

Reference Number: 2016-G-0065 / OIPC Appeal 003709

February 2, 2017

Mr. Robert Ascah (rascah@ualberta.ca)
7 – 18 Henry Marshall Tory Building
Edmonton, AB T6G 2H4

Dear Mr. Ascah:

Re: *Freedom of Information and Protection of Privacy Act*
Office of the Information and Privacy Commissioner Mediation – Second Release

As part of the mediation process, the Office of the Information and Privacy Commissioner (OIPC) has asked our Ministry to reconsider several records pertaining to access to information request for:

*"I request a copy of a report, created by Hugh Bolton, Linda Hohol, and/or Larry Pollock while participating in a governance review. The report was commissioned by Premier Prentice in September 2014. I also ask for any contracts/payments, if any, pertaining to the preparation of the report and any supporting documents that were supplied to the government.
Date Range: September 1, 2014 - March 1, 2015."*

After conducting a secondary review, under the exercise of discretion, we have determined that additional information is suitable for release. The additional information is enclosed with an amended exemption sheet.

However, some of the information in the records will remain subject to section 24 (Advice from Official) and will continue to be withheld under the original FOIP application.

Under section 65 of the FOIP Act, you may ask the Information and Privacy Commissioner of Alberta to review our foregoing response to your request. To request a review, you must complete and deliver a Request for Review form within 60 days from the date of this notice to:

Office of the Information and Privacy Commissioner (OIPC)
Suite 410, 9925 – 109 Street NW
Edmonton, AB T5K 2J8

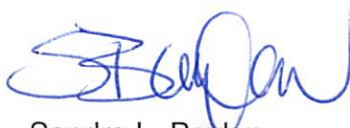
The form is available under the Resources tab on the Commissioner's website www.oipc.ab.ca or by calling them toll free at 1-888-878-4044 or at 780-422-6860 to request a copy of the form.

If you wish to request a review, please provide the OIPC with the following information:

1. A copy of this letter;
2. A copy of your original request form that you sent to Executive Council; and
3. A completed OIPC Request for Review Form.

If you have any questions or concerns or you require further clarification, please contact Sandra Boylan, FOIP Coordinator at (780) 638-4701.

Sincerely,



Sandra L. Boylan
FOIP Coordinator
Executive Council

Enclosure

cc Ms. Ceara Brenton, Office of the Information and Privacy Commissioner

Exception Sheet

File Number: 2016-G-0065

Disposition	
FOIP Page #	FOIP Exception
1 to 19	Full Release
20	24(1)(a) (Advice from officials)
21	24(1)(a) (Advice from officials)
22	24(1)(a) (Advice from officials)
23	24(1)(a) (Advice from officials)
24	24(1)(a) (Advice from officials)
25	24(1)(a) (Advice from officials)

Advice from officials

24(1) The head of a public body may refuse to disclose information to an applicant if the disclosure could reasonably be expected to reveal

- (a) advice, proposals, recommendations, analyses or policy options developed by or for a public body or a member of the Executive Council,
 - (b) consultations or deliberations involving
 - (i) officers or employees of a public body,
 - (ii) a member of the Executive Council, or
 - (iii) the staff of a member of the Executive Council,
 - (c) positions, plans, procedures, criteria or instructions developed for the purpose of contractual or other negotiations by or on behalf of the Government of Alberta or a public body, or considerations that relate to those negotiations,
 - (d) plans relating to the management of personnel or the administration of a public body that have not yet been implemented,
 - (e) the contents of draft legislation, regulations and orders of members of the Executive Council or the Lieutenant Governor in Council,
 - (f) the contents of agendas or minutes of meetings
 - (i) of the governing body of an agency, board, commission, corporation, office or other body that is designated as a public body in the regulations, or
 - (ii) of a committee of a governing body referred to in subclause (i),
 - (g) information, including the proposed plans, policies or projects of a public body, the disclosure of which could reasonably be expected to result in disclosure of a pending policy or budgetary decision, or
 - (h) the contents of a formal research or audit report that in the opinion of the head of the public body is incomplete unless no progress has been made on the report for at least 3 years.
- (2)** This section does not apply to information that
- (a) has been in existence for 15 years or more,
 - (b) is a statement of the reasons for a decision that is made in the exercise of a discretionary power or an adjudicative function,
 - (c) is the result of product or environmental testing carried out by or for a public body, that is complete or on which no progress has been made for at least 3 years, unless the testing was done
 - (i) for a fee as a service to a person other than a public body, or
 - (ii) for the purpose of developing methods of testing or testing products for possible purchase,
 - (d) is a statistical survey,
 - (e) is the result of background research of a scientific or technical nature undertaken in connection with the formulation of a policy proposal, that is complete or on which no progress has been made for at least 3 years,
 - (f) is an instruction or guideline issued to the officers or employees of a public body, or

