

November 2011

Director Training and Qualifications

Application Guide: Class 2

Director Core Competencies

This application guide is for use by Class 2 credit unions. It should be reviewed in conjunction with DICO's Guidance Note: Director Training and Qualifications.

This document describes director core competencies and attributes for different levels of understanding. Competencies are built through a combination of education, practical work experience previous board experience and director training. Directors of Class 2 credit unions are expected to attain a **STRONG** understanding of each of the core competencies and attributes as indicated within the time frames established by the credit union subject to DICO minimum expectations outlined in the Guidance Note: Director Training and Qualifications.

A strong understanding of these core competencies helps directors to:

- Participate fully in board analysis, discussion and debate on more complex issues.
- Ensure sufficient information is provided to support analysis and recommendations
- Mentor new directors and provide greater understanding of competency
- Challenge management's assumptions when needed and speak out appropriately at board meetings; and
- Make significant contributions to long-range planning.

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1. AUDIT AND COMPLIANCE OVERSIGHT

To achieve this competency, directors should demonstrate an appropriate level of knowledge and understanding of monitoring and auditing processes required to ensure compliance with the credit union's policies, standards of sound business practices and regulatory requirements

Competency Level	Audit and Compliance Oversight: Competency Attributes
Basic	<ul style="list-style-type: none">• Defines compares and explains:<ul style="list-style-type: none">➢ The role of the audit committee➢ The external audit process and the role of the external auditor➢ The role and nature of the internal audit function➢ DICO's Examination process➢ The role of the compliance officer
Good	<p>Basic PLUS:</p> <ul style="list-style-type: none">• Understands and participates in the processes to monitor Board and individual directors to ensure compliance with internal controls, standards of sound business and financial practices and other regulatory requirements.• Reads and interprets reports of the compliance officer, external auditor, internal auditor and the regulators• Distinguishes between the responsibilities of the audit committee, the Board and other committees• Interprets and makes conclusions from the reports of the compliance officer, external auditor, internal auditor and regulators• Asks appropriate questions about credit union policies, practices and reports.• Demonstrates through actions a knowledge of resolution strategies to address any material weaknesses and deficiencies• Contributes to the development of policies to improve controls and compliance• Ensures that key decisions made by the Board align with established policies, standards of sound business practices and other regulatory and legislative requirements• Follows-up with management to ensure corrective action is taken to rectify deficiencies noted in reports

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Competency Level	Audit and Compliance Oversight: Competency Attributes
Strong	<p data-bbox="370 302 527 331">Good PLUS:</p> <ul data-bbox="370 373 1435 709" style="list-style-type: none"><li data-bbox="370 373 1435 436">• Analyzes results and reports and contributes to board discussion and debate on complex issues and any material variances or weakness relating to audit and compliance<li data-bbox="370 443 1435 541">• Interprets and confirms that corrective action taken by management to address material non-compliance situations is identified in internal, external and regulatory audit reports is appropriate<li data-bbox="370 548 1435 611">• Identifies when it is necessary to challenge management for additional information to support conclusions or recommendations<li data-bbox="370 617 1435 648">• Identifies when a professional, independent opinion is required.<li data-bbox="370 655 1435 709">• Calls upon internal and/or external audit resources to investigate complex variances and non-compliance situations

2. BOARD AND CEO PERFORMANCE

To achieve this competency, directors should demonstrate an appropriate level of knowledge and understanding of the tools and methodologies for monitoring the performance and development of the CEO and for assessing the Board’s performance to determine strengths, deficiencies and areas for improvement

