



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: Board of Directors

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 institutions 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 the board of directors is in four parts.

Part I outlines the criteria which should be considered when addressing the fundamental elements of the governance standard. It contains a series of statements and considerations relating to the responsibilities of the board of directors.

Part II is an assessment tool for the board 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.

Part III 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 copy of a **board resolution** is included. The **board resolution** sets out DICO's minimum requirements although boards are free to expand on these if they wish.

Part IV 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.

Part I: Assessment Criteria

The Bylaw states.....

1(A) Governance: Board of Directors

It is a sound business and financial practice that the board of directors of an institution understands its responsibilities, exercises independent judgment, addresses the material risks to which the institution is exposed, and regularly evaluates its own effectiveness and that of management.

The care, diligence, skill and prudence exhibited by a member institution's directors has a critical influence on the institution's viability, safety and soundness, its ability to execute its business strategy and to achieve its business objectives and to promote confidence on the part of members and depositors. The fundamental elements of good governance for the board of directors are:

- establishing appropriate and prudent risk management policies for standards 2 to 7 and obtaining reasonable assurance that the institution is adhering to its risk management policies for significant risks
- establishing the responsibilities, accountability and authority of board committees
- establishing standards of business conduct and ethical behaviour
- appointing appropriately skilled and experienced management to implement the board's objectives
- establishing the business objectives of the institution consistent with cooperative principles and approving the institution's business strategy and business plans
- evaluating the institution's actual operating and financial results against business plans
- evaluating the effectiveness of management

The assessment criteria for each element are.....

Element	Assessment Criteria
<p>1. <i>establishing appropriate and prudent risk management policies for standards 2 to 7 and obtaining reasonable assurance that the institution is adhering to its risk management policies for significant risks</i></p>	<p><i>The risk management policies been reviewed and approved by the board</i></p> <p><i>The risk management policies address the significant risk to which the institution is exposed</i></p> <p><i>The risk management policies establish the frequency, form and content of reports that enable the board to determine that:</i></p> <ul style="list-style-type: none"> • <i>the institution is adhering to its risk management policies</i> • <i>the institution is in compliance with legislation and bylaws</i> • <i>material weaknesses or deficiencies have been reported and are being addressed</i> <p><i>The board receives and reviews risk management reports on key areas of operation, including:</i></p> <ul style="list-style-type: none"> • <i>Capital Management</i> • <i>Credit Risk</i> • <i>Operational Risk</i> • <i>Market Risk</i> • <i>Structural Risk</i> • <i>Liquidity Risk</i>

Element	Assessment Criteria
<p>2. <i>establishing the responsibilities, accountability and authority of board committees</i></p>	<p><i>The board has developed terms of reference for all board committees which meet the requirements of the Act and Regulations and establish the responsibilities and decision making authority of each committee, including its purpose, objectives and reporting requirements</i></p> <p><i>The audit committee undertakes its responsibilities as defined in the Act and Regulations</i></p> <p><i>The credit committee conducts its responsibilities as defined in the Act and Regulations</i></p>
<p>3. <i>establishing standards of business conduct and ethical behavior</i></p>	<p><i>The board has established a code of conduct and ethical behavior, for directors, committee members and employees which addresses:</i></p> <ul style="list-style-type: none"> • <i>the duty to comply with applicable legislation</i> • <i>the duty of confidentiality of institutional and member information</i> • <i>conflict of interest and restricted party transactions</i> <p><i>The board annually reviews and approves the institution's code of conduct and ethical behavior</i></p>
<p>4. <i>appointing appropriately skilled and experienced management to implement the board's objectives</i></p>	<p><i>The board has established an appropriate succession plan for the general manager and senior management</i></p> <p><i>The board of directors shall ensure that a process is established for the appointment of the general manager</i></p>
<p>5. <i>establishing the business objectives of the institution consistent with cooperative principles and approving the institution's business strategy and business plans</i></p>	<p><i>The board has established the business objectives of the institution consistent with cooperative principles and approved:</i></p> <ul style="list-style-type: none"> • <i>the business strategy of the institution</i> • <i>the annual business plan</i> • <i>financial targets and supportive action plans</i> • <i>an operational budget</i> <p><i>The business plans support the business objectives and strategy of the institution</i></p>
<p>6. <i>evaluating the institution's actual operating and financial results against business plans</i></p>	<p><i>The board:</i></p> <ul style="list-style-type: none"> • <i>regularly monitors actual operating and financial results in relation to the business strategy and business plans</i> • <i>evaluates material operating and financial variances of actual results to plan</i> • <i>confirms the appropriateness of initiatives and plans to address material variances</i>
<p>7. <i>evaluating the effectiveness of management</i></p>	<p><i>The board ensures the performance of senior management is evaluated at least annually against established criteria</i></p>

