

BOARD OF DIRECTORS ASSESSMENT CRITERIA

(The Assessment Criteria should be read in conjunction with OSFI's Supervisory Framework)

ROLE OF BOARD OF DIRECTORS

The Board of Directors is responsible for providing stewardship and oversight of management and operations of the institution. Its key responsibilities include:

- Reviewing and approving organizational structure and controls;
- Ensuring that management is qualified and competent;
- Reviewing and approving business objectives, strategies and plans;
- Reviewing and approving policies for major activities;
- Providing for an independent assessment of, and reporting on the effectiveness of, organizational and procedural controls;
- Monitoring performance against business objectives, strategies and plans;
- Reviewing and approving sound corporate governance policies, and
- Obtaining reasonable assurance on a regular basis that the institution is in control.

QUALITY OF BOARD OVERSIGHT

The following statements describe the rating categories for the assessment of the Board of Directors in fulfilling its overall responsibilities of stewardship and oversight of management and operations of the institution, with due consideration to its safety and soundness.

An overall rating of the Board of Directors considers both its characteristics and the effectiveness of its performance in carrying out its role and responsibilities in the context of the nature, scope, complexity, and risk profile of the institution. Characteristics and examples of performance indicators that guide supervisory judgement in determining an appropriate rating are set out below.

Strong

The composition, role and responsibilities, and practices of the Board meet or exceed what is considered necessary, given the nature, scope, complexity, and risk profile of the institution. The Board has consistently demonstrated highly effective performance. Board characteristics and performance are superior to generally accepted corporate governance practices.

Acceptable

The composition, role and responsibilities, and practices of the Board meet what is considered necessary, given the nature, scope, complexity, and risk profile of the institution. Board performance has been effective. Board characteristics and performance meet generally accepted corporate governance practices.

Needs Improvement

The composition, role and responsibilities, and practices of the Board generally meet what is considered necessary, given the nature, scope, complexity, and risk profile of the institution, but there are some significant areas that require improvement. Board performance has generally been effective but there are some significant areas where effectiveness needs to be improved. The areas needing improvement are not serious enough to cause prudential concerns if addressed in a timely manner. Board characteristics and/or performance do not consistently meet generally accepted corporate governance practices.

Weak

The composition, role and responsibilities, and practices of the Board are not, in a material way, what is considered necessary, given the nature, scope, complexity, and risk profile of the institution. Board performance has demonstrated serious instances where effectiveness needs to be improved through immediate action. Board characteristics and/or performance often do not meet generally accepted corporate governance practices.

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BOARD CHARACTERISTICS*	
The following criteria describe the characteristics to be used in assessing the quality of Board stewardship and oversight of management and operations of the institution, with due consideration to its safety and soundness. The application and weighting of the individual criteria will depend on the nature, scope, complexity, and risk profile of the institution and will be assessed collectively, together with Board performance, in rating its overall effectiveness.	
Essential Elements	Criteria
1. Composition	1.1 Compliance with the provisions of enabling legislation.
	1.2 Adequacy of policies and practices to regularly determine Board size, range of directors' qualifications, knowledge, skills, and experience, and level of commitment required to fulfill Board responsibilities.
	1.3 Appropriateness of Board size, range of directors' qualifications, knowledge, skills and experience, and level of commitment available to fulfill Board responsibilities.
	1.4 Adequacy of policies and practices to recommend the selection, approval, renewal, and succession of directors.
	1.5 Adequacy of policies and practices to ensure that there is sufficient unaffiliated representation on the Board.
	1.6 Appropriateness of the unaffiliated representation on the Board.
2. Role and Responsibilities	2.1 Adequacy of policies and practices to develop, approve, and periodically review the role and responsibilities of the Board (including those of the Chair/Lead Director) and to ensure that directors comply with sound corporate governance practices.
	2.2 Extent to which the Board's responsibilities include: <ul style="list-style-type: none"> a) Appointing the CEO, establishing his/her mandate, monitoring his/her performance and approving his/her compensation; b) Approving the institution's organizational structure; c) Approving the appointment of qualified individuals to senior management positions, monitoring their performance and approving their compensation; d) Reviewing and approving, at least annually, human resources and compensation policies and practices, including those pertaining to succession planning; e) Approving business objectives, strategies and plans, at least annually, and regularly monitoring their execution; f) Approving financial statements and related disclosures; g) Reviewing and approving, at least annually, significant risk management policies and practices, and obtaining assurances that they are being adhered to; h) Reviewing and approving, at least annually, liquidity, funding and capital management policies and plans and obtaining assurances that approved policies and plans are being adhered to; i) Approving the institution's communication and disclosure policies; j) Obtaining assurances on a regular basis that the institution's risk management, control environment and management information systems are appropriate and operating effectively; k) Requiring implementation of a system to ensure compliance with applicable laws, regulations and guidelines;

