



**Ontario**

Deposit Insurance  
Corporation of Ontario

Société ontarienne  
d'assurance-dépôts

# DIRECTOR'S HANDBOOK

## 2016

Ce document est également disponible en français

## Contents

<b>INTRODUCTION</b> .....	<b>3</b>
<b>DICO'S AUTHORITY</b> .....	<b>4</b>
<b>DUTIES AND RESPONSIBILITIES OF DIRECTOR'S</b> .....	<b>6</b>
<b>COMMITTEES OF THE BOARD</b> .....	<b>8</b>
<b>UNDERSTANDING THE DIFFERENCES: BOARD AND STAFF</b> .....	<b>9</b>
UNDERSTANDING "LINES OF AUTHORITY".....	9
<b>YOUR ROLE AS A DIRECTOR</b> .....	<b>10</b>
<b>PROTECTING YOURSELF FROM LIABILITY</b> .....	<b>11</b>
<b>HELP FOR DIRECTORS</b> .....	<b>12</b>
FROM DICO.....	12
FROM THE SECTOR .....	12
OTHER SOURCES .....	13
<b>LEGAL FRAMEWORK OF THE ONTARIO SECTOR</b> .....	<b>15</b>
DICO BY-LAWS.....	15
CREDIT UNION BY-LAWS, ARTICLES, AND LENDING AND INVESTMENT POWERS.....	15
OTHER LEGISLATION .....	16
<b>BOARD OF DIRECTORS' OVERSIGHT OF THEIR CREDIT UNION</b> .....	<b>17</b>
<b>BY-LAW NO. 5: STANDARDS OF SOUND BUSINESS AND FINANCIAL PRACTICES</b> .....	<b>18</b>
SECTION A: CORPORATE GOVERNANCE .....	18
SECTION B: RISK MANAGEMENT POLICIES.....	19
SECTION C: ENTERPRISE RISK MANAGEMENT .....	23
<b>BOARD MEETINGS AND MINUTES</b> .....	<b>26</b>
<b>REPORTS TO THE BOARD</b> .....	<b>27</b>
<b>APPENDIX A - KEY SECTIONS OF THE ACT AND REGULATIONS</b> .....	<b>28</b>
<b>APPENDIX B - CHECKLIST FOR EFFECTIVE BOARD MEETINGS AND MINUTES</b> .....	<b>30</b>
<b>GLOSSARY</b> .....	<b>32</b>

Throughout this document the term "credit union" also refers to "caisse populaire".

**NOTE:** All Glossary Terms are marked throughout the document in [blue](#).

## Introduction

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The position of director of a **credit union** is both challenging and rewarding. As a director, you are responsible for ensuring that your credit union continues to meet the financial service needs of its members. The members of your credit union are relying on you and the other directors to guide the organization into the future. Each director on the Board must understand their role in helping establish and maintain a robust corporate governance structure for the credit union. The Board is responsible for setting the strategic direction for the credit union and providing oversight to management to ensure that the credit union's actual operating performance is aligned with the strategic plan. Directors must also ensure that the credit union operates in accordance with the *Credit Union and Caisses Populaires Act, 1994* (the "**Act**") and associated Ontario Regulations (the "**Regulations**"), DICO By-laws, as well as the credit union's own by-laws, policies and procedures.

The Deposit Insurance Corporation of Ontario (DICO) has developed this Director's Handbook to help you fulfill your role as a director. The Handbook describes your duties and responsibilities, and gives you the basic information you need to carry them out. It also outlines risk management practices to help build a strong future for all Ontario credit unions.

The Handbook summarizes:

- Your duties and responsibilities as a credit union director;
- DICO authority
- How to perform your role as a director;
- Tools and programs to help you;
- The Ontario credit union and **caisse populaire** sector;
- The legal framework of the sector; and
- How your credit union can manage risk by complying with DICO Guidelines, **By-law No. 5 - Standards of Sound Business and Financial Practices** ("By-law No.5"), Guidance Notes and implementing an Enterprise Risk Management Process (for Class 2 credit unions).

For more information on your role as a director, DICO's programs, or risk management, please call your Relationship Manager or Regulation and Risk Management Division at DICO's toll-free help-line at:

**1-800-268-6653**

## DICO's Authority

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DICO is a provincial government agency responsible for overseeing compliance with solvency regulation and for providing **deposit insurance** protection for deposits held in Ontario credit unions up to prescribed limits. As part of this responsibility, DICO has the authority to issue by-laws that require credit unions operate in accordance with By-law No.5. DICO also has a number of powers that may be used to address material deficiencies and unacceptable risk. Under the Act, DICO is required to:

- Provide deposit insurance against loss of part or all of deposits with credit unions;
- Promote and otherwise contribute to the stability of the credit union sector in Ontario with due regard to the need to allow credit unions to compete effectively while taking reasonable risks; and
- Undertake its responsibilities for the benefit of persons having deposits with credit unions and in such manner as will minimize the exposure of the Corporation to loss.

In fulfilling these responsibilities DICO conducts on-going risk-based monitoring and oversight of the safety and soundness of credit unions and their compliance with statutory requirements which includes:

- Collection and analysis of financial and non-financial data
- Conducting examinations to confirm the level of risk determined from information reported and to confirm compliance to the Act and Regulations
- Developing risk profiles for each credit union based on its principal risks and the quality of risk management practices

Credit unions that exhibit higher than normal risk profiles are placed on DICO's Watchlist and are subject to enhanced scrutiny. This involves more frequent reporting and examinations to ensure that any deteriorating trends are actively monitored and appropriately managed and addressed by the credit union. Where a credit union is in non-compliance with the standards of By-law #5, DICO may impose conditions of deposit insurance to address that risk and resolve identified weaknesses.

Where a credit union is in material non-compliance with the standards, DICO may issue a compliance order that restricts or revokes certain activities until such time as the deficiencies have been appropriately addressed.

DICO may issue a compliance order where:

- The credit union is not complying with the requirements set out in the Act and accompanying regulations;
- The interests of a credit union's members, shareholders or depositors are considered to be at risk;
- DICO considers it necessary to ensure the financial security and integrity of the credit union.

Each compliance order will identify the authority for issuing the order and comprehensive details outlining the rationale, criteria and evidence DICO has relied upon for issuing the order. The order will also outline the conditions and actions required for compliance, the timeframe for compliance and any potential consequences for failure to comply.

Prior to issuing an order, DICO may meet with the Board to discuss the circumstances for the order and provide the credit union with appropriate notice of the order. All compliance orders are subject to an appeal process by the credit union.

DICO may place a credit union under **Supervision** if certain conditions are met, including non-compliance with By-law #5 that represents an unacceptable level of risk. DICO works closely with the Board of a credit union under Supervision to ensure the noted deficiencies are effectively addressed.

DICO may place a credit union under **Administration** if certain conditions are met, including where there is a high risk that the credit union will fail. DICO directly manages credit unions under Administration and removes the Board of directors. The aim of Administration is to protect depositors and thereby minimize the risk of future loss to DICO's Deposit Insurance Reserve Fund.

