

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

**NOTICE OF PROPOSED RULE UNDER THE
*CREDIT UNIONS AND CAISSES POPULAIRES ACT, 2020***

**RULE 2021 – 001
SOUND BUSINESS AND FINANCIAL PRACTICES**

June 14, 2021

Introduction

The Financial Services Regulatory Authority of Ontario (**FSRA**) is updating the regulation of Ontario's credit unions and caisses populaires (**credit unions**) and making it more transparent, dynamic, and flexible. The proposed new Sound Business and Financial Practices Rule (the **Proposed Rule**) made under the *Credit Unions and Caisses Populaires Act, 2020* (the **CUCPA 2020**) would support a principles-based supervisory approach that is proportionate and adaptable to changing circumstances.

Pursuant to subsection 22(1) of the *Financial Services Regulatory Authority of Ontario Act, 2016* (the **FSRA Act**), FSRA is publishing the Proposed Rule for comment on its website. The text of the Proposed Rule is set out in Appendix A to this Notice of the Proposed Rule (**Notice**). In accordance with subsection 22(4) of the FSRA Act, interested persons are invited to provide written representations to FSRA with respect to the Proposed Rule within 90 days of the Proposed Rule's publication.

Background

On June 8, 2019, FSRA was amalgamated with the Deposit Insurance Corporation of Ontario (**DICO**) and assumed substantially all of the regulatory functions of DICO and the Financial Services Commission of Ontario (**FSCO**). Upon amalgamation, FSRA inherited DICO By-Law No. 5 – Standards of Sound Business and Financial Practices (**By-Law No. 5**) – made under the *Credit Unions and Caisses Populaires Act, 1994* (**CUCPA 1994**). By-Law No. 5 has the force of a FSRA rule and currently sets out standards for credit unions with respect to corporate governance, risk management and enterprise risk management.

FSRA is provided express statutory authority to make a new rule establishing standards of sound business and financial practices for credit unions, which could replace the existing By-Law No. 5 under clause (1) of subsection 285(1) of CUCPA 2020, which received Royal Assent on December 8, 2020 and will come into force on proclamation. FSRA intends to develop and implement a new rule containing outcomes-focused requirements for sound business and financial practices for Ontario's credit unions under CUCPA 2020.

The Proposed Rule is intended to establish principles-based and outcomes focused requirements for sound credit union governance, including operational management, enterprise risk management and oversight functions.

The Proposed Rule is consistent with FSRA's priority to support the modernization of the credit union framework, as stated in FSRA's Proposed FY2021-2022 Statement of Priorities.

The Proposed Rule also supports particular FSRA statutory objects, set out in section 3 of the FSRA Act, including:

1. To regulate and generally supervise the regulated sectors,
2. To contribute to public confidence in the regulated sectors,
3. To promote high standards of business conduct,
4. To 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
5. To pursue the objects set out in clauses 3(4)(a) and 3(4)(b) for the benefit of persons having deposits with credit unions and in such a manner as will minimize the exposure of the Deposit Insurance Reserve Fund to loss.

It is expected that the Proposed Rule will come into force under CUCPA 2020, subject to the approval date of the Minister of Finance.

Substance and Purpose of the Proposed Rule

A purpose of the Proposed Rule is to replace By-Law No. 5 and, in conjunction with FSRA's new Risk-Based Supervisory Framework (**RBSF**) currently under development, replace other related documents inherited by FSRA from DICO (e.g., Reference Manual on Sound Business and Financial Practices, Self-Assessment Workbooks and other guidance).

Further purposes include providing clarity on matters that are not explicitly addressed in By-Law No. 5, such as governance structure, internal audit, oversight functions, and subsidiary governance. The Proposed Rule emphasizes the increasing importance of the oversight role of credit union boards. As well as permitting FSRA to apply requirements in a proportionate manner based on the nature, size, complexity of operations and risk profile of a particular credit union. FSRA's supervisory approach in relation to the Proposed Rule's requirements, will be incorporated into the RBSF. Both the Proposed Rule and the RBSF reflect the increased sophistication and maturity of the credit union sector and their ability to make sound business and risk management decisions that serve their members and adapt to an evolving financial services sector, subject to ongoing and prudent supervisory oversight.

The substance of the Proposed Rule is to provide comprehensive principles-based requirements in relation to: Governance Matters Related to Members, the Board of Directors, Senior Management, Operational Management, Internal Audit Function, Enterprise Risk Management, Compliance Function, Finance Function and Subsidiary Governance.

Summary of the Proposed Rule

The following provides a summary of the Proposed Rule's sections.

Section 1: Interpretation

This section defines key terms used in the Proposed Rule and provides direction as to how the Proposed Rule will be interpreted.

Section 2: Co-operative Principles

This section requires the board of directors and senior management to ensure that a credit union is operated, managed, and governed in a manner consistent with international co-operative principles, and provides that FSRA may elaborate upon such principles, to give them effect in Ontario.

