Guideline

Corporate Governance

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INTRODUCTION

The Corporate Governance Guideline (Guideline) sets out B.C. Financial Services Authority's (BCFSA) expectations for corporate governance 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. A reference to credit union in this Guideline means a credit union incorporated as a credit union under the CUIA.

Sound corporate governance is essential to the safety, integrity, and public confidence of B.C.'s credit union segment. It is the foundation on which Boards of Directors (Boards) of credit unions safeguard members' interests, guide strategy, oversee risk, and uphold the values of a cooperative financial institution.

Effective governance depends on how well a Board fulfils this stewardship role. It requires clear purpose and accountability, informed and grounded judgment, independence and constructive challenge, a strong ethical culture, transparency to members, and a commitment to learning and renewal. These elements together create the conditions for good governance and long-term resilience.

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BCFSA's expectations are principles-based and applied proportionately to each credit union's size, complexity, and risk profile. BCFSA recognises the diversity of the B.C. credit-union segment and applies these principles in a fair, scalable, and context-sensitive way.

Collectively, sound governance across credit unions contributes to the stability and credibility of provincially regulated financial institutions and strengthens public trust in cooperative finance.

OUTCOMES

This Guideline provides four expected outcomes for credit unions to achieve, aligned with the principles of corporate governance outlined in the next section.

1. The Board ensures that the business strategy aligns with the credit union's purpose, cooperative values and its members' interests.
2. The Board has the necessary skills, expertise, experience and understanding to enable sound and grounded judgment, provide an independent challenge function, and ensure that member values are understood and reflected.
3. The Board facilitates a culture of integrity, transparency, and accountability.
4. The Board oversees risk on an enterprise-wide basis through an effective Risk Appetite Framework that defines the nature and degree of risk the credit union is willing to accept in pursuit of its strategy.

PRINCIPLES OF CORPORATE GOVERNANCE

Principle 1: Purpose and Accountability

The Board should establish and oversee a clear purpose, business strategy, and risk appetite that aligns with the credit union's cooperative values, its members' interests, and its financial soundness. The Board is ultimately accountable for the safety, stability, and integrity of the credit union and should ensure that strategic objectives are prudent, consistent with risk appetite, and supported by sound financial and operational plans.

The Board is responsible for designing and implementing sustainable business strategies that generate long-term value and returns, and for overseeing their implementation. Its oversight should extend not only to what decisions are made, but how they are made, ensuring that process reflects the credit union's purpose, values, and risk appetite.

Senior Management is responsible for executing the strategy approved by the Board and for ensuring that day-to-day operations remain aligned with the credit union's purpose, values, and risk appetite.

Governance is strengthened when learning flows both ways: the Board should learn from management's experience, execution and judgment, while management should benefit from the Board's strategic oversight, challenge, and perspective.

Principle 2: Judgment, Expertise, and Grounded Understanding

The Board should exercise sound and grounded judgment in all deliberations and decisions, demonstrating independence of thought, critical analysis, and awareness of the broader consequences of its actions. Effective governance depends not only on the presence of professional expertise, but on its thoughtful integration with contextual judgment. Boards should ensure that both are actively applied, working together to support well-informed, balanced, and accountable decision-making.

BCFSA expects Boards to ensure that directors possess the relevant expertise to oversee the strategy and risk management, and that both expertise and judgment are actively applied in decision-making. This includes questioning the basis of management recommendations, identifying gaps or inconsistencies in the information presented, and uncovering underlying assumptions. Directors should connect technical insight with contextual understanding, consider alternative courses of action, and weigh decisions against the credit union's purpose, member interests, and long-term resilience.

Where directors identify areas where their understanding is limited, they should seek targeted input or clarification to ensure decisions are well-informed. While the Board should be composed to meet core oversight responsibilities, it may also engage expert advice where necessary. Such advice should be considered critically. Boards should examine the assumptions and limitations of technical analysis, and assess how it aligns with member interests, cooperative values, and the credit union's specific context. External expertise should inform, not substitute, the Board's judgment.

Records of decisions should show how advice and analysis were weighed against contextual understanding and explain why the chosen course of action best serves the credit union's purpose, member interests, and long-term resilience.

Principle 3: Composition, Capability, and Renewal

The Board should maintain a composition that collectively provides the skills, experience, and diversity of perspectives needed to oversee the credit union's business, risk, and cooperative obligations. At a minimum, the Board should include core competencies in financial and business acumen, risk management, audit and compliance, and technology, as these are essential to the safe and sound operation of a financial institution. Individual directors will contribute their own expertise and perspectives, but collectively, the Board is expected to understand and be able to challenge decisions in these critical areas.

BCFSA expects these competencies to be present at a level that enables Boards to provide informed oversight, and to be able to challenge the positions of Senior Management when needed. Boards should assess not only whether these skills exist among directors, but whether they are sufficiently deep, current, and relevant to the credit union's business model and risk profile. The depth and breadth of skills on the Board should reflect the proficiency required to engage meaningfully in strategic and risk-related deliberations.

While the Board is not expected to hold all technical expertise internally, it should deliberately assess how it will meet its oversight responsibilities. This assessment should be grounded in the credit union's risk profile and should guide decisions about recruitment, director development, and the use of external expertise. Boards should clearly and objectively identify gaps and determine whether those gaps require targeted training, or external advice, and document how their composition and capability remain fit for purpose.

