for products or services from third parties?
10. Has the credit union evaluated the risk and materiality inherent in the contracts with third parties?
11. Has the credit union determined the liability it may be assuming in a third-party relationship?
12. Has the credit union evaluated the following for each third party:
    a. The ability to replace the third-party supplier at a reasonable cost and in a timely manner.
    b. Risk the third party may become insolvent or unable to provide service.
    c. Capability/expertise of the third party? Do they have depth in management and staffing? Do they have documented policies and procedures for managing risk related to the products or services provided? Do they have an acceptable risk management program?
    d. Has the financial viability of the third party been considered?
    e. Are the third parties required to provide financial information on a regular and frequent basis?
    f. Does the contract cover among other matters: service levels and performance SSBFPs; audit rights and monitoring procedures; a requirement to maintain and test business continuity plans; defaults and termination; access to and controls vital systems, software, physical plant, documents, records; pricing; resolution of differences; confidentiality, privacy and security; retention of records?
    g. Does the contract permit management to obtain audit assurance in respect of control processes of the service provider?

PERSONNEL RISK

Managing personnel risk effectively requires:

- effective human resource recruitment, performance management, and employee retention programs;
- levels of decision-making authority delegated to management and other employees be reasonable and prudent;
- employees to receive clear and concise communication about their responsibilities;
- written acknowledgement of employee responsibilities
- appropriate supervision of employees
- duties of employees be appropriately separated so that a single employee cannot perform all steps of a transaction, financial or otherwise

An effective personnel (human resource) management program facilitates:

- identifying human resource requirements (competencies, specific skill sets);
- attracting competent personnel with skills or knowledge to perform position requirements;
- conducting background checks for sensitive positions, as part of the recruitment process;
- retaining and enhancing competencies through ongoing training and development;
- ensuring, through training, personnel are aware of the risks associated with their positions, the risk management policies related thereto, and their responsibility to manage and deal with those risks;
- assigning responsibilities and delineating accountabilities (including setting performance SSBFPs or expectations);
- assessing performance against responsibilities and expectations;
- ensuring that personnel adhere to corporate values;
- planning for management succession for key positions and creating adequate continuity / standby plans, in the event of short term or long-term absences of resources manning these key positions.
- ensuring that compensation programs are designed to attract competent personnel and do not encourage undue risk-taking behavior.

An organization structure that clearly defines limits of authority for each employee or group of employees helps to ensure that:

- an appropriate and effective level of management is extended throughout the institution;
- delegated authority is adequate and appropriate given the circumstances;
- there are no gaps or ambiguity in responsibility and accountability;
- a separation exists between the business development, and the risk management functions
- decisions are made by individuals who are in a position to assess their implications;
- individuals are not assigned conflicting responsibilities;
- personnel report to an appropriate level of authority;
- personnel are aware of and understand the authority delegated to them and others and any restrictions on the use of that delegated authority.

Effective communication and confirming the understanding of individual staff member responsibility and accountability is an important component of risk management. It:

- facilitates assurance that personnel have a clear understanding of their authorities to act and of their accountability for their actions and decisions;
- facilitates assurance that personnel have a clear understanding of feedback mechanisms related to their actions and decisions;
- facilitates understanding of the credit union's SSBFPs of business conduct and ethical behavior;
- fosters and reinforces effective risk management and control environment.

Prudent execution of assigned responsibilities, including those related to risk management, together with an effective risk management and control environment are, in varying degrees, the responsibility of all personnel within a credit union. All personnel need to carry out their responsibilities in an appropriate manner and to feel comfortable in communicating openly and proactively to their immediate supervisor or to senior management any significant risk issues or adverse events that come to their attention.

Effective internal control involves a clear separation of responsibilities between those people who authorize, supervise, initiate or execute transactions and those who record and account for transactions. The segregation of duties, both between individuals and between departments, reduces the risk of intentional or unintentional manipulation or error by increasing the element of verification. The underlying principle is that no one person should be in a position to control sufficient stages of a transaction that errors or defalcations may occur without a reasonable chance of detection.

Points To Consider

1. Are human resource policies appropriate, current, and regularly reviewed?
2. Does the credit union have effective processes in place to identify significant personnel risks?
3. Is there an effective communication plan to keep employees informed?
4. Can employee relations be classified ashealthy?
5. Are compensation and benefit plans designed to attract and retain qualified and competent individuals?
6. Are compensation plans reviewed regularly to ensure they remain competitive?
7. Do the compensation plans suitably reflect the responsibilities of thepositions?
8. Does any performance-based compensation appropriately reflect factors related to the individual's contribution to the achievement ofobjectives?
9. Does the compensation plan assist in providing proper incentives for management and staff to act in the best interests of the credit union and to avoid inappropriate risk-taking practices?
10. Are there experience and education qualifications established for each position?
11. Are there adequate resources devoted to the training and development of employees?
12. Are performance benchmarks established for each position and performance appraisals completed for each position annually?
13. Is there an up-to-date organization chart? Is it distributed?
14. Is there a position description outlining the job functions, and the delegated responsibility and accountability for eachposition?
15. Are position descriptions updated regularly?
16. Are authority levels specified in writing for each employee and acknowledged by the employee?
17. Does each employee acknowledge in writing that they have received a copy of and have read and understand the position description?
18. Are the internal auditors specifically requested to review and comment on the adequacy of the segregation of duties?

PROCESS RISK

Significant processes can be defined as any operating or functional process or business activity, which if materially compromised, would expose the credit union to a significant loss. These would include payment systems, clearing, transaction processing, document processing, records storage and destruction, accounting processes amongst others. Sufficient controls must be in place to protect the business activities, assets and key information of the credit union and its members.

Additionally, a risk faced by all credit unions is that decision-makers will make incorrect or inappropriate decisions because accounting or other key information does not accurately reflect the results of business activities. Accurate accounting, record keeping and valuation practices facilitate obtaining assurance that:

- the accounting policies and practices are appropriate to the circumstances and conditions;
- accurate and appropriate records and other key information are maintained and reported regularly as required to the appropriate individuals or groups;
- there are effective controls over accounting and other key information – particularly relating to authorized access;
- the quality and value or amount of assets and liabilities are regularly monitored and reviewed;
- assets and liabilities are appropriately valued and accounted for;
- revenues and expenses are all appropriately accounted or provided for;
- individuals or groups with decision-making responsibilities can be provided with complete, accurate and timely information.

Points To Consider

1. Has the credit union identified all its significant processes?
2. Have the risks inherent in each significant process beenidentified?
3. Has the probability and potential significance of a material compromise of a significant process or business activity been evaluated?
4. Are sufficient controls and detection methods in place to protect financial and other important information related to the credit union and its members?
5. Is the system of accounting for the credit union's assets and liabilities effective, does it follow GenerallyAccepted Accounting Principles?
6. Do the management information systems allow required decision makers access to current, accurate and meaningful information?
7. Are there adequate preventive and detective controls in place in order to safeguard the business activities, assets and financial and other key information of the credit union and of its members?
8. Are physical security policies and processes documented, monitored and communicated?
9. Does the credit union have a sufficient Disaster Recovery/Business Continuity Plan?
10. Do the credit union's accounting policies and practices provide sufficient, accurate and appropriate information on which decisions can bereliably based?
11. Are accurate and appropriate records and key information maintained and reported regularly as required to the appropriate individuals orgroups?
12. Are there effective controls over accounting and other key information – particularly relating to authorized access?
13. Are the quality and value of assets (particularly loans) and liabilities regularly monitored and reviewed and appropriate adjustments, if any, processed?
14. Are all revenues and expenses appropriately accounted for or provided for?
15. Are the employees providing information held responsible for its accuracy, and do they understand the implications of inaccuratereporting?

TECHNOLOGY RISK

Critically important to the survival and success of a credit union is effective management of information and related Information Technology (IT). For many credit unions, information and technology that supports it represent the organization's most valuable assets. Some of the credit unions' IT needs include computer hardware, software, and digital data files. It is important the credit union identify and manage IT risks for both outsourced and internal solutions. An effective enterprise-wide risk management framework (including documented policies and procedures) and processes must be implemented to ensure:

- the credit union has a current technology strategy,
- the strategies related to IT align with strategic business plans and meet the business activity needs on a cost-effective basis,
- technologies are authorized, tested, and documented before they are implemented,
- staff charged with IT responsibilities have the requisite skill set and accountability for meeting the credit union's needs, and
- appropriate and effective security practices are followed (firewalls, restricted access, independent security audits, etc.).

Whether IT systems and infrastructure are independent or provided by a third party, the credit union must ensure it obtains assurance that compliance is met.

