

**Dialogue** is produced in association with an industry advisory committee to promote discussion between directors and management on featured topics.

Readers' questions are welcome, and may be featured in a future **Dialogue**. Contact DICO Risk Assessment Department@1-800-268-6653, (416)325-9444, (416)325-9439 (fax) or e-mail: rad@dico.com.

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### Help Us Reduce Costs!

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### FUTURE TOPICS:

- OSV - FAQ's
- Board Planning Tools
- Business Planning
- Privacy Considerations
- By-law #5 Review

## Adoption of Electronic Versions of Policies and Procedures

Member institutions may have elected to create electronic versions of policies and procedures or adopt those that may be available via the Internet through their league in preference to paper versions because of the many advantages offered. These may include reduced publication costs, easier and more convenient access, flexibility for change, etc. However, some institutions have expressed concern whether the practice of using electronic policies and procedures satisfies DICO By-law #5 Standards of Sound Business and Financial Practices.

It is a sound practice to have documented policies and procedures for risk management practices that are appropriate for the size and complexity of member institutions. Risk management practices include Capital Management, Credit Management, Investment Management, Asset/Liability Management, Liquidity Management and Internal Controls.

Electronic versions of risk management policies and procedures are satisfactory, provided they are appropriately implemented. Accordingly, both paper based

or electronic based options for policies and procedures are suitable, provided they meet certain requirements.

### Policies

For example, risk management policies, including any changes, should be approved by the Board of Directors. Any changes and approvals to policies should be documented in board minutes. Member institutions that have adopted electronic policies should:

- establish a process to ensure that any revisions are reviewed and approved where appropriate, and
- ensure evidence of any review and approval is appropriately documented in board minutes.

### Procedures

Similarly, with respect to electronic procedures, member institutions should ensure that the procedures are adequate to effectively implement the risk management policy and relevant sections of the Act, and that all changes are reviewed by management.

Member institutions can ensure that their electronic procedures comply with DICO By-law #5 by:

- establishing a process to ensure that any revisions are appropriate and remain effective in implementing risk management policies, and
- ensuring those changes are communicated to staff as may be appropriate.

### **Adequacy and Adherence**

Regardless of whether your institution has decided to adopt paper or electronic versions of policies and procedures, it is important that staff responsible for their implementation:

- have appropriate access to the policies and procedures, and
- are advised of any changes that affect their area of responsibility.

### **Access by Inspectors**

For those institutions that adopt electronic policies and procedures, it will be necessary for the inspector to have access to the same information as the staff and management of the credit union. It may be helpful to provide the inspector access so that some or all of their review can be conducted off-site. As a result, inspectors might be able to spend less time at the credit union and limit any impact of the OSV on its day to day operations.

### **REFERENCE SOURCES**

Several publications are available to assist member institutions to ensure that their policies and procedures are appropriate.

DICO's Sound Business and Financial Practices Reference Manual, the OSV Manual, and the Guide to DICO's OSV Process are all available on the second level of our Web site at [www.dico.com](http://www.dico.com).

## **POLICY EXCEPTIONS**

### **Credit Management**

Policy defines and clarifies the framework under which management is authorized to operate. For example, credit management policy will normally include limits on various lending activities and loan purposes etc. in addition to providing guidance on appropriate security requirements and pricing. It should also outline the process for dealing with exceptions for loans that do not meet policy guidelines including loans for higher risk purposes etc.

In some institutions, this process might involve establishing certain discretionary limits for designated employees or even joint approval by senior management. Special discretionary limits provide additional authority in circumstances where risk may be mitigated by other factors such as the nature and level of security, the parties involved or a combination of factors not fully defined in policy.

These loans may or may not require subsequent board review or approval.

From a review of OSV findings, there have been instances where authority for policy exceptions has been delegated to individual employees without clarification of the conditions under which this authority may be used.

It is important to ensure that policy provides sufficient guidance to management and clearly outlines the criteria under which "discretionary" authority has been granted.