



SUPERVISORY AND REGULATORY GUIDELINES
Corporate Governance Guidelines
Issued: 22 December 2015

**GUIDELINES FOR THE CORPORATE GOVERNANCE
OF CREDIT UNIONS**

1. INTRODUCTION

- 1.1 The Central Bank of The Bahamas (“the Central Bank”) is responsible for the registration, regulation and supervision of all credit unions operating in and from within The Bahamas, pursuant to the Bahamas Co-Operative Credit Unions Act, 2015 (“the Credit Unions Act”), and the Central Bank of The Bahamas (Amendment) Act, 2015 (“the CBA”). Additionally, the Central Bank has the duty, in collaboration with financial institutions, to promote and maintain high standards of conduct and management in the provision of credit union services.
- 1.2 The Central Bank recognizes that credit unions are not-for-profit organizations, and in this respect are different from other deposit-taking financial institutions. The Central Bank is aware that credit unions work as a co-operative, valuing volunteerism, co-operation and member participation. Therefore, the Central Bank is committed to ensuring the unique characteristics of credit unions are maintained, while still fulfilling its obligations to protect the interests of credit union members.
- 1.3 All registrants are expected to adhere to the Central Bank’s registration and prudential requirements, ongoing supervisory programmes and regulatory reporting requirements, and are subject to periodic on-site examinations. Credit Unions are expected to conduct their affairs in conformity with all other relevant Bahamian legal requirements.

2. PURPOSE

- 2.1 These Guidelines focus on accepted best practices for effective organization-wide corporate governance and risk management.
- 2.2 The Central Bank endorses the principles and best practices of the World Council of Credit Unions (WOCCU). Credit Unions are encouraged to refer to these principles and best practices on the WOCCU’s website at <http://www.woccu.org>.

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- 2.3 **Corporate Governance** refers to the processes, structures and information used for directing and overseeing the management of an organization. In general, corporate governance involves the relationships between an organization’s Board of Directors (the Board), management, shareholders and other stakeholders, including its clients and employees. It provides the structure through which the objectives of the organization are determined, the strategies by which those objectives are developed and implemented, and the means by which the performance of the organization to achieve those objectives is monitored and controlled.
- 2.4 For credit unions, corporate governance relates to the manner in which the business affairs of each individual organization are directed and managed by the Board and senior management. For all of these organizations, it also includes the effective management of compliance with applicable laws, regulations and guidelines.

3. APPLICABILITY

- 3.1 These Guidelines apply to all credit unions which are registered under the Bahamas Co-operative Credit Unions Act, 2015 or deemed, by virtue of section 126(1) to be registered under this Act.
- 3.2 These Guidelines are based on governance principles and best practices established by the World Council of Credit Unions (“WOCCU”) in the document “International Credit Union Safety and Soundness Principles” and are to be read in conjunction with the following Act and Regulations:
- a. *The Bahamas Co-Operative Credit Unions Act, 2015 (“the Credit Unions Act”);*
 - b. *The Co-Operative Societies (Amendment) Act, 2015;*
 - c. *The Financial Transactions Reporting (Amendment) Act, 2015; and*
 - d. *The Bahamas Co-Operative Credit Unions Regulations, 2015;*

4. FIT AND PROPER PERSONS

- 4.1 All credit unions must ensure that each director, committee member, officer or senior manager is fit and proper to carry out the duties and responsibilities of his/her position. The Central Bank will determine whether a person remains fit and proper to hold the aforementioned positions and will consider the following attributes:

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- 4.1.1 Integrity, probity, competence and soundness of judgment to fulfill his/her responsibilities;
 - 4.1.2 The diligence with which the person is fulfilling or is likely to fulfill the responsibilities of the position in question;
 - 4.1.3 Whether the interest of a credit union are likely to be in any way threatened by the person holding that position;
 - 4.1.4 Whether they have engaged in any activity or business practices that appear to be deceitful or oppressive or otherwise improper (whether lawful or not) or which would discredit his/her method of conducting business; and
 - 4.1.5 Whether there has been impropriety in handling an employer's business.