Section 3: Governance Matters Related to Members

This section requires that all credit union governance related communications which are sent to members to clearly and transparently identify the democratic rights of members. Credit unions must also ensure that all activities and communications relating to members' meetings and voting are fair, transparent, and free from misrepresentation, fraud, and undue influence.

Section 4: Composition of the Board

Given the heightened importance of good governance and effective oversight with a principles-based rule, this section requires the credit union to have a board with an appropriate size and structure, and composed of directors with appropriate skills, education, experience, and commitment to effectively discharge their responsibilities, in proportion to a credit union's nature, size, complexity and risk profile.

Section 5: Responsibilities of the Board of the Credit Union

This section sets out duties of the board of directors of a credit union and specifies the manner in which the board must discharge them. The board of the credit union must oversee and approve particular matters, including the significant strategic initiatives, code of market conduct, business plans and strategies of the credit union and its subsidiaries and what constitutes a material or extraordinary event requiring board involvement.

Section 6: Responsibilities of Senior Management of the Credit Union

This section sets out obligations and duties of a credit union's senior management. Senior management of the credit union is responsible for creating and implementing a board approved policies and processes which establish and implement roles and responsibilities necessary for overseeing the credit union's business and operations.

Section 7: Ethical and Responsible Action

This section sets out obligations for the board and senior management of a credit union to ensure that the policies, procedures, and processes of the credit union are consistent with its ethics and code of market conduct. It also imposes an obligation on a credit union to adopt and ensure compliance with a whistleblower policy.

Section 8: Integrity in Reporting and Disclosure

This section requires the board and senior management of a credit union to implement reporting processes and controls, present assessments and disclosures, and maintain a reporting system which provides timely, accurate and reliable information on particular matters, including material risk residing in the credit unions subsidiaries.

Section 9: Fair and Responsible Compensation

This section requires the board to implement a remuneration program for board members, board committees and senior management, which is sufficient to retain high quality directors and senior management. Additionally, senior management is required to implement a board approved remuneration program for all other employees of the credit union, which is sufficient to retain high quality employees.

Section 10: Status, Authority and Independence of the Oversight Functions

Given the importance of the "three lines of defense" and internal controls and good governance, this section requires a credit union to establish and maintain appropriate oversight functions either within its organizational structure or through a board approved outsourcing arrangement. The oversight functions must be provided sufficient resources, status, authority, and independence to perform designated roles. Further, the heads of the oversight functions must be entitled to participate in internal meetings, to monitor and evaluate the activities of the credit union and its subsidiaries. In addition, individuals working for an oversight function must possess relevant professional competence and an appropriate level of experience for their oversight role.

Section 11: Internal Audit Function

This section sets out obligations relating to a credit union's "third line of defense" internal audit function and head of the internal audit function. The internal audit function must provide accurate, reliable, and risk-based audits to those responsible for the corporate governance and other oversight functions of the credit union. In addition, the head of the internal audit function must annually create and deliver to the board an audit plan, which takes into account certain matters including the particular characteristics and business objectives of the credit union and its subsidiaries.

Section 12: Risk Management Function

This section sets out obligations relating to a credit union's "second line of defense" risk management function and requires the head to be appointed by the board. The head of the risk management function must implement a board approved enterprise risk management (**ERM**) framework which facilitates and protects the credit union's stability and viability, by managing risks and uncertainties which may arise from the business and operations of the credit union and its subsidiaries.

Section 13: Compliance Function

This section requires the compliance function to provide oversight of compliance risk to a credit union as a whole and within its specific business lines and units. The head of the compliance function must report to the board of the credit union or to a person in another oversight role.

Section 14: Finance Function

This section sets out obligations relating to a credit union's finance function and the head of the finance function. A particular obligation requires providing oversight of all the credit union's governance and operational requirements in relation to financial reporting and corporate financial services. As well as a duty to provide accurate, reliable and risk-based financial reporting and corporate financial services to the credit union.

Section 15: Operational Management

This section requires senior management to implement a board approved management and control system and framework to govern the "first line of defense". Specific obligations are also placed upon the operational management of the credit union, including requirements to oversee employees and to execute approved business plans and strategies, develop and implement processes for appropriate controls, and comply with the credit unions approved policies.

Section 16: Subsidiary Governance

This section sets out the obligations of senior management and the board of directors of the credit union with respect to the oversight of subsidiaries. A specific obligation requires senior management to implement board approved policies, procedures, and processes, in respect of oversight of a subsidiary, including subsidiaries' boards or management. In addition, credit unions would be required to have board-approved policies, procedures and processes respecting any material business, strategic or operational function which is outsourced to a subsidiary.

Section 17: Coming into Force

This section sets out that the Proposed Rule will come into force on the day that clause 1 of subsection 285(1) of CUCPA 2020 comes into force.