Part II: Assessment Tool

Element 1: establishing appropriate and prudent risk management policies for standards 2 to 7 and obtains reasonable assurance that the institution is adhering to its risk management policies for significant risks

References: Directors Handbook p. 2-3; RM² Section 301, 401, 9408

Assessment Criteria: The risk management policies been reviewed and approved by the board

<i>Risk Management Policy</i>	<i>Date Last Reviewed</i>	<i>Comments (e.g. material changes identified/implemented, etc.)</i>	<i>Next Review Date</i>
<i>Capital Management</i>	_____	_____	_____
<i>Credit Risk Management</i>	_____	_____	_____
<i>Operational Risk Management</i>	_____	_____	_____
<i>Market Risk Management</i>	_____	_____	_____
<i>Structural Risk Management</i>	_____	_____	_____
<i>Liquidity Risk Management</i>	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

² Sound Business and Financial Practices Reference Manual

Assessment Criteria: *The risk management policies address the significant risks to which the institution is exposed*

Indicate any new areas of significant risk which need to be addressed in policy:

<i>Risk Management Policy</i>	<i>Significant Risk Area</i>	<i>Scheduled Completion Date</i>	<i>Reference (e.g. Policy Name)</i>
<i>Capital Management Reference: RM Sec 4000-4201</i>			
<i>Credit Risk Management Reference: RM Sec 5000-5205</i>			
<i>Operational Risk Management Reference: RM Sec 9000</i>			
<i>Market Risk Management Reference: RM Sec 6000-6201</i>			
<i>Structural Risk Management Reference: RM Sec 7000-7201</i>			
<i>Liquidity Risk Management Reference: RM Sec 8000-8201</i>			
<i>Other:</i>			
<i>Other:</i>			

Comments and/or exceptions:

Assessment Criteria:

The risk management policies establish the frequency, form and content of reports that enable the board to determine that:

- the institution is adhering to its risk management policies
- the institution is in compliance with legislation and bylaws
- material weaknesses or deficiencies have been reported and are being addressed

The board of directors receives and reviews risk management reports on key areas of operation.

Risk Management Area	Report Name	Frequency of Report	Recommended Changes³ (N/A if not applicable)	Implementation Date
Capital Management	_____	_____	_____	_____
	_____	_____	_____	_____
Credit Risk Management	_____	_____	_____	_____
	_____	_____	_____	_____
Operational Risk Management	_____	_____	_____	_____
	_____	_____	_____	_____
Market Risk Management	_____	_____	_____	_____
	_____	_____	_____	_____
Structural Risk Management	_____	_____	_____	_____
	_____	_____	_____	_____
Liquidity Risk Management	_____	_____	_____	_____
	_____	_____	_____	_____
Other	_____	_____	_____	_____
	_____	_____	_____	_____
Other	_____	_____	_____	_____
	_____	_____	_____	_____

Other Comments and/or exceptions:

³ Areas of significant risk for which additional information or changes are required (e.g. nature and scope of information, third party verification, frequency of reporting, etc.)

