



Ontario

Deposit Insurance
Corporation of Ontario

Société ontarienne
d'assurance-dépôts

BY-LAW N^o. 5

BY-LAW RESPECTING STANDARDS OF SOUND BUSINESS AND FINANCIAL PRACTICES

Assessment Workbook: Management

Ce document est aussi disponible en français.

**This document is also available in electronic format
on DICO's Web site
www.dico.com**

INTRODUCTION

The standards set out DICO's expectations regarding the business and financial practices of member institutions and are designed in such a way to make them adaptable to every member institution, regardless of size or complexity, recognizing that approaches will differ among member institutions. These standards are established in DICO's By-law No. 5. Under DICO By-law No. 5, member institutions are required to attest to their adherence to the standards. DICO has developed two "Assessment Workbooks"; one for the Board and one for Management. The workbooks provide:

- tools for the member institution to help assess its effectiveness concerning its responsibilities for governance practices as outlined in DICO By-Law no.5;
- the criteria which will be used in the On-Site Verification (OSV) program to confirm adherence to the Governance standard of By-law No.5 for the board of directors;

The workbooks are generally suitable for operations of all sizes and complexity¹. Each member institution needs to satisfy the same criteria, where they apply, taking into account the scope and complexity of its own operations.

There is no requirement to complete or file the workbook with DICO. Institutions may develop their own assessment tools or modify the workbook to suit their particular requirements

This workbook for management is in three parts.

Part I is an assessment tool for management to help evaluate the member institution's adherence with the standards and identify any material weaknesses or deficiencies that may need to be addressed. It also provides references to DICO publications, the Act and Regulations that institutions may wish to review as part of its assessment process when evaluating the effectiveness of governance practices. It is suggested that the Sections 2-7 be reviewed before Section 1B.

Part II contains information on the reporting requirement. Under By-law No. 5, as a condition of the renewal of the policy of deposit insurance, each member institution is required to attest annually that:

- management has provided a representation letter to the board of directors regarding its assessment of adherence to management's responsibilities under the standards of sound business and financial practices
- the board of directors is familiar with, and is acting in compliance with, the standards of sound business and financial practices

A sample management representation letter and is included.

Part III provides a sample action plan that may be helpful in identifying and resolving material weaknesses.

¹ A modified version of this workbook has been developed for institutions with less complex operations that meet specified criteria.

2. Capital Management

It is a sound business and financial practice for a member institution to have appropriate and prudent policies and controls to manage the capital risk of the institution.

The fundamental elements of capital management include implementing a policy that addresses:

- the quantity, quality and composition of capital needed that reflect the inherent risks of the member institution and to support the current and planned operations
- distribution of dividends and redemptions of capital instruments to members

Element	Assessment Criteria	Yes	C.U. Reference	DICO References
1. the quantity, quality and composition of capital needed that reflect the inherent risks of the member institution and to support the current and planned operations	<i>The quantity, quality and composition of capital is adequate to support the institution's overall strategic and/or business plan</i>	<input type="checkbox"/>	_____	<i>RM Sec.4201</i>
	<i>The quantity, quality and composition of capital appropriate for the nature, size and significance of risk to which the credit union is exposed</i>	<input type="checkbox"/>	_____	<i>RM Sec.4203</i>
	<i>The quantity, quality and composition of capital are consistent with the institution's capital plan</i>	<input type="checkbox"/>	_____	<i>RM Sec.4300</i>

Comments and/or exceptions:

Element	Assessment Criteria	Yes	C.U. Reference	DICO References
2. distribution of dividends and redemption of capital instruments to members	<i>Policy addresses the conditions for distributions and redemption to members relating to:</i> <ul style="list-style-type: none"> • <i>dividends on membership shares</i> • <i>patronage dividends, where applicable</i> • <i>dividends on investment shares where applicable</i> • <i>redemption of investment shares, where applicable, that meet the requirements of the Act</i> 	<input type="checkbox"/>	_____	<i>RM Sec.4204</i>
		<input type="checkbox"/>	_____	
		<input type="checkbox"/>	_____	
		<input type="checkbox"/>	_____	

Comments and/or exceptions:

Element	Assessment Criteria	Yes	C.U. Reference	DICO References
Refer Standard 1 (B) 1. implementing appropriate and prudent risk management policies, procedures and controls for the Capital Management standard	<i>Management has implemented capital management policies that address the significant risks to which the institution is exposed</i>	<input type="checkbox"/>	_____	
	<i>Management has established and implemented procedures for the capital management policies</i>	<input type="checkbox"/>	_____	
	<i>Management has established controls to maintain adherence to the capital management policies and procedures, including adequate segregation of responsibilities and duties</i>	<input type="checkbox"/>	_____	
	<i>Management has ensured that staff responsible for implementing the capital management policies, procedures and controls have an acceptable combination of skills, expertise and training</i>	<input type="checkbox"/>	_____	
	<i>Management has provided reports to the board on compliance with the institution's capital management policies, legislation and bylaws</i>	<input type="checkbox"/>	_____	
	The Capital Report: <ul style="list-style-type: none"> ▪ <i>appropriately identifies the capital position of the institution</i> ▪ <i>meets the requirements of the Act and Regulations</i> ▪ <i>provides the board with sufficient and accurate information to determine that the institution is adhering to its capital management policies and/or capital plans</i> 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	_____ _____ _____	<i>RM Sec.4400, 4401</i>
	<i>Management has identified, reported and initiated corrective action for material weaknesses or deficiencies</i>	<input type="checkbox"/>	_____	

Comments and/or exceptions:

3. Credit Risk Management

It is a sound business and financial practice for a member institution to have appropriate and prudent policies, procedures and controls to manage the on- and off-balance sheet credit risk of the institution.

The fundamental elements of credit risk management include implementing a policy that addresses:

- authorized types and classes of credit instruments
- limits or prohibitions on credit exposures including concentration
- assessment criteria and security requirements for each authorized credit instrument
- an effective credit assessment system
- defined and prudent levels of decision-making authority for approving credit exposures
- management of delinquent and impaired loans

Element	Assessment Criteria	Yes	C.U. Reference	DICO References
1. authorized types and classes of credit instruments	<p><i>All the types and classes of authorized credit instruments are included in the policy and procedures and they appropriately address:</i></p> <ul style="list-style-type: none"> • <i>the terms conditions for their use</i> • <i>eligible loan purposes</i> • <i>amortization periods as appropriate</i> 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<hr/> <hr/> <hr/>	<p><i>RM Sec.5202</i></p>

Comments and/or exceptions:

Element	Assessment Criteria	Yes	C.U. Reference	DICO References
2. limits or prohibitions on credit exposures including concentration	<p><i>Where applicable, appropriate and prudent limits or prohibitions on credit exposures have been established, including:</i></p> <ul style="list-style-type: none"> • <i>a single counterpart or group of associated counterparts (connected persons)</i> • <i>restricted party loans</i> • <i>loans concentrated within a particular industry or region</i> • <i>limits on the level of the unsecured/under secured loans within the portfolio</i> 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<hr/> <hr/> <hr/>	<p><i>RM Sec.5203, 5204,5205</i></p>

Comments and/or exceptions:

Element	Assessment Criteria	Yes	C.U. Reference	DICO References
3. assessment criteria and security requirements for each authorized credit instrument	<p><i>Appropriate and prudent assessment criteria and security requirements have been established, including:</i></p> <ul style="list-style-type: none"> • <i>debt service requirements and debt coverage requirements</i> • <i>security requirements including maximum loan to value ratios</i> • <i>a process for security valuation, registration and insurance</i> • <i>minimum loan documentation, including borrower information and approval rationale to support any identified weakness</i> 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<hr/> <hr/> <hr/> <hr/>	<i>RM Sec.5202,5504</i> <i>RM Sec.5505</i> <i>RM Sec. 5502,5503</i>

Comments and/or exceptions:

Element	Assessment Criteria	Yes	C.U. Reference	DICO References
4. an effective credit assessment system	<p><i>An effective credit assessment system has been established which includes:</i></p> <ul style="list-style-type: none"> • <i>use of standardized processes for each loan type and class</i> • <i>investigation of borrower/guarantor information appropriate for the type, size and nature of the loan</i> • <i>a risk rating of all commercial loans including indicators of any changes in performance trends</i> • <i>the requirement for timely reviews of lines of credit⁴ and all commercial loans</i> 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<hr/> <hr/> <hr/> <hr/>	<i>RM Sec.5207, 5208</i> <i>RM Sec. 5504</i> <i>RM Sec.5402</i> <i>RM Sec.5506</i>