5. CORPORATE GOVERNANCE: BOARD OF DIRECTORS

Composition of the Board of Directors

- 5.1 The Board should be comprised of a chairman, vice-chairman, secretary, and treasurer and shall consist of not less than five (5) nor more than eleven (11) directors in compliance with Bye-Laws 59 and 48, respectively.

Qualification of Board of Directors

- 5.2 All Directors must be citizens or residents of The Bahamas. Each board member must also be a member of the credit union or a duly appointed representative of a member of the credit union and at a minimum should have:
 - 5.2.1 Basic financial literacy, including the ability to interpret financial statements and standards, or commit to acquiring these skills through education or training within the first year of service;
 - 5.2.2 Specialized financial or business skills and/or a member-focused viewpoint.

Disqualification of Board of Directors

- 5.3 A person is not eligible to serve as a Director if he:
 - 5.3.1 Is less than eighteen years of age;
 - 5.3.2 Is not a member of the co-operative credit union or a duly appointed representative of a member of the co-operative credit union;
 - 5.3.3 Has been found by a court to be of unsound mind or is certified to suffer from a mental disorder within the meaning of the Mental Health Act (Ch. 230);

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- 5.3.4 Is an employee of the credit union, the Apex Body or the Central Bank;
 - 5.3.5 Is a member of the supervisory committee;
 - 5.3.6 Has been convicted of an offence that is punishable on indictment in The Bahamas, or in another country or an offence involving dishonesty;
 - 5.3.7 Is a professional advisor who provides services to the credit union in his professional capacity or has provided such services in twelve months preceding the date on which he may be elected;
 - 5.3.8 Is ninety days or more in arrears of his debt obligation to the credit union;
 - 5.3.9 Is an undischarged bankrupt;
 - 5.3.10 Has been suspended, removed or prohibited from acting as a Director of a:
 - (i) financial institution by a domestic regulatory authority; or
 - (ii) foreign financial institution by a foreign regulatory authority; and
 - 5.3.11 Does not meet the requirements prescribed in the credit union's bye-laws.
- 5.4 The Central Bank may remove a director if he/she is:
- 5.4.1 In contravention of any requirements under the Credit Unions Act, the regulations or the bye-laws;
 - 5.4.2 No longer a fit and proper person pursuant to Section 60 of the Credit Unions Act.

Role of the Board of Directors

- 5.5 It is the duty of the Board to establish the strategic direction, approve policies and monitor management's implementation of these policies and achievement of targets. The Board should ensure that the credit union adhere to these guidelines and meets or exceeds the International Credit Union Safety and Soundness Principles.
- 5.6 The responsibilities of the Board include, but are not limited to the following:
- 5.6.1 Exercising independent judgement;
 - 5.6.2 Overseeing the business affairs of the credit union;
 - 5.6.3 Ensuring that the credit union complies with all applicable legislation;
 - 5.6.4 Carrying out its fiduciary responsibilities to its members and the Central Bank;
 - 5.6.5 Performing any other duty that is necessary to carry out the purposes of the credit union in accordance with the Credit Unions Act;

