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## Guidance Note:

# Director Training and Qualifications for Complex Credit Unions

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This guidance note is for use by all complex credit unions. DICO considers a complex credit union to have the following characteristics:

1. The total assets of the credit union as set out in the audited financial statements of the credit union that were placed before its members at the most recent annual meeting are greater than or equal to \$50 million; or
2. The credit union participates in commercial lending.

If either of the above two conditions exists, DICO will consider the credit union to be a “complex” credit union and subject to the guidance expectations for a complex credit union.

As outlined in the subsection 92(1) of the Credit Unions and Caisses Populaires Act, 1994 (the “Act”), a person is disqualified from being a director of a credit union if that person has not met the training requirements or qualifications for directors established by the credit union. Also, under subsection 125(4) of the Act, every member of an audit committee shall satisfy such training requirements or qualifications for audit committee members as are established by the credit union.

In accordance with DICO By-law No. 5, the board of directors is required to establish the training requirements and qualifications for directors and members of the audit committee.

This document identifies a number of core competencies that are considered critical for directors to effectively fulfill their responsibilities to the credit union and its depositors and shareholders.

It also outlines the criteria that DICO will consider when assessing the adequacy of the credit union’s policies and practices relating to director training and qualifications, and its assessment of core competency requirements.

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### Introduction

The knowledge, experience and skill of each director and the Board as a whole are important elements in the success and viability of the credit union. It is important that directors have appropriate competencies to effectively fulfill their responsibilities to the credit union and its depositors and shareholders and contribute to the safety and soundness of the credit union sector as a whole. While the level and range of competencies will vary among credit unions based on the size and complexity and any additional specific requirements identified by the credit union, there are a set of core competencies that are considered critical for all directors. Potential directors should be aware of these requirements and commit to any necessary training requirements as may be identified in the credit union's policy within the specified timeframes as a condition of election.

At a minimum, credit unions will need to address director training and qualifications in Board policy. It is recommended that director training and qualifications requirements are also published and made available to all potential directors and that failure to meet the training and qualification requirements established by the credit union is a condition for disqualification as a director.

The purpose of this document is to:

- Provide guidance on setting board policy for director training and qualifications;
- Set out DICO's minimum competency expectations for directors, audit committee members, the Audit Committee Chair and Board Chair;
- Outline Sample Board competency expectations;
- Outline the assessment criteria that DICO will consider in considering the adequacy of a credit union's policy and practices relating to director training and qualifications.

### Policy Requirements

Each credit union should establish a policy that fully sets out its expectations for directors including required qualifications, experience, competencies and any training requirements. At a minimum, policy should address and outline the following:

- The required competencies for directors, audit committee members, Chair of the Board and Chair of the Audit Committee;
- A description of competency levels outlining the degree of knowledge, experience, skills, education and any required director training;
- Assessment criteria and required supporting documentation;
- Time frames to complete required training;
- Board competencies matrix.

Policy should be appropriately scaled to reflect the size and complexity of the credit union and any additional specific requirements identified by the credit union.

**Director Competencies**

Each director should possess a range of critical attributes and qualifications in order to effectively fulfill the responsibilities as a member of the board. Common attributes for all directors include good judgment, maturity, personal integrity, financial stability, etc. In addition, directors should possess a broad range of competencies<sup>1</sup>. Directors should also have the time and willingness to serve on the Board and the commitment to undertake any required training requirements within the timeframes established by the credit union.

**CORE COMPETENCIES**

Table A outlines a number of “core” competencies that are considered important for directors of all Complex credit unions. The degree of knowledge or understanding of these competencies will vary between credit unions and the functions performed. Also, a higher and broader level of knowledge and understanding will generally be expected for directors, members of the audit committee and the Chair of the Board and Chair of the Audit Committee at larger, more complex credit unions. Credit unions should add additional competencies where appropriate related to their particular circumstances and requirements, including those for any additional committees that the Board may establish. An overview of each of the core competencies is provided in Appendix 1. Detailed elements of each core competency are provided in the Application Guide: Director Core Competencies for Complex Credit Unions.