1) **Planning and Organization** covers the strategy of identifying how IT can best contribute to the achievement of the credit unions business objectives. The strategy needs to be planned, communicated and managed. The strategy will be developed by management and approved at Board level. This could include creation of a management committee, depending on the size and complexity of the credit union.
2) **Acquisition and Implementation:** to realize the Information Technology strategy, IT solutions need to be identified, developed or acquired, as well as integrated into the business process. In addition, changes in and maintenance of existing systems must also be considered to ensure the life cycle is effectively continued for these systems.
3) **Delivery and Support** covers the actual delivery of the required services, which include traditional operations over security, controls and training. In order to deliver these services, the necessary support services must be set.
4) **Monitoring:** all IT processes require regular assessments over time to assure quality and compliance with control requirements. This area should address management's oversight of the credit union's IT control process environment. Independent assurance could also be provided by internal and /or external audit, or other third parties.

IT risk always exists, whether or not it is detected or recognized by an organization. Therefore, it is important that IT risks be managed and integrated into the overall risk management processes within the credit union.

Points To Consider

Planning and Organization: Does the credit union have:

1. An IT strategic plan aligned with the credit union's strategic business plan?
2. A defined information architecture and technology direction?
3. An effective IT risk assessment strategy (risk management ownership and accountability, defined and communicated risk tolerance profile, root cause analysis, risk action plan, timely reassessment)?
4. An effective project management methodology to properly set priorities and to deliver on time and within budgets?
5. An effective quality assurance process in place to meet user and member requirements, including service level agreements (SLAs)?
6. If using an outside provider, has the credit union assessed the provider utilizing the criteria established in the Outsourcing Risk, provided earlier in this SSBFP?

Acquisition and Implementation: Does the credit union have:

1. An effective and efficient approach to satisfying internal user requirements?
2. An effective process to acquire and maintain application software?
3. The appropriate technology platforms for supporting business applications?
4. The appropriate development and maintenance procedures in place to ensure the proper use of applications and the technical solutions implemented?
5. The appropriate installation and accreditation procedures in place to verify and confirm the solution meets the intended purpose?
6. The appropriate change management procedures in place to minimize the likelihood of disruption, unauthorized alterations and errors?

Delivery and Support: Is the credit union:

1. Defining and managing service levels to establish a common understanding of the level of service required?
2. Managing key partner/supplier services to ensure that roles and responsibilities of third parties are clearly defined, adhered to, and continue to satisfy requirements?
3. Managing performance and capacity to ensure that the IT function supports the enterprise level objectives?
4. Ensuring continuous service to make sure IT services are available as required and to ensure minimum business impact in the event of a major disruption?
5. Identifying possible disruption events, classifying them into a risk scale and planning mitigation / response measures against those?
6. Ensuring appropriate security measures are in place to safeguard information against unauthorized use, disclosure or modification, damage or loss?
7. Training users to ensure they are making effective use of technology and are aware of the risks and responsibilities involved?
8. Putting in place procedures to manage problems and incidents to ensure that these issues are resolved and that the cause is investigated to prevent any recurrence?
9. Putting procedures in place to manage data to ensure that it remains complete, accurate and valid during its input, update and storage?
10. Putting procedures in place to manage operations to ensure that a schedule of support activities is recorded and cleared of all IT related activities?

Monitoring: Does the credit union:

1. Have a process in place to identify, assess and report to the Board significant IT risks?
2. Have procedures in place to monitor all IT processes to ensure the achievement of the performance objectives set for the IT-related processes?
3. Have processes in place to ensure implemented IT solutions are efficient and effective, as well as maintain confidentiality and integrity?
4. Have procedures in place to assess internal control adequacy to ensure that internal control objectives are met? Procedures may include having audit trails for IT usage activities.
5. Obtain independent assurance to increase confidence and trust among the credit union, members and third-party providers?
6. Provide for an independent audit to increase confidence levels and benefits from best practice advice?

M-8: REPEALED AND REPLACED BY LIQUIDITY ADEQUACY STANDARDS (JUNE 2026)

M-9: CAPITAL MANAGEMENT

It is sound business and financial practice to ensure the credit union has an ongoing effective capital management process for:

(a) developing and submitting to the Board of Directors for its consideration and approval, appropriate and prudent capital management policies, including policies on the quantity and quality of capital needed to support the current and planned operations that reflect both the risks to which the credit union is exposed and its regulatory capital requirements;
(b) identifying the capital needed to support the current and planned operations of the credit union, including operations conducted or to be conducted through subsidiaries;
(c) regularly measuring and monitoring capital requirements and capital position, and ensuring the credit union meets and will continue to meet its capital requirements;
(d) managing capital in accordance with capital management policies;
(e) establishing appropriate and effective procedures and controls for managing capital, monitoring adherence to those procedures and controls, and reviewing them on a regular basis to ensure that they remain effective;
(f) providing the Board of Directors with appropriate reports on the capital position and on the procedures and controls for managing the capital; and
(g) providing the Board of Directors with appropriate reports that will enable it to assess whether the institution has an ongoing effective capital management process.

Commentary

Capital Management Policies: Increasing emphasis is being placed both on risk management systems that identify, measure, monitor and manage significant risks and on internal processes for assessing and ensuring that capital is adequately determined and allocated in relation to overall risk. This emphasis on capital management reflects the scope and complexity of business activities being undertaken, the differing risks related to these activities, the increased complexity of risk mitigation or transfer techniques and the resulting differences in levels of overall risk. Capital management requires a process to coordinate the identification and assessment of significant risks with the determination of the quantity and quality of capital that is appropriate given those risks.

A systematic and comprehensive determination of a credit union's capital requirements involves consideration of a number of factors. These include:

- the business strategy (including anticipated acquisitions or divestitures, the introduction of new business lines, products or services as well as anticipated growth or decline in the credit union's assets and liabilities);
- the nature, size and significance of the potential risks to which the credit union is exposed;
- risk concentrations;
- the credit union's risk management policies and processes;
- potential changes in historical correlations among exposures and risks;
- expected changes in its risk profile resulting from the potential volatility of exposures as well as from changes in risks or strategy;
- expectations to have a capital "cushion" against unexpected events and uncertainties in risk measurement;
- the capacity of the credit union's capital to absorb losses (recognizing that retained earnings is the primary cushion against risk);
- regulatory capital requirements to be met;
- patronage and dividend policies and practices.

Assessing the capacity to absorb losses normally includes consideration of such things as:

- earnings and earnings retention;
- the adequacy of general and specific allowances for loss (in relation to actual experience of loss events as well as the potential expected losses);
- capital position relative to regulatory and risk-related capital requirements;
- ability to raise additional capital in a timely and cost-effective manner.

A credit union should be able to demonstrate that its approach to correlating capital to the specific risks it is exposed to is sound and that the results are reasonable, given the institution's operations and risk profile. The capital and risk management processes should meaningfully tie the identification, measurement, monitoring, assessment and management of risk to the determination of its capital needs.

Although credit unions that are engaged in complex or sophisticated risks generally use mathematical modeling techniques to analyze and evaluate such risks, it is not expected that all credit unions will mathematically quantify all risks. Rather, they should use systematic and comprehensive processes (quantitative, qualitative, or a combination) that are appropriate given the nature, magnitude and complexity of their particular operations and significant risks.

The capital assessment process should be conducted in concert with changes in the risk profile. Changes in a credit union's risk profile typically result from factors such as the introduction of new business lines or products, increased business volumes, changes in concentrations, the quality of assets or the business or economic environment. Credit unions must ensure that they have adequate capital to support new strategic directions prior to launching new programs. Capital planning analysis should couple the assessment of the required quantity of capital with consideration of the capacity of the various components of capital to absorb losses.

A typical credit union's capital is a combination of the following capital components:

- retained earnings;
- Member Shares (Common and Investment);
- A portion of system capital;
- A portion of Allowance for Doubtful Loans

Capital components have some combination of three important properties:

- permanence;
- freedom from mandatory fixed charges against earnings;
- legal subordination to the rights of depositors and other creditors.

Capital components with the highest capacity to absorb losses have all three properties. Such components permit credit unions to conserve resources when they are under stress as they provide full discretion to the amount and timing of discretionary annual distributions (dividends on Common Shares or patronage). The quantity of capital with all three properties should be the dominant component of total capital. Credit unions should avoid undue reliance on components of capital that do not have all three properties.

Capital Management Procedures and Controls: A credit union should be able to demonstrate that the quantity and quality of its capital is in compliance with regulatory requirements, is adequate to support the significant risks that it faces, and that these levels are appropriately monitored and reviewed at a frequency that matches the nature, size and complexity of the credit union's operations.