The intervention criteria used to determine when DICO will place a credit union into either Supervision or Administration is outlined in the Sector Release – "Notice of a Change in the Intervention Criteria for Supervision and Administration" published on July 19, 2011 and available on our website.

Effective October 1, 2009 DICO is also responsible for determining decisions regarding **Applications** to conduct specified transactions, **Variations** and **Exemptions** to certain regulatory requirements as identified in the Act. DICO has committed to administer these responsibilities in a fair and transparent manner, in accordance with established criteria.

For more information about how DICO regulates credit unions, please see our website.

DICO also has the power to impose administrative monetary penalties for certain contraventions of the Act.

## Duties and Responsibilities of Directors

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The duties and responsibilities of directors are set out in the [Act](#) and the [Regulations](#) and in DICO By-law #5. If you are unsure of your duties, you should seek clarification from any of the following: the Chair of the Board, the credit union's solicitor, the Financial Services Commission of Ontario (FSCO), your credit union's league or association, Central 1, or your personal solicitor.

As outlined in Part VII of the Act, as an individual director, you are responsible to:

- Carry out your job honestly, in good faith, and in the best interests of the credit union;
- Exercise care, diligence and the skill that a reasonably **prudent person** would exercise in comparable circumstances in fulfilling your responsibilities;
- Hold in strict confidence all transactions by members and the organization, except where permitted by law;
- Disclose to the Board when there may be a conflict between your personal interest and the interests of the credit union and, in most cases, being absent from the vote on material contracts in which you have a personal interest; and
- Comply with all the relevant sections of the Act, Regulation, DICO by-laws, articles and by-laws of the credit union and other applicable laws and statutes.

The Board is ultimately responsible for overseeing that management operates the credit union in a safe and prudent manner, ensuring adherence to DICO By-law No. 5 and related guidance, and that the credit union is consistently operating in accordance with co-operative principles. In undertaking its responsibilities, the Board or any director shall not directly manage or be involved in the day-to-day activities of the credit union. The Board of Directors must meet at least quarterly to monitor and assess the adequacy of management's activities in achieving the business objectives of the credit union and compliance to the credit union's risk management policies.

The Board's responsibilities include:

- Setting the strategic plan of the credit union and providing oversight to monitor the achievement of strategic goals;
- Establishing the credit union's business objectives;
- Establishing the credit union's risk appetite and risk tolerance with respect to the management of key financial and operating risks, as well as strategic risks;
- Reviewing and approving the credit union's policies and annual business plan;
- Ensuring that qualified and competent management is appointed to implement appropriate risk measurement techniques and risk management procedures;
- Ensuring that succession plans are in place for key members of the management and staff of the credit union;
- Reviewing and approving the annual internal and external audit plans;
- Reviewing reports of the Audit Committee and ensuring that all recommendations are appropriately addressed;
- Monitoring the performance of the credit union to ensure adherence to policy and the annual business plan; and

- Overseeing community relations and protecting members' rights.

The Board delegates the responsibility of day-to-day operations to management, including:

- Developing and recommending policies and the annual business plan for approval by the Board;
- Communication policies and the business plan to staff and volunteers;
- Implementing policies and the business plan;
- Actively monitoring adherence to approved corporate values, policies, organizational and procedural controls, and compliance requirements;
- Attracting, developing and retaining knowledgeable staff;
- Ensuring that employees clearly understand their responsibilities and accountabilities;
- Measuring the level of risk in the operations of the credit union, using an appropriate reporting system;
- Managing risk in the credit union's operations through appropriate procedures and corrective action; and
- keeping the Board apprised of the business conditions, strategic opportunities and concerns, risks that are facing the credit union, operating performance and issues that could significantly affect the well-being of the credit union.

Pursuant to subsection 109(2) of the Act, the Board may not delegate the following responsibilities:

- Filling vacancies on the Board or the Audit Committee;
- Appointing or removing an officer or director of the credit union;
- Appointing signing officers;
- Adopting, amending or repealing by-laws;
- Issuing securities except in the manner and on the terms authorized by the Board;
- Authorizing the payment of a commission upon the sale of shares;
- Purchasing, redeeming or otherwise acquiring shares issued by the credit union;
- Approving financial statements;
- Authorizing the purchase, sale, lease, exchange or other disposition of material assets;
- Declaring dividends or patronage returns; and
- Expelling a member.

## Committees of the Board

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The Board is required to establish an Audit Committee composed of at least three directors appointed by the Board. A Chair of the Audit Committee should be appointed who coordinates activities and communications between the auditors, management and the committee. The Chair should have a high level of understanding and expertise in accounting, or related financial and risk management obtained through employment or completion of a professional accounting designation (CPA).

The Audit Committee liaises with internal and external auditors and makes recommendations on the effectiveness of the internal control environment within the credit union. The Audit Committee must meet at least quarterly. Further requirements of the Audit Committee can be found in Section 27 of the Regulations, the Guidance Note: Corporate Governance - Audit Committee, and the Audit Committee Handbook published by DICO and available on our website at [www.dico.com](http://www.dico.com).

The Board may also establish and receive assistance from various other optional committees to assist it in fulfilling its responsibilities. These include, but are not limited to:

- Executive Committee
- Corporate Governance Committee
- Risk Management Committee
- Asset Liability Management Committee
- Credit Committee
- Finance and Budget Committee
- Long-Range Planning Committee
- Human Resources Committee
- Nominating Committee

## Understanding the Differences: Board and Staff

The following summary illustrates the primary differences between Board members and staff members.

Board Members	Staff Members
<ul style="list-style-type: none"> <li>• are volunteers that may receive remuneration</li> <li>• are elected and/or appointed</li> <li>• set policy</li> <li>• assign authority to staff</li> <li>• set the direction for the credit union</li> <li>• are advocates</li> <li>• oversee operational results and the business plans</li> <li>• oversee compliance with policy and legislation</li> </ul>	<ul style="list-style-type: none"> <li>• are paid</li> <li>• are hired</li> <li>• recommend, implement and operate within policy</li> <li>• operate within assigned authority</li> <li>• focus on the daily work and administration</li> <li>• provide support information, statistics and background documentation</li> <li>• establish operational targets, budgets and activities</li> <li>• establish internal control processes</li> </ul>

## Understanding “Lines of Authority”

### Chain of Command

The understanding behind the "line of authority" is that **a person should have only one supervisor**. If more than one person directs the staff, confusion can quickly follow. A variety of policy interpretations and job assignments may very easily place the members of the team in conflict.

**The Board's Chair should be the only one to direct the CEO/General Manager.  
Board members should not direct staff members**

The Board performs an oversight role for the credit union's operation while management is responsible for day-to-day operations. The performance of the staff is the responsibility of the CEO/General Manager, who also has the responsibility for hiring, supervising, training and evaluating the staff of the credit union, and when required, terminating staff members. This does not preclude the possibility of Board involvement where an appeal or grievance could not be resolved at the staff level. Following the lines of authority helps to preserve the lines of authority, accountability and communication.



