

Guideline

Risk Management and Resilience

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INTRODUCTION

This Guideline sets out BC Financial Services Authority's (BCFSA) expectations for risk management and resilience in B.C. credit unions. The Guideline complements statutory requirements under the *Credit Union Incorporation Act* (CUIA), the *Financial Institutions Act* (FIA), and other applicable legislation. The Guideline does not supersede, and is not exhaustive of, all requirements under the applicable laws.

Effective risk management is fundamental to the safety and soundness of financial institutions. It provides balance sheet stability, protects against disruptions, and ultimately supports strategic goals and profitability. A robust Risk Management Framework is crucial for navigating complex financial environments, preventing losses, and maintaining the integrity and soundness of the institution.

A robust Risk Management Framework protects against loss and ensures that a credit union is resilient, enabling recovery, adaptation, and learning. Even with effective risk management, business interruptions can occur. Credit unions should develop plans to ensure that the credit union is able to continue operations, or resume operations quickly, during a business disruption.

RISK MANAGEMENT FRAMEWORK

Credit unions should establish and maintain a Risk Management Framework that includes tools, policies, and processes to identify, assess, quantify, control, mitigate, and monitor risks. The framework should

enable a full understanding of risk exposure and ensure that controls are appropriate given the credit union's strategic plan and operating environment.

RISK APPETITE FRAMEWORK

Credit unions should define and implement a Risk Appetite Framework that sets out the type and amount of risk they are willing to accept in pursuit of their objectives. This framework should include:

- A risk appetite statement;
- Quantitative and qualitative risk limits; and
- Roles and responsibilities for oversight and implementation.

The framework should be embedded in operations and aligned with the credit union's risk management policies and procedures.

OUTCOMES

This Guideline provides three expected outcomes for credit unions to achieve, aligned with the principles of sound risk management and resilience outlined in the next section.

1. The credit union can identify and assess the risks associated with its business model, strategy, and operating environment.
2. The credit union has appropriate governance and risk management practices to manage identified risks through a robust Risk Appetite Framework.
3. The credit union maintains appropriate resilience to successfully rebound from plausible risk scenarios.

CORE PRINCIPLES OF SOUND RISK MANAGEMENT AND RESILIENCE

Principle 1: Integration

Credit unions should take a holistic approach to risk. An integrated approach accounts for interrelationships between risks and enhances the ability to manage cascading effects. Strategies, resources, technologies, and knowledge should be aligned to manage risks comprehensively across the credit union.

Principle 2: Accountability

The Board of Directors (Board) is ultimately accountable for overseeing the effectiveness of the Risk Management Framework. Senior Management is responsible for implementing and operationalizing the framework. Together, the Board and Senior Management should foster a culture of risk awareness and ensure alignment with strategic and risk objectives.

Principle 3: Proportionality

Risk management approaches should reflect the credit union's unique business model and strategic plan. Resources dedicated to managing risks should be commensurate with the size and impact of those risks.

Principle 4: Independence

The risk management function should be independent from operations. The Chief Risk Officer (CRO) (or equivalent) should have sufficient authority and a functional reporting line to the Board and/or Risk Committee. Objectivity in assessing risk-taking activities should be maintained.

Principle 5: Transparency

Boards and Senior Management should receive integrated information across financial, operational, and technology domains, with clear escalation pathways. Significant risks should be communicated to staff to support mitigation. The Risk Committee should receive timely and accurate reports to effectively challenge management when necessary.

Principle 6: Resilience

Credit unions should build the capacity to absorb shocks, adapt, and recover. This includes:

- Identifying critical operations and dependencies;
- Establishing disruption tolerances and recovery objectives;
- Maintaining and testing contingency and business continuity plans; and
- Embedding resilience into decision-making and operational planning.

Resilience is not only about recovery but also about learning and adapting to strengthen future responses.

Principle 7: Components of Risk and Resilience Practices

Risk management follows a disciplined lifecycle to address new and evolving risks.

Credit unions should ensure their risk and resilience frameworks include the following components:

- Risk identification;
- Risk assessment and prioritization;
- Risk mitigation and control;
- Monitoring and reporting;
- Resilience planning;
- Response and recovery;
- Governance and culture; and
- Adaptability and continuous improvement.

APPLICABILITY AND SUPERVISION

These principles apply to all B.C. credit unions on a proportionate basis. The complexity of a credit union's Risk Management Framework should reflect the credit union's nature, scope, complexity and overall risk profile.

The risk management function will be assessed considering both its characteristics and the effectiveness of its performance in executing its mandate in the context of the nature, scope, complexity, and risk profile of the credit union. Where weaknesses are identified, BCFSA expects credit unions to develop timely and credible plans to address them.