Comments and/or exceptions:

⁴ Excludes authorized overdraft facilities

Element	Assessment Criteria	Yes	C.U. Reference	DICO References
5. defined and prudent levels of decision-making authority for approving credit exposures	<i>Appropriate and prudent levels of decision-making authority have been established including:</i> <ul style="list-style-type: none"> • <i>lender (or credit committee) approval authorities</i> • <i>an acceptable combination of experience, expertise and training for lending staff for the types of credit decision authority assigned</i> • <i>joint approval for large and complex loans</i> • <i>conditions for authorizing loan rewrites, loan postponements and formally restructured loans</i> • <i>a process for board approval on restricted party loans</i> • <i>a process for board approval in excess of lender (or credit committee) approval authorities, where applicable</i> • <i>conditions for any discretionary lending authority</i> • <i>approval for loan write-offs</i> 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<i>RM Sec.5206</i> <i>RM Sec.5501</i> <i>RM Sec. 5206</i> <i>RM Sec. 5211</i> <i>RM Sec.5205</i> <i>RM Sec.5206</i>

Comments and/or exceptions:

Element	Assessment Criteria	Yes	C.U. Reference	DICO References
6. management of delinquent and impaired loans	<i>Policy requires active management of delinquent and impaired loans in compliance with By-law #6 and requires that:</i> <ul style="list-style-type: none"> • <i>delinquent and impaired loans are actively managed, including collection and legal activities</i> • <i>valuation of the allowance for impaired loans in accordance with DICO By-law #6</i> • <i>rewritten and restructured loans are appropriately recorded and monitored</i> • <i>a process for determining the level of non-specific allowance is defined</i> 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<hr/> <hr/> <hr/> <hr/>	<i>RM Sec.5210,5507</i> <i>App. Guide</i> <i>By-law #6</i> <i>RM Sec.5211</i> <i>App. Guide</i> <i>By-law #6</i>

Comments and/or exceptions:

Element	Assessment Criteria	Yes	C.U. Reference	DICO References
Refer Standard 1 (B) 1. implementing appropriate and prudent risk management policies, procedures and controls for the Credit Risk Management standard	<i>Management has implemented credit risk management policies that address the significant risks to which the institution is exposed</i>	<input type="checkbox"/>	_____	
	<i>Management has established and implemented procedures for the credit risk management policies</i>	<input type="checkbox"/>	_____	
	<i>Management has established controls to maintain adherence to the credit risk management policies and procedures, including adequate segregation of responsibilities and duties</i>	<input type="checkbox"/>	_____	
	<i>Management has ensured that staff responsible for implementing the credit risk management policies, procedures and controls have an acceptable combination of skills, expertise and training</i>	<input type="checkbox"/>	_____	
	<i>Management has provided reports to the board on compliance with the institution's credit risk management policies, legislation and bylaws</i>	<input type="checkbox"/>	_____	
	The Credit Risk Management Report: <ul style="list-style-type: none"> ▪ <i>appropriately identifies the credit risk position of the institution</i> ▪ <i>meets the requirements of the Act and Regulations</i> ▪ <i>provides the board with sufficient and accurate information to determine that the institution is adhering to its credit risk management policies</i> 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	_____ _____ _____	<i>RM Sec.5400, 5404</i>
	<i>Management has identified, reported and initiated corrective action for material weaknesses or deficiencies</i>	<input type="checkbox"/>	_____	

Comments and/or exceptions:

4. Operational Risk Management

It is a sound business and financial practice for a member institution to have appropriate and prudent policies, procedures and controls to manage the operational risk of the institution.

The fundamental elements of operational risk management include implementing a policy that addresses:

- defined and prudent levels of decision-making authority
- the security and operation of a management information system
- technology development and maintenance
- safeguarding of the institution's premises, assets and records of financial and other key information
- disaster recovery and business continuity plans
- outsourcing of services
- monitoring controls

Element	Assessment Criteria	Yes	C.U. Reference	DICO References
1. defined and prudent levels of decision-making authority	<i>Authority for corporate decisions in all areas of operations have been defined in policy and:</i> <ul style="list-style-type: none"> • <i>appropriate delegation of authority has been defined and documented</i> • <i>the member institution has established lines of reporting and areas of responsibility</i> • <i>defined levels of and authority are commensurate with the skills and experience of the staff</i> 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<hr/> <hr/> <hr/>	<i>RM Sec.9100</i>