### Your Role as a Director

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As a director, you are providing an important service to your credit union, and to your fellow members. The members of the credit union have entrusted you to oversee the organization. The following are some steps you can follow to best carry out your duties:

- Undertake appropriate training to ensure you meet the minimum qualifications and competency requirements established by the credit union. Further information regarding director training and qualifications are available in DICO's Guidance Note: Corporate Governance – Board of Directors and DICO Guidance Note: Director Training and Qualifications available on our website;
- Regularly attend Board meetings, and prepare for them by reviewing all material provided by management;
- Actively participate at Board meetings and question management so that you fully understand their reports and actions. If you feel you are not receiving enough information to make an informed decision, ask for more, and be prepared to defer a decision until you are provided with sufficient information prior to the meeting;
- Ensure that the best interests of the credit union are considered in all Board decisions;
- Ensure management has developed, and the Board has approved, all the policies and procedures required under the Act, DICO By-law No. 5 - and DICO Guidance Notes;
- Fully understand the limits and minimum requirements imposed on the credit union's business powers under the Act, the Regulations, Guidelines, Guidance Notes and Advisories, as well as the credit union's by-laws, articles and policies, and ensure the Board is in compliance with the requirements;
- Ensure controversial decisions involving conflicts of interest are carefully documented;
- Keep informed of legal actions taken by or against the credit union;
- Review examination reports and other reports prepared by external parties, league reports and external auditors' reports to identify and correct weaknesses in the operation of the credit union, and to ensure the best possible performance (for a list of reports to the Board, see page 27); and
- Develop a common view among Board members before making a public comment regarding controversial issues that concern the credit union.

### Protecting Yourself from Liability

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Following the steps listed above, and acting honestly and in the best interest of your credit union, will help you to fulfill your duties under the Act and By-law No. 5. Every director of a credit union must fulfill their duty of compliance with the Act, the Regulations and the articles and by-laws of the credit union. Compliance will be achieved if you exercise the degree of care, diligence and skill that a reasonably **prudent person** would exercise in comparable circumstances. Board minutes are important in adequately documenting the discussions and decisions made during the Board meeting and serve a number of useful functions:

- They remind directors of the business transacted at the meeting;
- They inform absent directors of the actions taken at the meeting; and
- They serve as a permanent historical record of corporate actions.

The Board minutes should accurately and fully reflect the discussions held including dissentions and final decisions. Each director should:

- Keep their own detailed notes of all meetings;
- Ensure their name is recorded in the minutes if they either abstain or vote against a motion or resolution of the Board; and
- Ensure minutes of meetings are sufficiently comprehensive and accurately reflect discussions held.

Adequately documented Board minutes will provide clarity around the decisions made and the rationale why certain steps were taken and provide a reference source if and when questions or concerns arise in the future.

**Further details about effective Board meetings and Board minutes are located in the “Board Meetings and Minutes” section later in this handbook.**

If you fail to carry out your duties or if you take unlawful actions that harm the credit union, you may be dismissed from the Board and/or expelled from the credit union. You are also at risk of being held personally liable to your credit union for damages and even receive a fine or imprisonment if you have been found guilty of an offense under the Act. Legal actions have been successfully brought against the directors of credit unions where the requirements as outlined in the Act and Regulation have been breached. You should mitigate your legal liability by obtaining **director's liability insurance** (Refer to Sections 152 to 156 of the Act). Contact your league, Central 1, association or insurance carrier for more information in this regard.

## Help for Directors

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### From DICO

In addition to this Handbook, DICO has developed tools to help directors fulfill their duties and responsibilities. The following tools are available free of charge on our website ([www.dico.com](http://www.dico.com)):

**Director Training and Qualifications, Sample Self-Assessment Tool** helps to determine competency levels, identify potential gaps in competency requirements and highlight areas where additional training and development may be required.

**Director Training and Qualifications, Policy Development Guide** assists in developing a Board policy on director training and qualifications.

**Director Training and Qualifications, Guidance Notes for Class 1 and Class 2 Credit Unions** identify a number of core competencies considered critical for directors to effectively fulfill their responsibilities to the credit union, its members and shareholders.

**Director Training and Qualifications, Application Guides for Class 1 and Class 2 Credit Unions** describe director core competencies and typical attributes for different levels of understanding.

**The Sound Business and Financial Practices Reference Manual** assists Board and management to comply with By-law No.5. It describes the scope and content of Board policies and procedures, techniques for measuring risk, and strategies to improve performance and reduce risk.

**The Audit Committee Handbook** assists directors in understanding their responsibilities and duties when appointed as members of the Audit Committee. It provides additional information on the duties of the Audit Committee outlined in Section 27 of the Regulations.

**Corporate Governance Guidance Notes (Separate documents for Board, Audit Committee and Management)** outline DICO's expectations for sound governance and provide an explanation of the fundamental concepts that form the basis of the responsibilities of the Board, Audit Committee and Management in implementing effective governance policies and practices to ensure the continued viability of the credit union in the best interests of its members.

**Self- Assessment Workbooks: Corporate Governance (Separate documents for Board, Audit Committee and Management)** are designed to help boards and management assess the effectiveness of the credit union's business and financial practices.

### From the Sector

Other organizations that offer training and assistance to directors include:

- The **Credit Union Directors Achievement (CUDA) Program** is a nationally recognized program of education and orientation specifically tailored for credit union directors. The

CUDA® Program and courses are delivered in each province by CUSOURCE Credit Union Knowledge Network. Further information can be obtained from their website, [www.cusource.ca](http://www.cusource.ca).

- **Credit Union Directors of Ontario (CUDO)** organizes an annual Directors' Forum, which focuses on current topics and issues of interest.
- **Central 1** offers various courses designed for directors and committee members. Topics include roles and responsibilities, legislation, financial management and analysis, strategic planning, credit and audit.
- **L'Alliance des Caisses populaires de l'Ontario Limitée** offers an annual one day training session to new members of the Board to review the roles and responsibilities of directors and committee members.
- **La Fédération des Caisses populaires de l'Ontario Inc.** offers various courses on topics of interest to directors, general managers and staff.

### Other Sources

Universities, colleges and specialized training organizations provide a wide range of courses, seminars, webinars and other training that would be beneficial for directors in developing the skills needed to fulfill their duties as a member of the Board.

### Ontario Credit Union and Caisse Populaire Sector

Credit unions provide a wide range of financial services to individuals, small and medium-sized businesses, and corporations throughout Ontario. Credit unions are formed among people with a common bond, such as a particular community, language, religious or ethnic group or place of work. As cooperative organizations, credit unions are wholly owned by their members, and are governed by Boards of directors who are selected from the membership. Credit unions are licensed and regulated provincially. The following organizations and institutions service, regulate or assist Ontario credit unions:

**Financial Services Commission of Ontario (FSCO):** A provincial government commission that primarily regulates market conduct of provincially incorporated financial institutions, such as credit unions. FSCO makes decisions regarding incorporations and amalgamations of credit unions and monitors compliance to prescribed business powers and responsibilities.