Element 2: establishing the responsibilities, accountability and authority of board committees

References: Directors Handbook; RM 303

Assessment Criteria: The board has developed terms of reference for all board committees which meet the requirements of the Act and Regulations and establish the responsibilities and decision making authority of each committee, including its purpose, objectives and reporting requirements

The board has established the following committees:	Reports to	Reporting Frequency	Terms of Ref. Date Last Reviewed
<p><i>Audit Committee</i> References: Act s125-139, O.Reg.76/95 S 26, DICO Audit Committee Checklist</p>		<p>_____</p>	<p>_____</p>
<p><i>Credit Committee</i> References: Act s110-124, O.Reg.76/95 s24-25</p>		<p>_____ _____</p>	<p>_____</p>
<p>Other: _____ _____ _____ _____</p>		<p>_____ _____ _____ _____</p>	<p>_____ _____ _____ _____</p>

Other Comments and/or exceptions:

Assessment Criteria: *The audit committee undertakes its responsibilities as defined in the Act and Regulations*

References: Act s125-139, O.Reg.76/95 S 26, DICO Audit Committee Checklist, Directors Handbook

<i>Date of Meetings</i>	<i>Date Report to Board</i>	<i>Material Issues Requiring Action</i>	<i>Date Resolved</i>	<i>Source of Verification (e.g. Board Report)</i>
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
<i>Outstanding Issues at year end</i>		<i>Responsibility/Reference Source</i>		<i>Target Completion Date</i>
_____		_____		_____
_____		_____		_____
_____		_____		_____

Assessment Criteria: *The credit committee undertakes its responsibilities as defined in the Act and Regulations*

References: Act s110-12, O.Reg.76/95 s24-25, Directors Handbook

<i>Credit Committee Responsibilities Delegated to (if applicable):</i>	<i>Reports to</i>	<i>Report Meets Regulatory Requirements</i>	<i>Source of Verification</i>
_____	<i>Board</i>	<i>Yes/No</i>	_____
_____	<i>Members</i>	<i>Yes/No</i>	_____

If NO, comments and/or exceptions:

Element 3: establishing standards of business conduct and ethical behaviour

References: RM Sec. 2000-2106

Assessment Criteria:

The board has established a code of conduct and ethical behavior, for directors, committee members and employees which addresses:

- the duty to comply with applicable legislation
- the duty of confidentiality of institutional and member information
- conflict of interest and restricted party transactions

The board annually reviews and approves the institution's code of conduct and ethical behavior

Date Last reviewed	Changes Required (N/A if not applicable)	Target Completion Date (if applicable)	Frequency of Acknowledgement
_____	_____ _____ _____	_____ _____ _____	_____

Acknowledgments received from all directors, officers, staff and committee members: Yes

Comments and/or Exceptions:

Element 4: appointing appropriately skilled and experienced management to implement the board's objectives

References: RM Sec. 3100

Assessment Criteria:

The board has established an appropriate succession plan for the general manager and senior management

The board of directors shall ensure that a process is established for the appointment of the general manager

The board of directors has established :	Date Last Reviewed (or N/A)	Identified Changes Required (N/A if not applicable)	Scheduled Implementation Date
<ul style="list-style-type: none"> ▪ a process for the appointment of the general manager ▪ an appropriate succession plan for the general manager ▪ a succession plan for senior management 	_____ _____ _____	_____ _____ _____	_____ _____ _____

Comments and/or Exceptions

Element 5: establishing the business objectives of the institution consistent with cooperative principles and approving the institution's business strategy and business plans

References: Act s24, RM Sec. 1000-1600

Assessment Criteria:

The board has established the business objectives of the institution consistent with cooperative principles and approved:

- *the business strategy of the institution*
- *the annual business plan*
- *financial targets and supportive action plans*
- *an operational budget*

The business plans support the business objectives and strategy of the institution