Comments and/or exceptions:

Element	Assessment Criteria	Yes	C.U. Reference	DICO References
6. outsourcing of services⁵	<i>Where applicable, policy identifies:</i> <ul style="list-style-type: none"> • <i>the process for selecting capable and reliable service providers</i> • <i>standards for outsourced services including accuracy, security, privacy, confidentiality</i> • <i>monitoring the performance and risks related to outsourced services and service providers</i> • <i>periodic review of outstanding contracts</i> 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<hr/> <hr/> <hr/> <hr/>	
Comments and/or exceptions: <hr/> <hr/> <hr/>				
Element	Assessment Criteria	Yes	C.U. Reference	DICO References
7. monitoring controls	<i>Appropriate controls have been established to monitor adherence to operating risk policy including:</i> <ul style="list-style-type: none"> • <i>appropriate segregation of responsibilities and duties</i> • <i>transaction verification and validation routines for error detection and fraud prevention</i> • <i>an independent internal audit function</i> 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<hr/> <hr/> <hr/>	<i>RM Sec.9400-9403</i> <i>RM Sec 9405</i>
Comments and/or exceptions: <hr/> <hr/> <hr/>				

⁵ Outsourcing refers to contracting a business function to a service provider instead of performing a function internally.

Element	Assessment Criteria	Yes	C.U. Reference	DICO References
Refer Standard 1 (B) 1. implementing appropriate and prudent risk management policies, procedures and controls for the Operational Risk Management standard	<i>Management has implemented operational risk management policies that address the significant risks to which the institution is exposed</i>	<input type="checkbox"/>	_____	
	<i>Management has established and implemented procedures for the operational risk management policies</i>	<input type="checkbox"/>	_____	
	<i>Management has established controls to maintain adherence to the operational risk management policies and procedures, including adequate segregation of responsibilities and duties</i>	<input type="checkbox"/>	_____	
	<i>Management has ensured that staff responsible for implementing the operational risk management policies, procedures and controls have an acceptable combination of skills, expertise and training</i>	<input type="checkbox"/>	_____	
	<i>Management has provided reports to the board on compliance with the institution's operational risk management policies, legislation and bylaws</i>	<input type="checkbox"/>	_____	
	The Operational Risk Management Report: <ul style="list-style-type: none"> ▪ <i>appropriately identifies the operational risk position of the institution</i> ▪ <i>meets the requirements of the Act and Regulations</i> ▪ <i>provides the board with sufficient and accurate information to determine that the institution is adhering to its operational risk management policies</i> 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	_____ _____ _____	RM Sec.9407
	<i>Management has identified, reported and initiated corrective action for material weaknesses or deficiencies</i>	<input type="checkbox"/>	_____	

Comments and/or exceptions:

Element	Assessment Criteria	Yes	C.U. Reference	DICO References
2. defined and prudent levels of decision-making authority	<i>Policy sets out delegated decision-making authority, including approval authority for:</i> <ul style="list-style-type: none"> • <i>the purchase and redemption of investments exposures</i> • <i>large or complex transactions</i> • <i>where third party brokerage services is used, limits and authorities are communicated and acknowledged</i> 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<hr/> <hr/> <hr/>	<i>RM Sec. 6204, 6205</i>

Comments and/or exceptions:

Element	Assessment Criteria	Yes	C.U. Reference	DICO References
3. identifying, measuring, providing for and recording market impairments	<i>Policy has established a requirement to monitor and report the value and yields of investments whose value or return can fluctuate, including:</i> <ul style="list-style-type: none"> • <i>defined measurement criteria for different classes and types of investments</i> • <i>deteriorating investment positions</i> • <i>accounting for changes in aggregate market exposures</i> 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<hr/> <hr/> <hr/>	

Comments and/or exceptions:

