



**Ontario**

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Deposit Insurance  
Corporation of Ontario

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Société ontarienne  
d'assurance-dépôts

## **BY-LAW N° 5**

### **BY-LAW RESPECTING STANDARDS OF SOUND BUSINESS AND FINANCIAL PRACTICES**

## **Assessment Workbook: Management *For Less Complex Operations***

February 2005

**This document is also available in electronic format  
on DICO's Web site  
[www.dico.com](http://www.dico.com)**

## INTRODUCTION

**This workbook has been designed for institutions with less complex operations. Institutions with characteristics that are materially different from those outlined may find that the assessment criteria in this workbook do not adequately address all the required standards of DICO By-law N° 5.**

*There is no requirement to complete or file the workbook with DICO.*

**This workbook for management is in four parts.**

**Part I** outlines the characteristics incorporated into the workbook design.

**Part II** 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 their assessment process.

**Part III** contains information on the reporting requirement set out in DICO's By-law N° 5. Annually, each member institution is required to attest that:

- management has provided a representation letter to the board of directors regarding management's 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 is included.

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

## Part I: WORKBOOK DESIGN

**This workbook has been specifically designed for institutions that have the following characteristics:**

The institution does not have:

- Loans other than personal loans or residential mortgage loans
- Off-balance sheet assets or liabilities (including derivatives)<sup>1</sup>
- More than five employees
- More than one branch
- Investments in marketable securities<sup>2</sup>
- More than \$75,000 cash on hand
- Material foreign currency exposure
- Material uninsured deposits
- More than 50% in fixed rate loans and deposits

Institutions that have similar characteristics to those outlined above, or where the differences from the characteristics are not material to the operations of the institution, may need to make modifications if they use this workbook to ensure that appropriate consideration is included for elements that are not fully covered.

In these cases, institutions should refer to the workbook designed for more complex operations to determine what additional considerations may need to be incorporated or expanded.

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<sup>1</sup> Derivatives do not include derivatives held in connection with a league sponsored investment program such as index linked term deposits.

<sup>2</sup> Marketable securities include any investments whose values may change as a result of market fluctuations and do not include deposits and shares in a league, Canadian Schedule I or II bank, or government issued savings bonds.

## Part II: ASSESSMENT TOOL

### 1(B) Governance: Management

*It is a sound business and financial practice for management of an institution to ensure that the institution has on-going, appropriate and effective processes for risk management and strategic management.*

Management is responsible to meet the board of director's business objectives, control the day to day activities of the member institution and to implement the board-approved risk management policies. DICO's assessment criteria of good governance for management of less complex operations are:

Element	Assessment Criteria	Yes	Reference
<i>1. appropriate and prudent risk management policies, procedures and controls for standards 2 to 7</i>	<ul style="list-style-type: none"> <li>• <i>Management has established and implemented procedures for the risk management policies set out in Standards 2-7</i></li> <li>• <i>Management has established controls to maintain adherence to the risk management policies and procedures, including adequate segregation of responsibilities and duties</i></li> </ul>	<input type="checkbox"/>  <input type="checkbox"/>	<i>RM<sup>3</sup>Sec. 302</i>
Element	Assessment Criteria	Yes	Reference
<i>2. appropriate and prudent business strategies and business plans</i>	<i>Management develops and implements business plans to support the business strategy of the institution including:</i> <ul style="list-style-type: none"> <li>• <i>the annual business plan which sets out the major priorities and objectives for the year</i></li> <li>• <i>financial targets and action plans for:</i> <ul style="list-style-type: none"> <li>▪ <i>profitability</i></li> <li>▪ <i>capital</i></li> </ul> </li> <li>• <i>an operational budget</i></li> <li>• <i>monitoring actual performance to business objectives and plans</i></li> </ul>	<input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<i>RM Sec.1000-1600</i>
Element	Assessment Criteria	Yes	Reference
<i>3. timely, relevant and accurate reports on the implementation of the institution's business strategies and business plans and any material risk that may affect business objectives</i>	<i>Management prepares and submits regular reports to the board which:</i> <ul style="list-style-type: none"> <li>• <i>help determine that the institution is adhering to its risk management policies<sup>4</sup></i></li> <li>• <i>confirm that the institution is in compliance with legislation and bylaws</i></li> <li>• <i>identify how material weaknesses or deficiencies in risk management practices are being addressed</i></li> <li>• <i>compare actual performance and business risk measurements relative to plan and previous year to date performance</i></li> <li>• <i>identify material operating and financial variances of actual results to plan</i></li> <li>• <i>outline initiatives and plans to address material weaknesses</i></li> </ul>	<input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<i>RM Sec.401, 500</i>  <i>RM Sec.1504</i>
<b>Comments and/or exceptions:</b>			
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<sup>3</sup> Sound Business and Financial Practices Reference Manual.

