

Sound Practices

Corporate Governance

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PURPOSE

These Sound Practices provide illustrative examples of how the principles in the Corporate Governance Guideline (Guideline) may be applied in practice across B.C. credit unions.

The document is not binding and does not replace any legislative or regulatory requirement. Its purpose is to help Boards and Senior Management interpret and operationalize the principles proportionately according to each credit union's size, complexity, and risk profile.

Effective governance reflects both institutional context and Board maturity. The practices described below are not checklists; they are examples of how good governance can be demonstrated, tested, and strengthened over time.

APPLYING THE PRINCIPLES IN PRACTICE

Strong governance depends on a combination of clear expectations, informed decision-making, and disciplined execution. Credit unions should view the Guideline as setting out BCFSA's expectations, while treating this document as a resource for ways to meet those expectations.

Boards are encouraged to:

- Assess their current practices against each principle;
- Identify where proportionate adjustments could strengthen oversight and decision quality; and
- Use these examples to inform Board education, evaluation, and planning cycles.

Principle 1 – Purpose and Accountability

Expectation

The Board defines and oversees the credit union's purpose, strategic direction, and risk appetite in alignment with cooperative values and member interests.

Practices (Illustrative)

- Develop and regularly review a statement of purpose that articulates member and community values alongside financial goals;
- Approve a risk appetite statement linked directly to strategic priorities;
- Require management to demonstrate how strategic proposals align with purpose and risk appetite before approval;
- Review management performance against agreed strategic and risk objectives, including non-financial measures; and
- Document key Board decisions with clear rationale and accountability for follow-up actions.

Proportional Application (Illustrative)

Smaller credit unions may integrate purpose and risk discussions into strategic planning workshops or joint Board–management retreats.

Larger credit unions may maintain formal strategic dashboards and periodic risk-appetite reviews supported by analytics.

Principle 2 – Judgment, Expertise, and Grounded Understanding

Expectation

Boards exercise independent, informed, and grounded judgment—balancing professional expertise with contextual understanding of the credit union's members, markets, and risks.

Practices (Illustrative)

- Establish an annual Board education plan covering emerging risks, regulatory developments, and sound governance practices;
- Ensure Board materials highlight assumptions, limitations, and sources behind key recommendations;
- Encourage directors to question the basis of management recommendations, identify gaps or inconsistencies in presented information, and uncover underlying assumptions;
- Where technical matters exceed collective expertise, ensure directors seek targeted input or clarification to ensure decisions are well-informed;
- Record in minutes how different views and information were considered before major decisions;
- Use structured questioning and decision frameworks to connect technical insight with contextual understanding; and

- Conduct post-decision reviews to identify lessons learned and strengthen collective judgment.

Proportional Application (Illustrative)

Smaller credit unions may use system-wide training or peer exchanges to build collective understanding. Larger credit unions should implement structured professional development and periodic independent reviews of decision processes.

Principle 3 – Composition, Capability, and Renewal

Expectation

The Board maintains the mix of skills, experience, and perspectives needed to oversee strategy, risk, and performance effectively.

Practices (Illustrative)

- Maintain a Board skills matrix that identifies the full range of competencies required for effective oversight, maps current director capabilities, and highlights any gaps;
- Ensure the matrix meaningfully captures the range of strategic and risk-related capabilities required, while also emphasizing the depth of expertise necessary to foster rigorous, well-informed dialogue and decision-making;
- Ensure the matrix reflects—at a minimum—core competencies that must be present on the Board:
 - Financial and business acumen;
 - Risk management;
 - Audit and compliance; and
 - Technology;
- Link director recruitment, nomination, and training to identified gaps;
- Establish term limits (e.g., 3×3-year or 2×4-year terms), with exceptional extensions requiring a supermajority and a documented rationale;
- Set a maximum continuous Chair tenure (e.g., 6 years) and a cooling-off period (e.g., 3 years) before a former Chair can resume the role;
- Use staggered elections to balance continuity and renewal;
- Publish a tenure profile annually, showing the median and range of director tenure, and target a healthy mix of new, mid, and seasoned directors;
- Define cooling-off rules for independence (e.g., a 3-year period for former executives or material service providers before qualifying as independent);
- Create trigger points for renewal, such as repeated adverse evaluation findings, persistent skill gaps, or major strategy shifts;
- Conduct annual Board and committee evaluations to assess effectiveness and identify development priorities;
- Align succession planning with the credit union’s strategic and risk outlook.