Authority for the Proposed Rule

Clause 1 of subsection 285(1) of CUCPA 2020 provides FSRA with the required statutory authority for the Proposed Rule, by allowing FSRA to make a rule, “Establishing standards of sound business and financial practices.”

Although CUCPA 2020 is not yet in force, subsection 10(1) of the *Legislation Act, 2006* provides FSRA with statutory authority to exercise a power conferred by an Act of the Legislature, after it receives Royal Assent but prior to it coming into force. CUCPA 2020 is contained in Schedule 7 of the Protect, Support and Recover from COVID-19 Act (Budget Measures), 2020, c. 36 (formerly known as Bill 229) (the **PSRC-19 Act**), which received Royal Assent on December 8, 2020 and will come into force on proclamation.

In addition to clause 1 of subsection 285(1) of CUCPA 2020, please refer to Appendix B for FSRA’s additional specific rule-making authorities in CUCPA 2020 under which FSRA relies upon in making the Proposed Rule.

Research and Consultation

In December 2020, FSRA established a working group comprised of representatives from the credit union sector and the Ministry of Finance, to provide input into the development of the Proposed Rule. Between January and March of 2021, FSRA received input from the working group which reflected the following themes:

- Clarity in distinguishing between oversight function and operational management, as well as board oversight responsibilities relating to risk management.
- Recognition of proportionality and acknowledgement of differences in resources for credit unions of different sizes.
- Clarity on the need for oversight functions (e.g., internal audit, risk management, compliance, finance), the extent to which such functions may be outsourced, and flexibility for boards to determine appropriate qualifications and professional competencies for such functions.
- Clear articulation of concepts of transparency and independence.

In addition, FSRA considered the frameworks for assessing governance, oversight and risk management used by other regulators, supervisors and associations in other jurisdictions, including:

- Canada Deposit Insurance Corporation
- Office of the Superintendent of Financial Institutions
- Saskatchewan – Credit Union Deposit Guarantee Corporation
- BC Financial Services Authority

- UK Business Council of Co-operatives and Mutuals
- Basel Committee on Banking Supervision
- Office of Comptroller of Currency (U.S.)
- Federal Reserve (U.S.)
- National Credit Union Administration (U.S.)
- International Credit Unions Regulators Network

FSRA has considered the input of the working group and the findings of its research in the development of the Proposed Rule.

Unpublished Materials

FSRA did not rely on any significant unpublished study, report, decision, or other written material in making the Proposed Rule.

Alternatives Considered

FSRA considered the following alternatives to developing the Proposed Rule:

1. Replace By-Law No. 5 with FSRA guidance. Since FSRA has explicit authority to make a rule governing the standards of sound business and financial practices under CUCPA 2020 and since a Rule is legally binding and this subject matter is of crucial importance to the protection of members and the stability of the credit union sector, it is appropriate for FSRA to use this authority. By-Law No. 5 currently serves as a critical component of Ontario's framework for credit unions and has the force of law under CUCPA 1994. It is important that the modernized standards and requirements replacing those in By-Law No. 5 have at least the same degree of prominence and enforceability which would not be the case if FSRA relied solely upon guidance.
2. Adopt By-Law No. 5 as a rule under CUCPA 2020, without any changes. CUCPA 2020 will implement a modern framework for Ontario's credit unions, with increased flexibility, compared to the CUCPA 1994. By-Law No. 5 does not contemplate the modern framework set out in the CUCPA 2020. FSRA's statutory objects and mandate also contemplates a principles-based, outcomes focused and dynamic regulator which is, in certain cases, inconsistent with By-Law No. 5. The Proposed Rule adopts an approach to supervising business and financial practices, which is consistent with the CUCPA 2020 and FSRA's mandate.

Anticipated Costs and Benefits

Qualitative Benefits and Costs

There are numerous qualitative benefits associated with the Proposed Rule, and relatively few qualitative costs.

The first qualitative benefit is advancing FSRA's cross-sectoral priority of transitioning to principles-based regulation. The Proposed Rule assists in fulfilling this priority by providing principles-based standards for the credit union sector, thereby decreasing FSRA's reliance on prescriptive legal requirements. Principles-based regulation ultimately generates a number of beneficial qualitative outcomes for Ontario's credit unions, including greater flexibility in protecting and serving members, enhanced authority, and responsibility for credit union directors and managers and a more dynamic and competitive sector. Credit unions will be expressly authorized and encouraged to comply with the Proposed Rule in a manner proportionate to their nature, size, complexity and risk profile. A principles-based framework also facilitates a collaborative regulatory model, whereby Ontario's credit unions work harmoniously with FSRA to achieve desired regulatory outcomes.

An additional qualitative benefit is that, by replacing By-Law No. 5 with the Proposed Rule, FSRA is making strides towards modernizing Ontario's credit union framework, a sector specific priority set out in FSRA's 2020-23 Annual Business Plan. In addition, the Proposed Rule will support FSRA in providing transparent, efficient and effective regulation.

