ASSESSMENT CRITERIA

Frequently Asked Questions

This document answers the most frequently asked questions from regulated institutions regarding FICOM's Assessment Criteria. The responses should be read in conjunction with the Supervisory Framework and Assessment Criteria.

1. **Why did FICOM develop the Assessment Criteria?**
   The Assessment Criteria was developed as an internal tool to guide supervisors in assessing the safety and stability of credit unions. A standardized approach enhances the consistency and comparability of FICOM's assessments.

2. **Does FICOM expect the oversight functions identified in the Assessment Criteria to exist in every credit union? What is FICOM's approach where a function does not exist?**
   FICOM's Supervisory Framework and Assessment Criteria do not require a particular organizational structure. Credit unions should not restructure or reorganize their processes as a result of this initiative. However, credit unions should consider the cost-benefit implications of a particular oversight structure before selecting the one that best meets their needs.

   FICOM's overall assessment of an oversight function is based primarily on its effectiveness in overseeing the mitigation of risk in the context of its mandate, taking into account the nature, scope, complexity, and risk profile of the credit union. Accordingly, in assessing the adequacy and effectiveness of a particular structure, FICOM will consider what is necessary, given the context of the credit union.

   Where a credit union lacks some or all of the oversight functions, FICOM looks to other functions, within or external to the credit union, that handles these oversight responsibilities. For example, operation reviews by other branches, outsourcing arrangements and senior management activities. In the absence of effective oversight, FICOM will increase its supervision and recommend or require that the credit union implement an appropriate level of oversight.

3. **Are the Assessment Criteria a checklist of best practices for assessing credit unions?**
   No. The criteria are not required standards but considerations that supervisors will use, where appropriate, to guide their assessments of the effectiveness of the credit union's oversight functions.

As the Supervisory Framework was designed to apply to all types and sizes of credit unions regulated by FICOM, words like “appropriateness of”, “adequacy of”, and “extent to which” have been chosen deliberately to require supervisors to exercise sound and informed judgement in applying the criteria to the unique circumstances of each credit union. The application and weighting of individual criteria will depend on the nature, scope, complexity and risk profile of the credit union, and will be assessed collectively, together with performance, in rating the overall effectiveness of the function.

FICOM is committed to overseeing the implementation of supervisory ratings through an appropriate level of training and a quality review process to ensure that the criteria are applied in the context of each credit union, and consistently across credit unions.

FICOM’s relationship managers will be prepared to discuss the rationale for their assessments as part of the supervisory process.

4. Which key indicators identified in the composite risk rating definitions will FICOM use to assess a credit union?

A number of key indicators are commonly used by both the credit union sector and FICOM. Those considered in the assessment of a particular credit union would depend on the local economy, the type and size of the credit union, and on the indicators used by the credit union itself.

5. Why are the expectations for each criterion so broad? Won’t the current wording result in inconsistent application of the criteria by supervisors?

FICOM’s Supervisory Framework is a conceptual framework designed for universal application. What is appropriate for a credit union depends on what is needed to mitigate the risks inherent in its particular activities. Therefore, it is not possible to provide detailed expectations for the various criteria. The criteria need to be sufficiently flexible to allow supervisors to apply them to the unique nature, scope, complexity and risk profile of each credit union.

6. How do the ratings for the oversight functions affect the composite risk rating of a credit union?

FICOM focuses on assessing the safety and stability of a credit union. This assessment is reflected in the composite risk rating, which is the primary rating under FICOM’s Supervisory Framework. The composite risk rating is an integrated assessment of a credit union’s overall net risk, liquidity, capital and earnings. The overall net risk is a weighted aggregation of the net risk in each of the credit union’s significant activities and incorporates an assessment of the quality of risk management for those activities. Hence, the quality of risk management (operational management and oversight functions) contributes to the composite risk rating through the assessment of overall net risk.

7. **Can supervisory ratings be shared within a credit union and its external auditors?**

   Yes. Supervisory ratings are strictly confidential and may not be disclosed to the public; however, credit unions may disclose such information to directors, officers, employees, auditors, actuaries, securities underwriters or legal advisors, provided the credit union ensures the continued confidentiality of the information. Please consult FICOM should you wish to share supervisory ratings with any other party.

8. **Does FICOM plan to share a credit union's ratings with similar institutions?**

   FICOM shares credit union sector results when necessary. These results are structured so that individual credit union ratings cannot be identified and proprietary information is not disclosed. FICOM reserves the right to disclose supervisory ratings to Stabilization Central and/or Central 1 when necessary.

9. **Are there criteria for the assessment of inherent risks?**

   No. Since inherent risks are specific to the nature of a credit union's significant activities, including its products and services, distribution channels and target markets, it is not feasible to develop common criteria for the credit union industry.

10. **How does FICOM address inherent risk categories that are not identified in the Supervisory Framework?**

    FICOM's Supervisory Framework defines six inherent risk categories. These categories represent a broad classification of the risks that are generally applicable to credit unions. Most risks can be considered within one of these six categories. For example, settlement risk may be considered a subset of credit risk.

11. **Are there criteria for operational management, the group that has front-line responsibility for managing risk?**

    No. It would not be practical to develop a set of criteria for operational management because of the large number of operational activities across all credit unions and the differences in how these activities are managed.

    Our primary objective in assessing oversight functions is to determine the extent to which FICOM can use the work of these functions to ensure that appropriate controls are in place and are being followed at the operational level. As well, from time to time and as necessary, FICOM will perform in-depth reviews of certain operational activities to confirm its assessment with respect to the effectiveness of the oversight functions.

12. Can the responsibilities listed under the "role of the Board of Directors" be carried out by the full board or could they be addressed by a board committee?

There is no differentiation between responsibilities that are best undertaken by the full board versus those that are better handled by a board committee. This determination would be made by the board.

13. Why do the performance indicators suggest the board perform tasks that are not appropriate to its level?

The performance indicators, located within the Board of Directors section, are examples of best practices that FICOM will measure against when conducting reviews. This section of the Assessment Criteria is currently under review as a result of FICOM's Governance Guideline. Please refer to the guideline for FICOM's expectations of a Board of Directors, including performance measures.

14. What are the key differences between a strong versus an acceptable capital rating?

For both strong and acceptable ratings, a credit union's capital must meet or exceed the credit union's internal target and have positive trend expectations over the following 12 months.

A strong capital rating reflects a more than sufficient risk profile, with capital management policies and practices that are superior to generally accepted industry practices.

An acceptable capital rating reflects a sufficient risk profile, with capital management policies and practices that are comparable to generally accepted industry practices.