Proportional Application (Illustrative)

Smaller or closely connected credit unions may emphasize staggered terms, transparent succession planning, and external peer review when extending beyond term limits. Larger credit unions should maintain external facilitation of evaluations, and published tenure and skills dashboards.

Principle 4 – Independence and Creative Challenge

Expectation

The Board operates independently of management and fosters open, objective dialogue.

Practices (Illustrative)

- Define independence criteria in Board policies, extending beyond employment status to include personal, financial, or business relationships;
- Ensure meeting agendas separate oversight discussions from management presentations;
- Use in-camera sessions to support open dialogue among directors;
- Rotate committee chairs periodically to refresh perspective;
- Engage external advisors or peer reviewers for complex or high-risk decisions; and
- Maintain records of how differing views were reconciled before decisions.

Proportional Application (Illustrative)

Smaller or closely connected credit unions can strengthen independence through external peer review or enhanced minute-taking, while larger credit unions may formalize independence reviews.

Principle 5 – Culture, Conduct, and Integrity

Expectation

The Board and management shape and reinforce a culture of integrity, accountability, and respect consistent with cooperative values.

Practices (Illustrative)

- Articulate clear behavioural expectations in a code of conduct approved by the Board;
- Include culture indicators—such as employee engagement, member satisfaction, or complaint trends—in regular Board reports;
- Encourage upward communication, including anonymous or safe reporting channels;
- Review how incentive systems align with desired behaviours and member outcomes; and
- Use Board discussions of ethics or values to connect culture with decision-making.

Proportional Application (Illustrative)

Smaller credit unions may assess culture informally through staff engagement and member feedback. Larger credit unions often use independent surveys and link cultural insights to performance evaluations.

Principle 6 – Risk Governance

Expectation

The Board oversees an integrated approach to identifying, managing, and learning from risk.

Practices (Illustrative)

- Approve and periodically review a risk-appetite statement consistent with strategy;
- Ensure risk and audit functions have authority and direct access to the Board or relevant committees;

- Require regular reporting on material risks, emerging threats, and incidents of control failure;
- Use scenario testing or stress exercises to challenge assumptions and preparedness; and
- Following risk events, review lessons learned and changes implemented.

Proportional Application (Illustrative):

Smaller credit unions may assign oversight responsibilities to a combined risk-investments and loans committee. Larger credit unions typically maintain dedicated Board committees and structured assurance reporting.

Principle 7 – Transparency and Accountability

Expectation

The Board promotes transparency and open communication to maintain member confidence.

Practices (Illustrative)

- Publish accessible summaries of governance arrangements and Board composition;
- Communicate key decisions and rationale in annual and member reports;
- Offer forums for dialogue with members and community stakeholders;
- Provide clear channels for feedback or concerns to reach the Board; and
- Review disclosures annually for clarity, fairness, and completeness.

Proportional Application (Illustrative)

Smaller credit unions may use direct member meetings or newsletters. Larger credit unions may integrate member engagement into investor-style reporting frameworks.

Principle 8 – Evaluation and Continuous Improvement

Expectation

The Board continually assesses and enhances its own effectiveness and that of its governance framework.

Practices (Illustrative)

- Conduct annual Board and committee performance evaluations, including peer feedback;
- Use evaluation results to update education plans and governance processes;
- Track progress on prior evaluation findings through an annual improvement plan;
- Encourage open reflection after key decisions to capture learning and strengthen collective judgment; and
- Benchmark governance practices periodically against segment or regulatory expectations.

Proportional Application (Illustrative)

Smaller credit unions may conduct informal peer discussions or self-assessments. Larger credit unions often use structured evaluations supported by external reviewers.

CONTINUOUS IMPROVEMENT AND REVIEW

Governance capabilities develop through repetition, reflection, and feedback. Boards should treat these practices as living tools and adapt them to context, document what works, and share insights with peers.

Strong governance cultures demonstrate curiosity: they ask why decisions succeeded or failed, and they translate those lessons into better processes, better oversight, and better service to members.

ALIGNMENT WITH SUPERVISION

BCFSA assesses governance outcomes rather than adherence to any specific governance strategy or format. Supervisory dialogue will focus on how effectively Boards demonstrate the qualities described in the Guideline—clarity of purpose, independence, sound judgment, and learning orientation—through their own documented decisions and practices. Boards should be prepared to demonstrate how advice and analysis were weighed against contextual understanding, and how their composition and capability reflect a deliberate, risk-informed assessment of oversight needs.

Boards may use this document as a reference for self-assessment or preparation for supervisory engagement with BCFSA.