There are likely to be minimal qualitative costs associated with the Proposed Rule. Firstly, the Proposed Rule may not be sufficiently prescriptive from the perspective of credit unions that prefer a rules-based system of regulation. For such credit unions, the Proposed Rule may pose a cost, as they need to evaluate and upgrade their corporate governance and risk management processes and procedures in light of the Proposed Rule. Secondly, as a result of the principles-based framework and increased responsibility and accountability for credit union directors and managers, the Proposed Rule may necessitate the redistribution and reallocation of resources within credit unions.

Quantitative Benefits and Costs

Well-run and mature credit unions are not expected to incur new material financial costs in order to ensure compliance with the Proposed Rule, although for less sophisticated credit unions additional investments may be required. Ontario's credit unions currently operate in accordance with sound business and financial practices and are subject to By-Law No.5 and related guidance documents. Although the Proposed Rule explicitly addresses some topics that are only implicit under By-Law No. 5, the Proposed Rule is principles-based and provides flexibility to credit unions in determining how they comply with outcomes-focused requirements. The rule also contemplates proportional application of requirements, which would be scaled to the nature, size, complexity and risk profiles of individual credit unions.

Implementation Considerations

The Proposed Rule is expected to come into force on the day on which CUCPA 2020 is proclaimed into force, subject to the approval of the Minister of Finance (the **Minister**). FSRA's supervisory practices for the requirements set out in the Proposed Rule would be set out in FSRA's new RBSF, currently under development. FSRA will consult on guidance related to the RBSF during FY 2021-22.

Recommendation to the Minister

FSRA is not proposing to make any recommendations to the Minister of Finance with respect to the amendment or revocation of a regulation or a provision in a regulation which relates to the Proposed Rule.

For greater clarity, FSRA intends to revoke By-Law #5 pursuant to subsection 285(5) of CUCPA 2020, which provides FSRA statutory authority to terminate By-Law #5 as a deemed by-law of FSRA pursuant to subsection 321.0.4(4) of CUCPA 1994.

Text of the Proposed Rule

The full text of the Proposed Rule is contained in Appendix A.

Questions

1. Does the Proposed Rule reflect principles-based, outcomes focused, and appropriate standards of sound business and financial practices for Ontario credit unions?
2. Is there any major topic or function that should be addressed by the Proposed Rule that is currently not included?
3. Is the Proposed Rule sufficiently clear to allow compliance with its requirements, but not so prescriptive that credit union growth and flexibility is unduly restricted? If not, please specify any additional clarifying language that should be considered?
4. Are there compliance costs that would be associated with the Proposed Rule which FSRA has not considered? If yes, please describe the specific costs, as well as the quantum.

FSRA would be pleased to answer any questions relating to the Proposed Rule. Questions may be submitted online.

Appendix A - Proposed Rule

Draft Rule

Sound Business and Financial Practices

1. Interpretation

- 1(1) In this Rule,
- (i) “Act” means the *Credit Unions and Caisses Populaires Act*, SO 2020, c 36, sch 7, and the regulations and rules promulgated thereunder,
 - (ii) “management” means individuals who are responsible for planning, directing, controlling, overseeing and executing the day-to-day operations of a credit union.
 - (iii) “oversight function” means a credit union’s:
 - (a) internal audit function,
 - (b) risk management function,
 - (c) compliance function, and
 - (d) finance function,
 - (iv) “senior management” means the following members of management:
 - (a) the chief executive officer of a credit union,
 - (b) individuals who are responsible for the overall management of a material business or function of a credit union, including that of a subsidiary,
 - (c) the heads of the oversight functions of a credit union,
 - (d) other executives who have a functional reporting line directly to the board or chief executive officer of a credit union, and
 - (e) any other individuals that the board of a credit union designates to be part of that credit union’s senior management.
- 1(2) In addition to subsection 1(1), if a term or phrase used in this Rule is defined in the Act, that definition shall apply for the purposes of this Rule.
- 1(3) Any policy, procedure or process referred to in this Rule shall be required to be set out in writing.
- 1(4) All references in this Rule to an employee or employees of a credit union shall include any individuals who are:
 - (i) employed by the credit union,
 - (ii) a member of the senior management of the credit union, or
 - (iii) retained by the credit union to perform all or part of an oversight function.
- 1(5) For the purposes of this Rule,
- (i) whether an individual or entity is independent is exclusively a question of fact,

- (ii) an independent individual is free from influences that compromise judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism, and
- (iii) an individual is independent of a credit union if the individual, or a related person of the individual, does not have a direct or indirect material or pecuniary relationship with a credit union, including a subsidiary, other than ordinary remuneration provided to an individual who is a director of the credit union or a subsidiary or as a member of the credit union, and has not been an officer of the credit union for at least twelve months.