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BOARD CHARACTERISTICS*	
Essential Elements	Criteria
2. Role and Responsibilities (Cont'd)	l) Approving policies and practices for dealing with conflicts of interest; and m) Establishing standards of ethical business conduct for the institution and obtaining assurances that they are being adhered to.
	2.3 Appropriateness of policies and practices to periodically communicate Board responsibilities to stakeholders.
3. Committees	3.1 Adequacy of policies and practices to regularly review the structure and composition of Board committees to ensure that they provide sufficient oversight.
	3.2 Adequacy of policies and practices to establish and regularly review board committee mandates.
	3.3 Adequacy of policies and practices to ensure that there is sufficient unaffiliated representation on Board committees.
	3.4 Nature and extent to which Board committee mandates promote independent and comprehensive oversight, with timely and regular reporting to the Board.
4. Practices	4.1 Adequacy of policies and practices to orient new directors, and periodically update existing directors, on their responsibilities and on the institution's businesses and related risks.
	4.2 Adequacy of policies and practices to promote independent, effective, and timely decision making, including practices related to the role of unaffiliated directors.
	4.3 Adequacy of policies and practices to establish and monitor work plans for fulfilling Board goals and responsibilities.
	4.4 Adequacy of policies and practices to set Board agendas and priorities, arrange and conduct meetings, and record its deliberations and decisions. Extent to which these practices promote transparency in Board accountabilities.
	4.5 Adequacy of policies and practices to ensure that the directors are provided with timely, relevant, accurate and complete information (including access to independent advice) to enable them: a) To determine that responsibilities delegated to Board committees and Senior Management are being discharged effectively, and b) To enable directors to make informed and sound decisions.
	4.6 Extent to which the directors' compensation program promotes prudent decisionmaking with due regard to the objectives of the institution.
	4.7 With respect to the oversight functions on which it relies (e.g., Internal Audit), the extent to which the Board (a) approves the appointment of the function heads; (b) ensures that they have adequate authority, independence and resources to carry out their mandates; (c) provides appointees with unrestricted access to the Board and/or its committees; and (d) requires periodic independent reviews of the functions.
5. Self-Assessment	5.1 Adequacy of policies and practices to regularly assess the effectiveness of the Board, its committees, and individual directors (including the Chair) in carrying out their responsibilities.
	5.2 Appropriateness of policies and practices to communicate Board achievements against its responsibilities to stakeholders.

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BOARD PERFORMANCE

The quality of the Board's performance is demonstrated by its effectiveness in providing stewardship and oversight of management and operations of the institution to ensure the institution is in control, its risks are appropriately mitigated and business objectives, strategies, and policies are appropriate and executed effectively.

The assessment will consider how actively the Board embraces its responsibilities, bringing its collective skills and experience to bear in providing objective and thoughtful insight and guidance to the institution. OSFI will look to indicators of effective Board performance to guide its judgement in the course of its supervisory activities. These activities may include: conversations with directors and management to determine the nature and extent of discussion, evaluation, and questioning of management at Board meetings, the nature of discussions at meetings of unaffiliated directors and matters raised from those discussions, and the extent of interaction of senior management with the Board and/or its committees; review of how particular issues are dealt with by the Board; assessment of Board practices; review of minutes, etc.

Examples of indicators that could be used to guide supervisory judgement include the extent to which the Board:

- a) Performs a regular, in-depth review and evaluation of the institution's business objectives and strategies, as well as events and transactions that could pose significant risks to the institution, with a view to balancing business objectives with appropriate controls and governance;
- b) Is actively involved in the selection and performance evaluation of the CEO, and other Senior Management as appropriate;
- c) Objectively assesses, on a regular basis, the appropriateness of the overall risk tolerance, major business activities and risks of the institution;
- d) Establishes thresholds for the type and significance of issues to be brought to its attention (including adverse results, deficiencies in or breaches of limits, controls or policies, and changes in the external environment that might require a review of the operating strategy or control environment). Responds quickly to, and proactively follows up on, issues identified by management, internal or external audit, risk management, appointed actuaries, OSFI or other regulators, in order to satisfy itself that appropriate action has been taken or resolution achieved;
- e) Defines and periodically assesses for continued relevance, the type, comprehensiveness and frequency of information and reporting it needs to monitor and act on a timely basis, and ensures needed changes are made as required;
- f) Actively engages in the review of materials presented by management for information purposes or for Board approval, appropriately weighing salient issues and alternatives, engaging in discussions, challenging management's underlying assumptions, and requesting additional information and/or explanation;
- g) Ensures its meetings provide an appropriately balanced focus on key issues and ongoing governance requirements;
- h) Ensures there is sufficient opportunity for unaffiliated directors to meet 'in camera', and seriously considers the output of such meetings;
- i) Proactively engages in reviewing the mandates, resources and scope of work of the key oversight functions upon which it relies for risk management, control and compliance assurances, and ensuring that Senior Management appropriately supports these functions; and
- j) Performs a comprehensive self-assessment against its responsibilities and promptly addresses matters identified.

* Examples of documentation that OSFI may review in formulating its assessment of the characteristics of the Board include: the curricula vitae of directors; Board mandates; Directors' manual; Board work plans; meeting agenda and related presentation materials, minutes, and follow-up documentation related to committee decisions; and, self-assessment reviews completed by directors.