**Table A: Core Competencies**

<b>Core Competencies</b>	
1. Audit and Compliance Oversight	6. Leadership
2. Board and CEO Performance	7. Regulatory Environment
3. Credit union operations	8. Risk Management Oversight
4. Financial Literacy	9. Strategic Planning
5. Governance and Ethics	

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<sup>1</sup> Competencies include specific technical and non-technical skills resulting from knowledge, experience, understanding and formal director training.

### Competency levels

Board policy should set out the required competency levels as appropriate. These should be considered as part of the initial assessment and nomination process for individual directors and to ensure that the Board as a whole has the appropriate range of competencies. It is important to recognize that knowledge, expertise and academic or professional qualifications alone may not always indicate a full understanding within the context of the financial services market place and the credit union sector in particular. Specialized formal director training provided by leagues and industry suppliers help provide a sound understanding of the core competencies and many other competencies and supplement the knowledge gained through education and direct practical experience. Table B describes the knowledge, experience and training that should be considered in assessing director competencies. These should be applied to each of the core competencies.

**Table B: Core Competency Level Descriptions**

Competency Level	Description (Experience/Qualifications)
Basic (B)	<ul style="list-style-type: none"> <li>• Some knowledge of the competency</li> <li>• Understands terminology and can identify skills and attributes associated with the competency</li> </ul>
Good (G)	<ul style="list-style-type: none"> <li>• Good understanding of the fundamentals of the competency gained through an appropriate combination of education, working knowledge, previous board experience and completion of introductory director training.</li> <li>• Sufficient knowledge and experience to apply concepts facing the credit union.</li> </ul>
Strong (S)	<ul style="list-style-type: none"> <li>• Significant understanding and expertise of the competency gained through an appropriate combination of education, practical work experience, previous board experience and completion of advanced director training</li> <li>• Participates fully in board analysis, discussion and debate on more complex issues.</li> <li>• Ensures sufficient information is provided to support analysis and recommendations</li> <li>• Uses knowledge to mentor new directors and provide greater understanding of competency</li> <li>• Challenges management’s assumptions when needed and speaks out appropriately at board meetings;</li> <li>• Makes significant contributions to long-range planning;</li> </ul>
Expert (E)	<ul style="list-style-type: none"> <li>• Expert understanding of the competency gained through an appropriate combination of direct practical working experience in a senior position or function, previous board experience, professional designation, qualification or degree in the subject matter and</li> </ul>

	<p>completion and accreditation of a director training program</p> <ul style="list-style-type: none"> <li>• Participates fully in board analysis, discussion and debate on more complex issues.</li> <li>• Ensures sufficient information is provided to support analysis and recommendations</li> <li>• Uses knowledge to mentor new directors and provide greater understanding of competency</li> <li>• Interprets complex data to contribute new knowledge in the competency areas</li> <li>• Provides expert analysis and advice on complex issues</li> <li>• Challenges management’s assumptions when needed and speaks out appropriately at board meetings;</li> <li>• Makes significant contributions to long-range planning;</li> </ul>
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Each credit union should establish a formal process outlining the director assessment process. This may include the requirement for supporting documentation outlining completion of formal director training courses and programs and evaluation questionnaires.

Introductory director training would provide a good understanding of the course objectives and concepts involved for each of the competencies. Advanced director training would normally include on-site workshops with a requirement to test the application of the specific concepts and course objectives.