- (g) is a substantive rule or statement of policy that has been adopted by a public body for the purpose of interpreting an Act or regulation or administering a program or activity of the public body.
- (2.1)** The head of a public body must refuse to disclose to an applicant
- (a) a record relating to an audit by the Chief Internal Auditor of Alberta that is created by or for the Chief Internal Auditor of Alberta, or
 - (b) information that would reveal information about an audit by the Chief Internal Auditor of Alberta.
- (2.2)** Subsection (2.1) does not apply to a record or information described in that subsection
- (a) if 15 years or more has elapsed since the audit to which the record or information relates was completed, or
 - (b) if the audit to which the record or information relates was discontinued or if no progress has been made on the audit for 15 years or more.
- (3)** In this section, “audit” means a financial or other formal and systematic examination or review of a program, portion of a program or activity.



© Sep 25, 2014

Prentice government to review agencies, boards and commissions

Premier Jim Prentice today announced that government will, as promised, begin a review of all agencies, boards and commissions (ABCs) to ensure they are performing for Albertans.

Premier Prentice has committed to merit-based appointments to ensure the right people are in the right jobs in all organizations associated with the Government of Alberta.

The 52 agencies reporting directly to government and the 142 ABCs under the *Alberta Public Agencies Governance Act* will be reviewed in each of the following areas:

- **governance**
- **director appointment processes**
- **president/CEO assessment processes and succession planning**
- **risk management strategies; and,**
- **conflict-of-interest policies.**

"Agencies, boards and commissions play a huge role in the success of any government. I am committed to strong public agency board governance, accountability and transparency."

- Jim Prentice, Premier

Publicly available:
[http://www.alberta.ca/release.cfm?
xID=37104C8009C55-
EA8A-2379-153440C28EC0CF58](http://www.alberta.ca/release.cfm?xID=37104C8009C55-EA8A-2379-153440C28EC0CF58)

The first phase will be a governance review of the key financial institutions whose financial performance is critical to Albertans. Good governance is essential to sound financial performance. These include:

- Alberta Treasury Branches (\$37.7 billion in assets)
- Alberta Capital Finance Authority (\$14.4 billion in assets)
- Agriculture Financial Services (\$4 billion in assets)
- Alberta Investment Management Corporation (managing a portfolio of \$87 billion in financial assets)

Premier Prentice has asked three Albertans with extensive knowledge in board governance of financial institutions – Hugh Bolton, Linda Hohol and Larry Pollock – to participate in this specific governance review. All have agreed to accept \$1 a year for their services.

This first round of reviews will be completed within two months.

Given the large number of entities, attention will be next directed to the remainder of the 52 agencies that report directly to government.

"Under my leadership, your government will ensure the best Albertan for the job is appointed. Political party affiliation is not a relevant consideration."

- Jim Prentice, Premier

ABCs are established by the government to fulfill a range of services and functions including: provision of health care, social services, services for children, corporate enterprises, regulatory oversight, post-secondary education and advice to the government.