Element	Assessment Criteria	Yes	C.U. Reference	DICO References
Refer Standard 1 (B) 1. implementing appropriate and prudent risk management policies, procedures and controls for the Market Risk Management standard	<i>Management has implemented market risk management policies that address the significant risks to which the institution is exposed</i>	<input type="checkbox"/>	_____	
	<i>Management has established and implemented procedures for the market risk management policies</i>	<input type="checkbox"/>	_____	
	<i>Management has established controls to maintain adherence to the market risk management policies and procedures, including adequate segregation of responsibilities and duties</i>	<input type="checkbox"/>	_____	
	<i>Management has ensured that staff responsible for implementing the market risk management policies, procedures and controls have an acceptable combination of skills, expertise and training</i>	<input type="checkbox"/>	_____	
	<i>Management has provided reports to the board on compliance with the institution's market risk management policies, legislation and bylaws</i>	<input type="checkbox"/>	_____	
	The Market Risk Management Report: <ul style="list-style-type: none"> ▪ <i>appropriately identifies the market risk position of the institution</i> ▪ <i>meets the requirements of the Act and Regulations</i> ▪ <i>provides the board with sufficient and accurate information to determine that the institution is adhering to its market risk management policies</i> 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	_____ _____ _____	<i>RM Sec.6400-6501</i>
	<i>Management has identified, reported and initiated corrective action for material weaknesses or deficiencies</i>	<input type="checkbox"/>	_____	
Comments and/or exceptions: _____ _____ _____ _____ _____ _____ _____				

6. Structural Risk Management

It is a sound business and financial practice for a member institution to have appropriate and prudent policies, procedures and controls to manage the on- and off balance sheet structural risk of the institution.

The fundamental elements of structural risk management include implementing a policy that addresses:

- limits on the balance sheet mix and maturities of capital, deposits, loans and investments
- criteria for pricing of deposits and loans
- limits on the exposure to foreign currency risk
- limits on the exposure to changes in interest rates
- use of appropriate techniques for measuring the institution's structural risk and evaluating the potential impact under current and reasonably foreseeable scenarios
- the use of analysis and appropriate consultation for the purchase of derivatives

Element	Assessment Criteria	Yes	C.U. Reference	DICO References
1. limits on the balance sheet mix and maturities of capital, deposits, loans and investments	<i>Policy:</i> <ul style="list-style-type: none"> • establishes appropriate balance sheet limits on the maximum size of major asset/liability categories • requires that the maturities and cash flows of assets, liabilities and are actively managed • requires that there are maximum terms to maturity for loans, investments and deposits • prohibits or limits the use of derivatives for other than hedging purposes 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	 	<i>RM Sec. 7202-7204</i> <i>RM Sec.7208</i> <i>RM Sec. 7206</i> <i>RM Sec.7210</i>
Comments and/or exceptions:				
Element	Assessment Criteria	Yes	C.U. Reference	DICO References
2. criteria for pricing of deposits and loans	<i>Policy establishes the criteria and authority for pricing of deposits and loans</i>	<input type="checkbox"/>	_____	<i>RM Sec. 7205</i>
Comments and/or exceptions:				

Element	Assessment Criteria	Yes	C.U. Reference	DICO References
3. limits on the exposure to foreign currency risk	<i>Policy sets appropriate limits on the amount of un-hedged foreign currency the credit union is willing to assume</i>	<input type="checkbox"/>	_____	<i>RM Sec. 7209</i>
Comments and/or exceptions:				
Element	Assessment Criteria	Yes	C.U. Reference	DICO References
4. limits on the exposure to changes in interest rates	<i>Policy sets appropriate limits on the exposure of the credit union to interest rate changes and the resulting impact on its net interest income and capital</i>	<input type="checkbox"/>	_____	<i>RM Sec. 7207</i>
Comments and/or exceptions:				
Element	Assessment Criteria	Yes	C.U. Reference	DICO References
5. use of appropriate techniques for measuring the institution's structural risk and evaluating the potential impact under current and reasonably foreseeable scenarios	<i>Policy establishes the basis for measuring and evaluating structural risk including:</i> <ul style="list-style-type: none"> • <i>an appropriate technique or techniques to be used and the basis for determining the potential impact from reasonable scenarios</i> • <i>the classification and treatment of various asset and liability categories</i> • <i>the criteria to be used to evaluate structural risk and the basis for determining the potential impact from reasonable scenarios</i> 	<input type="checkbox"/>	_____	<i>RM Sec. 7401-7404</i>
		<input type="checkbox"/>	_____	
		<input type="checkbox"/>	_____	
Comments and/or exceptions:				
Element	Assessment Criteria	Yes	C.U. Reference	DICO References
6. use of analysis and appropriate consultation for the purchase of derivatives	<i>Where derivatives are used, policy establishes:</i> <ul style="list-style-type: none"> • <i>the objectives of the hedging strategy</i> • <i>the use of management analysis, appropriate consultation and reliance on approved counter parties</i> • <i>the instruments which management is authorized to employ in implementing hedging strategies</i> • <i>Sets appropriate limits on concentration for derivative transactions by counter party</i> 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	_____ _____ _____ _____	<i>RM Sec. 7210</i>
Comments and/or exceptions:				