<sup>4</sup> Refer to individual risk management standards for further information on the reporting requirements.

## 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.*

DICO's assessment criteria of Capital Management for less complex operations are:

<b>Element</b>	<b>Assessment Criteria</b>	<b>Yes</b>	<b>Reference</b>
<i>1. regulatory capital is adequate for the risks of the institution and to support the current and planned operations</i>	<i>Policy establishes appropriate levels of capital to be maintained for the nature of risks to which the institution is exposed</i>	<input type="checkbox"/>	<i>RM Sec.4203 Act s 84-86</i>
<b>Element</b>	<b>Assessment Criteria</b>	<b>Yes</b>	<b>Reference</b>
<i>2. distribution of dividends and redemption of capital instruments to members</i>	<i>Policy addresses the conditions for distribution and redemption to members relating to:</i> <ul style="list-style-type: none"> <li>• <i>dividends or redemptions of membership shares</i></li> <li>• <i>patronage dividends, where applicable</i></li> </ul>	<input type="checkbox"/> <input type="checkbox"/>	<i>RM Sec.4204</i>
<b>Element</b>	<b>Assessment Criteria</b>	<b>Yes</b>	<b>Reference</b>
<b>Refer Standard 1 (B)</b> <i>Reporting</i>	<b><i>The Capital Management Reports:</i></b> <ul style="list-style-type: none"> <li>• <i>appropriately identify the capital position of the institution</i></li> <li>• <i>meet the requirements of the Act and Regulations</i></li> <li>• <i>provide the board with sufficient and accurate information to determine that the institution is adhering to its capital management policies and/or capital plans</i></li> </ul>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<i>RM Sec.4400, 4401 O.Reg.76/95 s 12-15</i>

***Comments and/or exceptions:***

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### 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 credit risk of the institution.*

DICO's assessment criteria of Credit Risk Management for less complex operations are:

<b>Element</b>	<b>Assessment Criteria</b>	<b>Yes</b>	<b>Reference</b>
<i>1. authorized credit instruments</i>	<i>Authorized credit instruments are set out in policy</i>	<input type="checkbox"/>	<i>RM Sec.5202</i>
<b>Element</b>	<b>Assessment Criteria</b>	<b>Yes</b>	<b>Reference</b>
<i>2. limits or prohibitions on credit exposures</i>	<i>Appropriate and prudent limits or prohibitions on credit exposures have been established including limits on the aggregate level of unsecured/under secured loans within the portfolio</i>	<input type="checkbox"/>	<i>RM Sec.5203, 5204, 5205, 5206</i>
<b>Element</b>	<b>Assessment Criteria</b>	<b>Yes</b>	<b>Reference</b>
<i>3. assessment criteria and security requirements for each authorized credit instrument</i>	<i>Appropriate and prudent credit granting criteria and security requirements have been established, including:</i> <ul style="list-style-type: none"> <li>• <i>debt service requirements</i></li> <li>• <i>loan to value ratios</i></li> <li>• <i>a process for security valuation, registration and insurance</i></li> <li>• <i>loan documentation requirements (including borrower/guarantor/co-signor information) and approval rationale to support any identified weakness</i></li> </ul>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<i>RM Sec.5202,5504</i>  <i>RM Sec.5505</i>  <i>RM Sec. 5502,5503</i>
<b>Element</b>	<b>Assessment Criteria</b>	<b>Yes</b>	<b>Reference</b>
<i>4. an effective credit assessment process</i>	<i>An effective credit assessment process has been established which includes:</i> <ul style="list-style-type: none"> <li>• <i>use of standardized processes for each loan type</i></li> <li>• <i>knowledge of member</i></li> <li>• <i>investigation of borrower/guarantor information appropriate for the type, size and nature of the loan</i></li> <li>• <i>determination and documentation of the total credit exposure to any one borrower (e.g. guarantees, co-signor and connections)</i></li> </ul>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<i>RM Sec.5207, 5208</i> <i>RM Sec. 5504</i>  <i>RM Sec. 5206</i>
<b>Element</b>	<b>Assessment Criteria</b>	<b>Yes</b>	<b>Reference</b>
<i>5. defined and prudent levels of decision-making authority for approving credit exposures</i>	<i>Appropriate and prudent levels of decision-making authority have been established including:</i> <ul style="list-style-type: none"> <li>• <i>lender (or credit committee) approval limits</i></li> <li>• <i>conditions for authorizing, loan rewrites, loan postponements and formally restructured loans</i></li> <li>• <i>board approval of restricted party loans</i></li> </ul>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<i>RM Sec.5206</i> <i>RM Sec.5211</i>  <i>O.Reg.76/95 s 86-87</i>