Backgrounder

Review panel members

Hugh Bolton

Hugh Bolton is the retired Chair and CEO of Coopers & Lybrand Canada, a past director of TD Bank Financial Group and Canadian National Railway, Chair of the Board of Epcor, and on the boards of Capital Power, Teck Resources, and WestJet Airlines. He is a

fellow of the Institute of Corporate Directors and also a fellow of the Alberta Institute of Chartered Accountants. Hugh Bolton alone will conduct the governance review of ATB Financial.

Linda Hohol

Linda Hohol is past President of the TSX Venture Exchange, retired Executive Vice-President, Wealth Management of CIBC, former Director of ATB Financial, director of Canadian Western Bank, and has served on other boards including the Canadian Chamber of Commerce and the Calgary Chamber of Commerce. She is also a member of the Institute of Corporate Directors.

Larry Pollock

Larry Pollock retired as President and CEO of Canadian Western Bank in 2014. He serves on the Boards of Epcor, WestJet, and Canadian Helicopters, and has been a member of the Executive Council of the Canadian Bankers Association.

Media inquiries

✉ **Emily Woods**

☎ 780-668-8617

Press Secretary to the Premier

Agencies, Boards and Commissions Review

**ALBERTA CAPITAL FINANCE AUTHORITY
ALBERTA INVESTMENT MANAGEMENT CORPORATION
AGRICULTURE FINANCIAL SERVICES CORPORATION
ALBERTA TREASURY BRANCHES**

MARCH 2015

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Executive Summary

On September 25, 2014 government's review of Alberta Agencies, Boards and Commissions (ABCs) commenced. ABCs play a huge role in the success of any government. The review includes 52 agencies reporting directly to government and 142 ABCs under the *Alberta Public Agencies Governance Act* (APAGA).

Work to lay the foundation of good agency governance has been a key activity in Alberta since 2007 when recommendations for an agency governance framework were made in the report, "At a Crossroads: The Report of the Board Governance Review Task Force". APAGA was proclaimed in June 2013, and requires that all Government of Alberta agencies governed by the legislation have a publicly available Mandate and Roles Document, a Code of Conduct and a competency-based recruitment process. APAGA brings agencies in line with the province's commitment to good governance and strengthens their contribution to the goals and priorities of this government.

ABCs are responsible for managing approximately 50 per cent of the Alberta government's budget. They provide advice and make decisions that have a direct impact on the daily lives of Albertans. It is the expectation of the current government that all ABCs are accountable, transparent, and performing for the benefit of Albertans. Overall, the reviews being conducted focus strictly on board governance. The reviews are meant to assess current governance practices and make recommendations for best practice related to the ABC and its governance. The review may also re-assess ABCs governed by APAGA and those that are not to ensure that each is governed appropriately.

This Panel was charged with reviewing four of Alberta's financial institutions: Alberta Treasury Branches (ATB), Alberta Investment Management Corporation (AIMCo), Alberta Capital Finance Authority (ACFA), and Agriculture Financial Services Corporation (AFSC). Together, these financial institutions are responsible for the management of more than \$142 billion in financial assets. (See Appendix A for brief descriptions of each financial institution).

The Panel mandate provided that it focus strictly on reviewing **governance** and not review the **operations** of the financial institutions. The Panel looked at each of the

following areas necessary for best practices with respect to governance and APAGA requirements, identified as follows:

- Mandate and Role;
- Recruitment and selection process for the board and president/CEO;
- Process for evaluating the performance of the board and president/CEO;
- Risk management;
- Strategic direction;
- Code of Conduct and Conflict of Interest Policies and Practices; and
- Relationship with the minister responsible for the financial institution.