**DICO Expectations**

At a minimum, directors should have a STRONG understanding and knowledge of the core competencies as outlined in Table B (and described in the Application Guide: Director Training and Qualifications – Director Core Competencies for Complex Credit Unions) as soon as possible in order to be an effective member of the Board. Directors should be prepared to commit to the completion of any necessary formal director training within the time frames established by the credit union, either when seeking election as a director of a credit union or for appointment to the audit committee. DICO expects each credit union to establish an appropriate time frame for directors to meet core competency levels including completion of any director training requirements subject to DICO minimum expectations. **Minimum expectations are set out in Table C below.**

Larger more complex credit unions are expected to implement shorter time frames and attain higher competency levels in one or more of the core competencies for committee members or Chairs as appropriate. These credit unions may also wish to set higher than minimum requirements for competency levels.

**Table C: Expected Minimum Competency Level (All Core Competencies)**

	All Directors	Audit Committee Member	Audit Committee Chair	Chair of the Board
<b>Competency Level</b>	<b>Strong</b>	<b>Strong</b>	<b>Strong</b>	<b>Strong</b>
<b>Time Frame</b>	Within 24 months of election	Within 12 months of appointment	Within 6 months of appointment	Within 6 months of appointment

**Board Competencies**

At least annually, credit unions should require directors to complete a self-assessment indicating their level of understanding of the core competencies and their expertise in any other competencies identified by the credit union. Examples of additional competencies that might be helpful include information technology, marketing, legal, entrepreneurship, economics.

Monitoring competencies helps identify possible training and development opportunities and also helps to ensure that the board continues to have a broad range of understanding and skills among its directors as their terms expire and potential directors are being considered. Directors should ensure that any changes in competency levels are fully identified and reflect additional knowledge, experience and training. Changes in competency levels should be documented and supported by appropriate evidence as required.

**Industry Training Providers**

Training programs that have been specifically designed for credit union directors are available and provided by L’Alliance des caisses populaires de l’Ontario, La Fédération des caisses populaires de l’Ontario, CUSOURCE Credit Union Knowledge Network and Level Five Strategic Partners. Additionally, there may be other services providers that the credit union identifies that would provide the necessary skills and knowledge.

**Continuing Education**

In addition to establishing minimum director competency requirements, credit unions should also provide continuing education opportunities as appropriate. Minimum continuing education credits may apply to retaining accredited learning designations. Continuing education can help address gaps in aggregate Board competencies and ensure that longer serving directors are able to remain current and maintain or expand their understanding and competency levels.

Examples where this is particularly important include addressing new and emerging issues, such as changes in the regulatory environment, risk management practices and financial reporting.

Credit unions should require directors to undertake or participate in at least one director development course, seminar, work shop or program each year. Larger, more complex credit unions should establish a minimum number of hours of continuing education.

### Effective Date

This guidance note becomes effective on January 1, 2018.

All directors, including appointees to the Audit Committee, and Chairs of the Board and the Audit Committee, elected, re-elected or appointed on or after January 1, 2018 should attain the required competency levels for directors or appointees as established by the credit union subject to the minimum expectations set out in Section 5 above.

### DICO Assessment Criteria

All credit unions are expected to establish, document and publish required director competencies, and any training requirements that are appropriate for their size and complexity. As part of its on-going risk assessment and examination process, DICO will assess the adequacy of director competency levels within the context of the credit union's size and complexity and its risk profile. This assessment may include interviews with the Chair and other directors, and also consideration and review of:

- The credit union's policy and practices on director training and qualifications
- Director competencies and competency levels, including members of the audit committee and Chair of the Board
- Director competency assessment criteria and processes
- Board competencies and assessment criteria
- Continuing director education and development requirements

## Appendix 1: Core Competency Descriptions

### 1. AUDIT AND COMPLIANCE

Directors must have an understanding of the risks facing the credit union, the ways in which management addresses and mitigates those risks and ensure that the financial statements accurately reflect the activities of the credit union. These functions are assessed through the activities which are carried out by a combination of internal and external auditors which involves systematically reviewing key risks and ensuring that any identified weaknesses or deviations from policy and legislative requirements are rectified by management

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.