**Central 1 Credit Union:** Most Ontario credit unions are members of Central 1 Credit Union which acts as the central banker for its members. It also provides members with access to liquidity funding, training, consulting and other services.

**Leagues:** All caisses populaires are members of either **L'Alliance des Caisses populaires de l'Ontario Limitée** (« L'Alliance ») or **La Fédération des Caisses populaires de l'Ontario Inc.** (« La Fédération »). These provincially incorporated leagues act as central bankers and trade associations for their members and also provide access to liquidity funding, training, consulting and other services.

**Canadian Credit Union Association (CCUA):** CCUA is the national trade association of Canadian credit unions and acts as advocate for the sector with the federal government.

**La Fédération Desjardins:** La Fédération Desjardins is the league of Québec caisses populaires. La Fédération in Ontario is closely affiliated with Desjardins.

The **Credit Union Bonding Program (TCUBP):** TCUBP provides **bonding insurance** to Ontario credit unions. It is a joint venture of the Co-operators Insurance Group and The CUMIS Group Limited.

**External Auditors:** Chartered Professional Accountants who express an opinion on the financial statements of the credit union and perform other audit or accounting functions.

**Other Organizations:** Various provincial or national organizations represent various groups of credit unions or credit union professionals, such as Credit Union Directors of Ontario (CUDO); the Association of Large Ontario Credit Unions; and the Advisory Council of Smaller Credit Unions.

### Legal Framework of the Ontario Sector

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Credit unions are regulated primarily by the Act and the regulations proclaimed under the Act. The powers of credit unions are also governed by DICO's by-laws, as well as each credit union's by-laws and articles of incorporation. Other provincial and federal statutes and common law create additional legal rights and obligations. The various parts of the legal framework are briefly discussed below.

The Ministry of Finance is primarily responsible for establishing policy and developing supporting legislation. It regularly obtains and solicits input on policy issues and recommends changes to legislation to meet the changing needs of the province, consumers, industry and related stakeholders.

As noted above, FSCO is primarily responsible for market conduct regulation while DICO is responsible for providing deposit insurance and prudential solvency regulation.

Appendix A – Key Sections of the Act and the Regulations provides more information and relevant legislation.

#### DICO By-laws

Three DICO by-laws directly affect Ontario credit unions.

- **By-law No. 3** prescribes deposit insurance coverage and information on advertising of deposit insurance coverage.
- **By-law No. 5** prescribes standards of sound business and financial practices, including policies and procedures for risk management. It defines the roles of the Board of directors, the Audit Committee and management in implementing sound business and financial practices.
- **By-law No. 6** prescribes guidelines for the reporting and accounting of impaired loans, according to the standards and interpretations issued by the International Accounting Standards Board (IASB). Collective Loan Loss Allowance Models and Loan Provisioning Discounting Tests for Class 1 and Class 2 credit unions are provided on our website.

In addition to these by-laws, DICO publishes Guidance Notes and other tools that provide assistance and outline DICO's expectations with respect By-law No.5

#### Credit Union By-laws, Articles, and Lending and Investment Powers

The articles of incorporation and by-laws of a credit union set out much of what it can and cannot do, including who can become a member, how the profits may be distributed, and the types of loans the credit union can offer. Directors must ensure that the credit union and the Board comply with the by-laws and the articles.

The Act and Regulations outline the lending and investment powers of a credit union. If a credit union or its staff contravenes these designated powers, the credit union's lending and investment powers may be restricted or revoked by DICO.

## Other Legislation

The Board of directors may be held responsible for any actions taken by a credit union which does not comply with other legislation, including:

### Federal Legislation

- **Personal Information Protection and Electronics Documents Act (PIPEDA)** that requires the credit union to appoint a privacy officer, observe privacy legislation surrounding the collection, use and disclosure of personal information of its members and employees and information obtained in its normal course of business;
- **Proceeds of Crime (Money Laundering) and Terrorist Financing Act** that requires the credit union to appoint a compliance officer and implement a compliance regime for identifying and reporting certain large and suspicious financial transactions;
- **Bankruptcy and Insolvency Act** that requires the credit union to observe the rights of debtors and creditors in dealing with the assets of a bankrupt individual, and provincial creditor protection legislation;
- **Income Tax Act, Canada Pension Plan and Employment Insurance Act** that require the credit union to remit income taxes and Canada Pension Plan and Employment Insurance premiums;
- **Employment Standards Act** that ensures that the credit union meets standards of fair employment;
- **Canada's Anti-Spam Legislation** that requires credit unions to get at least implied consent before sending commercial electronic messages;
- **Foreign Account Tax Compliance Act (FATCA)**, a US federal law that requires US persons, including individuals who live outside the US to report their financial accounts held outside the US, and requires foreign institutions to report to the Internal Revenue Service (IRS) about their US clients; and
- **Pension Benefits Standards Act** provides the requirements for the creation, funding and administering of pension benefits for the employees of an organization.

### Provincial Legislation

- **Ontario Health and Safety Act**, which sets out employers duties regarding the health and safety of employees within the workplace;
- **Employment law**, which governs employment conditions, remuneration, discipline and terminations.
- **Consumer Reporting Act**, which ensures that proper information is communicated to members about the credit union's products and services;
- **Ontario Human Rights Code**, which deals with discrimination in the treatment of employees and in hiring;
- **Pay Equity Act**, which ensures that staff and officers receive equitable compensation;
- **Employers Health Tax Act**, which requires the credit union to remit health taxes.

### Board of Directors' Oversight of their Credit Union

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Credit unions are in the business of accepting and managing risk as a normal part of doing business each day. Accepting deposits, making loans, determining savings and lending interest rates, making investment decisions, all involve choices and therefore risk.

The Board is responsible for setting the strategic direction and establishing business objectives. The Board approves the business strategy and the strategic plan and ensures that they are aligned with the strategic direction of the credit union. Management creates the business plans and budgets to implement the strategic plan with the Board providing final approval. The Board ensures that the strategic plan is met by regularly evaluating any variation between the actual operating and financial results against the business plan and budget. The Board should ensure that any material variances are identified and appropriately addressed and continue to monitor the areas of concern until the situation is fully resolved.

As part of effective oversight, the Board is required to implement and maintain an appropriate risk management framework. The Board reviews and approves the risk management policies and procedures that provide direction to management. Your responsibility as a member of the Board is to oversee the management of these risks and that the credit union obtains a reasonable return on its investments that covers expenses and provides a satisfactory return for members. The credit union cannot avoid financial and other types of risk, but the Board, by providing clear and robust oversight, can help the management team effectively manage and mitigate risk through sound risk management practices.

All credit unions are required to comply with DICO By-law #5: Standards of Sound Business and Financial Practices. This by-law was created specifically to help credit unions manage key business and financial risks. The by-law establishes the minimum requirements for corporate governance and risk management policies. Further details on the specific requirements for the Board, the Audit Committee and Management are outlined in the next section.