2. Co-operative Principles

2(1) The board and senior management of a credit union are responsible for ensuring that the credit union is operated, managed and governed in a manner consistent with the following co-operative principles:

- (i) voluntary and open membership,
- (ii) democratic member control,
- (iii) member economic participation,
- (iv) autonomy and independence,
- (v) education, training and information,
- (vi) co-operation amongst co-operatives, and
- (vii) concern for community,

as such principles may be interpreted and defined from time to time by the Authority in writing.

3. Governance Matters Related to Members

3(1) All communications sent to the members of a credit union related to its governance, including but not limited to, annual reports, notices of meetings and proxy solicitations, shall clearly and transparently identify the democratic rights of the members, including but not limited to the rights of members to be notified of, participate in and, if applicable, vote at meetings of the members.

3(2) A credit union shall take reasonable precautions to ensure that all of its activities and communications related to members' meetings and voting, including but not limited to the voting process itself, are fair and transparent, and free from misrepresentation, fraud and undue influence.

4. Composition of the Board

4(1) Subject to subsection 4(6), a credit union shall have a board with an appropriate size and structure, composed of directors who have appropriate skills, education, experience and commitment to enable them to discharge their duties and responsibilities effectively, having regard to the nature, size, complexity, operations and risk profile of the credit union.

4(2) The board or senior management of the credit union, as applicable, shall only,

- (i) appoint an individual or individuals to become a director or directors of the board of the credit union, or
- (ii) propose or nominate an individual or individuals to be elected by the members as a director or directors of the board of the credit union,

who have appropriate skills, education, experience and a commitment to discharge their duties and responsibilities effectively, having regard to the nature, size, complexity, operations and risk profile of the credit union.

- 4(3) No individual, other than the chief executive officer of the credit union, may serve as a member of the board of the credit union unless such an individual is independent of senior management of the credit union.
- 4(4) Except for the chief executive officer of the credit union, no individual who is an employee of the credit union, or a related person of an employee of the credit union, may serve as a member of the board of the credit union.
- 4(5) The chief executive officer of the credit union shall not serve as the chairperson of the credit union's board or any board committee.
- 4(6) The board of the credit union shall not have less than five directors or more than seventeen directors.

5. Responsibilities of the Board of the Credit Union

- 5(1) The board of the credit union shall discharge its responsibilities in a manner which:
 - (i) results in independent oversight of the credit union's management, and
 - (ii) permits and encourages directors to provide effective oversight of the decisions, plans, processes and policies proposed by the credit union's senior management and implemented by its management.
- 5(2) The board of the credit union shall establish and maintain a clear division between the roles and responsibilities of the board and those of senior management, to ensure the board complies with the Act's prohibition on the board directly managing, or being involved in, the day to day activities of the credit union.
- 5(3) The board of the credit union is responsible for providing oversight, supervision and direction to management, and shall oversee and approve:
 - (i) the credit union's and its subsidiaries':
 - (a) short-term and long-term business plan and strategy,
 - (b) material decisions made outside of the normal course of the credit union's operations,
 - (c) significant strategic initiatives,
 - (d) policies, processes and procedures as required by the Act, its regulations and rules,
 - (e) code of market conduct,
 - (f) plans related to capital and liquidity management,

- (g) mandates and budgets for the oversight functions, and
 - (h) risk management,
 - (ii) the appointment, setting of performance objectives, compensation, incentives, succession plans and reviews of the credit union's chief executive officer and other members of its senior management including the heads of the oversight functions, in accordance with subsection 9(1) of this Rule,
 - (iii) delegations of authority by the board and by the credit union's senior management, and
 - (iv) the establishment and use of committees to assist the board in discharging its responsibilities.
- 5(4) The board of the credit union is responsible for overseeing the adequacy of the credit union's and its subsidiaries' resources to conduct business, carry out its financial and risk management activities, and protect members, depositors and other stakeholders.
- 5(5) The board of the credit union shall approve a policy which defines the thresholds for what constitutes a material decision made outside of the normal course of the credit union's operations, having regard to the nature, size, complexity, operations and risk profile of the credit union.

6. Responsibilities of Senior Management of the Credit Union

- 6(1) Senior management of the credit union shall create, develop, update and implement, and the board of the credit union shall oversee and approve:
- (i) policies and processes establishing and governing the respective roles and responsibilities necessary to effectively manage, control and oversee all businesses, operations and activities of the credit union, and
 - (ii) the credit union's short-term and long-term business plans, budgets and strategies, referred to in subsection 5(3)(i)(a) which shall:
 - (a) identify strategic objectives, with measurable outcomes,
 - (b) identify an ethical framework for the credit union's operational management, and
 - (c) reflect the co-operative principles referred to in subsection 2(1).
- 6(2) The responsibilities of senior management of the credit union include,
- (i) providing recommendations, developing reports and analysis and making proposals to or for the board of the credit union,
 - (ii) recommending the policies, procedures and processes referred to in subsection 5(3)(i)(d) to or for the board of the credit union,
 - (iii) implementing the board of the credit union's directions and decisions, and
 - (iv) the day-to-day management and operation of the credit union within the parameters set by the board of the credit union.