A capable Board combines professional expertise with a deep understanding of and connection to the credit union's membership and community context. Both the gaps in expertise that have been identified, and a credit union's own context and membership should be considered where a director participates in a Nomination Committee for any election of directors, and in communications to members around desired competencies in new directors. Boards should be able to explain how the desired mix of skills and perspectives supports the credit union's strategy, risk appetite, and cooperative obligations.

The Board should have regular, objective, and meaningful skills and competency evaluation processes that are integrated with the overall Board succession planning process. The skills and competency evaluations should be integrated into the directors' training plans.

The Board should consider tenure limits and term caps for directors to encourage regular renewal of the Board and to allow for fresh perspectives, while balancing the need for continuity. The Board should also have in place a robust renewal plan and should ensure that Board members are effectively onboarded and provided with orientation and education opportunities.

Principle 4: Independence and Constructive Challenge

The Board should operate independently from Senior Management and demonstrate its ability to provide objective oversight, advice, and, when needed, challenge.

A majority of directors should be independent of management or unaffiliated. Directors must disclose and manage (potential) conflicts of interest. The roles of Board Chair (Chair) and Chief Executive Officer should be separate. The Chair should model open discussion and ensure that challenge is encouraged and valued.

In smaller or closely connected credit unions where formal independence or affiliation may be constrained by structure or scale, the credit union is expected to demonstrate how it ensures objectivity in decision-making; for example, through the use of external perspectives, rotating Chairs, peer reviews, or enhanced documentation.

To preserve clear separation between oversight and execution, executive officers or employees of a credit union should not also serve as a director of that same institution. This ensures that management remains accountable to the Board and that the Board can exercise its oversight role without constraint or divided loyalties.

Principle 5: Culture, Conduct, and Integrity

The Board and Senior Management should promote a culture that reflects integrity, accountability, and respect for cooperative principles.

Culture influences behaviour as strongly as policy does. The Board should set clear expectations for ethical conduct, risk awareness, and open communication. It should ensure that Senior Management leads by example and that internal controls, codes of conduct, and performance systems reinforce desired behaviours.

The Board should monitor indicators of culture and conduct—including employee feedback, member complaints, and audit findings—and act where signals of misalignment appear.

Principle 6: Risk Governance

The Board should oversee risk on an enterprise-wide basis and approve a Risk Appetite Framework (RAF) that defines the nature and degree of risk the credit union is willing to accept in pursuit of its strategy.

The RAF should set basic goals, benchmarks, parameters, and limits (e.g., level of losses) as to the amount of risk the credit union is willing to accept, considering various financial, operational, and macroeconomic factors. It should consider the material risks to the credit union, as well as the credit union's reputation amongst its members.

The Board is responsible for ensuring that risk-management systems are effective, independent, and proportionate to the credit union's complexity. It should ensure that the Chief Risk Officer (or equivalent) has adequate authority and resources, and that material risks are identified, measured, monitored, and controlled.

While the management of risk rests with the first, second, and third lines of defence (or management and staff; the compliance functions; and internal and external auditors), the Board remains accountable for ensuring that those lines operate as a coherent and effective system. The Board's role is not to perform risk management itself, but to confirm that the credit union's risk management functions as it should. This includes confirming that frameworks, escalation paths, and the culture of challenge are sound, and that failures are met with learning and corrective action. In this sense, the Board acts as the integrator and guarantor of the credit union's overall defences, providing assurance that the credit union can anticipate, absorb, and adapt to risk events.

Guided by the credit union's RAF, the Board should understand the types of risks to which the credit union may be exposed, and the techniques and systems used to identify, measure, monitor, report on, and mitigate those risks.

Principle 7: Transparency and Member Accountability

Meaningful transparency and disclosure build trust and supports informed member participation in governance.

The Board should ensure that members receive clear, accurate, and timely information to understand the performance, governance, and direction of their credit union. The Board should also ensure that disclosures to members and regulators fairly present the credit union's financial condition, governance practices, and risk profile. The Board should foster regular engagement with members, including opportunities for questions and dialogue with directors and Senior Management.

Principle 8: Evaluation and Continuous Improvement

The Board should regularly evaluate its effectiveness and that of its committees, Senior Management, and oversight functions, and take action to strengthen governance capability.

Evaluation should consider outcomes (how well governance objectives are achieved) and processes (how decisions are made and/or challenged). Findings should inform director education, succession planning, and adjustments to Board structures or practices.

The Board should view governance as a discipline of continuous improvement, learning from decisions, feedback, supervisory observations, and moments of stress.

APPLICABILITY AND SUPERVISION

These principles apply to all B.C. credit unions on a proportionate basis. The formality and complexity of governance structures should reflect each credit union's size, nature, and risk profile.

BCFSA will assess governance effectiveness through discussions with directors and Senior Management, review of Board materials, and evaluation of how well governance practices demonstrate judgment, independence, expertise, and grounded understanding.

Supervisory assessments will consider qualitative evidence of judgment quality, including brief, documented decision rationales showing how advice and analysis were considered, translated, and integrated with member context.

Where weaknesses are identified, BCFSA expects credit unions to develop timely and credible plans to address them.

BCFSA encourages Boards to consult the accompanying Sound Practices for illustrative guidance on implementing these principles and for insights into building long-term governance capability.