# By-law No. 5: Standards of Sound Business and Financial Practices

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By-law No. 5 sets out standards of sound business and financial practices. The standards outline key elements each credit union should consider and address when developing policies and procedures. The standards, and their importance to you as a member of the Board, are outlined below.

## Section A: Corporate Governance

### 1. Corporate Governance: Board of Directors

The Board of directors is ultimately responsible for providing oversight to the operations of the credit union to ensure that it is operated in a safe and prudent manner and for ensuring adherence to the standards of sound business and financial practices. In fulfilling its responsibilities, the Board of Directors should ensure that the credit union is consistently operating in accordance with co-operative principles.

At a minimum, the Board of directors shall:

- Understand and fulfill its responsibilities;
- Exercise independent judgment;
- Establish the training requirements and qualifications for directors and members of the Audit Committee;
- Establish appropriate and prudent risk management policies;
- Oversee risk management policies and obtain reasonable assurance that the credit union is adhering to its risk management policies for significant risks;
- Establish the responsibilities, accountability and authority of the CEO, the Audit Committee and other Board committees as applicable;
- Establish standards of business conduct and ethical behavior;
- Select and evaluate the effectiveness of the CEO;
- Ensure that management is appropriately skilled and experienced to implement the Board's objectives;
- Establish the business objectives of the credit union consistent with co-operative principles and approve the credit union's business strategy and business plans;
- Evaluate the credit union's actual operating and financial results against business plans and address any material variances;
- Evaluate the effectiveness of the Board and oversee the responsibilities of the Audit Committee;
- Ensure that employee compensation plans are consistent with prudential incentive; and
- Affirm a control environment and ensure that the credit union is in control.

### 2. Corporate Governance: Audit Committee

The Audit Committee supports the Board of Directors through oversight responsibilities relating to financial reporting and disclosure, internal audit, external audit, risk management, controls

and compliance. The committee's understanding and oversight are critical for safeguarding assets of all stakeholders of the credit union.

At a minimum, the Audit Committee shall:

- Develop a work plan for all meetings for the year that addresses all the duties and responsibilities set out in the Act and Regulations;
- Oversee an independent internal audit function to evaluate internal controls and ensure that management has mitigated any material weaknesses;
- Take all reasonable steps to ensure that the credit union is in compliance with the Act, Regulations and other legislative requirements; and
- Ensure appropriate follow-up on all outstanding issues, weaknesses and deficiencies including findings and recommendations of examinations and internal and external auditors.

### **3. Corporate Governance: Management**

Management is responsible for day-to-day operations ensuring that the staff of the credit union applies the processes, procedures and controls necessary to prudently manage the risk. Management will provide the Board of Directors with timely, relevant, accurate and complete information to enable it to assess that delegated responsibilities are being discharged effectively.

At a minimum, management shall:

- Implement appropriate and prudent risk management policies, procedures and controls within Board approved policies and limits;
- Monitor the effectiveness of risk management practices and controls for the credit union's significant risks;
- Develop and implement an appropriate and prudent business strategy and business plans; and
- Provide the Board of Directors with timely, relevant, accurate reports on the implementation of the credit union's business strategy, business and financial plans and any material risk that may affect the business objectives and financial stability of the credit union. The list of reports that management should provide on a quarterly basis (minimum) includes the following: Capital Risk Management Report, Credit Risk Management Report, Operational Risk Management Report, Market Risk Management Report, Structural Risk Management Report, Liquidity Management Report, and Enterprise Risk Management Report (Class 2 Institutions only).

## **Section B: Risk Management Policies**

All credit unions are expected to develop and implement appropriate and prudent risk management policies. The Board is responsible for approving the policies and overseeing the implementation of the risk management policies while Management is responsible for implementing the policies and reporting back to the Board on how the credit union is adhering to the policies.

Management provides reports to the Board on the risks to which the credit union is exposed that:

- Summarize the nature and magnitude of significant risks;
- Highlight all significant risks and those risks that exceed the credit union's acceptable risk tolerance levels established by the Board;
- Identify the timeframe and status of any additional risk management activities that may be required to bring risks within approved risk tolerances levels;
- Identify any negative trends of higher risk areas and any changes to risk management activities;
- Highlight any new risks including their risk assessment, risk response and management activities;
- Identify any emerging risks; and
- Summarize any exceptions to management's established policies or limits for key risks.

### Capital Management

Credit unions need **capital**. Capital creates a cushion to protect your credit union during periods of economic distress and help it remain viable. It also enables the credit union to pursue new business opportunities, and to be more competitive. The Board must confirm how much capital your credit union needs. The amount will vary depending on the business environment in which the credit union operates and the degree of risk it is willing to assume.

The Board must approve an appropriate and prudent Capital Management policy that sets out the risk appetite and risk tolerances. The fundamental elements of capital management include implementing a policy that addresses:

- The quantity, quality and composition of capital needed that reflect the inherent risks of the credit union and to support the current and planned operations;
- Distribution of dividends and redemptions of capital instruments to members; and
- Monitoring and Board reporting that identifies risk to capital.

See DICO Guidance Notes on ICAAP and Stress Testing for further information on capital management.

### Credit Risk Management

Careful management of credit risk can minimize the credit union's risk while securing reasonable returns. The stability of your credit union depends on sound credit risk management. Financial institutions may encounter serious financial losses if they do not ensure that their loan portfolios are adequately diversified or grant too many higher risk loans. Expectations for prudent credit risk management are outlined in DICO's "Guidance Note: Lending" and "Commercial Lending Policy Development Guide" which are available on our website.

The Board must approve an appropriate and prudent Credit Risk Management policy that sets out the risk appetite and risk tolerances.

The fundamental elements of credit risk management include implementing a policy that addresses:

- Authorized types and classes of credit instruments;
- Limits or prohibitions on credit exposures including concentration;
- Assessment criteria and security requirements for each authorized credit instrument;
- An effective credit assessment system;
- Defined and prudent levels of decision making authority for approving credit exposures;
- Management of delinquent and impaired loans; and
- Monitoring and Board reporting requirements.

The Board will review the reports provided by Management and confirm the credit union's risk exposure is aligned with its risk appetite and risk tolerances.

### **Market Risk Management**

The Board and management of your credit union must think carefully about the decisions involved in managing its investments in financial instruments and other assets. The aim is to avoid undue risk and to secure a reasonable return on investments. Class 1 credit unions may only purchase investments as prescribed in the Regulations. Expectations for prudent market risk management for Class 2 credit unions are outlined in DICO's "Guidance Note: Investments" which is available on our website.

The Board must approve an appropriate and prudent Market Risk Management policy that sets out the risk appetite and risk tolerances. The fundamental elements of market risk management include implementing a policy that addresses:

- Authorized types, limits and concentration of investments, other financial instruments, and assets;
- Defined and prudent levels of decision-making authority;
- Identifying, measuring, providing for and recording market impairments; and
- Monitoring and Board reporting requirements.