When assessing capital adequacy, it is not sufficient to only consider the current capital position. It is important to develop a capital planning process for assessing anticipated capital needs in a systematic and comprehensive manner, for ensuring that adequate capital will be available to meet expected future requirements, including capital that will be required to support new business strategies and growth.

Establishing a capital plan enables a credit union to project its capital requirements, consistent with its business objectives, strategy and plans, taking into consideration:

- current capital requirements and position;
- the effect on capital of foreseeable changes in legal or regulatory requirements;
- the effect on capital of foreseeable changes in the business activities and risk profile, assets and liabilities;
- potential capital requirements relating to the redemption of maturing capital instruments or the payment discretionary annual distributions (dividends or patronage).
- the underlying assumptions supporting the projection;
- the quantity, quality and sources of additional capital required;
- the availability of external sources;
- the financial impact of raising additional capital.

An important component of strategic management is the allocation of resources, including capital, to support a business strategy. Capital management needs to be effectively coordinated with the strategic management process and coordinated with risk management.

The performance of stress tests is one useful means to identify possible adverse effects of events or changes in internal and external conditions on future capital adequacy. Credit unions should consider stress testing the adequacy of their capital under a range of scenarios relevant to their activities and risks.

Points To Consider

1. Are capital assessment processes conducted at a frequency consistent with the pace of change in the credit union's risk profile, reflecting factors such as the introduction of new business lines or products, increased business volumes and changes in concentrations, the quality of assets or the business or economic environment?
2. Does the institution periodically assess its capability to meet its capital adequacy requirements in the event of unforeseen circumstances adversely affecting its capital situation?
3. Are capital levels monitored and reviewed at a frequency that matches the nature, size and complexity of operations?
4. Does the capital plan outline objectives for capital structure/quality, including an emphasis on retained earnings?
5. Are capital management processes systematic and comprehensive?
6. Are forecasts of capital requirements subjected to periodic review to ensure their continuing validity?
7. Do capital management policies optimize the credit union's use of capital given such factors as its risk profile or regulatory requirements?
8. Does the capital plan differentiate between regulatory capital requirements and operating capital requirements?
9. Does the capital plan consider maintaining regulatory capital levels sufficiently above the minimum regulatory requirements to ensure the credit union is not precluded from proceeding with its business plans and is not at risk of regulatory control as a result an inability to absorb losses?

M-10: LEGISLATIVE AND REGULATORY COMPLIANCE RISK

It is sound business and financial practice to:

(a) identify the legal and regulatory requirements that the credit union is subject to and to have appropriate and prudent policies to ensure compliance with the requirements;

(b) provide the Board of Directors with appropriate reports that will enable it to assess whether the credit union has an effective legal and regulatory risk management process and risk.

Commentary

Credit unions are required to comply with a number of statutory requirements (common and criminal law) imposed by all levels of government, including government agencies such as FINTRAC or CMHC. Failure to comply with regulatory requirements may result in sanctions and/or fines being imposed on the credit union or result in fines or prison sentences being imposed on officers, directors or employees.

Regulatory sanctions and any media coverage of the sanctions may have a negative impact on the reputation of the credit union and result in a loss of business.

Examples of legislation the credit union must be compliant with would include the following. (Note: This is not an exhaustive list and is merely illustrative of the regulatory compliance expected of credit unions from all three levels of government).

Governing Provincial Legislation	**Municipal**
▪ Credit Union Act and Regulations ▪ Company Act ▪ Privacy Act	▪ Fire Codes ▪ Business Licensing Requirements
Federal Legislation	**Other Provincial Legislation**
▪ Income Tax Act ▪ Interest Act ▪ Proceeds of Crime (Money Laundering) and Terrorist Financing Act	▪ Personal Information Protection Act ▪ Consumer Protection Act ▪ Employment SSBFPs Act ▪ Wills Act

Credit unions are also required to ensure compliance with legal and regulatory requirements of subsidiaries and/or outsourcing partners.

Points To Consider

1. Does the credit union identify the regulatory compliance requirements within each of its business activities?
2. Does the credit union have a process to remain current with changes to legislation that may impact its operations?
3. Does the credit union review regulatory compliance on a regular basis? Does it ensure that underlying information systems process the information in line with regulatory requirements?
4. Are employees aware of regulatory compliance and reporting requirements?
5. Are regulatory compliance issues considered in the development of new business cases?

M-11: INTERNAL CONTROL ENVIRONMENT

It is sound business and financial practice for a credit union to ensure that:

(a) there is a control environment that supports effective management of operations and of the risks to which it is exposed and that contributes to the achievement of its business objectives;

(b) the Board of Directors is provided with appropriate reports that will enable it to assess whether the credit union has such a control environment.

(c) the independent internal audit function, on a regular basis, validates that the processes, policies, procedures and controls including risk management processes are being monitored and adhered to, and that appropriate action is being taken to address any significant weaknesses or breakdowns that have been identified.

Commentary

Although the specific approach to establishing and maintaining a suitable control environment will differ among credit unions, the approach must meet legislative requirements. Common attributes of an appropriate and effective control environment are:

- a governance approach that is aligned with:
  - the credit union's delegation of responsibilities;
  - the responsibility to manage risk in accordance with approved policies and processes;
  - the responsibility to identify new and emerging risks;
  - the responsibility for the oversight of operations;
  - the timely reporting and review of risk management information
- a management and communication style (attitude, behaviors, fostering of trust and learning) that supports the open flow of information at relevant levels within and across the credit union about the management of risk and related controls;
- an organizational structure (i.e. hierarchy/matrix/network) that facilitates enterprise- wide and coordinated or cross-functional management of operations and related risks;
- a sufficient number of competent personnel in place to manage the credit union's operations and risks and that are adequately supported by effective financial, technological and other resources;
- timely, relevant, accurate and complete communication to:
  - individuals at all levels within the organization about the credit union's business objectives and their roles and responsibilities (including control activities related to the management of operations and risks) and the information necessary to carry out their responsibilities (including that necessary to challenge assumptions and reassess business objectives, strategies and plans in light of changing circumstances);
  - senior management and the Board about any significant issues respecting the management of operations and risks (including whether decisions are being made on a timely basis and by the right people);

- behavior of individuals that complies with the credit union's SSBFPs of business conduct and ethical behavior;
- performance management that is appropriately aligned with the achievement of business objectives and management of the credit union's significant operations and risks.

Periodic reporting to the Board of Directors about the control environment enables conclusions to be made about whether it effectively supports the management of significant operations and risks, as well as the achievement of the institution's businessobjectives.

The independent internal audit function is an important means by which the Board of Directors and senior management objectively validate whether a credit union's processes, policies, procedures and controls are working.

The internal audit function is distinct and separate from the line management of operations. The internal audit function does not have responsibility for establishing or maintaining processes, policies, procedures and controls. Rather, it provides independent assurance to the Board and senior management that those processes, policies, procedures and controls are appropriate and have been applied competently and with integrity.

The effectiveness of the independent audit function depends on:

- independent reporting to the Board or AuditCommittee;
- a mandate that is appropriately aligned with the needs of the Board and senior management to obtain independent assessment of the credit union's adherence to policies, processes, procedures and controls;
- independence from the operations underreview;
- sufficient financial and other resources (including qualified and competent people);
- an appropriate risk-focused framework and approach that is consistently applied.

Points To Consider

1. Does the management style and behavior encourage the open flow of information at relevant levels within and across the credit union about management of operations and risks?
2. Does the organizational structure facilitate enterprise-wide, coordinated management of operations and risks?
3. Does the credit union have sufficient and competent personnel to manage the operations and risks, supported by sufficient financial, technological and other resources?
4. Is timely, relevant, accurate and complete information communicated to relevant individuals about the business objectives and their responsibilities (including control activities) and to enable them to be carried out (including to challenge assumptions and reassess business objectives, strategies and plans in light of changing circumstances)?
5. Does the internal audit function have a risk-focused approach to the planning and execution of its audits?
6. Does the Board, through the Audit Committee, oversee setting the scope of the internal audit function?
7. Has reasonable assurance been obtained from external sources that the internal audit function is competently resourced and that it conducts its work in a disciplined and consistent manner?
8. Does the internal audit function have complete access to the operations and the cooperation of the individuals within the operations?
9. Are the reports received from the internal audit function timely, objective, and provided directly to the Audit Committee?
10. Are the conclusions and recommendations of the internal audit function dealt with in an appropriate and timely manner?
11. Is performance management aligned with the achievement of business objectives and the management of operations and risks?
12. Is the IT function subject to Information Security audits? Where appropriate, has the management considered obtaining an ISO 27001 (ISMS) information security SSBFP certification?

