

**A global perceptive
“Governance guidelines for the
Board that enhances Performance
Standards for SACCOs”**

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Role of the Board

- Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the credit union and the members

Role of the Board

- The board should apply high ethical standards. It should take into account the interests of members .

Role of the Board

- The board should fulfill certain key functions, including:
 - corporate strategy
 - risk policy
 - annual budgets and business plans
 - performance objectives (financial benchmarks)

Role of the Board

- Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning
- Aligning key executive and board remuneration with the longer term interests of the credit union and its members

Role of the Board

- Ensuring a formal and transparent board nomination and election process. Members of the Board should possess financial and business skills relevant to the credit union and a member-focused viewpoint
- Monitoring and managing potential conflicts of interest of:
 - management
 - board members
 - members, (including misuse of corporate assets and abuse in related party transactions)

Role of the Board

- Ensuring the integrity of the corporation's accounting and financial reporting systems, including:
 - the independent audit
 - appropriate systems of control are in place
 - systems for risk management
 - financial and operational control
 - compliance with the law and relevant standards

Role of the Board

- The board should be able to exercise objective independent judgment on corporate affairs

Risk Appetite

When defining and approving the credit union's risk appetite, a board should consider:

- members' values and expectations;
- its own capability to understand and oversee the credit union's risks;
- internal constraints such as financial and operational capability; and
- external constraints such as competitive and economic conditions.

Risk Appetite

- The board-approved risk appetite forms the basis for a credit union's risk governance framework including its strategic, capital and liquidity plans.

Risk Appetite

- The board ensures the credit union has the systems, processes and capabilities to evaluate its overall risk profile.
- The board annually reviews the key risks, current and prospective, and satisfies itself that the processes to identify and manage risk are appropriate and effective.

Risk Appetite

- The board ensures that the credit union uses qualitative and quantitative analysis (such as stress testing) to determine how robust or vulnerable the credit union is to a variety of internal and external factors.

Risk Appetite

- The board ensures that a credit union has a disaster management and recovery plan that is updated regularly.

Strategy, Planning and Performance

- A credit union's strategy is forward looking and focuses on ensuring the credit union's long-term viability and success.
- The board understands the credit union's mission, vision, business model, industry, markets and risks.

Strategy, Planning and Performance

- The board continuously monitors emerging issues or areas of concern, and adjusts the credit union's strategy as necessary. At a minimum, the strategic plan is reviewed in depth by the board on an annual basis.
- The board oversees the information flow of reporting for frequent, timely and accurate information to the board on progress of the strategic plan and any variances.

Strategy, Planning and Performance

- The board approves an operating plan, ensuring it aligns with the credit union's strategy. An operating plan has a shorter timeframe (typically one year) and identifies the activities and objectives necessary to achieve the credit union's strategic objectives.
- The board monitors the implementation of strategic, operating and capital plans and budgets on an ongoing basis.

Strategy, Planning and Performance

- The board ensures the credit union has the resources required to accomplish its goals. Its planning process identifies resources including capital investments, financing needs, staffing or other necessary resources.
- Management regularly reports to the board on the credit union's performance, together with any actions to address areas of non-performance.

Strategy, Planning and Performance

- The board and management agree annually on a comprehensive set of performance measures for the credit union that reflect progress against the strategic, operating and capital plans.

Risk Governance Framework

- **Risk Governance**

Involves setting the credit union's direction and tolerance for risk, providing oversight of risk management and ensuring that risk controls are effective. Risk governance is the role of the board.

Risk Governance Framework

- **Risk Management**

Involves the identification, assessment, monitoring, and mitigation of potential uncertain events or activities that could affect the ability of a credit union to achieve its strategic objectives. The risk management system and its oversight are the responsibility of management and independent oversight functions respectively.