7. Ethical and Responsible Action

- 7(1) The board and senior management of the credit union shall ensure the credit union's:
- (i) policies, procedures and processes are consistent with its values, ethics and code of market conduct, and
 - (ii) members, employees and other stakeholders are able and encouraged to raise any matters of concern pertaining to the credit union to the appropriate person in the circumstances.
- 7(2) The credit union shall adopt, communicate internally, and ensure compliance with a whistleblower policy which:
- (i) identifies the protections offered to whistleblowers, including protection from reprisals, and
 - (ii) sets out procedures and processes for providing information regarding misconduct or fraud on a confidential basis to the auditor of the credit union and, if applicable, any other individuals identified in the credit union's whistleblower policy as appropriate recipients of information from whistleblowers.

8. Integrity in Reporting and Disclosure

- 8(1) The board and senior management of the credit union shall implement appropriate reporting processes and controls, such that:
- (i) Members, regulators and other stakeholders of the credit union have timely access to information to which they are entitled respecting its business and operations, and
 - (ii) members of the credit union are able to exercise their membership rights on an informed basis.
- 8(2) The board and senior management of the credit union shall present a fair, balanced and understandable assessment and disclosure of the credit union's financial position, viability and prospects, and communicate that to members and other stakeholders in a timely, effective and transparent manner.
- 8(3) The credit union shall at all times maintain financial and operational management reporting systems and controls which provide timely, accurate and reliable information on both a consolidated and unconsolidated basis, including but not limited to material risk residing in its subsidiaries.

9. Fair and Responsible Remuneration

- 9(1) The board of the credit union shall create, develop, update and implement remuneration programs, policies and practices for the members of the board, including board committees, and senior management of the credit union, and which is structured appropriately to attract, retain and motivate high-quality directors and members of senior management, proportionate to the credit union's nature, size, complexity, operations and risk profile.
- 9(2) Senior management of the credit union shall create, develop, update and implement, and the board of the credit union shall oversee and approve, remuneration programs, policies and practices for all other employees of the credit union, and structured appropriately to

attract, retain and motivate high-quality senior executives and employees, proportionate to the credit union's nature, size, complexity, operations and risk profile.

- 9(3) The credit union shall disclose to its members its policies and procedures regarding directors' and senior management's remuneration, including any bonuses, incentives or other forms of compensation.
- 9(4) The credit union shall ensure that its remuneration programs, policies and practices referred to in subsections 9(1) and 9(2) of this Rule, are consistent with the following:
- (i) employees engaged in the oversight functions are remunerated in a manner that is independent of the business areas they oversee and commensurate with their key role in the credit union,
 - (ii) remuneration is adjusted for all types of risk,
 - (iii) remuneration is symmetric with risk outcomes,
 - (iv) remuneration payout schedules are sensitive to the time horizon of risks, and
 - (v) forms of remuneration are be consistent with risk alignment.

10. Status, Authority and Independence of the Oversight Functions

- 10(1) The credit union shall establish and maintain oversight functions within its organizational structure, or through an outsourcing arrangement approved by the board of the credit union and documented in writing, such that these functions have sufficient resources, status, authority and independence to perform their roles and satisfy responsibilities.
- 10(2) The head of an oversight function of the credit union may be an individual employed by a third party to whom the credit union has outsourced that oversight function, so long as a member of the credit union's senior management remains accountable for the performance of such individual and oversight functions and such an arrangement has been approved by, and is overseen by, the board of the credit union.
- 10(3) The senior management of the credit union shall create, develop, update and implement, and the board of the credit union shall oversee and approve, a policy which,
- (i) defines the nature, roles and responsibilities of the credit union's oversight functions, and
 - (ii) mandates sufficient and reasonable coordination and co-operation between the credit union's oversight function and all management, employees, activities, operations, business units, short-term and long-term business plans and strategies, and objectives of the credit union and its subsidiaries.
- 10(4) The policy referred to in subsection 10(3) of this Rule shall specify all rights, duties and obligations of the credit union's oversight functions.
- 10(5) Individuals primarily responsible for conducting the activities of the credit union's oversight functions shall be independent of the credit union's and its subsidiaries' operational activities and businesses.
- 10(6) Individuals working for one of the oversight functions shall, having regard to the nature, size, complexity, operations and risk profile of the credit union and its subsidiaries, possess

relevant professional competency and an appropriate level of experience relating to an individual's role in the oversight function or functions.