M-12: BUSINESS CONDUCT AND ETHICAL BEHAVIOR

It is sound business and financial practice for the CEO to:

(a) develop and submit to the Board of Directors for its consideration and approval SSBFPs of business conduct and ethical behavior for directors, senior management and other personnel;

(b) develop appropriate processes and procedures that provide all personnel with anonymous and confidential process for reporting matters of serious concern regarding operations of the credit union to the governance level;

(c) ensure that the credit union has an ongoing effective processfor ensuring adherence to SSBFPs of business conduct and ethical behavior;

(d) ensure that the Board of Directors is provided with appropriate reports that will enable it to assess whether the credit union has a process referred to in paragraph (c)

Commentary

SSBFPs of business conduct and ethical behavior are the expectations governing the conduct and behavior of individuals representing the credit union. Policy must address issues of ethical conduct, conflict of interest, confidentiality, receiving of gifts, outside employment, trade knowledge and intellectual property, etc. A process for assuring adherence with the credit union's SSBFPs of conduct reinforces the importance of ethical behavior by the representatives of the credit union.

Periodic confirmation to senior management and the Board of adherence to the conduct SSBFPs provides reasonable assurance that representatives of the credit union are behaving ethically and that an important element of the control culture is working effectively. It also provides an opportunity to review the appropriateness, comprehensiveness and completeness of the business conductSSBFPs.

Points To Consider

1. Are individuals at all levels made aware of the business conduct and ethical behavior requirements and consequences of non-compliance?
2. Are annual attestations required of directors, senior management and all personnel as to whether they comply with therequirements?
3. Is there a process for dealing with instances where the requirements have not been observed?
4. Are significant matters related to non-observance of the requirements reported to the Board on a timelybasis?
5. Are appropriate policies, processes and procedures in place and communicated to all personnel that provide them with anonymous confidential access to the Board or a committee of the Board to report matters of serious concern regarding the operations of the credit union and are all employees aware of them?
6. Is the process for ensuring adherence to the requirements subject to periodic independent validation?

M-13: PROCESS TO ENSURE CONTROL
It is sound business and financial practice to ensure that there is an effective process for assisting the Board of Directors to assess whether the credit union is in control.

Commentary

The concept of being "in control" refers to the state or condition wherein a credit union can demonstrate that:

- its operations are subject to effective governance by the Board, are being managed in accordance with policy direction approved by the Board and with effective strategic, risk, operational, regulatory, fiduciary, liquidity, funding and capital management processes, and are being conducted in an appropriate control environment;
- significant weaknesses or breakdowns related to these areas are being identified, and appropriate and timely action is being taken to address them.

Process to Ensure Control: Inherent in the state or condition of being "in control" is the requirement to have an effective process to continuously identify potential "in control" issues at all levels within the credit union, assess the significance of these issues and, where needed, plan and take timely action to strengthen governance, strategic, risk, operational, regulatory, fiduciary, liquidity, funding and capital management processes.

The determination of whether a credit union is "in control" generally should be a by-product of processes in place to identify and assess significant risk management issues throughout the credit union and to aggregate results and conclusions for senior management and the Board. A number of attributes typically are associated with such processes. These include:

- clear assessment objectives and criteria;
- an entity-wide (across the credit union and at all levels)approach;
- the conduct of assessments by people with appropriate competencies (e.g. training, skills, experience, knowledge, good judgment, perspective) and integrity regarding the issues;
- timely, relevant, accurate and complete reporting of the results to senior management and the Board.

A number of activities can contribute to obtaining reasonable assurance that a credit union is "in control" including:

- self-assessment and regular reporting by individuals responsible for managing the credit union's operations confirming that the areas for which they are responsible are being managed in accordance with the approved policies, procedures and processes and that any significant risk issues are identified and addressed;
- periodic reviews by the independent internal audit function and, where applicable, the compliance group, and validation by the internal audit function as to whether the operations reviewed are being managed competently, with integrity and in accordance with the approved policies, procedures and processes and that any significant risk issues are identified and addressed;
- reports and observations from other sources (such as external auditors, regulatory examinations, etc.) about the management of the credit union and the control environment;
- timely, accurate and meaningful reporting by senior management to the Board of Directors regarding whether the areas for which they have been assigned responsibility are being effectively managed and whether significant risk issues related thereto are being identified and addressed (including the basis by which issues are identified, and their significance determined and the process for deciding on further action);
- the Board is appropriately organized in terms of its overall structure (including its committees and their mandates) and has the required competencies to access the flow of "in control" information upwards and downwards within the credit union.

Front-line responsibility for control rests with the individuals who directly manage a credit union's business activities and are therefore in the most immediate position to provide reasonable assurance that management and control processes for which they are responsible are appropriate and effective. The timing, frequency and extent of work involved in obtaining this assurance will differ among credit unions, considering, among other things:

- nature and complexity of the business conducted, and the organization structure supporting the operations, including the experience and competencies of the management;
- the significant risks associated with the operation;
- whether the operation is new or ongoing;
- the nature and frequency of changes in the operation;
- nature and stability of processes, policies, procedures and controls applied to the operation;
- the strength of management involved with the operation;
- continuity of personnel involved in the operation;
- the nature and frequency of changes in the control environment.

An independent internal audit is the activity established to provide objective assurance as to whether a credit union's processes, policies, procedures and controls are working. In performing this work, the internal audit function can provide an important mechanism for validating those assertions by senior management and others about the management of significant operations and risks reviewed by the function can be properly supported.

The need to establish and maintain an internal audit function is distinct from the requirement to manage day-to-day operations. The internal audit function does not have responsibility for establishing or maintaining processes, policies, procedures and controls but for providing the Board and senior management with objective assurance that the institution is "in control". The audit function may suggest or recommend changes to processes, policies, procedures and controls, which would improve or enhance the management of significant risks.

Although internal audits are usually performed using resources within the credit union, the execution of an audit function, in total or in part, may be carried out by outside organizations that have the expertise to provide internal audit services and are independent fromthe operations being reviewed and/or the external auditors. The following are critical to the effectiveness of the independent internal auditgroup:

- independent decision-making on the objectives, scope and timing of the audits;
- independent reporting to senior management and the Board;
- a mandate (objectives, responsibilities and accountability) that is unambiguous and appropriately aligned with the needs of line operating management, senior management and the Board to obtain independent validations;
- independence from the execution of business activities being reviewed;
- sufficient financial and other resources (including qualified and competent people);
- an appropriate risk-focused approach that is applied consistently.

Some credit unions have a compliance group, charged with identifying, interpreting and communicating regulatory requirements. The compliance group often provides consultative support to those in charge of a credit union’s operations in addressing regulatory compliance requirements. Where such a group exists, its work can contribute to the understanding of whether the credit union is "in control" of regulatory compliance risk.

From time-to-time, other parties (such as the external auditors, regulators, etc.) provide observations about the credit union stemming from the work that they conduct pertaining to their specific mandates. These comments and observations provide another input for the Board and senior management regarding whether the credit union is "in control".

Significance: Significance is different from materiality and has broader, more profound implications. The determination of whether a matter is significant requires an assessment of the probability of the event occurring as well as the potential impact of the event. The probability of occurrence is affected by the appropriateness and effectiveness of the processes, policies, procedures and controls in place to manage the risk associated with an event. The potential impact or magnitude of an exposure needs to be measured qualitatively, quantitatively or through a combination.

The criteria for determining whether a matter is significant will differ at different levels of management oversight within the credit union. Nevertheless, the determination of the criteria for aggregating information about significant issues should be aligned with the accountabilities at different levels within the credit union, including senior management and the Board.

Points To Consider

1. Are self-assessment reports provided by individuals who manage operations as to whether these operations are being effectively managed in accordance with the credit union's processes, policies, procedures and controls and provide details of any related significant risk issues?
2. Do these self-assessment reports prioritize the significant risk issues and set out how they will be addressed?
3. Does the internal audit function periodically validate the quality and integrity of the self-assessment process including the accuracy and reliability of the resulting assertions?
4. How, and to what extent, are observations from external sources about the management of the credit union's operations and risks considered?
5. Is there timely and meaningful reporting to the Board about significant risk issues (including the basis on which issues are determined to be significant) and the actions taken or planned to address them?

GLOSSARY OF TERMS

Asset/Liability Matching Risk: Asset/Liability Matching Risk is the risk of loss to which the credit union is exposed from the possibility that assets and liabilities, whether on or off-balance sheet, of the credit union or of its subsidiaries will be mismatched as regards their final maturity dates, re-pricing dates, embedded product options, foreign exchange rate changes.

Asset/Liability Management: The prudent structure of on and off-balance sheet transactions in order to manage asset cash flows in relation to liability cash flows in a way that contributes adequately to earnings and limits risk, thereby protecting the capital of a credit union.