Risk Governance Framework

- A risk governance framework reflects the unique business model and strategic plan of a credit union. At a minimum, a board ensures its risk governance framework includes:

- a risk appetite;
- a strategic plan;
- a capital plan;
- a liquidity plan;
- an investment and lending policy;

Risk Governance Framework

- a capital and operating budget;
- independent oversight and internal control functions,
- a plan to test assumptions, controls and impacts (stress testing) of key risks; and
- a business continuity and disaster recovery plan.

Risk Governance Framework

- The board should be free to obtain independent advice on its role in comparison to good industry practices and comparable credit unions.

Risk Governance Framework

- Directors receive, and understand, clear reporting on the credit union's performance and risks with relevant internal and external comparative data. The board discusses, in-camera, the quality of the reporting the board receives on a regular basis and addresses any gaps with the CEO, other reporting management and the independent oversight functions.

Risk Governance Framework

- The board undertakes an annual review of the credit union's compliance with relevant laws and significant contracts, the requirements of any regulatory bodies and its own governing documents including its rules.

Risk Governance Framework

- Board committees can be an effective way to allow boards to more efficiently undertake oversight responsibilities.

Assembling an effective team

The board ensures that the talent and the culture of the credit union support its risk appetite and the achievement of its strategic plan. The board fulfills this responsibility through the:

- recruitment, development, compensation and evaluation of the board;
- recruitment, selection, development, compensation and supervision of the Chief Executive Officer (CEO);
- selection and oversight of other senior staff with oversight responsibilities; and
- development of succession plans.

Assembling an effective team

Each director is expected to:

- be financially literate as demonstrated by his or her ability to understand and interpret the credit union's financial performance and the relationship between its strategic plan and financial outcomes;
- understand risk as demonstrated by his or her ability to identify and describe the range of risks the credit union is exposed to and how each is controlled;
- understand the cooperative business model and its unique strengths and limitations,

Assembling an effective team

- understand the business of delivering financial services, the opportunities and risks, and the competitive forces and industry trends;
- demonstrate integrity by acting ethically, respecting confidentiality and the solidarity of board decisions, disclosing perceived conflicts of interest and acting in the best interest of the credit union and its members at all times;
- be familiar with the regulations and legal framework under which the credit union operates; and
- think critically and independently, as demonstrated by his or her willingness to ask questions and challenge assumptions.

Role of the CEO

- The role of the CEO is critical to good governance; the board relies on the CEO and management team to prepare and present information in a way that enables the board to exercise sound judgment and make thoughtful decisions.

Role of the CEO

- A good CEO brings forward the right issues at the right time with enough information and analysis to allow the board to exercise its judgment and make sound decisions. A good CEO empowers the board to do its job well.

Role of the CEO

- Selecting a CEO is one of the board's most crucial decisions and it should consider the same attributes essential to board recruitment as well as:
 - ability for the board and CEO to build mutual trust;
 - development of an environment where the board is comfortable and encouraged to challenge and probe the CEO and management; and
 - confidence to support the CEO and management in its decisions.

Role of the Board

- The board is responsible for attracting, selecting, compensating and retaining a CEO that can implement its strategic plan. The board is also responsible for supervising the CEO and should set out goals, objectives and performance metrics that the CEO is responsible for meeting, and complete a performance evaluation at least annually.

Accountability and Disclosure

- The board ensures that member accountability is demonstrated by:
- addressing member needs and values when setting the credit union's risk appetite and strategic direction;
 - communicating with members at a frequency and in a format that provides for meaningful comparison and evaluation; and
 - disclosing to members information that, as owners, they should reasonably expect to receive including an overview of the governance framework of the credit union and the director election process.

Accountability and Disclosure

A credit union's annual report to members includes the following:

- a management discussion and analysis report that provides information on the credit union's financial and operating results including meaningful comparative data, its principal risks and contingency strategies, a fair accounting of the credit union's activities and a commentary on the credit union's expected future performance;
- director attendance records for board and committee meetings and educational activities;

Accountability and Disclosure

- The credit union provides members with the opportunity, at least annually, to participate in a forum with directors and senior management to ask questions and receive answers about the credit union.

Thank you.

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