Competency Level	Board and CEO Performance: Competency Attributes
Basic	<ul style="list-style-type: none"> • Explains the reporting relationship between the Board and the CEO. • Explains the appropriate approach regarding performance management, feedback, and communications with the CEO.
Good	<ul style="list-style-type: none"> • Basic Plus: • Contributes to the development of the relationship between the Board and the CEO • Applies the performance and measurement criteria for the Board and the CEO. • Contributes to the ongoing assessment of the CEO’s and the Board’s performance • Ensures the use of objective measurement criteria is adopted • Identifies opportunities for performance improvement in the CEO and Board • Describes the processes and timing of the board and CEO performance planning and assessment.
Strong	<ul style="list-style-type: none"> • Good Plus: • Contributes to the development of assessment criteria for individual directors, the Board and CEO. • Ensures that the CEO performance criteria and compensation are aligned with the strategic plan and key objectives • Demonstrates the ability to develop communications designed to create buy-in to concepts and direction from the Board to the CEO • Contributes to the development and/or enhancement of the Board’s stakeholder communications strategy • Encourages other Board members on the Board to communicate effectively with the CEO • Contributes to the management of the CEO’s performance through informal and formal communication • Participates in the board performance planning and assessment process. • Recognizes when a third party expert is required. • Identifies and addresses skills/performance gaps on the board and/or CEO

3. CREDIT UNION OPERATIONS

To achieve this competency, directors should demonstrate and appropriate level of knowledge and understanding of how the credit union’s infrastructures inter-relate and how they enable the effective and efficient delivery of services while managing risk and regulatory requirements.

Competency Level	Credit Union Operations: Competency Attributes
Basic	<ul style="list-style-type: none"> • Defines the nature and extent of the credit union’s operations and service area • Distinguishes between the Board’s and the CEO’s responsibilities related to operations • Outlines the impact of operational weaknesses on member satisfaction and financial performance
Good	<p>Basic Plus:</p> <ul style="list-style-type: none"> • Describes the credit union’s operational infrastructure and how its components interrelate • Describes the credit union’s business powers, major lines of business, services and delivery channels • Describes the membership profile and the nature and profile of major business segments • Compares operational efficiency against industry standards and best practices • Recognizes the impact of operational effectiveness and operational efficiency on strategic plans and objectives • Asks questions and evaluates information and management recommendations on costs, benefits and risks involved in major operational decisions • Recognizes and seeks third party expertise when required
Strong	<p>Good Plus:</p> <ul style="list-style-type: none"> • Describes the nature and extent of non-core business activities including any subsidiaries • Applies policy related to human resources practices, including competency requirements for senior management personnel • Analyzes the strategies, data and/or recommendations to improve operational effectiveness or resolve operational weaknesses • Fosters an environment of innovation in service delivery and strategies related to such innovations • Discusses and evaluates policy recommendations with respect to their impact on operations. • Identifies best practices related to operational efficiencies, such as outsourcing or collaborative strategies

4. FINANCIAL LITERACY

To achieve this competency, directors should demonstrate an appropriate level of financial knowledge and understanding and can interpret financial reports and statements, and monitor corrective action to ensure financial goals and regulatory requirements are met.

Competency Level	Financial Literacy: Competency Attributes
Basic	<ul style="list-style-type: none"> • Reviews financial reports, financial statements and operational plans & budgets prepared by management • Seeks clarification of those areas that are not understood • Understands basic budgeting process and financial objectives and budgets • Understands basic financial statements, e.g. balance sheet and income statement • Reviews financial reports presented by management and asks appropriate questions • Knows statutory requirements
Good	<p>Basic Plus:</p> <ul style="list-style-type: none"> • Comprehends basic financial analysis concepts and tools • Can describe the nature and purpose of all financial reports prepared by management, and purpose and uses of key financial ratios, financial trends, performance benchmarks and system/group comparison reports • Identifies variances between actual financial performance and established financial budget and targets and understands the nature and extent of recommendations to address material variances. • Defines the concept of materiality with respect to financial statement information and variances • Ensures additional explanations and information is provided for any material variances including action plans
Strong	<p>Good Plus:</p> <ul style="list-style-type: none"> • Has understanding of the Canadian economic factors that can affect the credit union's operations • Explains and interprets the interrelationship of financial ratios and how they impact other areas. • Interprets financial results and reports and ensures the board conducts sufficient oversight and discussion on recommended strategies to address and material variances • Recommends the use of external resources to investigate any significant issues or "red flags" that may arise or to validate the credit union's financial policies, plans, controls and procedures where material weaknesses persist.

5. GOVERNANCE AND ETHICS

To achieve this competency, directors should demonstrate an appropriate level of knowledge and understanding of the critical elements of good governance and ethics.