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- 5.6.6 Attending board meetings, the annual general meeting and any special general meeting. Directors should be willing and able to commit the necessary time to the credit union. Failure to attend board meetings may result in dismissal. Directors must respect the decisions of the board, adhering to all policies that have been adopted, regardless of personal opinion;
 - 5.6.7 Establishing the business objectives of the credit union consistent with co-operative principles and approving the credit union's strategic and business plans;
 - 5.6.8 Approving policies for all major activities, in particular, the credit union's lending, investment, liquidity and asset liability management, accounting, audit and internal control systems;
 - 5.6.9 Overseeing the credit union's investment of funds in accordance with Section 61 of the Credit Unions Act;
 - 5.6.10 Approving the credit union's annual operating budget for each calendar year;
 - 5.6.11 Ensuring the proper record keeping of the credit union's assets and liabilities, funds received and expensed and all other transactions affecting the credit union's financial position;
 - 5.6.12 Appointing a minimum of two executive officers to be directly responsible for the credit union's management and day-to-day operations in The Bahamas. These executive officers must reside in The Bahamas;
 - 5.6.13 Appointing a senior officer of the credit union or a chartered accountant to act as Internal Auditor to perform the internal audit function;
 - 5.6.14 Appointing a senior, qualified professional to act as Compliance Officer (CO) to perform the compliance function. The CO may also function as the Money Laundering Reporting Officer (MLRO), in keeping with regulation 5 of the Financial Intelligence (Transaction Reporting) Regulations, 2001, to be responsible, under its guidance, for ensuring that the registrant is in full compliance with the laws of The Bahamas. The CO and MLRO should be independent (reporting to the Supervisory Committee) and free from influences that may affect his/her ability to perform his/her duties objectively;
 - 5.6.15 Overseeing and participating in the appointment of other senior executives and ensuring that management have the appropriate skills and experience to implement the Board's objectives and to manage and supervise the credit union's business and staff;
 - 5.6.16 Establishing the responsibilities, accountability and authority of senior management and board committees as applicable;
 - 5.6.17 Liaising with management on a periodic basis concerning the effectiveness on the credit union's internal control system;

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- 5.6.18 Establishing training requirements and qualifications for directors and members of the supervisory committee or credit committee;
 - 5.6.19 Establishing appropriate and prudent risk management policies;
 - 5.6.20 Setting performance-based compensation policies, programs, goals and standards for senior management and reviewing the compensation programs established by senior management for other management and staff;
 - 5.6.21 Effectively evaluating management's performance;
 - 5.6.22 Developing and regularly updating a management succession plan;
 - 5.6.23 Approving a disaster management and recovery plan;
 - 5.6.24 Establishing standards of business conduct and ethical behaviour;
 - 5.6.25 Notifying the Central Bank within seven days of any changes in the membership of the Board, the supervisory committee or credit committee; and
 - 5.6.26 Providing the Central Bank, upon its request, with full access to the credit union's books, papers, records and other sources of information under its control within such time as may be specified by the Central Bank.

Remuneration

- 5.7 No director and no member of a committee is entitled to be paid any remuneration in connection with his duties as a director or a committee member of a co-operative credit union or for his attendance at meetings unless the remuneration is fixed in the bye-laws and is ratified annually by the members, by resolution at the annual general meeting in compliance with Section 58 of the Credit Unions Act.

6. CORPORATE GOVERNANCE: SENIOR MANAGEMENT

Role of Senior Management

- 6.1 The credit union's senior management is responsible for the day-to-day operations of the business as they serve as a link between the Board and staff. The responsibilities of senior management include, but are not limited to the following:
 - 6.1.1 Developing and implementing a prudent strategic and business plan appropriate for the credit union;
 - 6.1.2 Establishing an effective system of internal control and ensuring a strong control culture;
 - 6.1.3 Keeping the Board adequately informed about the performance of the credit union by providing timely, relevant, comprehensive and accurate financial and management reports prepared by internal auditors, external

auditors, the Compliance Officer and the Central Bank and report on any significant risk that may affect the business objective or financial stability of the credit union;

- 6.1.4 Monitoring the effectiveness of risk management practices and controls of the credit union's significant risks;
- 6.1.5 Delineating and documenting the areas of responsibility for each staff member and ensuring that reporting lines are clear and appropriate in the context of the scale, nature and complexity of the credit union;
- 6.1.6 Communicating the credit union's strategic direction, reporting lines and risk tolerances throughout the organization;
- 6.1.7 Advising the Board on the appropriate organisational structure and ensuring that the quantity and quality of staff resources are available to carry out all tasks, including internal audit and compliance; and
- 6.1.8 Overseeing management information systems to enable timely and accurate dissemination of information to the Board and the Central Bank.