The review conducted by the Panel involved a two pronged approach: an analysis of written background documentation submitted by each financial institution, followed by in-person meetings with the chair of the board and the president/CEO. The meetings allowed an opportunity for the chair and the president/CEO to respond to questions concerning the adherence to APAGA and overall good governance and risk practices. In addition, an in camera conversation occurred with the chair of each board without management being present. The review also provided a venue for the financial institution's representatives to express their perspective, including challenges and opportunities facing the governance of Alberta's financial institutions. Based on the meetings, as well as corporate documents provided to the Panel, common themes emerged where overall recommendations could be considered to represent best practice in governance. The review yielded 28 recommendations related to the four financial institutions. Some of the main findings include:

- **Mandate and Roles:** In reviewing the mandate and role of each financial institution, the Panel looked at both the Mandate and Role Document as well as the current mandate of each. *(A) Mandate and Role Document:* The financial institutions must have a Mandate and Roles Document that is up-to-date and clearly reflects the purpose and objectives of each, and has been approved by the board and the Minister responsible.
- *(B) Current Mandate and Role:* Consideration should be given to reviewing the appropriateness of the current mandate of each of the financial institutions.

- **Board Member Recruitment:** Board recruitment is critical to a high functioning board. The process for board recruitment and board succession planning should be led by the board (through the chair) but also must be agreed to by the Minister. It is the responsibility of the chair and the board to identify potential candidates that are highly qualified and represent the diversity of Alberta's population.
- **Board Evaluation:** Board performance should be evaluated on a yearly basis and an external evaluation of the board and its committees should be considered every three to five years.
- **President/CEO:** A review of the president/CEO's performance should take place each year by the board, led by either the chair or a committee of the board. The review should measure results against the objectives and goals which were agreed to by the parties at the start of the year. Compensation for the president/CEO should be transparent, understandable and calculated by benchmarking data from public sector and private sector, similar or like organizations. The board should also ensure that there is a robust succession plan in place for the president/CEO and the senior executive team.
- **Risk Management:** Boards must ensure that they have strong risk management expertise represented in their membership. Financial institutions, where practical should consider having a Chief Risk Officer, a Chief Compliance Officer and a risk committee of the board. The Chief Risk Officer and Chief Compliance Officer should have a functional reporting relationship to the board committee performing the risk function. There should also be an internal audit function responsible for internal audit which has a functional reporting relationship to the audit committee. In addition the board should ensure the financial institution has a Risk Appetite Statement which clearly defines the organizations appetite for risk, including risk tolerance levels, and that it is reviewed and approved annually by the board.
- **Strategic Direction:** The strategic direction of each financial institution should be reviewed and approved annually and monitored and measured quarterly, by the board. Management is responsible for the preparation of the strategy which is closely reviewed, critiqued and commented on before being approved by the board. The board is responsible for holding management accountable for the execution of the strategic plan.

- **Code of Conduct and Conflict of Interest Policies and Practices:** Each financial institution should have in place a Code of Conduct and a Conflict of Interest Policy that is reviewed and signed off annually. In addition, each board member must complete a Declaration of Interest Statement on an annual basis.
- **Relationship with the Minister:** The board chair and president/CEO should meet at least annually with the minister and deputy minister responsible for the financial institution. The Mandate and Role Document should specifically describe the relationship and interactions among the parties.

Throughout its work, the Panel recognized the diversity related to the mandate, role, size and structure of the financial institutions being reviewed, and as such made a concerted effort to draft recommendations that are broad enough to reflect the differences among them. Overall, the Panel is impressed with the commitment to good governance demonstrated by each financial institution.

I: Mandate and Role

A. Mandate and Role Document

APAGA states that “every public agency must, within 3 months of its establishment or continuation, have a Mandate and Roles Document that is jointly developed by the public agency and its responsible Minister...”. Among other things, this document should outline the mandate, roles and responsibilities, accountabilities and structure in a way that will ensure that the financial institution will deliver on what it is intended to achieve. In addition, it clarifies the interaction and communication necessary for an effective working relationship between the Minister and the agency. The importance of an up-to-date Mandate and Roles Document was discussed with all four financial institutions participating in this review. The Panel observed that each of them has a mandate and roles document at various stages of review, renewal or development. It was noted that AIMCo’s Mandate and Roles Document was still in draft form at the time of our review, but it is to be approved by the Board and signed by the Chair and Minister in the first half of 2015.