Competency Level	Governance and Ethics: Competency Attributes
Basic	<ul style="list-style-type: none"> • Understands the governance structure of credit unions and the responsibilities of directors and the Board • Describes what corporate governance is and how it is applied to the credit union environment. • Explains the importance, necessity and meaning of “independent”, “accountable”, “transparency”, “prudent” and “fiduciary” • Recognizes the role of ethics (code of conduct) and personal integrity in acting in the best interests of the credit union and safeguards confidential and sensitive information. • Explains the roles of and interrelationships between the Board; Board and regulators; board and senior management. • Explains the credit union’s strategic direction and corporate values. • Complies with the credit union’s policies, • Acts in accordance with Co-operative Principles • Acts with integrity and ethics in making decisions. • Exercises due care and diligence.
Good	<p>Basic Plus:</p> <ul style="list-style-type: none"> • Uses existing governance framework to evaluate and implement policies to enhance value. • Contributes fully to the board and governance structures by: <ul style="list-style-type: none"> ➤ asking appropriate questions, ➤ identifying material variances or deficiencies, ➤ being prepared for meetings, ➤ seeking independent advice or expertise ➤ supporting board decisions • Provides sound input into the credit union’s strategic direction and plans. • Assesses strategic goals and objectives; risks and opportunities relative to strategic direction • Oversees the credit union’s performance relative to strategic direction and implementation.

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Competency Level	Governance and Ethics: Competency Attributes
Strong	Good Plus: <ul style="list-style-type: none">• Mentors board members to enhance their competence in democratic governance• Oversees the ongoing evaluation of the Board's governance structures• Assesses adequacy of governance policies, processes and procedures and code of conduct and makes recommendations for change.• Identifies interrelationships and evaluates inherent risks and opportunities in the financial services environment and recommends appropriate action.• Independently assesses impacts of decisions related to risks and opportunities• Describes how changes in regulatory environment impacts best practices in credit union governance• Analyzes past experiences and applies the concepts and learning to new situations• Champions continuous learning within the board regarding the innovations in governance structures and how they can be incorporated into their credit union's governance regime

6. LEADERSHIP

To achieve this competency, directors should demonstrate an appropriate level of knowledge and understanding of the attributes of leadership to motivate, influence and support others to accomplish organizational goals and encouraging on-going education to further develop competencies.

Competency Level	Leadership: Competency Attributes
Basic	<ul style="list-style-type: none"> • Communicates ideas and opinions clearly. • Describes effective leadership characteristics. • Identifies personal leadership characteristics. • Builds trust through honest and open communication and mutual respect
Good	<p>Basic Plus:</p> <ul style="list-style-type: none"> • Identifies board dynamics including different approaches and styles • Constructively influences board dynamics • Utilizes communication/facilitation techniques to encourage debate, dialogue, discussion • Collaborates with fellow directors to build consensus • Contributes to a constructive and open environment for the expression of diverse ideas and opinions • Considers resource and support requirements of strategic initiatives
Strong	<p>Good Plus:</p> <ul style="list-style-type: none"> • Champions continuous learning and renewal within boards, including the successful recruitment of new board members, director training and continuing education • Acts as an ambassador for the credit union within the community • Fosters innovation, creativity and shared understanding • Encourages debate and diverse opinions and mediates to reach consensus • Determines when more information or outside advice is required • Clearly communicates rationale for decisions to key stakeholders

7. REGULATORY ENVIRONMENT

To achieve this competency, directors should demonstrate an appropriate level of knowledge and understanding of the regulatory environment, policy development and the policies required to meet legal, regulatory and governance requirements.