Business Activities: Business activities are those processes, functions, etc. that are required to efficiently and effectively provide services and products to members either directly or indirectly through a subsidiary.

Business Objectives: Business objectives are short and long-term operating and financial objectives.

Business Plan: A business plan is a detailed description of how particular operations are to be conducted in implementing a business strategy.

Business Strategy: Business strategy is a detailed description of how business objectives are to be achieved.

Capital Management: Capital management is the ongoing determination, allocation and maintenance of both quantity and quality of capital that is needed to support the current and planned operations of the credit union. This includes consideration of regulatory and economic capital requirements and stakeholders' expectations.

The objective of capital management is to optimize capital, that is to ensure that capital is and will continue to be adequate to maintain confidence in the safety and stability of the credit union and that the return on capital is sufficient to satisfy the requirements of others including the providers of credit facilities.

Control Environment: The credit union's control environment is the environment created by its governance approach, management style, organizational structure, commitment of resources and communication style, its procedures and controls and compliance with policy, the behavior of its personnel and its human resources policies and practices.

A good control environment supports the management of operations and related risks and contributes to the achievement of business objectives.

Corporate Governance: Corporate governance refers to the processes, structures and information used by the Board of Directors for directing and overseeing the management of a credit union.

Credit Risk: Credit risk is the risk of loss to which the credit union is exposed that is attributable to the possibility that persons will fail to honor their payment obligations, whether on or off- balance sheet, to the credit union or to its subsidiaries, after consideration has been given to the value of any security held in support of the payment obligations. Credit Risk is primarily centered in the lending portfolios but is also present in other transactions including derivatives.

Embedded Product Options: Embedded product options are product options provided to the member that may result in changes in behavior with changes in interest rates. Examples would include redeemable (cashable) term deposits or pre-payment options on mortgages.

Enterprise Risk Management (ERM): a comprehensive, systematic and disciplined process for proactively identifying, assessing, managing, controlling, and reporting on the significant strategic, business and process level risks inherent in a business strategy or operations at any point in time, and is an integral part of the credit union's strategic planning process. The objective of ERM is to manage risk, not eliminate it to enhance value and to preserve the long- term sound business and financial operations of the credit union. ERM is a fundamental responsibility and accountability of the Board of Directors and Management.
ERM processes would include:

1. Linking risk management to enterprise and business unit goals/objectives.
2. Considering risks from all sources – not constrained by organizational boundaries.
3. Matching external impacts with internal realities, e.g., cost, management time.
4. Processes which:
    - identify significant risks;
    - measure significant risks;
    - assess significant risk impact/tolerance;
    - define appropriate responses to significant risks;
    - monitor significant risks;
    - reports on significant risk management effectiveness.
5. coordinated/integrated effort on the part of the credit union.
6. integration with the credit union's strategic planning and governance processes.
7. In a mature model, the process would aggregate risk across the entire organization to assess the enterprise risk profile in relation to its capacity to absorb the risk.

Fiduciary Risk: Fiduciary risk is the risk of loss to which the credit union is exposed, whether directly or as a result of adverse effects on its reputation, that is attributable to the possibility that the credit union or any of its subsidiaries, or a third party with which the credit union has contracted with to provide services, will breach their duties or obligations in the course of holding, administering, managing or investing assets on behalf of members/clients, or in the course of providing investment advice to members/clients or the credit union breaches its duty to safeguard information provided by the members/clients.

Investment Risk: Investment risk is the risk of loss to which the credit union is exposed from the possibility of adverse changes in the value of financial instruments and other investments (including any investment in subsidiaries) or assets owned by the credit union or any of its subsidiaries, whether on- or off-balance sheet, as a result of changes in market rates or prices or foreign exchange rates.

Liquidity Management: Liquidity management is the management of cash flows and the concentration of assets and liabilities, both on- and off-balance sheet, for the purpose of obtaining a desired relationship between cash inflows and cash outflows. Since virtually every financial transaction has implications for a credit union's liquidity, liquidity determines the day-to- day viability of a credit union. Effective liquidity and funding management is a fundamental component of safe and sound management.

Liquidity Risk: Liquidity risk is the risk of having insufficient liquid resources to meet the credit union's cash or funding requirements, and/or insufficient liquid investments to meet the statutory liquidity requirements.

In Control: A credit union is "in control" when it can demonstrate that:

- its operations are subject to effective governance by its Board of Directors, are being managed in accordance with sound policy direction approved by the Board, and has ongoing, appropriate and effective strategic, risk, operational, regulatory, fiduciary, liquidity, funding and capital management processes, being conducted in an appropriate control environment;
- significant weaknesses or breakdowns related to these areas are being identified, and appropriate and timely action is being taken to address them.

Operations: Operations means business activities and the functions that support those activities. (See definition Significant Operations)

Regulatory Risk: Regulatory risk is the failure to comply with the regulatory requirements that may result in sanctions and/or fines being imposed on the credit union or may also result in fines or prison sentences being imposed on officers, directors or employees. Regulatory sanctions and any media coverage of the sanctions may have a negative impact on the reputation of the credit union and result in a loss of business.

Reputation Risk: All successful businesses have a good reputation in their respective markets. Reputation is sometimes referred to as "Brand Value". It is the image the business portrays to the consumer and how it is perceived by the consumer. The attributes on which a business's reputation is based vary by industry. There are several attributes that are applicable to all industries, including credit unions, and the list would include:

- Trust
- Consistent/Reliable
- Law abiding
- Professional
- Caring
- Financially sound – peace of mind
- Exhibit ethical behavior
- Good value proposition

Credit unions rely heavily on the confidence of their members who trust the organization with their deposits and rely on the payment and other financial services offered by the organization. The credit union's reputation is an important component in gaining and retaining the confidence of members. The loss of member confidence may lead to their withdrawing deposits and the ultimate demise of the credit union. Factors which may have a negative impact on a credit union's reputation and over which the credit union has control would include:

- The credit union is perceived as high risk financially unsound organization
- Poor value proposition
- Service interruptions (banking system not available on a frequent basis).
- Failure to hold member information in confidence
- Frequent errors in reporting member transactions
- Operating losses and/or perceived financial weakness and/or instability
- Negative publicity such as large law suits (justified or unjustified)
- Perceived poor service
- Perceived social irresponsibility and/or unethical behavior.

Factors which may have a negative impact on a credit union's reputation and over which the credit union does not have control would include:

- The credit union system is perceived as high risk or financially unsound as a result of the actions or publicity surrounding the operations of a particular credit union or group of credit unions.
- An unexpected major negative event impacting a competitor that results in financial institutions being perceived as less safe.
- An unexpected major negative event impacting a key partner/supplier to the credit union.

Risk: Risk is an event or activity, which may interfere with the achievement of corporate goals or cause an opportunity to be missed.

Risk Management: Risk management is making decisions, taking action to deal with identified risks, and being proactive and anticipatory with both a short-term and a longer-term, strategic focus.

Significance: Significance is different from materiality and has broader, more profound implications. The determination of whether a matter is significant requires an assessment of the probability of the event occurring as well as the potential impact of the event. The probability of occurrence is affected by the appropriateness and effectiveness of the processes, policies, procedures and controls in place to manage the risk associated with an event. The potential impact or magnitude of an exposure needs to be measured qualitatively, quantitatively or through a combination.

The criteria for determining whether a matter is significant will differ at different levels of management oversight within the credit union. Nevertheless, the determination of the criteria for aggregating information about significant issues should be aligned with the accountabilities at different levels within the credit union, including senior management and the Board.

Significant Operations: Significant operations are operations that have an important influence, whether quantitative or qualitative, on the credit union's earnings, liquidity, funding, capital, reputation or brand value, or that are important to the achievement of the credit union's business objectives or the implementation of its business strategy and business plans, and includes any such operations that are conducted through subsidiaries of the credit union.

Significant Risk: Significant risk is an event or activity, which may significantly interfere with the achievement of corporate goals, or an event or activity, which may cause a significant opportunity to be missed.

Strategic Management: Strategic management is the process of ensuring that business operations are planned, authorized, undertaken properly and monitored. Effective strategic management entails:

- strategic decision-making – establishing business objectives for the credit union and deciding on an entity-wide strategy for achieving the business objectives;
- strategic execution – developing and implementing business plans to carry out the business strategy; and
- strategic review – subjecting the business strategy and plans to regular review against current and anticipated conditions as well as results.

Strategic management is an important function within a credit union. The established business strategy and plans have direct implications for the risks that it will face in conducting its business activities as well as for the human, capital and other resources necessary for the success of the strategy and plans. With effective strategic management, coordinated with prospective consideration of the significant risks inherent in its business strategy, a credit union is less likely to be confronted unexpectedly with situations that might adversely affect it.