- **Recommendation:** Each financial institution should meet with the responsible minister on an annual basis to review its mandate and role document in order to ensure it is current and effective.

B. Current Mandate and Role of Each Financial Institution

Each of the financial institutions was asked to comment on the currency and appropriateness of its mandate and role. In all cases the mandate and role of the financial institution has not been reviewed or updated for a number of years, and it would prove timely for government to review the purpose of the financial institution to ensure that its mandate is still valid today. Government should consider if the mandate of the financial institution is still appropriate in 2015 or could some or all of the services being provided by government be delivered by private sector organizations? Should the government provide the service directly through a department, or is it best delivered by an arms-length board or agency of government? The panel comments further on this in the section on Risk Management.

- **Recommendation:** The Government of Alberta should review the mandate and role of each financial institution to determine if the mandate and role of the financial institution is appropriate in 2015 and going forward. If still appropriate, the Government should determine if the financial services provided to Albertans should be delivered through an arms-length agency or directly by a department.

II: Board Member Recruitment

Recruiting board members with the knowledge and expertise to make thoughtful, intelligent and positive contributions to the governance of the four financial institutions is a critical function of the board. In addition, board member recruitment should reflect the diversity of the population that makes up the province. The Panel engaged in a thorough discussion with each financial institution regarding board member recruitment. The Panel went through a number of questions related to board member recruitment in an effort to confirm that a rigorous practice for board member recruitment and appointment is in place. The Panel stressed that it is incumbent upon the chair of the board, in conjunction with the board, to lead the board recruitment and appointment process. It should not be led by management. The process must be one that the minister agrees to as he or she is ultimately responsible for board member appointments.

Through discussions, the Panel confirmed that each of the financial institutions use a skills matrix to assist with board member recruitment. The Panel also recognized and agreed that the financial institutions, where appropriate, use independent search consultants to assist with the recruitment process.

The Panel learned that in one case it is not always possible to apply a skills matrix for the recruitment of all board members. ACFA noted that in its case it endeavours to appoint board members based on the skillset required, however, not all members are provincially appointed. Some of the board members are municipal appointees who are appointed to the board through a separate process representing municipal governments. In addition, the deputy ministers of Treasury Board and Finance and Municipal Affairs also sit on the board. The skills matrix is not considered for these appointees. ACFA also noted that issues arise when municipal appointees are no longer serving as elected officials but continue to serve as board members as the terms of their appointment through the municipal process do not require resignation from the board.

Board succession planning is a critical component to a high functioning board. It is incumbent upon the board to ensure that risk related to board member succession is mitigated. Board chairs, and boards, that lead their recruitment and appointment process are well positioned to ensure that any skills gap among board members is minimized as a result of retirements or resignations. In addition, steps should be taken to ensure that board member term limits are staggered so that boards are not vulnerable to mass turnover among members in a short period of time. Throughout the meetings the Panel discussed succession planning best practices with each of the financial institutions.

While board member recruitment is led by the board, appointments are approved by the responsible minister. The Panel learned that some of the boards submit the names of two candidates, in rank order, from which the minister will choose the successful candidate to fill the vacancy. In the instance of AIMCo, it was noted that this practice is required through regulation. Notwithstanding the regulations, the Panel believes that this practice has the potential to impede the recruitment of highly qualified individuals.

- **Recommendation:** The recruitment process for board members must be led by the board and agreed to by the minister. The selection process must be a rigorous one that takes into account a skills matrix that has been developed for the board. Board appointments should be based on merit and reflect the diversity of Alberta's population.
- **Recommendation:** Boards should be engaged in succession planning to mitigate risks that may occur as a result of board member turnover.