<i>The board of directors has established :</i>	<i>Date Approved</i>	<i>Adjustments Required (Current year/Next Year)</i>
<ul style="list-style-type: none"> ▪ <i>the business strategy of the institution</i> ▪ <i>the annual business plan</i> ▪ <i>financial targets and supportive action plans</i> ▪ <i>an operational budget</i> 	<hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/>

Comments and/or Exceptions

Element 6: evaluating the institution's actual operating and financial results against business plans

References: RM Sec. 1504, 1600

Assessment Criteria:

The board:

- regularly monitors actual operating and financial results in relation to the business strategy and business plans
- evaluates material operating and financial variances of actual results to plan
- confirms the appropriateness of initiatives and plans to address material variances

The board of directors :	<i>Frequency</i>
<ul style="list-style-type: none"> ▪ monitors actual operating and financial results ▪ evaluates material operating and financial variances ▪ confirms the appropriateness of initiatives and plans to address material variances 	_____ _____ _____

Description of Material Variance (if applicable)	Date Identified	Target Resolution Date	Date Resolved
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Comments and/or Exceptions

Element 7: evaluating the effectiveness of management

References: RM Sec. 3100, 3101

Assessment Criteria: *The board ensures the performance of senior management is evaluated at least annually against established criteria*

The board of directors :

- *evaluates the performance of the general manager a least annually against established criteria*
- *reviews a summary report on the performance of senior management and/or staff*

Date Evaluation Reviewed

Comments and/or Exceptions

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

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 are 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.

The annual review need not be deferred until after the fiscal year end. For example, it could be completed during the same period as the business planning process.

An action plan should include a description of 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
SAMPLE

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)

Resolution of the Board of Directors

It is resolved that:

This resolution is made in respect of <name of member institution> (the "member institution") and concerns its 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.

The board of directors (the "board") of the member institution is familiar with the contents of the Standards By-law and acknowledges its responsibilities under the Standards, which include:

- establishing appropriate and prudent risk management policies for each of the Standards and obtaining reasonable assurance that the institution is adhering to its risk management policies for significant risks
- establishing the responsibilities, accountability and authority of board committees
- establishing standards of business conduct and ethical behaviour
- appointing appropriately skilled and experienced management to implement the board's objectives
- establishing the business objectives of the institution consistent with cooperative principles and approving the institution's business strategy and business plans
- evaluating the institution's actual operating and financial results against business plans
- evaluating the effectiveness of management

The board of directors of the member institution is, to the best of its knowledge and abilities, fulfilling its responsibilities under the Standards [*if applicable, add: "except as indicated below"*].

The board has carefully considered the management representation letter dated <month> <day>, <year> addressed to the board concerning adherence to the Standards. The board has also carefully considered other information, and made such inquiries as it deems appropriate, relevant to the forming of its opinion on whether the member is following the Standards.

It is the opinion of the board that to the best of its knowledge, it has obtained reasonable assurance that the member institution is following the Standards [*add, if applicable: "except as indicated in the representation letter and/or below"*].

[*If applicable, add: "With respect to the deficiency (ies) or exception(s) not indicated in the representation letter, the board of directors confirms that an action plan(plans) addressing their correction has(have) been prepared and is(are) being implemented. A copy of the action plan(s) is being (has been) submitted to DICO and/or the Financial Services Commission of Ontario."*]

The foregoing is certified as a true copy of a resolution of the board of directors of <name of member institution> passed at a meeting of the board held on the <day> of <month>, <year>. Dated at <insert place> this <day>of<month>, <year>.

Corporate Secretary

Copy to: Deposit Insurance Corporation of Ontario

Part IV: 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**

The board of directors recognizes the following areas of business and financial practices which require follow up by the member institution in order to meet the standards set out in DICO By-law No. 5.

Standard	Material Weakness	Summary Action Plan	Target Resolution Date	Assigned Responsibility
1A. Governance: Board				
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				