Competency Level	Regulatory Environment: Competency Attributes
Basic	<ul style="list-style-type: none"> • Explains and describes the: <ul style="list-style-type: none"> ➤ Role of the Ministry of Finance, ➤ Financial Services Commission of Ontario, ➤ Deposit Insurance Corporation of Ontario ➤ Responsibilities of directors relative to policy creation and monitoring ➤ Responsibilities of the Board policy creation and monitoring • Identifies the regulatory environment including the Act, regulations, DICO by-laws and sound business practices as well as the credit union's by-laws, policies and processes.
Good	<p>Basic Plus:</p> <ul style="list-style-type: none"> • Demonstrates knowledge of the credit union <i>Act</i>, regulations and other relevant legislation • Understands the credit union's by-laws and related policies • Promotes regulatory compliance. • Identifies gaps in the credit union's policies and compliance with regulatory requirements. • Initiates policy enhancements to deal with gaps. • Determines the policy framework i.e., the areas in which policies are required and why
Strong	<p>Good Plus:</p> <ul style="list-style-type: none"> • Explains the application of relevant policies and the principles upon which they are built. • Can interpret the credit union <i>Act</i> and regulations as well as other applicable legislation • Explains the rationale for policy changes and impact of such changes to the credit union's compliance to policies and sound business standards and practices • Contributes to strength of credit union sector through strong leadership related to compliance, improved communication and shared understanding by credit unions and the regulator on these issues

8. RISK MANAGEMENT OVERSIGHT

To achieve this competency, directors should demonstrate an appropriate level of knowledge and understanding of the risk management framework for identifying, measuring and managing significant risks and events that may impact the credit union's objectives

Competency Level	Risk Management Oversight: Competency Attributes
Basic	<ul style="list-style-type: none"> • Describes the areas of risk to which the credit union may be exposed. • Describes the risk management framework and policies of the credit union • Describes the purpose and requirements DICO By-law #5 • Describes DICO's examination process • Explains the role of the Board in risk management oversight
Good	<p>Basic Plus:</p> <ul style="list-style-type: none"> • Explains and describes the nature of risks and risk management activities related to, <ul style="list-style-type: none"> ➢ Governance ➢ Capital management, ➢ Credit risk management ➢ Operational risk management ➢ Market risk management ➢ Structural risk management ➢ Liquidity risk management • Describes the significant risks of the credit union • Describes criteria for measuring risk. • Describes the nature and extent of any material outsourcing, subsidiaries and securitization transactions • Describes the extent of any material non-core business activities and subsidiaries • Describes the Board's risk assessment tools and risk management reports • Monitors risk management activities • Identifies areas of significant risk exposure in management reports • Interprets the results of the DICO examination and internal/external auditors and makes decisions to manage and address identified risks
Strong	<p>Good Plus:</p> <ul style="list-style-type: none"> • Understands what an Enterprise Risk Management framework is • Assesses the credit union's risk appetite and tolerances. • Provides direction to management on implementation of an enterprise risk management system. • Integrates all elements of enterprise risk management into the strategic risk management process. • Confirms the capacity of the credit union to withstand risk exposure levels • Interprets risk management policies and recommends changes to mitigate excessive exposure • Ensures strategic objectives are integrated into the ERM

9. STRATEGIC PLANNING

To achieve this competency, directors should demonstrate an appropriate level of knowledge and understanding of the strategic planning process and contribute to the development of the strategic direction, core values and the strategic goals and objectives for the credit union.

Competency Level	Strategic Planning: Competency Attributes
Basic	<ul style="list-style-type: none"> • Describes the vision, mission and core values of the credit union. • Is aware of the organization's strategies and plans through ongoing review, monitoring and discussion and is aware of their role in the process. • Describes the strategic planning process and tools • Seeks information about the strategic management process and related management reporting
Good	<p>Basic Plus:</p> <ul style="list-style-type: none"> • Applies knowledge of corporate goals, strategies and objectives to evaluate reports and recommendations presented by management • Uses independent and objective oversight when evaluating the reports and recommendations presented by management • Collaborates with fellow directors to build a consensus on strategic plans and initiatives • Participates in the development and communication of the credit union's vision, mission, and corporate values
Strong	<p>Good Plus:</p> <ul style="list-style-type: none"> • Seeks information in areas such as the credit union's concerns, the competitive environment and industry trends and standards. • Explains the measures of success. • Recognizes and promotes potential strategic opportunities • Weighs the risk/benefit of the credit union's strategic initiatives in identifying their impact and establishing priorities • Identifies and communicates the indicators and measures for success for the credit union, • Analyzes capacity and competencies in staffing and financial resources for strategic initiatives