This process should include ensuring staggered terms for board members and the identification of skill sets and capacity to serve.

- **Recommendation:** At the outset, the minister should be aware of, understand and agree with the board recruitment process. Boards should be required to submit the name of one candidate per board vacancy to the minister, and only be required to provide the name of a second candidate if the minister does not approve the first candidate recommended by the board.

III: Board Evaluation:

High functioning boards are integral to successfully delivering on the mandate and role assigned to each of Alberta's financial institutions. Board and board committee evaluation plays a critical role in identifying skills and other gaps that may appear at the board and committee level. Regular board evaluation is imperative to maintaining and improving board performance.

The Panel reviewed with each financial institution its board evaluation process. Evaluation processes varied among each one. In some instances, regular reviews include board members filling out an evaluation form for the board, while other practices, such as the evaluation conducted by the board chair at ATB, include the chair meeting individually with each board member in order to assess board performance. Some financial institutions also mentioned retaining independent third parties to perform an external review from time to time. The Panel made suggestions for improvements in areas where the evaluations could be strengthened.

Board member attendance at board and committee meetings is also important when evaluating the effectiveness of a board. Board members are expected to attend board and committee meetings and to make positive contributions to the financial institution throughout their terms. As board members are accountable to the Government of Alberta, and compensated for their time and contributions, board member meeting attendance and remuneration should be open and transparent. An example of this kind of transparency can be found in AIMCo's annual report.

- **Recommendation:** Board performance should be evaluated on a yearly basis and it should be a formalized process. The evaluation should be led by the chair of the board and/or the chair of the governance committee.

- **Recommendation:** It is suggested that the financial institutions consider an external evaluation of the board and its committees once every three to five years.
- **Recommendation:** Board member attendance and remuneration should be transparent and reported in the financial institution's annual report.

IV: President/CEO Compensation, Evaluation and Succession Planning:

Board responsibility regarding president/CEO compensation, evaluation and succession planning varies among the four institutions. The Panel noted that these are large, complex financial institutions and they are managing billions of dollars of assets. As such, the Panel was acutely aware that these financial institutions are competing with the private sector for highly knowledgeable and skilled talent. Throughout the meetings the Panel engaged in an in-depth discussion with each of the financial institutions regarding issues related to president/CEO compensation, performance management and evaluation, and succession planning.

Currently, ACFA employees, including the president/CEO, are seconded from the Department of Treasury Board and Finance and as such the appointments and compensation are managed through the Department. With respect to AFSC, AIMCo and ATB, the boards of the financial institutions reviewed are responsible for the recruitment, compensation and evaluation of the president/CEO, with the caveat that the base salary of the president/CEO of ATB is set by legislation. The board of ATB is then responsible for the other elements that make up the total compensation package.

Through their discussions, the Panel found that with the noted exception of the ACFA, each financial institution has outlined its compensation philosophy and policies related to executive recruitment and evaluation. While the Panel found that some do a better job of having clearly articulated policies than others, these philosophies and policies appear to follow a total compensation approach. It is agreed that the total compensation approach is a best-practice in ABC governance. Total compensation includes: annual base salary, short term incentive payments (STIP) and long term incentive payments (LTIP), non-cash benefits (including pension), as well as severance provisions. The Panel stressed the importance of benchmarking compensation packages against in-class, and similar or like, comparators, recognizing that this should include private and public sector comparators.

AFSC, AIMCo and ATB each confirmed that they use comparators to help determine compensation packages. Transparency related to compensation, including severance was discussed and it was noted that the annual report of the financial institution should disclose all elements of compensation including the philosophy and policies. Due to the size the of the organizations and the risk associated with managing executive compensation packages the Panel took the view that the organizations should be benchmarked against both the public and the private sector.