Strategic management provides an important means to ensure that:

- the business strategy and plans are aligned with the credit union's business objectives, mission statement and values;
- the resources required to achieve expected results are identified and allocated;
- individuals with decision-making responsibility for an operation are aware of the institution's business objectives and strategy as well as the relevant business plans;
- a credit union is aware of internal or external changes that may affect its business strategy or plans, and where warranted of the need for strategic change;
- performance is monitored and assessed against expectations.

Strategic Risk: Strategic risk results from the failure of a credit union to develop business strategies and plans and include in the strategies and plans consideration of the significant risks inherent in its business strategy and regularly monitor and assess the strategies and plans against expectations.

APPENDIX A - ENTERPRISE RISK MANAGEMENT – MODEL POLICY

PURPOSE

To provide an overall framework for the appropriate, effective and prudent management of all risks in the credit union's operations on an enterprise-wide basis (including exposures taken by subsidiaries or affiliates). This policy is to be read in conjunction with the credit union's other risk management policies.

POLICY STATEMENTS

The credit union will utilize enterprise risk management principles to provide for proactive identification and management of the full range of risks to which it is exposed.

The credit union will identify the significant risks it faces, assess the potential impact and have policies in place to manage them effectively. This will include reviewing policies and practices regularly to ensure that they remain appropriate in light of changing circumstances and in light of how existing policies and practices have performed in managing the risks.

The Board of Directors will provide oversight and assume responsibilities outlined in the policies approved by the Board of Directors from time to time. The policies will ensure that the credit union's risk management processes reflect:

- the risk(s) being addressed;
- the risk tolerance of the credit union;
- regulatory requirements;
- accountabilities for monitoring and for managing risks.

RESPONSIBILITIES

Governance Responsibility for Oversight: monitoring the overall risk framework and risk policy will remain with the Board of Directors as a whole although individual risk areas may be delegated to Board committees for oversight. Where Board committees are over seeing specific risks the committees will report to the Board on the execution of that duty. While the Board of Directors may delegate some oversight functions to Board committees the Board retains ultimate responsibility.

The Board of Directors is responsible for:

- understanding the significant risks to which the credit union is exposed
- establishing prudent risk management policies for those risks
- annually reviewing and approving (updated) Enterprise Risk Management policy
- annually reviewing and approving other related risk policies
- annually obtaining reasonable assurance that the credit union has an effective risk management process in place
- annually obtaining reasonable assurance that the risk management policies are being adhered to
- monitoring level of risk exposure through receipt of reports from management and others (e.g. regulators, external auditors)
- enquiring and determining if the level of risk is appropriate.

Management Responsibility: to develop the necessary management level policies and procedures to provide for sound risk management practices.

The CEO is responsible for ensuring there is an ongoing appropriate and effective risk management process, which includes:

- identifying the risks to which the credit union is or will be exposed, whether on or off-balance sheet and including IT risks, whether directly or through its subsidiaries, in conducting its current and planned operations
- assessing severity of the risks that are identified and report on the resultant risk profile to the Board
- developing for consideration by the Board, governance level policies for dealing with significant risks including aggregate exposure limits, and providing annual updates of such policies
- establishing appropriate and effective management level policies, procedures and controls for managing the risks and monitoring adherence to those procedures and controls; and annually updating the key management policies to ensure they remain appropriate and prudent
- dealing with extraordinary events
- providing the Board with relevant reports that enable it to assess whether the credit union has an ongoing, appropriate and effective risk management process to manage the risks and to manage when risks escalate above expected thresholds due to external factors or internal deficiencies.

While the CEO remains ultimately responsible for the management of risks for the credit union, the CEO may delegate responsibility for identifying, developing policies and procedures, and monitoring risks to executive management. The CEO and Board can rely on the Internal Audit function to report to the Audit Committee on breakdowns in internal control and resulting exposure to unexpected risk.

MONITORING AND REPORTING

Adherence to this policy will be measured through reports provided by management, which outline the significant risks, how they are mitigated and the level of risks.

The following reports, as a minimum, will be provided to the Board and/or Board Committees:

Report	Frequency
Risk profile of the credit union outlining significant risks	Annually to Board
Summary of emerging risks and new risks	Annually to Board
Report on certification process for SSBFPs of Sound Business and Ethical Conduct	Annually to Board (or Conduct Review Committee)
Reporting on categories of risk as articulated in individual risk policies (e.g. delinquency – see Credit Policy)	See respective policies
Results of internal control audits	Quarterly to Audit Committee
Results of regulators examination	As occurs
Results of external auditors' examination	Annually to Audit Committee
Material lawsuits	Quarterly to Audit Committee
Extraordinary event occurrence	As occurs
Material fraud	Quarterly to Audit Committee

Roles and Responsibilities	*Ongoing*	*Annual*
BOARD		
Approve ERM Policy/Review and update		✓
Understand the risk profile and changes thereto	✓	✓
Assess completeness of policies providing the framework for management of key risks		✓
Approve risk appetite through level of capital		✓
Identify and consider emerging risks and changing risks during strategic planning		✓
Receive report on top risks and actions taken to respond to them	✓	
Receive reports on effectiveness of ERM program[1]		✓
Receive report on significant risk events	✓	
MANAGEMENT		
Recommend changes to/update of ERM policy and other related risk policies		✓
Define and make recommendations on risk appetite		✓
Determine top risks (emerging and current)		✓
Understand inherent risks of new initiatives	✓	
Maintain current view of consolidated risk profile	✓	
Conduct annual update of risk profile and assessment of risks		✓
Maintain catalogue with risks, assessment and responses	✓	
Cooperate with independent reviews/audits of risk responses	✓	
Consider impact on strength of risk responses based on comments by regulators and auditors (external, internal) resulting from their work	✓	
Track actions to remediate gaps in risk responses	✓	

[1] Various Board Committees as well as Board of the whole will receive these

APPENDIX B - ERM RISK COMMITTEE – SAMPLE TERMS OF REFERENCE

Introduction

Given the breadth and types of risks faced by a credit union, there is a need to establish a forum to bring together the people who deal with the risks and monitor the risks to have an enterprise-wide view on the consolidated risk profile of the credit union. A technique for this is a Management Risk Committee. The following is an example terms of reference for the Committee.

Purpose:

The Management Risk Committee will monitor the level and management of risks for the credit union and its subsidiaries.

The Committee will assess the credit union's Enterprise Risk Management Program and will recommend new and enhanced processes and controls as the need and opportunity arises.

The Committee recognizes that the credit union needs to create member value and will therefore balance risk with return. It is recognized that the control environment and management controls are an important part of the enterprise risk framework because when control is effective in relation to the degree of risk, an organization is more likely to achieve its strategic and operating objectives.

The Committee will monitor to ensure that the credit union is exposed to risks it knowingly accepts and is prepared for the unforeseeable.

Structure:

The committee shall consist of the following positions:

- Vice-President, Finance (Chair)
- Vice-President, Retail Operations
- Vice-President, Commercial Operations
- Vice-President, Wealth Management
- Vice-President, Information Systems
- Vice-President, Marketing
- Senior Manager,
- Credit Risk Senior Manager
- Support Services Branch Manager
- Manager, Technology
- Manager, Human Resources

Internal Audit will have an observer status at the committee.

General Accountabilities:

The Committee shall record its deliberations, recommendations and actions and report to the executive team on a monthly basis. The Chair will present a report to the Board on a quarterly basis.

The Committee shall refer specific issues and recommendations to the executive for review or approval when any one of the following conditions is met:

- Recommendations of the Committee are not beingfollowed.
- A substantive change to the current policy is being recommended that will significantly alter the risk profile of theorganization.
- A recommendation being considered by the Committee will have material impact on the organization. Materiality shall mean any information, action, or inaction that may significantly affect the risk profile of the credit union.
- The internal auditor does not agree with the recommended policy or procedure and/or has concerns that need to beaired.

The internal auditor shall refer specific issues and recommendations to the Audit Committee of the Board when he/she has concerns about the decision or outcome of matters referred to the Executive.

Specific Accountabilities:

- Develop and maintain a risk assessment and control framework for the credit union.
- Make recommendations with respect to the enhancement and improvement of the control framework for the creditunion.
- Review and address the findings of the Internal Auditor, External Auditor and regulators as they apply to weaknesses in managing risks (market, credit, operational, corporate).
- Review and approve policies developed by departments to ensure consistency with the credit union's internal control system and control framework.
- Ensure all corporate policy and procedure manuals are maintained.
- Maintain a record of its deliberations and share this information with the executiveteam.
- Recommend policies to the Board ofDirectors.