Element	Assessment Criteria	Yes	C.U. Reference	DICO References
Refer Standard 1 (B) 1. implementing appropriate and prudent risk management policies, procedures and controls for the Structural Risk Management standard	<i>Management has implemented structural risk management policies that address the significant risks to which the institution is exposed</i>	<input type="checkbox"/>	_____	
	<i>Management has established and implemented procedures for the structural risk management policies</i>	<input type="checkbox"/>	_____	
	<i>Management has established controls to maintain adherence to the structural risk management policies and procedures, including adequate segregation of responsibilities and duties</i>	<input type="checkbox"/>	_____	
	<i>Management has ensured that staff responsible for implementing the structural risk management policies, procedures and controls have an acceptable combination of skills, expertise and training</i>	<input type="checkbox"/>	_____	
	<i>Management has provided reports to the board on compliance with the institution's structural risk management policies, legislation and bylaws</i>	<input type="checkbox"/>	_____	
	The Structural Risk Management Report: <ul style="list-style-type: none"> ▪ <i>appropriately identifies the structural risk position of the institution</i> ▪ <i>meets the requirements of the Act and Regulations</i> ▪ <i>provides the board with sufficient and accurate information to determine that the institution is adhering to its structural risk management policies</i> 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	_____ _____ _____	RM Sec.7400
	<i>Management has identified, reported and initiated corrective action for material weaknesses or deficiencies</i>	<input type="checkbox"/>	_____	

Comments and/or exceptions:

7. Liquidity Risk Management

It is a sound business and financial practice for a member institution to have appropriate and prudent policies, procedures and controls to manage the liquidity risk of the institution.

The fundamental elements of liquidity risk management include implementing a policy that addresses:

- limits on the sources, quality and amount of liquid assets to meet normal operational, contingency funding for significant deposit withdrawals and regulatory requirements

Element	Assessment Criteria	Yes	C.U. Reference	DICO References
1. limits on the sources, quality and amount of liquid assets to meet normal operational, contingency funding for significant deposit withdrawals and regulatory requirements	<i>Consistent with regulatory requirements, policy establishes:</i> <ul style="list-style-type: none"> • the sources and acceptable range of operational liquidity⁷ • the quality of assets that may be purchased for regulatory or operational liquidity purposes • conditions for liquidity borrowings • the process for monitoring of large deposits which if withdrawn could seriously impact the level of required operational liquidity • the process for measuring and monitoring regulatory and operational liquidity levels 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<hr/> <hr/> <hr/> <hr/>	<i>RM Sec. 8200 RM Sec. 8202-8203 RM Sec. 8204 RM Sec.8205 RM Sec.8501</i>

Comments and/or exceptions:

⁷ Operational liquidity is defined as the liquidity required to meet anticipated day to day cash commitments including member withdrawals

Element	Assessment Criteria	Yes	C.U. Reference	DICO References
Refer Standard 1 (B) 1. implementing appropriate and prudent risk management policies, procedures and controls for the Liquidity Risk Management standard	<i>Management has implemented liquidity risk management policies that address the significant risks to which the institution is exposed</i>	<input type="checkbox"/>	_____	
	<i>Management has established and implemented procedures for the liquidity risk management policies</i>	<input type="checkbox"/>	_____	
	<i>Management has established controls to maintain adherence to the liquidity risk management policies and procedures, including adequate segregation of responsibilities and duties</i>	<input type="checkbox"/>	_____	
	<i>Management has ensured that staff responsible for implementing the liquidity risk management policies, procedures and controls have an acceptable combination of skills, expertise and training</i>	<input type="checkbox"/>	_____	
	<i>Management has provided reports to the board on compliance with the institution's liquidity risk management policies, legislation and bylaws</i>	<input type="checkbox"/>	_____	
	The Liquidity Risk Management Report: <ul style="list-style-type: none"> ▪ <i>appropriately identifies the liquidity risk position of the institution</i> ▪ <i>meets the requirements of the Act and Regulations</i> ▪ <i>provides the board with sufficient and accurate information to determine that the institution is adhering to its liquidity risk management policies</i> 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	_____ _____ _____	<i>RM Sec.8400</i>
	<i>Management has identified, reported and initiated corrective action for material weaknesses or deficiencies</i>	<input type="checkbox"/>	_____	