7. INDEPENDENT REVIEW (INTERNAL AUDIT)

7.1 It is important that credit unions have an internal audit function as part of its ongoing monitoring of the organization's internal controls as it provides an independent assessment of the adequacy of and compliance with established procedures, processes and controls. The internal audit function should report to the supervisory committee to provide unbiased information about the credit union's operational activities. The frequency and extent of the internal audit review and testing of internal controls within the credit union should be consistent with the nature, complexity and risk of the credit union's activities. In all cases, it is critical that the internal audit function is independent from the day-to-day functioning of the credit union and that it has access to all records and activities conducted by the credit union. The Board may appoint a senior officer or a chartered accountant to serve as Internal Auditor and he should report to the supervisory committee on the following issues:

- 7.1.1 The adequacy of the credit union's internal controls;
- 7.1.2 Compliance or non-compliance with the credit union's internal control procedures;
- 7.1.3 Any material weaknesses in the credit union's system of internal controls;
- 7.1.4 Recommendations of procedures to eliminate any material weaknesses in the credit union's system of internal controls; and
- 7.1.5 Any other matters that the Board determines.

8. RISK MANAGEMENT POLICIES

- 8.1 All credit unions are expected to develop and implement appropriate risk management policies relating to the following:¹
- 8.1.1 Capital Management;
 - 8.1.2 Credit Risk Management;
 - 8.1.3 Operational Risk Management;
 - 8.1.4 Liquidity Risk Management;
 - 8.1.5 Interest Rate Risk Management; and
 - 8.1.6 Reputational Risk Management (AML/KYC).
- 8.2 The Board and management of each credit union should analyze its own existing and prospective business, products and services to identify and measure the types and significance of the current and potential risks that must be managed and controlled, both individually and collectively.

9. ANNUAL REVIEW

- 9.1 At least annually, the Board, utilizing the advice of management, should assess and document whether the corporate governance process that it has implemented successfully achieves its objectives and, consequently, whether the Board itself is fulfilling its own responsibilities. The Board should also regularly assess the effectiveness of its overall governance process and make changes, as necessary.

10. ANNUAL CERTIFICATION

- 10.1 Annually, within 120 days of the end of each calendar year, the Board will be required to provide a certification² to the Central Bank's Inspector of Banks and Trust Companies (the "Inspector"), as to the credit union's compliance or otherwise with the contents of these Guidelines. Additionally, the certification should also state that, using the advice and assistance of management, the Board has independently assessed and documented whether the credit union's corporate governance process is effective and whether it has successfully achieved its objectives. The Board must report any material deficiencies and problems that are identified within the credit union, along with action plans and timetables for their correction.

¹ A brief description of key risk management policies is provided in Appendix 1.

² An example of an Annual Certification that might be considered is provided in Appendix 2.

Appendix A

Key Risk Management Policies for Credit Unions

Capital Management

At a minimum, each credit union should implement a policy that addresses the following issues:

- the quantity, quality and the level of capital needed that reflect the key inherent risks of the credit union and to support the current and planned operations;
- distributions of dividends and redemptions of capital instruments to members; and
- monitoring and board reporting requirements.

Credit Risk Management

At a minimum, each credit union should implement a policy that addresses the following issues:

- authorized types and classes of credit instruments;
- limits or prohibitions on credit exposures including concentration;
- assessment criteria and security requirements for each authorized credit instrument;
- an effective credit risk assessment system;
- defined and prudent levels of decision making authority for approving credit exposures;
- management of delinquent and impaired loans; and
- monitoring and board reporting requirements.

Operational Risk Management

At a minimum, each credit union should implement a policy that addresses the following issues:

- defined and prudent levels of decision-making authority;
- the security and operation of a management information system;
- technology development and maintenance;
- safeguarding of the credit union's premises, assets and records of financial and other key information;
- disaster recovery and business continuity plans;
- internal controls;
- internal audit and
- monitoring and board requirements.

Liquidity Risk Management

At a minimum, each credit union should implement a policy that addresses the following issues:

- limits on the sources, quality and amount of liquid assets to meet normal operational, contingency funding for significant deposit withdrawals and regulatory requirements; and
- monitoring and board reporting requirements.