#### 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.*

DICO's assessment criteria of Operational Risk Management for less complex operations are:

<b>Element</b>	<b>Assessment Criteria</b>	<b>Yes</b>	<b>Reference</b>
<i>1. defined and prudent levels of decision-making authority</i>	<i>Authority for corporate decisions in all areas of operations has been defined in policy and acknowledged by the person(s) to which the authority has been granted</i>	<input type="checkbox"/>	<i>RM Sec.9100</i>
<b>Element</b>	<b>Assessment Criteria</b>	<b>Yes</b>	<b>Reference</b>
<i>2. the security and operation of a management information system</i>	<i>Policy addresses requirements for internal controls that protect the accuracy and security of the management information system and processes have been established for:</i> <ul style="list-style-type: none"> <li>• <i>recording all transactions in an accurate, complete and timely basis</i></li> <li>• <i>providing an audit trail for all transactions</i></li> <li>• <i>back up of data</i></li> </ul>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<i>RM Sec.9300-9303</i>
<b>Element</b>	<b>Assessment Criteria</b>	<b>Yes</b>	<b>Reference</b>
<i>3. safeguarding of the institution's staff, premises, assets and records of financial and other key information</i>	<i>Internal controls have been established to safeguard:</i> <ul style="list-style-type: none"> <li>• <i>employees and volunteers</i></li> <li>• <i>premises and fixed assets</i></li> <li>• <i>cash and securities, including negotiable instruments</i></li> <li>• <i>the privacy and integrity of member's financial records and other key information</i></li> <li>• <i>the institution's financial records and other corporate records</i></li> </ul> <i>There is adequate bonding, property and casualty insurance</i>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<i>RM Sec.9200-9202</i> <i>RN Sec.9205</i> <i>RM Sec.9203-9204</i> <i>RM Sec.9305-9308</i> <i>PIPEDA (Privacy Act)</i> <i>RM Sec.9206-9207</i>
<b>Element</b>	<b>Assessment Criteria</b>	<b>Yes</b>	<b>Reference</b>
<i>4. disaster recovery and business continuity plans</i>	<i>The institution has developed and documented an effective disaster recover plan and provided details to appropriate staff.</i>	<input type="checkbox"/>	<i>RM Sec.9304</i>
<i>5. monitoring controls</i>	<i>Appropriate controls have been established to monitor adherence to operating risk policy including:</i> <ul style="list-style-type: none"> <li>• <i>transaction verification and validation routines for error detection, theft and fraud prevention</i></li> <li>• <i>an independent internal audit function</i></li> <li>• <i>independent reconciliation and follow-up of banking and internal suspense accounts</i></li> <li>• <i>review, collection and reporting of outstanding overdrafts</i></li> <li>• <i>control of dormant and inactive accounts</i></li> <li>• <i>independent verification of treasury and negotiable instruments</i></li> <li>• <i>new account documentation</i></li> </ul>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<i>RM Sec.9402, 9404</i> <i>RM Sec.9405</i>



## 5. Market 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 market risk of the institution.*

DICO's assessment criteria of Market Risk Management for less complex operations are:

Element	Assessment Criteria	Yes	Reference
<i>1. authorized investments</i>	<i>Policy outlines authorized investment instruments</i>	<input type="checkbox"/>	<i>RM Sec. 6205</i>
Element	Assessment Criteria	Yes	Reference
<i>2. defined and prudent levels of decision-making authority</i>	<i>Policy sets out delegated decision-making authority, including approval authority for the purchase and redemption of investments</i>	<input type="checkbox"/>	<i>RM Sec. 6205</i>
Element	Assessment Criteria	Yes	Reference
<b>Refer Standard 1 (B)</b>  <i>Reporting</i>	<p><b><i>The Market Risk Management reports:</i></b></p> <ul style="list-style-type: none"> <li><i>• appropriately identify the investments of the institution</i></li> <li><i>• meet the requirements of the Act and Regulations</i></li> <li><i>• provide the board with sufficient and accurate information to determine that the institution is adhering to its market risk management policies</i></li> </ul>	<input type="checkbox"/>  <input type="checkbox"/>  <input type="checkbox"/>	<i>RM Sec. 6400-6501</i>  <i>Act s 198(4)</i>