### **Operational Risk Management**

Operational risk is inherent in all operations of a credit union, and encompasses many areas of its day to day activities. The most common sources of operational risk include people or employee risk, process risk, technology risk and outsourcing risk. Operational risk management (including appropriate internal controls, segregation of duties and effective internal audit function), help establish preventive and detective measures by which your credit union's management limits the risk of error, fraud, theft or misappropriation by employees or external suppliers and ensures compliance with policies and procedures.

The Board must approve an appropriate and prudent Operational Risk Management policy that sets out the risk appetite and risk tolerances.

The fundamental elements of operational risk management include implementing a policy that addresses:

- Defined and prudent levels of decision-making authority;
- The security and operation of a management information system;
- Technology development and maintenance;
- Safeguarding of the credit union's premises, assets and records of financial and other key information;
- Disaster recovery and business continuity plans;
- Outsourcing of services;
- Internal controls;
- Internal audit; and
- Monitoring and Board reporting requirements.

### **Structural Risk Management**

Structural risk is the risk related to changes in interest rates and the mix of assets and liabilities on the balance sheet. Part IX of the Regulations provides further information and requirements with respect to interest rate risk management. The aim is to manage these risks in a way that allows a credit union to meet the needs of its members while contributing adequately to earnings. Expectations for prudent structural risk management are outlined in DICO's "Guidance Note: Structural (Interest Rate) Risk Measurement and Measurement" which is available on our website.

The Board must approve an appropriate and prudent Structural Risk Management policy that sets out the risk appetite and risk tolerances. The fundamental elements of structural risk management include implementing a policy that addresses:

- Limits on the balance sheet mix and maturities of capital, deposits, loans and investments;
- Criteria for pricing of deposits and loans;
- Limits on the exposure to foreign currency risk;
- Limits on the exposure to changes in interest rates;
- Use of appropriate techniques for measuring the credit union's structural risk and evaluating the potential impact under current and reasonably foreseeable scenarios;
- The use of analysis and appropriate consultation for the purchase of derivatives; and
- Monitoring and Board reporting requirements.

### **Liquidity Risk Management**

Your credit union's Board must ensure that an appropriate liquidity risk management framework is in place and oversee that the staff are closely managing the organization's liquidity, or access to cash, in accordance with the framework. The credit union must be able to meet the demand for cash withdrawals, financing commitments for approved loans and lines of credit, and routine operating outflows of cash. Class 1 credit unions are required to follow prescribed rules for liquidity risk management which set out minimum levels of liquidity and the types of assets that may be used for liquidity purposes. Expectations for prudent liquidity risk management for Class 2 credit unions are outlined in DICO's "Guidance Note: Liquidity" which is available on our website.

The Board must approve an appropriate and prudent Liquidity Risk Management policy that sets out the risk appetite and risk tolerances. The fundamental elements of liquidity risk management include implementing a policy that addresses:

- Limits on the sources, quality and amount of liquid assets needed to meet normal operational and contingency funding for significant deposit withdrawals and regulatory requirements; and
- Monitoring and Board reporting requirements.

### Section C: Enterprise Risk Management

#### **Class 2 Credit Unions Only**

Each Class 2 credit union is expected to implement a comprehensive Enterprise Risk Management (ERM) framework that is appropriately scaled for its size, complexity and risk profile.

ERM is a process that:

- Helps the credit union identify and manage all material internal and external risks that may affect its performance, reputation and viability;
- Provides the basis for the credit union's decision making processes from the development of its strategy to its daily operations, reporting and compliance routines;
- Seeks to optimize risk management by balancing the cost of risk with the cost of control for all aspects of the credit union's potential risk areas to ensure organizational objectives are met.

By implementing an ERM process, the Board is able to focus on major risks and risk trends that could become future problems if rectifying strategies are not implemented. An effective ERM process should be tested regularly by the Board to ensure that it is sufficiently robust and that management and the Board use consistent parameters. Expectations for prudent enterprise risk management are outlined in DICO's "Guidance Note: Enterprise Risk Management (ERM)" which is available on our website

#### **Board of Directors**

In addition to the requirements outlined in sections A and B of By-law #5, the Board of Directors of a Class 2 credit union shall:

- Establish an appropriate and prudent suite of ERM policies that set out the risk appetite and risk tolerances for all significant risk areas; and
- Review and confirm the credit union's risk exposure is aligned with its risk appetite and risk tolerances.

## Audit Committee

In addition to the requirements set out in Section A and B of By-law #5, the Audit Committee of a Class 2 credit union shall:

- Establish an appropriate and prudent suite of ERM policies that set out the risk appetite and risk tolerances for all significant risk areas; and
- Review and confirm the credit union's risk exposure is aligned with its risk appetite and risk tolerances.

## Management

In addition to the requirements set out in Section A and B of By-Law #5, management shall implement ERM policies, processes and controls which address:

- Identification, measurement and evaluation of significant strategic, business and process risk exposures;
- Mitigation of risk exposures through appropriate risk responses;
- Monitoring the application of risk responses and mitigation strategies;
- Reporting on ERM processes and findings, including the level and direction of risk exposures and extent of risk management activities.

Additional information about ERM can be found in the "Enterprise Risk Management Application Guide" and "Enterprise Risk Management Framework" publications which are available on our website.

## Self-Assessment

Under By-law No. 5, at least annually, the Board shall review and assess the operations of the credit union and submit to DICO within 75 days of the end of the financial year, a Board resolution, in the form outlined in Appendix A of that by-law confirming that:

- Management has provided a representation letter to the Board regarding its assessment of adherence to management's responsibilities under the standards of sound business and financial practices; and
- The Board of Directors is familiar with, and is acting in compliance with, the standards of sound business and financial practices.

The board will determine when the letter should be provided by management and what additional evidence or documentation is required. The representation letter should:

- Confirm that management is familiar with the contents of By-law No.5 and that they are fulfilling their responsibilities under the Standards of Sound Business and Financial Practices;
- Identify any outstanding deficiencies or exceptions; and
- Include an action plan to address identified deficiencies or exceptions.

In coming to a conclusion on whether the credit union is following the Standards, the Board needs to assess its own governance effectiveness as well as understand and assess how

management determines that significant issues at different levels in the organization are identified and addressed. In turn, a Board assessment of management's assertions should include some confirmation against periodic observations received from external sources.

Further guidance on the standards is outlined in the three Guidance Notes on Corporate Governance (Board of Directors, Audit Committee and Management) and accompanying Self-Assessment Workbooks as well as the Sound Business and Financial Practices Reference Manual (the "Reference Manual"). The Reference Manual also provides guidance on the scope and content for Board policies and procedures, techniques to measure risk, and strategies to improve performance and reduce risk.

A sample Management Representation Letter and a sample Board resolution is included in the "Self Assessment Workbook: Corporate Governance – Board of Directors".