Interest Rate Risk Management

At a minimum, each credit union should implement a policy that addresses the following issues:

- an interest rate risk philosophy governing the extent to which the credit union is willing to assume interest rate risk;
- techniques used to calculate the amount of the credit union's exposure to interest rate risk;
- limits on the credit union's exposure to interest rate risk and the impact of this exposure on its net interest income and surplus;
- corrective action to be taken if the limits on the credit union's exposure to interest rate risk are exceeded;
- defining authorised instruments, hedging strategies and position taking opportunities;
- limits on certain types of instruments, portfolios and activities;
- lines of responsibility and accountability (for both individuals and committees) over interest rate risk management decisions;
- internal controls;
- stress testing and sensitivity analysis; and
- monitoring and board requirements

Reputational Risk Management (AML/KYC)

At a minimum, each credit union should implement a policy that addresses the following issues:

- acceptance of new business;
- Know Your Customer (KYC) risk rating framework;
- monitoring of accounts for suspicious transactions;
- suspicious transactions reporting; and
- education, training and staff awareness of Anti-Money Laundering, KYC and Countering the Financing of Terrorism

Appendix B

[Name of Credit Union]

Board of Directors' Annual Certification To the Central Bank of The Bahamas

[The objective of these Corporate Governance Guidelines is to reassert the role of the Board of Directors. The rationale behind the type of certification described below is to reinforce accountability at the Board level, but to leave the certification sufficiently non-prescriptive so that the Board and senior management are approaching the certification from a high-level analytic viewpoint versus a mechanistic approach that may not cover all aspects of corporate governance. The written certification, required annually, within 120 days of the end of each calendar year, shall contain the following:]

- a. A statement to the effect that the Board is familiar with the contents of the applicable Central Bank guidelines and acknowledges its role and responsibilities under those guidelines;
- b. A statement indicating whether the Board is performing its functions and fulfilling its responsibilities under these Guidelines;
- c. A statement indicating whether the Board has carefully considered the reporting of senior management and other information relevant to forming an opinion as to whether the credit union is following these Corporate Governance Guidelines;
- d. A statement indicating whether the Board has implemented policies and procedures in compliance with these Corporate Governance Guidelines;
- e. Where the Board is of the opinion that the credit union is not following the Corporate Governance Guidelines or that the credit union is following the Corporate Governance Guidelines except for identified deficiencies, it should provide:
 - i. an explanation of the reasons for the opinion that relate to deficiencies;
 - ii. a statement confirming that an action plan to correct those deficiencies has been prepared and is being implemented; and
 - iii. a statement confirming that a copy of the action plan has been or will be submitted to the Inspector.
- f. A statement confirming that the Board has taken account of their obligations to comply with the *Anti-Money Laundering & Anti-Terrorism Financing Handbook & Code of Practice for Credit Unions* and that any deficiencies in respect of these Guidelines have been noted and an action plan to remedy these deficiencies has

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- been prepared and submitted to the Inspector and indicating whether the necessary remedial action has been taken;
- g. A statement confirming that the Board is satisfied that the recovery strategies adopted in the credit union's *Business Continuity Plan* (BCP) are still valid, and that the credit union's BCP management team and/or an independent party have properly tested the BCP during the period;
 - h. A statement indicating whether an internal audit has been completed and whether the issues identified have been implemented or corrected;
 - i. A credit union that have undergone an on-site examination should include a statement that an action plan to remedy the deficiencies stated in the credit union's Report of Examination has been prepared and submitted to the Inspector and that the agreed remedial action(s) has(have) been taken;
 - j. A statement confirming that the Board is satisfied that the credit union has appropriate policies, procedures, processes and controls in place to ensure that inherent business risks [including that of, credit, liquidity, operational, reputation/KYC/AML legal, and human resources risks], where they exist, are effectively managed; and
 - k. A statement confirming that the Board has reviewed its risk management policies and that it considers it appropriate to the credit union's operating circumstances.

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