***Comments and/or exceptions:***

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**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 structural risk of the institution.*

DICO’s assessment criteria of Structural Risk Management for less complex operations are:

<b>Element</b>	<b>Assessment Criteria</b>	<b>Yes</b>	<b>Reference</b>
<i>1. criteria for pricing of deposits and loans</i>	<i>Policy establishes the criteria and authority for pricing of deposits and loans</i>	<input type="checkbox"/>	<i>RM Sec. 7205</i>
<b>Element</b>	<b>Assessment Criteria</b>	<b>Yes</b>	<b>Reference</b>
<i>2. use of appropriate techniques for measuring the institutions interest rate risk exposure</i>	<i>Policy establishes the basis for measuring and evaluating the institution’s exposure to interest rate risk</i>	<input type="checkbox"/>	<i>RM Sec.7401-7404</i>
<b>Element</b>	<b>Assessment Criteria</b>	<b>Yes</b>	<b>Reference</b>
<b>Refer Standard 1 (B)</b>  <i>Reporting</i>	<p><b><i>The Interest Rate Risk Management Reports:</i></b></p> <ul style="list-style-type: none"> <li>• <i>appropriately identifies the interest rate risk exposure position of the institution</i></li> <li>• <i>meets the requirements of the Act and Regulations</i></li> <li>• <i>provides the board with sufficient and accurate information to determine that the institution is adhering to its structural risk management policies</i></li> </ul>	<input type="checkbox"/>   <input type="checkbox"/>   <input type="checkbox"/>	<i>RM Sec.7400</i>  <i>O.Reg.76/95Part IX</i>

***Comments and/or exceptions:***

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**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.*

Liquidity risk management for less complex operations include implementing a policy that addresses the following elements:

Element	Assessment Criteria	Yes	Reference
<i>1. the level of liquid assets to meet normal operational, contingency funding for significant deposit withdrawals and regulatory requirements</i>	<i>Policy establishes:</i> <ul style="list-style-type: none"> <li>• <i>the process for acceptance and monitoring of large deposits which, if withdrawn, could seriously impact the level of required operational liquidity</i></li> <li>• <i>the process for measuring and monitoring regulatory and operational liquidity levels</i></li> <li>• <i>circumstances and parameters for the institution to borrow from a league or a bank</i></li> </ul>	<input type="checkbox"/>   <input type="checkbox"/>  <input type="checkbox"/>	<i>RM Sec.8205</i>  <i>RM Sec.8501</i>  <i>RM Sec.8204</i>

Element	Assessment Criteria	Yes	Reference
<b>Refer Standard 1 (B)</b>  <i>Reporting</i>	<b><i>The Liquidity Risk Management Reports:</i></b> <ul style="list-style-type: none"> <li>• <i>appropriately identify the liquidity risk position of the institution</i></li> <li>• <i>meet the requirements of the Act and Regulations</i></li> <li>• <i>provide the board with sufficient and accurate information to determine that the institution is adhering to its liquidity risk management policies</i></li> </ul>	<input type="checkbox"/>   <input type="checkbox"/>  <input type="checkbox"/>	<i>RM Sec.8400</i>  <i>O.Reg.76/95 s16-18, 20-21</i>

***Comments and/or exceptions:***

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## Part III: 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. The following sample letter may be modified by institutions as appropriate, although it should:

- confirm that management is familiar with the contents of By-law N°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.

### Sample 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 N°5.

Management are familiar with the contents of the DICO By-law N° 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) has (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>.

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Management Signature (s)

**Part IV: SAMPLE ACTION PLAN TO ADDRESS MATERIAL WEAKNESS IN BUSINESS AND FINANCIAL PRACTICES**

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

<b>Standard</b>	<b>Material Weakness</b>	<b>Summary Action Plan</b>	<b>Target Resolution Date</b>	<b>Assigned Responsibility</b>
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				