Additional information about the Board's responsibilities with respect to risk management can be found in the following:

- Application Guide: Internal Capital Adequacy Assessment Process (ICAAP)
- Audit Committee Handbook
- Enterprise Risk Management (ERM) Framework
- Enterprise Risk Management (ERM) Application Guide
- Guidance Note: Enterprise Risk Management (ERM) for Class 2 Credit Unions
- Guidance Note: Internal Capital Adequacy Assessment Process (ICAAP) for Class 2 Credit Unions
- Guidance Note: Investments for Class 2 Credit Unions
- Guidance Note: Lending
- Guidance Note: Liquidity
- Guidance Note: Stress Testing for Class 2 Institutions
- Guidance Note: Structural (Interest Rate) Risk Measurement and Management

### Board Meetings and Minutes

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In fulfilling its responsibilities, the Board should establish an appropriate work plan and Board meeting agendas which outline the frequency of various items and regular reports that it expects to receive and review. Agenda items should be presented in a consistent manner with items identified for either decision or information. Supporting documentation should be made available at least one week prior to the meeting to allow sufficient time for directors to understand the issues involved and identify any material issues that need to be clarified.

Board meetings typically include participation of the senior management team to provide additional information, comment on various items and reports presented and to address any questions or issues raised. Detailed minutes should be maintained of all issues raised and reviewed, including details of all approvals and any dissenting comments or votes where appropriate. The Board may also invite third parties (e.g., lawyer, accountant, internal auditor, external auditor, etc.) to attend the meeting to provide advice, additional information or clarification about topics being discussed.

An “in camera” (i.e., without management present) session is an important component of the Board meeting and should be regularly held either before or following the meeting. An in camera session also helps to improve the effectiveness and efficiency of the regular session of the Board meeting. An agenda should be created prior to each meeting with input from all directors. It allows directors to address confidential issues outside normal operations. It also facilitates director orientation, allows directors to discuss current and emerging risk issues and to ask questions concerning upcoming Board agenda items and issues in a more informal setting. This helps improve director’s cooperation, develop closer relationships, share knowledge and experiences, and achieve a consensus on any potentially contentious issues. In camera meetings should be held with different members of the senior management team separately to address specific areas, for example, meeting with the Chief Risk Officer to discuss risk management issues. Other areas to be discussed in these sessions include: Board evaluation, CEO performance and compensation, and whistle-blower allegations.

Minutes or information on issues discussed during in camera sessions are confidential and should be maintained by the Chair or their delegate. Minutes must be recorded for any decisions made. Management should be provided a copy of the in-camera agenda and following the meeting should be briefed by the Chair or delegate regarding items discussed.

A checklist to help ensure effective Board meetings is provided in Appendix B.

## Reports to the Board

The Board of Directors, with the assistance of management, is responsible for monitoring the performance of the credit union, and ensuring the policies and business plan are followed. Listed below is the minimum type of information you, as a director, should expect to review to properly monitor the credit union's performance.

Report	Scope	Frequency
Minutes	<ul style="list-style-type: none"> <li>Minutes of previous board meetings</li> <li>Minutes of committee meetings</li> </ul>	Every Board meeting
Governance	<ul style="list-style-type: none"> <li>Compliance with the Code of Conduct</li> <li>Performance of the general manager</li> <li>Annual report on the general competency and quality of staff</li> </ul>	Annually
Capital Management	By-law #5 reporting requirements	Every Board meeting
Credit Risk Management	By-law #5 reporting requirements	Every Board meeting
Operational Risk Management	By-law #5 reporting requirements	Every Board meeting
Market Risk Management	By-law #5 reporting requirements	Every Board meeting
Structural Risk Management	<ul style="list-style-type: none"> <li>By-law #5 reporting requirements</li> <li>regulatory reporting requirements, (section 73 of Regulation 237/09)</li> </ul>	Every Board meeting
Liquidity Risk Management	By-law #5 reporting requirements	Every Board meeting
Enterprise Risk Management	By-law #5 reporting requirements (Class 2 only)	Every Board meeting
Internal Controls (prepared by the Audit Committee)	<ul style="list-style-type: none"> <li>Effectiveness of internal controls</li> <li>Regulatory reporting requirements set out in Section 27 of Regulation 237/09</li> <li>Can also include the Report of the Internal Auditor, where appropriate</li> </ul>	At least Quarterly (Refer to The Audit Committee Handbook)
Reports by other committees	Activities and progress of the committee	As necessary
Report of the External Auditor	<ul style="list-style-type: none"> <li>Compliance with International Financial Reporting Standards (IFRS)</li> <li>Report made in accordance with Section 172 of the Act (i.e. internal control deficiencies)</li> </ul>	Annually
Examination reports by DICO	<ul style="list-style-type: none"> <li>Regulatory compliance</li> <li>Risk assessment</li> <li>Compliance with sound business and financial practices</li> </ul>	As advised

## Appendix A - Key Sections of the Act and Regulations

Subject	Section of the Act	Section of Regulation 237/09
<b>Directors</b>		
Restriction on the payment of dividends	67	
Misrepresentation in an offering statement	82	
Qualification of directors	91	
Disqualification of directors	92	
Disclosure of interest by candidates	94.1 (1)	
Removal of a director, including failure to regularly attend Board meetings	99 to 100	
Duties of directors (confidentiality, compliance with laws, conflicts of interest rules)	142 to 149	
Requirement for bond	151	29, 30
Personal liability of directors	152 to 155	
Insurance for directors	156 to 158	
Restricted party transactions including loans made to directors	207 to 210	Part X
<b>Board of Directors</b>		
Duties of the Board	104	
Powers of the Board	105 to 108	25
Frequency of Board meetings		26
<b>Committees</b>		
Establishing committees Powers and duties of the Audit Committees	109, 125-128	27
Duties of committee members (confidentiality, compliance with laws, conflicts of interest rules)	142 to 149	
<b>Credit Union</b>		
Objects and powers	24 to 26	
Business powers of the credit union	Part VIII	Part VII
Consideration for shares; prohibition against commission on sale of shares	59	
Capital and liquidity requirements	84	15 to 23
Provision for doubtful loans and reserves	90	24
Restricted party transactions	207 to 210	74 to 76

Subject	Section of the Act	Section of Regulation 237/09
<b>Officers</b>		
Designated officers and the Corporate Secretary	140 to 141	
Duties of officers (confidentiality, compliance with laws, conflicts of interest rules)	142 to 149.1	
<b>Members</b>		
Members' rights	37 to 41	
Annual and general meetings	212 to 215	
<b>Financial Services Commission of Ontario</b>		
Documents to be kept	230 to 233	85
Enforcement of the Act	Part XII	
Offenses and administrative penalties	Part XVII	
<b>Deposit Insurance Corporation of Ontario</b>		
Information to DICO	226	
Objects and powers	Part XIV	Part XIV
Supervision	279-281	
Administration	294-295	

## Appendix B - Checklist for Effective Board Meetings and Minutes

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### **Before the Meeting:**

- Prepare the agenda for the meeting
- Send notices to all attendees
- Confirm attendance to ensure that there will be a quorum
- Prepare resolutions to be considered by the Board
- Send meeting materials out to all attendees including: minutes of prior meeting; summary of important developments since last meeting; copies of agreements, documents and resolutions to be discussed; and copies of financial and special reports.