- 10(7) The heads of the oversight functions of the credit union shall at all times have direct and unrestricted access to all individuals, facilities and information in respect of the credit union's and its subsidiaries' activities, operations and businesses, in order to perform their roles and satisfy their responsibilities, including access to all credit union or subsidiary:
- (i) computer systems, including any back-up systems,
 - (ii) documents, including the credit union's governing documents,
 - (iii) physical property,
 - (iv) employees of the credit union and its subsidiaries, including management, and
 - (v) documentation, emails, letters, recordings of telephone calls and any other form of communication with a governmental or regulatory body.
- 10(8) The heads of the oversight functions of the credit union shall be entitled to participate in all internal meetings, including those of senior management, of the credit union and its subsidiaries, on a reasonable basis, in order to reasonably monitor and assess the credit union's and its subsidiaries' activities.
- 10(9) The oversight functions of the credit union shall have, use and apply a reasonable range of resources to collect, possess, analyze and disseminate material information, in order to accurately, objectively and comprehensively understand, evaluate and report risks.

11. Internal Audit Function

- 11(1) The internal audit function of the credit union shall provide senior management, the board of the credit union and the audit committee of the board with its evaluation and recommendations respecting the design, framework, implementation, and effectiveness of the credit union's and its subsidiaries' activities, processes, policies and procedures in its businesses, operations and activities and in its other oversight functions.
- 11(2) The internal audit function shall provide accurate, reliable and risk-based audits and support to those responsible for the corporate governance and other oversight functions of the credit union.
- 11(3) The head of the internal audit function of the credit union shall, on at least an annual basis, create and deliver to the board of the credit union and the audit committee of the board, upon recommendation by the audit committee of the board, a risk-based audit plan in written form, which takes into account the credit union's and its subsidiaries':
- (i) nature, size, complexity, operations and risk profile, and
 - (ii) strategies, operations, business objectives, activities and risk management processes.
- 11(4) The audit plan referred to in subsection 11(3) shall define the internal audit function's priorities and work.
- 11(5) The head of the internal audit function of the credit union shall:

- (i) review, amend and update the audit plan in response to any material changes in the credit union's or its subsidiaries' activities, risk operations, programs, systems and controls,
 - (ii) on at least an annual basis or upon request, report to the board, the audit committee of the board and senior management of the credit union on the internal audit function's mandate, authority, roles and responsibilities, taking into account the objectives of the internal audit plan and applicable professional standards and ethics, and
 - (iii) create, develop, update and implement processes, policies and procedures to:
 - (a) monitor audit reports and directly report all results and opinions in connection with an audit report to senior management and the board of the credit union, and
 - (b) oversee and monitor that reasonable actions have been implemented by senior management of the credit union in response to any risk identified in an audit report.
- 11(6) Any failure to respond to an issue identified in an audit report within a reasonable period of time, or any decision to assume the risk of not responding to an issue identified in an audit report, shall be brought to the attention of the board of the credit union at the earliest reasonable opportunity and documented in the meeting minutes of the board.
- 11(7) The head of the internal audit function of the credit union and internal auditors who are part of the internal audit function of the credit union shall not have any management responsibilities outside of the oversight functions.

12. Risk Management Function

- 12(1) The head of the risk management function of the credit union shall create, develop, update and implement, and the board of the credit union shall oversee and approve:
- (i) an enterprise wide risk management program, which facilitates and protects the credit union's stability and viability, through the identification, assessment, mitigation and management of all risks and unforeseeable events which may arise from the business and operations of the credit union and its subsidiaries and have a potentially material impact on the credit union's financial performance, capital, liquidity, members, other stakeholders, reputation, operations or viability, and includes an enterprise-wide risk appetite framework which is appropriate relative to the risk profile of the credit union on an enterprise-wide basis, its long-term strategic plan and its operating environment, and
 - (ii) procedures, policies and processes to understand and evaluate all such risks, and to facilitate direct reporting to the board and senior management of the credit union by the head of its risk management function.
- 12(2) The head of the risk management function of the credit union shall be appointed by and report to the board of the credit union.

13. Compliance Function

- 13(1) The compliance function of the credit union shall provide systematic, comprehensive and timely oversight of compliance risks through the identification, measurement, monitoring and reporting of compliance risks across the credit union as a whole and within its specific business lines and units and subsidiaries.

- 13(2) The head of the compliance function of the credit union shall report to the board of the credit union or to the head of another oversight function that reports to the board.

14. Finance Function

14(1) The credit union's finance function shall:

- (i) provide systematic, comprehensive and timely oversight of all of the credit union's governance and operational requirements in respect of budgeting, planning, financial reporting and analysis,
- (ii) provide accurate, reasonable, independent, reliable and risk-based financial reporting and analysis to the senior management and board of the credit union,
- (iii) provide accurate, reasonable and reliable corporate financial services to the credit union, and
- (iv) ensure that all financial analysis, reporting and communication on financial matters is timely, reasonable, impartial, independent and suitable, in order to assist the senior management, board and oversight functions of the credit union.

14(2) The head of the finance function of the credit union shall:

- (i) advise the chief executive officer and board of the credit union, including in relation to the matters described in subsection 14(1), and
- (ii) have reasonable knowledge of and opportunity to participate in all material functions of the credit union's and its subsidiaries' businesses and operations.

