

Dialogue

on Sound Business & Financial Practices

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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 Insurance & Risk Management @ 1-800-268-6653, (416)325-9444, (416)325-9439 (fax) or e-mail: dialogue@dico.com.

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FUTURE TOPICS:

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

Standards of Sound Business and Financial Practices: By-law #5

We are pleased to confirm that final proposals for a revised By-law #5 have been developed. DICO wishes to thank the members of the Sound Business and Financial Practices Advisory Committee for their significant contribution in this process over the past nine months.

The key features of the proposals include:

- providing greater flexibility within the standards to meet the needs of various sizes and complexities of member institutions;
- moving away from a prescriptive to a "prudent person" approach;
- expanding the standards to address emerging risks;
- revising the governance standard to clarify the roles of the board and management;
- updating the definition and assessment criteria for each standard to focus on key material risks;
- replacing the Member Institution Self Assessment Report (MISAR) questionnaire with an annual attestation of adherence by the institution.

Advisory Committee Feedback

Over the past few months the advisory committee has identified assessment criteria for each of the standards with some minor exemptions for smaller, less complex operations.

The committee has also reviewed proposals for the reporting requirement which will include a representation letter from management to the board and a board resolution confirming adherence to the standards as they apply to the member institution. While the advisory committee supports the "prudent person" approach proposed in the by-law amendments, the committee has asked for clarification on how the assessment criteria might be used in the OSV program to determine adherence. Committee members were also concerned that the proposed effective date of January 1, 2005 may not provide a sufficient transition period to develop and implement the necessary changes.

Adherence to the Standards

DICO has considered various approaches to addressing the adherence issue and is proposing a number of solutions.

One of the principal problems experienced in the past was that the MISAR assessment criteria and the OSV assessment criteria were not consistent. This stemmed from the fact that the MISAR was imbedded in the By-law and could not be changed while the OSV criteria were specifically designed to be adaptable to a changing risk environment. To address this concern, it is proposed that the self assessment tools developed for use by member institutions will include the same assessment criteria as the OSV manual used by inspectors.

DICO will also develop and publish sufficient guidance on the fundamental elements of the standards that must be addressed by all institutions, in relation to their size and complexity. These publications will also incorporate considerations, commentary and reference sources to help institutions when addressing these key principles.

Furthermore, DICO proposes to develop a variety of tools, such as checklists, templates and workbooks for institutions to assist them in confirming and documenting adherence to the standards. Institutions may modify these to suit their own needs, or develop their own tools as appropriate.

Effective Date

Any change to a by-law or rule always requires a reasonable amount of lead time for member institutions to adapt their policies, processes and procedures. DICO is proposing that the new by-law would become effective for all member institutions on the first fiscal year end after July 1, 2005. This means that for about 90% of the industry, the effective date for full adherence would be December 31, 2005.

Next Steps

A series of regional presentations have been scheduled to be held across the province during April and May to provide further information on the proposals.

The advisory committee will review System feedback before confirming final recommendations which will be presented to DICO for consideration and approval in June, 2004.