



FINANCIAL SERVICES  
COMMISSION

## **GUIDELINE No. 1**

### **BOARDS OF DIRECTORS: SAFETY AND SOUNDNESS**

This Guideline is issued by the Financial Services Commission (“the Commission”) pursuant to section 53 of the Financial Services Commission Act 2010-21 (“Act”) and comes into effect March 1, 2013.

This Guideline establishes the minimum standards of the Commission with respect to corporate governance by the board of directors of credit unions with \$10 million or more in assets. Effective oversight by the Board of Directors<sup>1</sup> is considered an essential element in the safe and sound functioning of a credit union. Reference should be made to Part VI of the Co-operative Societies Act Cap 378A (CSA) and in particular the duty of care of directors contained in section 70 of the CSA, and the liability of directors contained in section 72 of the CSA. This Guideline should be considered together with Guidelines No. 2, 3, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14 and 15.

Each credit union is required to establish and implement a policy that addresses the following items:

1. The establishment of appropriate and prudent risk management policies that address the significant risks to which the credit union is exposed.
2. The review and approval by the Board of the risk management policies, and the regular updating of such policies.
3. The policy must ensure that the Board receives and reviews risk management reports on key areas of operations for which risk management policies have been established, including:
  - Credit Risk
  - Operational Risk
  - Market Risk (investments)
  - Operational Liquidity Risk
  - Capital Management

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<sup>1</sup> “Board” means the Board of Directors of a credit union

4. The policy must establish the frequency, form and content of reports for each risk management policy that has been established so that the Board is able to determine that:
  - 4.1 the credit union is adhering to the risk management policies and is in compliance with, applicable Legislation<sup>2</sup>, bylaws and guidelines; and
  - 4.2 any material weaknesses or deficiencies have been identified and reported, and are being addressed.
5. The policy must provide for the Board to receive and review any directives or other communications from the Commission and the results of examinations under Legislation, and for the Board to implement and monitor recommendations, if any.
6. The policy must define the responsibilities, accountability and authority of board committees, including:
  - 6.1 the development of terms of reference for each committee which meet the requirements of the Legislation;
  - 6.2 the establishment of the decision making authority of each committee; and
  - 6.3 the establishment of reporting requirements for each committee.
7. The policy must ensure that the credit committee conducts its responsibilities as defined in Legislation.
8. The policy must ensure that the supervisory committee conducts its responsibilities as defined in Legislation and Guidelines, and must provide for the review and approval of the complaints procedure established by the supervisory committee.
9. The policy must establish standards of business conduct and ethical behaviour, including a code of conduct and ethical behaviour for directors, management, committee members and employees. The policy should provide for the annual review of the code of conduct and ethical behaviour and a requirement that it be signed annually by all those to whom it applies. The code of conduct and ethical behaviour should include the following:
  - 9.1 the duty to comply with Legislation;
  - 9.2 the duty of confidentiality of information respecting the credit union and its members; and
  - 9.3 conflicts of interest and restricted<sup>3</sup> party transactions

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<sup>2</sup> “Legislation” means, the Financial Services Commission Act, the Co-operative Societies Act Cap 378A and the Co-operative Societies Regulations, 2008.

<sup>3</sup> “restricted party” means an officer, director, member of the credit committee, member of the supervisory committee or employee of a society or a member of their immediate families.

- 10.** The policy must establish criteria and processes for appointing and evaluating appropriate management, including:
  - 10.1 criteria for selecting appropriately skilled and experienced management to implement the Board's objectives;
  - 10.2 an appropriate succession plan for the general manager and senior management and a process for the appointment of the general manager; and
  - 10.3 the evaluation at least annually of the performance of senior management against established criteria
  
- 11.** The policy must establish the business objectives and strategy of the credit union and ensure that business plans support the business objectives and strategy. It should provide for the approval by the Board of the following:
  - an annual business plan;
  - financial targets and supportive action plan;
  - operational budget;
  
- 12.** The policy must provide for a procedure for the Board to evaluate actual operating and financial results against business plans. The procedure should include:
  - 12.1 regular monitoring by the Board of actual operating and financial results in relation to the business strategy and business plan of the credit union;
  - 12.2 evaluation of material variances between actual results and the business plan; and
  - 12.3 confirmation of the appropriateness of initiatives and plans to address material variances.