Meetings:

The Committee shall meet at least quarterly or as deemed necessary by the chair. A quorum is the Chair and at least 50% of committee members.

The Committee shall develop its procedures, which will be approved by the executive committee.

APPENDIX C - IMPLEMENTING ENTERPRISE RISK MANAGEMENT

What is Enterprise Risk Management?
ERM involves a strategic analysis of risk across the credit union. The view is a corporate one rather than in silos – it cuts across business units and departments and considers end-to-end processes. The primary objective is not to eliminate risk but rather to provide a framework in which an organization can effectively identify and manage risk exposures.
Who is responsible for ERM?

If ERM is to be successful in a credit union, there must be clear support at the Board and senior management level. Some organizations have demonstrated this through the appointment of a Chief Risk Officer or the establishment of a Risk Oversight Committee. Providing risk education across the organization and involving staff in the implementation process creates a risk awareness culture in the credit union and allows staff to see their role in managing risk.

How does ERM differ from current credit union Risk Management Practices?

Traditionally, credit union risk management practices focus on the traditional risks of credit, liquidity, and margin. ERM has a broader focus and includes, among others, fiduciary, information technology, supplier, and regulatory risks. ERM is focused on developing and implementing risk management practices, policies, processes and procedures that enhance operating results within the risk tolerances established by the credit union.

What would a typical ERM process include?
The ERM process includes:

1. Risk analysis – identification of risks, assessment as to likelihood of the risk occurring and the degree of impact if the risk should occur,
2. Risk management response and responsibility – for each risk a response is identified (avoid, accept, transfer, mitigate) and a person delegated responsibility for that risk,
3. After implementation of risk responses, activities must be monitored to ensure risks remain within an acceptable threshold. Audit also becomes a part of the monitoring process assuming the function is utilizing a risk-based internal audit approach. Information and reporting going forward to the Board and senior management allows an assessment of the management of risk across the organization and the degree of risk the credit union is ultimately exposed to.

Benefits of implementing ERM

A credit union which successfully implements ERM should expect the following benefits:

- Alignment of risk and strategy
- Clarity of accountability
- Identification of all risks, including those that traditionally may have been overlooked
- Allocation of resources to areas of greatest risk
- Streamlined costs and capital

The organizations that choose to adopt ERM do it to be informed. By being informed, the directors and senior management can be proactive in managing the multitude of risks. Through a risk identification and assessment process, organizations can identify who owns the risk, and how to best respond to the risk. In response, the organization can ensure that the appropriate resources are provided to areas of greatest risk.

Assumptions to the SSBFPs

The management of a credit union's business activities, operations, and its risk profile are constantly evolving. The SSBFP set an expectation of how a credit union should be governed and managed. Fundamentally, the SSBFPs strive to achieve explicit management of risk and the application of control throughout the credit union.

Good governance is an expectation and is key to the safety and soundness of the credit union. How the Board of Directors governs the institution and the practices that the Board sets for itself will set the tone for the organization and the environment for management. Within the governance structure, business objectives are set and a strategy determined that then provides the direction for the activities of the credit union.

The success of running the business of the credit union will be dependent on the effectiveness of the risk management practices of the credit union. Effective risk management practices require the credit union to recognize and assess the risks inherent in their operations. Once the risks are properly recognized, management can then focus on taking the necessary actions to mitigate the risks to remain within an acceptable risk threshold appropriate to the particular credit union. Risk management and the accompanying tactics including internal controls, must be present at all levels within the credit union.

It is assumed that each credit union has implemented necessary practices to achieve appropriate prudent operations in relation to the institution's size, complexity of business activities, its risk profile, and control environment. The work is not so much in evaluating how a credit union's practices meet the expectations of the SSBFP, but rather in identifying the shortcomings of current practices and working to implement the necessary improvements to the credit union's existing governance and/or management activities.

It is proposed that each credit union undertake a self-assessment process to evaluate existing practices against the SSBFPs . The next section provides an outline of how a credit union could undertake the self-assessment process.

The SSBFPs assume that credit unions have implemented enterprise risk management as a practical governing and management technique.

Implementing Enterprise Risk Management

Enterprise risk management represents an approach to managing the risk that is inherent to any and every credit union. Some credit unions are subjected to a greater complexity of risk profile than others. However, it is safe to say that ALL credit unions have risks, which are inherent to their chosen business and operations.

The complexity of the risk profile of a credit union is increased in breadth and depth by its internal characteristics such as number of products and services delivered, business strategies employed, the size of the employee workforce, capital employed, the number of points of sale, geographic coverage and stakeholder accountabilities. There are also external characteristics such as the regulatory environment, political environment, and economic environment in which the credit union does business.

Risk is generally defined as an event or activity, which could prevent an organization from achieving its goals. Risks can cause financial loss, damage to an organization's reputation within the business community and with its customers, and/or could cause an organization to miss an opportunity in the marketplace.

Enterprise risk management (ERM) involves a strategic analysis of risk across an organization. The view is a corporate one rather than in silos – it cuts across business units and departments and considers end-to-end processes. ERM will not eliminate risk but rather provide a framework in which an organization can effectively manage risks or exposures.

ERM will enable an organization to identify and evaluate its risk profile. Thereafter, the organization can determine appropriate responses to the risk profile, given the business environment and the organization's objectives and priorities.

This process ensures that organizations, and the people who are stewards of those organizations, are explicitly recognizing the risks that they are charged with managing. This recognition allows more attention to be given to areas of highest risk.

Implementing ERM requires active support and sponsorship by the governance body and the chief executive officer; a willingness on the part of the organization and employees to learn and change; as well as the allocation of resources to ensure completion of the initial project and ongoing maintenance.

There are seven primary steps in implementing ERM:

1. Identify the risks
2. Assess the risks
3. Measure the risks
4. Assign response and managementof risks
5. Manage the risks
6. Monitor the risks
7. Report on the risks and inform executive and governance, and amend policy, if appropriate.

Step 1: Identify

The first step in implementing ERM is to identify the inherent risks of the business and operations of an organization. There are different techniques that can be utilized to identify these inherent risks and therefore the risk profile of an organization. The techniques include self- assessment processes, surveying, and facilitated riskworkshops.

Step 2: Assess

The next step is to assess the risk in two dimensions: the likelihood of occurrence and the impact of occurrence. Tools are available that can be utilized to assist participants in this stage to indicate their view of the risk. The combination of the likelihood of occurrence and the impact of occurrence results in the degree of severity of the risk.

Step 3: Measure

The organization needs to determine how exposure will be measured. The measurement could be stated in different terms such as; risk of financial loss through write-off of dollars or pay out of penalties or fines: risk of damage to business reputation; risk of loss due to inefficiency in processes.

Step 4: Assign Response and Responsibility

With the risk profile in hand, the next step is to determine what the appropriate response is to prudently manage the risk and who within the organization has responsibility for managing this response. The four risk responses include avoid, accept, transfer, and mitigate.

Avoid	-	this response would be to not accept the risk, e.g. exit the business
Accept	-	this response would be to accept the level of risk and take no action to minimize it further, e.g. establish reserves
Transfer	-	this response would be to transfer the risk to someone else, e.g. purchase insurance
Mitigate	-	this response is to take action to manage the risk generally through a system of internal controls

For each risk identified, the risk response can be articulated, along with the position within the organization that has responsibility for ensuring the integrity of the operation of that chosen response. It is expected that when the severity of the risk is high, there will be a strong risk response. It should be understood that where the risk response is to accept the risk, this becomes part of the organization's risk threshold or accepted residual risk.

Step 5: Manage

Managing the risks becomes the responsibility of the person in the position that has been delegated the risk response. The responsible person needs to ensure that the risk response is translated into actual day-to-day actions that will prevent and/or detect the risk. It will be this person's actions that ensure the robustness of an insurance program, an outsourced arrangement, a policy statement, exception reporting, assignment of authorities, etc.

Step 6: Monitor

After implementation of the risk responses and management techniques, the managers then monitor the actual activities to ensure that the identified risk stays within an acceptable threshold. Other units within an organization may take on a monitoring role. Some organizations have adopted centralized risk management groups who have a responsibility to determine risk parameters and monitor actual results to ensure that these parameters are honored. Internal Audit also becomes part of the monitoring process assuming the function is utilizing a risk-based internal audit approach.

Step 7: Report and Inform

The governance body and executive management will require information to be reported that allows them, at their level of concern, to be aware of the integrity of managing risks across the organization. Managers should determine and the Board should approve the form of reporting necessary to best inform the oversight body. Additionally, Internal Audit needs to structure their reporting to follow a risk focus. The information from the reporting can be used to inform the annual update of the risk analysis process as well as the updating of risk responses and policies.

