



FINANCIAL SERVICES
COMMISSION

GUIDELINE No. 2

SMALL CREDIT UNIONS: 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 standards of the Commission with respect to corporate governance by the Board of Directors (“Board”) and management of credit unions with less than \$10 million in assets. Effective oversight by the board of directors and management 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 (CSA) and in particular to the duty of care of directors and officers contained in section 70 of the CSA, the liability of directors contained in section 72 of the CSA and to Guidelines No. 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, including the following:
 - Credit Risk
 - Operational Risk
 - Market Risk (investments)
 - Operational Liquidity Risk
 - Capital Management
2. The review and approval by the Board and management of the risk management policies, and the regular updating of such policies.
3. Appropriate and prudent business strategies and business plans, including:
 - 3.1 an annual business plan setting out the major priorities and objectives of the credit union for the year;
 - 3.2 financial targets and action plans for:
 - Profitability
 - Capital
 - 3.3 an operational budget;

- 3.4 provision for monitoring actual performance against business strategy and business plans.
4. Preparation of regular, relevant and accurate reports on the implementation of business strategy and business plans and on any material risk that may affect business objectives. These reports should be designed to help the Board and management:
- determine whether the credit union is adhering to its risk management policies;
 - confirm that the credit union is in compliance with Legislation¹ and guidelines;
 - identify the manner in which material weaknesses or deficiencies in risk management practices are being addressed;
 - compare actual performance and business risk measurements relative to the business plan and the performance of the previous year to date;
 - identify material operating and financial variances of actual results to the business plan;
 - outline initiatives to address material weaknesses
5. The policy must provide for a procedure for the Board and management to evaluate actual operating and financial results against business plans. The procedure should include:
- regular monitoring of actual operating and financial results in relation to the business strategy and business plan of the credit union; and
 - evaluation of material variances between actual results and the business plan.
6. Confirmation of the appropriateness of initiatives and plans to address material variances
7. The policy must define the responsibilities, accountability and authority of committees, and that the credit committee and supervisory committee conduct their responsibilities as defined in Legislation. The policy should include:
- the development of terms of reference for each committee which meet the requirements of Legislation;
 - the establishment of the decision making authority of each committee;

¹ “Legislation” means, the Financial Services Commission Act, the Co-operative Societies Act Cap 378A and the Co-operative Societies Regulations, 2008.

- the establishment of reporting requirements for each committee; and
 - the review and approval of the complaints procedure established by the supervisory committee.
8. 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:
- The duty to comply with Legislation;
 - The duty of confidentiality of information respecting the credit union and its members;
 - Conflicts of interest and transactions with restricted parties².
9. The policy must establish criteria and processes for appointing and evaluating appropriate management and employees, including:
- criteria for selecting appropriately skilled and experienced management;
 - an appropriate succession plan for the general manager and senior management and a process for the appointment of the general manager; and
 - the evaluation at least annually of the performance of senior management against established criteria.

² “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.