15. Operational Management

15(1) The senior management of the credit union shall create, develop, update and implement, and the board of the credit union shall oversee and approve:

- (i) a reasonable and suitable management and control system and framework for the credit union's businesses, operations and activities and its management and employees, and
- (ii) policies, procedures and processes designed to ensure that senior management is sufficiently informed to monitor and be accountable for the credit union's and its subsidiaries' businesses, operations, activities, management and employees.

15(2) Management of the credit union shall:

- (i) perform and execute on, and ensure the credit union's employees understand and execute on, the credit union's approved business plans and strategies,
- (ii) create, develop, update and implement policies, procedures and processes providing for appropriate controls for the credit union and its subsidiaries and their businesses, operations and activities,
- (iii) comply with, and oversee the credit union's employees in compliance with, the credit union's approved policies, procedures, processes and controls,
- (iv) understand and manage, and ensure that the credit union's employees understand and manage, the risks for the areas in which they operate or provide services,

- (v) ensure that employees have sufficient resources, status and authority necessary to perform any roles and responsibilities related to risk management and compliance, and
- (vi) act, and ensure employees of the credit union act, in the best interests of the credit union and its members and in compliance with all laws and regulatory requirements.

16. Subsidiary Governance

- 16(1) The senior management of the credit union shall create, develop, update and implement, and the board of the credit union shall oversee and approve, all policies, procedures and processes necessary to provide for effective oversight of any credit union subsidiary, including any board or management thereof.
- 16(2) If the credit union outsources a material business, strategic or operational function or activity to its subsidiary, then senior management of the credit union shall create, develop, update and implement, and the board of the credit union shall oversee and approve, policies, procedures and processes respecting the function or activity outsourced to the subsidiary.

17. Coming into force

- 17(1) This Rule comes into force on the date that clause 1 of subsection 285(1) of the Act comes into force.

Appendix B - Specific Rule-making Authority [NTD: section numbers will be updated once Rule is finalized]

Boards of Directors

<p align="center">CUCPA 2020 Provision Granting FSRA Rule-making Authority</p>	<p align="center">Corresponding Section of the Proposed Rule</p>
<p>Composition of board 88 The board shall be composed in the manner provided in the Authority rules.</p> <p>Authority Rules</p> <p>285(1) The Authority may make rules in respect of the following matters: ...</p> <p>18. Governing the composition of boards for the purposes of section 88.</p>	<p>Please refer to section 4 of the Proposed Rule.</p>
<p>Duties of the board 97(1) The board shall manage or supervise the management of the business and affairs of the credit union and shall perform such additional duties as may be imposed under this Act, the regulations or the Authority rules respecting credit unions, or the by-laws of the credit union.</p>	<p>Please refer to sections 5, 7 and 8 of the Proposed Rule.</p>
<p>Remuneration of directors</p> <p>99 The procedures for setting, paying and disclosing the remuneration and expenses of directors and members of committees shall be established by Authority rule.</p> <p>Authority Rules</p> <p>285(1) The Authority may make rules in respect of the following matters: ...</p> <p>25. Governing the remuneration of directors for the purposes of section 99.</p>	<p>Please refer to section 9 of the Proposed Rule.</p>

Internal Audit Function

CUCPA 2020 Provision Granting FSRA Rule-making Authority	Corresponding Section of the Proposed Rule
<p>Audit committee</p> <p>104(2) The audit committee has such powers and duties as are set out in this Act, prescribed by the Authority rules or set out in the by-laws of the credit union.</p> <p>Authority Rules</p> <p>285(1) The Authority may make rules in respect of the following matters: ...</p> <p>27. Prescribing the powers and duties of audit committees for the purposes of subsection 104 (2).</p>	<p>Please refer to section 11 of the Proposed Rule.</p>

Matters relating to Members

CUCPA 2020 Provision Granting FSRA Rule-making Authority	Corresponding Section of the Proposed Rule
<p>Notice of meetings</p> <p>175(1) Unless the Authority rules provide otherwise, notice of the time and place for holding a meeting of the members of a credit union shall be given at the time and in the manner specified in the by-laws of the credit union to each member of the credit union who, on the record date for the notice, appears in the records of the credit union as a member.</p> <p>Same</p>	<p>Please refer to section 3 of the Proposed Rule.</p>

<p>(2) A notice under subsection (1) must meet the requirements set out in the Authority rules.</p> <p>Authority Rules</p> <p>285(1) The Authority may make rules in respect of the following matters: ...</p> <p>50. Governing meeting notices for the purposes of section 175.</p>	
<p>Remote members' meetings by-laws</p> <p>185 (1) Subject to such requirements as may be prescribed by Authority rule, the by-laws of a credit union shall set out a policy in respect of the rights of members to participate and vote at meetings remotely.</p> <p>Authority Rules</p> <p>285(1) The Authority may make rules in respect of the following matters: ...</p> <p>54. Prescribing requirements for remote members' meetings by-laws under section 185.</p>	<p>Please refer to section 3 of the Proposed Rule.</p>