Important Elements to Implementing Enterprise Risk Management

It is critical for ERM to be successfully implemented within an organization that the governance level and CEO must support it. This means the allocation of resources, and the appointment of responsibility. In order to get started, the credit union may need to utilize outside resources. In selecting outside professionals, it is strongly advised that the professionals have experience in working with ERM and particularly in financial institutions.

APPENDIX D - CONDUCTING A SELF-ASSESSMENT OF ALIGNMENT WITH SSBFPS

A Suggested Approach

The following steps represent a suggested approach to conducting a self-assessment of the credit union's practices with the SSBFPs. The greatest benefits to be achieved through this exercise will accrue through the involvement of the Board of Directors, executive management as well as line staff. The value of a self-assessment process is the learning and fair challenge that this can present to Board members, management and employees to improve the governing and operating practices for the benefit of the members and long-term sustainability of the credit union.

General

1. Conduct a presentation for key stakeholders within the credit union on the SSBFPs and the expectations. Key stakeholders will include the Board of Directors, senior management, and line management.
2. Conduct a presentation for key stakeholders on enterprise risk management – the concept and its applicability within a credit union.

Conducting a Self- Assessment - Governance SSBFPs (G-1 to G-14)

1. The Board of Directors identifies the committee of the Board or appoints a task force of Board members to be responsible for conducting the evaluation of the Board's practices in relation to the Governance SSBFPs. (The appropriate committee may be the Governance committee.)
2. The Board identifies which member(s) of management will be the support person to the Board during the evaluation process (this could be the corporate secretary, the CEO, or another executive). The Board identifies if they require an outside consultant to assist them in the exercise. The Board should prepare to execute a survey/questionnaire of Board members as part of this process.
3. The Board committee/task force is to be provided with a copy of the complete SSBFPs.
4. The Board is to develop a project plan to work through the 14 Governance SSBFPs within the timeframepermitted.
5. The Board is to be provided with a word template for each of the applicable SSBFPs. The template should be constructed as follows:

Practices per SSBFP	Credit Union's Method of Alignment	Evidential Support	Board's assessment as to alignment*

*where not aligned, provide a separate page outlining the action plan to achieve alignment.

6. The Board commences describing the governance practices that demonstrate how they adhere to the spirit of the SSBFP. In order to support the commentary, reference should be made to materials, documents, and policies that provide evidence of the statements being made.
7. In completing the self-assessment against the SSBFPs, the Board should be encouraged to identify where there may be absence of process or practices to deal with a particular item. For any weakness in existing practices, the Board should identify how they will rectify the issue and the timeframe in which the actions will be taken.
8. The Board committee/task force should convene meetings on a sufficiently frequent basis in order to ensure progress is being made and the project plan timelines are going to be met.
9. At the completion of the self-assessment, Internal Audit or another independent party should conduct an audit of the information to determine if the responses provided by the Board have addressed the SSBFP, whether the evidential support demonstrates the assertion by the Board, and whether based on other information there are weaknesses not disclosed. From this, the independent party can determine if the Board's assessment as to its alignment is correct. Where weaknesses or deficiencies are self-identified, the independent party should comment whether the means to rectify the item will be adequate.
10. The Board committee/task force review the results of the independent party's review, consider comments, and then make amendments to the statements in the self- assessment as necessary.

Conducting a Self- Assessment - Management SSBFPs (M-1 to M-13)

1. The CEO allocates responsibility for each SSBFP to an executive of the credit union.
2. The CEO appoints the chair of a steering committee, which is composed of the executives identified above. The role of the steering committee will be to provide oversight of the conduct of the evaluation of the credit union's practices in relation to the SSBFPs.
3. The head of Internal Audit or an independent party should also be appointed to the steering committee as anobserver.
4. The chair of the steering committee should develop a time line for the completion of the exercise and present such to the committee for approval and presents this to the CEO.
5. Each executive who has responsibility for certain SSBFPs may elect to have a working committee of their staff in order to complete the evaluation.
6. The steering committee chair should distribute the full SSBFPs document to each executive. In addition, provide each executive with a word template for the applicable SSBFPs for which the executive is responsible. This template should be designed so that the work effort is coordinated in a like fashion across the organization.

The template should be constructed as follows:

Practices per SSBFP	Credit Union's Method of Alignment	Evidential Support	Management's assessment as to alignment*

*where not aligned, provide a separate page outlining the action plan to achieve alignment.

7. The executive/work team commences documenting the operating practices that demonstrate how the credit union adheres to the spirit of the SSBFP. In order to support the commentary, reference should be made to materials, documents, policies, that provide evidence of the statements being made.
8. The SSBFPs need to be completed for each business line, functional group, and subsidiary of the credit union. Certain SSBFPs may apply to more than one product/business unit. In this case, the SSBFP should be completed for each applicable product or business unit, and then a comprehensive response developed at the end. For example, SSBFP M-3 (Credit Risk) would need to be completed for residential mortgages, personal lending, business lending, and commerciallending.
9. In completing the SSBFPs, management should be encouraged to identify where there may be absence of process or practices to deal with a particular item. For any weakness in existing practices, management should identify how they will rectify the issue. When items are identified that may not be in alignment but are considered not to be material, rationale is to be provided to explain why the item is notmaterial.
10. The steering committee chair should convene meetings on a sufficiently frequent basis in order to ensure progress is being made and the project plan timelines are going to be met. (This could be weekly, every other week, once a month – depending on the complexity of the credit union). A report summarizing status and progress is to be provided to the CEO at the completion of each meeting. The CEO in turn should provide updates to the Board. (The Audit Committee may be delegated the responsibility for providing oversight to ensure completion of management's process.)
11. At the completion of the review, internal audit or an independent party should conduct an audit of the information to determine if the responses provided by management have

addressed the SSBFP, whether the evidential support demonstrates the assertion by management, and whether based on other information there are weaknesses not disclosed. From this, the independent party can determine if management's assessment as to its alignment is correct. Where weaknesses or deficiencies are self-identified by management, the independent party should comment if the means to rectify the item would be adequate.

12. Management reviews the results of the independent party's review, considers comments, and then make amendments to the statements in the self-assessment as necessary.
13. The steering committee chair provides certification letters to each of the executives requesting them to confirm the completion of the process and the status of alignment. Where exceptions are noted, the executive is to provide an attachment to the letter along with the action plan to rectify the issue.
14. Management should provide a report to the Board detailing the status of alignment with Management SSBFPs M-1 to M-13.

Reference Material

In completing the self-assessment, management should consider information contained in credit union policies, procedure manuals, reports prepared for executive and the Board, communication from regulators, insurers, consultants, internal audit, and external auditors. This information may serve as evidential support and/or may highlight weaknesses that should be considered in concluding on assessment as toalignment.

PROPOSED IMPLEMENTATION PLAN

This chart gives an example of a project plan for implementation.

Step	Description	June	Sept	Dec	Mar	June	Sept	Dec	Mar	June	Sept	Dec
1.0	**Overall project**											
1.1	Provide training session for Board and senior management on the SBFs and											
1.2	Board resolution to pursue adopting											
1.3	Board reviews and approves ERM											
1.4	CEO communicates commitment to pursue adoption of SSBFPs											
2.0	**Governance SSBFs**											
2.1	Board appoints committee, decides process to undertake self-assessment											
2.2	Document, assess Board's practices in relation to SSBFPs G-1 to G-14, identify											
2.3	Independent resource reviews Board											
2.4	Remediate deficiencies if any											
3.0	**Management SSBFPs**											
3.1	CEO decides process to undertake											
3.2	Document, assess management practices in relation to SSBFPs M-1											
3.3	Independent resource reviews management's assessment on SSBFPs											
3.4	Remediate deficiencies if any											
3.5	Document, assess management practices in relation to SSBFPs M-3 to											
3.6	Independent resource reviews management's assessment on SSBFPs											
3.7	Remediate deficiencies if any											
4.0	**Report progress on implementation to Board of Directors**	**X**			**X**			**X**		**X**		**X**

DOCUMENT VERSION	Date of Issue	Section(s) Updated	Reason for Update
Original 1.0	June 2027		
Revised 1.1	October 2010	G-9, M-7	Enterprise Risk Management
Revised 1.2	February 2016	G-8, G-9, G-13, G-14, M-7, M10, M-1, Appendix A	IT Governance
Revised 1.3	July 2026	G-10, M-8	Liquidity Sections Repealed and placed into individual Standard & Guideline. Part of broader initiative to remove content from the SSBFPs and transition it into individual Standards and/or Guidelines.