



Ontario

Deposit Insurance
Corporation of Ontario

Société ontarienne
d'assurance-dépôts

BY-LAW N° 5

BY-LAW RESPECTING STANDARDS OF SOUND BUSINESS AND FINANCIAL PRACTICES

Assessment Workbook: Board of Directors *For Less Complex Operations*

February 2005

**This document is also available in electronic format
on DICO's Web site**

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 the board is in four parts.

Part I outlines the characteristics incorporated into the workbook design.

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 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 and copy of a **board resolution** are 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.

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)¹
- More than five employees
- More than one branch
- Investments in marketable securities²
- 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.

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

² 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

The following is designed to help the board assess its risk management practices. Comments and activities may be recorded which the board may wish to review when considering the annual Board Resolution regarding adherence to the Standards. DICO's assessment criteria of good governance for management of less complex operations are:

Element 1: 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				
Assessment Criteria: The board of directors receives and reviews the following reports				
Report Name	Yes	Frequency of Reports	Comments/Exceptions	Reference
Capital Report	<input type="checkbox"/>	_____	_____	Director's Handbook
Credit Report	<input type="checkbox"/>	_____	_____	
Investment Report	<input type="checkbox"/>	_____	_____	
Shock Test	<input type="checkbox"/>	_____	_____	
Liquidity Report	<input type="checkbox"/>	_____	_____	
Operational Risk Other	<input type="checkbox"/>	_____	_____	

Element 2: establishing the responsibilities, accountability and authority of board committees			
Assessment Criteria: The Audit Committee undertakes its responsibilities as defined in the Act and Regulations			
The Audit Committee:	Yes	Reference	
Meets quarterly	<input type="checkbox"/>	Act s125-139, O.Reg.76/95 s 26, DICO Audit Committee Checklist, Director's Handbook	
Provides report to the board within 60 days of meeting	<input type="checkbox"/>		
Reports to members at AGM	<input type="checkbox"/>		
Comments/Exceptions			

Assessment Criteria: The Credit Committee undertakes its responsibilities as defined in the Act and Regulations			
Credit Committee Responsibilities Delegated to (if applicable):	Credit Committee Reports to:	Yes	Reference
_____	Board: Monthly	<input type="checkbox"/>	Act s110-112, O.Reg.76/95 s 24-25, Director's Handbook
_____	Members: at AGM	<input type="checkbox"/>	
Comments and/or exceptions:			

Element 3: establishing standards of business conduct and ethical behaviour		
	Yes	Reference
Assessment Criteria: <i>The board has established a code of conduct for directors, committee members and employees</i>	<input type="checkbox"/>	<i>RM³ Sec. 2000-2106</i>
Acknowledgments received from all directors, officers, staff and committee members:	<input type="checkbox"/>	
Comments and/or Exceptions		

Element 4: appointing appropriately skilled and experienced management to implement the board's objectives		
	Yes	Reference
Assessment Criteria: <i>The board has established an appropriate succession plan for the general manager</i>	<input type="checkbox"/>	<i>RM Sec. 3100</i>
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		
	Date Approved	Reference
Assessment Criteria: <i>The board has established:</i> <ul style="list-style-type: none"> ▪ <i>the annual business plan</i> ▪ <i>an operational budget</i> 	 _____ _____	<i>Act s24, RM Sec. 1000-1600</i>
Comments and/or Exceptions		

³ Sound Business and Financial Practices Reference Manual

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

	Yes	Reference
<p>Assessment Criteria: The board of directors:</p> <ul style="list-style-type: none"> ▪ monitors actual operating and financial results monthly ▪ reviews material operating and financial variances ▪ confirms the appropriateness of initiatives and plans to address material variances 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<p><i>RM Sec. 1504, 1600</i></p>
Comments and/or Exceptions		

Element 7: evaluating the effectiveness of management

	Yes	Reference
<p>Assessment Criteria: The board of directors evaluates the performance of the general manager at least annually</p>	<input type="checkbox"/>	<p><i>RM Sec. 3100, 3101</i></p>
Comments and/or Exceptions		

Part III: REPORTING REQUIREMENTS

Management

Annually, management is required to 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 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 N° 5 and that they are fulfilling their responsibilities under the Standards;
- identify any outstanding deficiencies or exceptions;
- include an action plan to address 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.

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 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 the any significant or material issue being addressed, the manner of addressing it, designated responsibility for corrective action and appropriate timeframes for completion.

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>.

Management Signature (s)

Board of Directors: Resolution on adherence to By-law N° 5

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 N° 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 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: 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 N° 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				