Comments and/or exceptions:

Part II: Reporting Requirements

Management

Annually, management is required provide a representation letter to the board of directors regarding its assessment of adherence to management's responsibilities under the standards of sound business and financial practices

In order to complete the management representation letter, it is expected that senior management typically would review internal management assessments by individuals who manage the institution's operations as to whether the significant issues in their areas of responsibility are being identified and addressed. Senior management should also review periodic validations that the assessments have been conducted competently and with integrity and the significant issues are being dealt with.

The annual representation letter by management to the member institution's board of directors is to contain the statements as outlined in a sample management representation letter provided. The board will determine when the letter should be provided and what additional evidence or documentation is required. The sample letter may be modified by institutions as appropriate, although it should:

- confirm that management is familiar with the contents of By-law No.5 and that they are fulfilling their responsibilities under the Standards
- identify any outstanding deficiencies or exceptions
- include an action plan to address to any outstanding deficiencies or exceptions

Board of Directors

Annually, member institutions will be required to forward to DICO a copy of a board resolution indicating that the board is fulfilling its responsibilities under the Standards. The resolution sets out DICO's minimum requirements although boards are free to expand on these if they wish.

In coming to a conclusion on whether the institution is following the Standards, a board of directors needs to assess its own governance effectiveness as well as to understand and assess how management determine that significant issues at different levels in the organization are identified and addressed. In turn, a board assessment of managements' assertions could include some confirmation against periodic observations received from external sources (such as external auditors, etc.).

The board workbook has been designed to help directors in obtaining reasonable assurance that their member institution is following the Standards, except as identified. A copy of the resolution is to be forwarded to DICO along with the Annual Member Institution Return within 75 days of the institution's fiscal year end.

An action plan should include a description of the any significant or material issue being addressed, the manner of addressing it, designated responsibility for corrective action and appropriate timeframes for completion.

Management Representation Letter

To: Board of Directors

This representation letter in respect of <name of member institution> (the “institution”) concerns adherence to the Deposit Insurance Corporation of Ontario (“DICO”) Standards of Sound Business and Financial Practices (the “Standards”) as outlined in DICO By-law No.5.

Management are familiar with the contents of the DICO By-law No. 5 as it applies to the institution and acknowledge their responsibilities under the Standards, which include:

- implementing appropriate and prudent risk management policies, procedures and controls for each of the Standards
- developing and implementing an appropriate and prudent business strategy and business plans
- providing the board of directors with timely, relevant and accurate reports on the implementation of the institution’s business strategy and business plans and any material risk that may affect business objectives

Management confirms that they are fulfilling their responsibilities under the Standards [*if applicable, add: “except as indicated below”*].

After careful consideration, management have concluded that to the best of their knowledge [*if applicable, add: “except as indicated below”*] the operations of the member institution are being managed in accordance with the DICO Standards.

[*If applicable, add: “The following deficiency(ies) or exception(s) are outstanding: <provide description or reference an appended document to the same effect>“*]

[*If applicable, add: “The action plan(s) have not been met to date in that: <provide description or reference appended document to the same effect>.”*]

In arriving at our conclusions we have exercised prudent judgment and have caused the appropriate amount of testing and/or review (both through internal management assessments and internal reporting) to take place.

Dated at <insert place> <month> <day>, <year>.

Management Signature (s)

Part III: Sample Action Plan to address material weaknesses in Business and Financial Practices

SUMMARY ACTION PLANS TO ADDRESS IDENTIFIED MATERIAL WEAKNESSES IN BUSINESS AND FINANCIAL PRACTICES

Standard	Material Weakness	Summary Action Plan	Target Resolution Date	Assigned Responsibility
1B. Governance: Management				
2. Capital Management				
3. Credit Risk Management				
4. Operational Risk Management				
5. Market Risk Management				
6. Structural Risk Management				
7. Liquidity Risk Management				