### 2. BOARD AND CEO PERFORMANCE

The Board is required to conduct an assessment of its performance and that of the CEO. The Board is ultimately responsible for the success and viability of the credit union through the skills and capabilities of its directors. It supervises the affairs of the credit union through its oversight responsibilities and appoints a CEO to manage the day to day operations. An objective evaluation and assessment of the Board and the CEO are important requirements to ensure that responsibilities are effectively undertaken and that any deficiencies are appropriately and quickly identified and addressed. Directors contribute as board members in ensuring that the compensation package of the CEO rewards only prudent risk taking behaviour that promotes the on-going viability of the credit union.

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

### 3. CREDIT UNION OPERATIONS

It is important that directors have a good understanding of the nature of the co-operative business model and that of the credit union and sector, the way the credit union functions and the financial, human and technological resources the credit union uses in delivering its services.

To achieve this competency, directors should demonstrate an 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.

#### **4. FINANCIAL LITERACY**

Financial literacy involves understanding financial reports and statements, accounting standards and assumptions and legislative requirements in order to effectively oversee the financial performance and condition of the credit union. A critical element of the success and viability of the credit union is the development of an annual business plan and budget which are approved by the Board. Directors are required to understand how these are developed and the types of analysis required to effectively monitor results and variances.

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.

#### **5. GOVERNANCE AND ETHICS**

Governance includes understanding and contributing to the development and articulation of strategic plans, goals, policies and processes which govern and guide the way the credit union is directed and managed. Directors are expected to provide prudent, independent and objective oversight to effectively guide and monitor the implementation of strategic initiatives, oversee risk management activities and to participate with the Board as a whole in communicating a cohesive approach and position. Effective corporate governance is an essential element in the safe and sound functioning of a credit union. Structures, policies and processes only work in practice where there are knowledgeable and competent individuals, with a clear understanding and strong commitment to their roles. Ethical actions are those that are made in accordance with established laws, rules, and organizational values that are supported by reasoned and objective evidence without any bias of self-interest.

Directors are expected to perform their responsibilities in a prudent and objective manner with due regard to the best interests of the credit union. To achieve this competency, directors should demonstrate an appropriate level of knowledge and understanding of the critical elements of good governance and ethics.

#### **6. LEADERSHIP**

Leadership encompasses the ability to influence discussions while building consensual solutions. Effective leaders recognize the importance of all participants in deliberations and the importance of constructive discussion and debate. Leaders are effective communicators. Leadership involves approaching initiatives from a strategic

perspective, championing new initiatives and working towards their achievement to deliver quality services to the depositors and shareholders and improve the longer-term viability of the credit union.

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.

### **7. REGULATORY ENVIRONMENT**

Credit unions operate in a regulated environment and are governed by the *Act* (including Regulations), DICO By-laws, other legislation and its by-laws. The *Act* sets out how credit unions are structured and the special nature of the credit union governance structure, business powers and lending and investment restrictions and limitations. Further clarification and guidance is provided in DICO By-laws including By-law #5 covering sound business and financial practices.

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.

### **8. RISK MANAGEMENT OVERSIGHT**

The Board is responsible for the oversight of the credit union's risk management practices, including Enterprise Risk Management. Risk management involves identifying, measuring and managing significant risks and events that may impact an organization's objectives. It encompasses policies, procedures and controls and how risks are managed.

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.

### **9. STRATEGIC PLANNING**

Strategic planning is part of a regular process that helps determine or confirm the credit union's overall longer-term direction or vision. It includes an analysis of results, existing plans and strategies and an assessment of the current business and operating environment. Strategic planning initiates the annual business planning process. Directors are expected to contribute to strategic planning by understanding the strategic planning process and strategy formulation. This includes having a good knowledge of the credit union's business and operating environment, and being prepared for planning deliberations. It also requires collaboration and teamwork in developing an appropriate and effective strategic plan, and monitoring implementation of the plan.

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.