### **At the Meeting:**

- Bring all necessary documents needed for the meeting
- Call the meeting to order
- Follow the agenda
- Take complete notes to ensure that Board minutes will be complete

### **After the Meeting:**

- **Prepare the minutes.** Minutes of the Board meeting serve a number of useful functions: they remind directors of the business transacted at the meeting; they inform absent directors of the actions taken at the meeting; and serve as a historical record of the Board's actions. The minutes should contain the following items:
  - The date, time, and place of the meeting
  - The nature of the meeting (regular or special) and whether notice was required, given or waived
  - The names of all present (and those unable to attend) and the existence of quorum
  - The name of the Board member presiding and the person taking the minutes
  - A statement as to whether the minutes of the last meeting were approved or amended
  - Ratification of significant Board member actions for the prior time period
  - Decisions made about each agenda item, for example:
    - Actions taken or agreed to be taken
    - Next steps
    - Voting outcomes (if required, details regarding who made the motions, who seconded, those in approval and dissenting votes)
    - Motions taken or rejected
    - Items to be held over
    - New business
  - Adjournment and the date, time, and place of the next meeting

- The following should not be included in the Board Minutes:
  - No day to day decisions
  - No more detail than that required to demonstrate care and consideration by the Board
  - No personal observations by Board members
  - No inaccurate or inflammatory statements
- **Distribute the minutes.** The minutes should be distributed to the directors as soon as possible after the meeting to confirm their accuracy and assure that any mistakes are promptly identified and corrected.
- **Notify management of Board actions.** Senior management and appropriate employees should be advised in a timely manner of the Board decisions so they can implement them.
- **Update the Minute Books/Corporate Records.** The following documents should be assembled and securely stored:
  - Minutes of meetings
  - Documents and reports presented at the meetings including financial statements
  - Updated documentation including policies and procedures approved by the Board
  - Executed agreements

## Glossary

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**The Act** - [The Ontario Credit Unions and Caisses Populaires Act, 1994.](#)

**Administration** - In circumstances when a credit union is in serious financial or operational distress, the Act provides DICO the authority to place it under its Administration. Administration allows the credit union to continue to operate under DICO's direct control while providing sufficient time to develop and implement the most appropriate strategy to protect depositors.

**Application** - In accordance with the Credit Unions and Caisses Populaires Act (the "Act"), a credit union must apply to DICO for approval of any of the following transactions:

- Group Capital Agreement: s. 84 of the Act
- Borrow from another Credit union: s. 188 of the Act
- Acquire or establish a subsidiary: s. 200 (1)
- Invest in another Credit Union: s. 201.1 (1)
- Asset Purchase or Sale in excess of 15% of the assets of the credit union: s. 204(1)

**Bonding insurance** - A contract which insures the credit union against financial losses caused by counterfeit money, robbery, burglary, theft, vandalism, extortion, forgery and member/employee fraud.

**Caisse populaire** - A co-operative financial institution that provides financial services to its membership and conducts business primarily in French. *(For purposes of this Handbook, credit union is defined to mean a credit union or caisse populaire.)*

**Capital** - Represents the difference in value between a credit union's assets (such as its loans and fixed assets that it holds), and its liabilities (such as deposits by its members and debts owed to its creditors).

**Credit union** - A co-operative financial institution that provides financial services to its membership. *(For purposes of this Handbook, credit union is defined to mean a credit union or caisse populaire.)*

**Deposit insurance** - Insurance protection that is provided by DICO on members' eligible deposits, up to prescribed limits in the event the credit union is unable to repay all of its depositors. Further information on deposit insurance coverage is provided in DICO's By-law No. 3 and on our [website](#).

**Derivatives** - A derivative instrument is a financial contract whose value fluctuates in relation to the performance of an underlying asset or market index (e.g. interest rate swap).

**Director's liability insurance** - A contract which insures director's against liability arising from negligent acts inadvertently taken by directors in the course of their duties.

**Exemptions** - Under the Credit Unions and Caisses Populaires Act (the "Act") a credit union may apply for a temporary variation or exemption to certain requirements of the Act. Under exceptional circumstances, DICO will consider an application for an exemption variation to the requirements of the Act relating to the following:

- Capital and liquidity requirements: s. 87 of the Act

- Guarantees and exemptions to aggregate limits for guarantees: s. 178(2) and 178(5) of the Act
- Increase in lending limits: s. 191(5) of the Act
- Extension to divestment period for securities: s. 197(2) and 202(2) of the Act
- Deemed prescribed subsidiaries: s.200(2) of the Act
- Investment requirements: s. 201(1) of the Act
- Acceptance of unauthorized securities and other assets/investments: s.202(1) of the Act

**External auditors** - Professional accountants who express an opinion on the financial statements of the credit union and perform other audit or accounting functions.

**Prudent Person** - the concept that directors must act wisely in all business matters and exercise good judgment and common sense in adhering to investment and lending policies, standards and procedures that a reasonable person would apply in respect of a portfolio of investments and loans to avoid undue risk of loss and obtain a reasonable return while managing the affairs of the credit union.

**Regulations** - The regulations proclaimed under the Ontario *Credit Unions and Caisses Populaires Act, 1994* which include [237/09 General](#) and [238/09 Cost of Borrowing and Disclosure to Borrowers](#).

**Supervision** – Credit unions that meet certain risk-based criteria may be placed under Supervision. The Act provides the Supervisor statutory authority to order the credit union's board of directors to correct its practices or to refrain from undertaking activities that may harm the credit union. DICO follows the practice of providing credit unions with time to correct deficiencies in their operations, as identified through examination prior to being placed under Supervision. The length of time provided is dependent on the seriousness of the deficiency and the likelihood of early correction.

**Variation** - Under the Credit Unions and Caisses Populaires Act (the "Act") a credit union may apply for a temporary variation or exemption to certain requirements of the Act. Under exceptional circumstances, DICO will consider an application for a variation or exemption to the requirements of the Act relating to the following:

- Capital and liquidity requirements: Section 87 of the Act
- Guarantees and exemptions to aggregate limits for guarantees: Subsection 178(2) and 178(5) of the Act
- Increase in lending limits: Subsection 191(5) of the Act
- Extension to divestment period for securities: s.197(2) and 202(2) of the Act
- Deemed prescribed subsidiaries: s. 200(2) of the Act
- Investment requirements: s. 201(1) of the Act
- Acceptance of unauthorized securities and other assets/investments: s. 202(1) of the Act

**Watchlist** - Credit unions that exhibit higher than normal risk profiles are monitored more closely. This involves more frequent reporting and examinations to ensure that any deteriorating trends are actively monitored and appropriately managed and addressed by the credit union.



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