The Panel emphasized that it is incumbent upon the board to have a defined process for performance management and evaluation of the president/CEO. The Panel asked each board chair to describe the performance management and evaluation process it undertakes with the president/CEO. Broadly speaking each financial institution develops strategic documents and identifies goals that are set and agreed to by the board and the president/CEO. The performance of the president/CEO is then evaluated against the goals. The process assists in identifying successes, areas for improvement, and changes to compensation. Where a gap in a financial institution's process was identified, it was confirmed that improvements are being put into place. On the whole the Panel agreed that the key components of the compensation, performance management and evaluation are in place.

Finally, the Panel also discussed the importance of executive succession planning for the president/CEO and the executive team. Ensuring that there is a succession plan in place is a key responsibility of the board. Each board chair and to some extent each president/CEO was asked to comment on current and forward looking succession planning. The Panel noted that each financial institution is considering succession planning.

- **Recommendation:** When developing an executive compensation package a total compensation approach should be considered by the board. This total compensation approach should be determined using in-class, and similar or like comparators benchmarked against both the public and the private sector.
- **Recommendation:** Annual performance objectives should be put into place by the board and in collaboration with the president/CEO. A yearly evaluation of the president/CEO should take place and be measured against the performance objectives.

- **Recommendation:** The three financial institutions that compete with the private sector should have same compensation disclosure provisions, including compensation philosophy and policies, as private sector entities. This should be outlined and disclosed in the annual report.
- **Recommendation:** Severance provisions must be transparent and be disclosed in the annual report under the compensation section.
- **Recommendation:** The board human resources committee or its equivalent should be assisting the board in overseeing issues related to executive succession and compensation.

V: Risk Management

Risk management is a key responsibility of boards. The board owns the oversight of the risk involved with the enterprise (commonly known as enterprise risk management). Risk encompasses a broad category of issues including financial (credit, interest rate, foreign exchange, fraud, derivatives, structured products etc.), investment, operational, reputational and succession risk, including those risks that are unforeseen and not readily apparent. Boards must clearly understand the risks associated with their financial institution, and as such, must ensure that they have strong risk management expertise represented among board members.

The Panel undertook a substantial review of the risk management practices of each of the financial institutions. The risk management practices of the four financial institutions reviewed varied depending on the sophistication and size of each individually. Throughout the review the Panel noted that as large and complex financial institutions they will encounter most of the same risks that are prevalent in similar private sector entities. Therefore, they should be guided by best in class private sector comparator practices when managing and mitigating risk. The Panel noted that it is a board responsibility to oversee risk at the highest level.

The Panel discussed with each financial institution that their tolerance and appetite for risk must be defined in a statement or policy approved by the board. It is incumbent on each of them to define their appetite for risk, and that begins at the board level. Through an appetite for risk statement the financial institution defines its tolerance for risk across specific areas and then creates policies and delegates authority accordingly.

The Panel noted that the financial institutions being reviewed encounter the same kinds of risk as the large private financial institutions, with the difference being that the Government of Alberta is committed to financially backing each of them. As a result, the Panel stressed that the risk management function should be as rigorous as those found in private institutions. The Panel suggests that those individuals who have a key role in risk oversight must have some functional independence from management. For example, the internal audit function of the financial institution should have a functional report to the audit committee and have an opportunity to meet in camera with the committee and board. Financial institutions should also consider putting into place a Chief Risk Officer, a Chief Compliance Officer and a risk committee of the board.

Upon reviewing the risk management practices of the financial institutions the Panel referred back to its discussions related to the mandate and role of each of them, and concurred that due consideration should be given to the appropriateness of each financial institution's mandate in 2015 in light of the risk that government assumes on behalf of each financial institution.

- **Recommendation:** Boards should ensure that there is strong risk management expertise represented within the membership of the board.
- **Recommendation:** If not already in place, and if practical, financial institutions should consider putting into place a Chief Risk Officer, a Chief Compliance Officer and a risk committee of the board.
- **Recommendation:** The Chief Risk Office and Chief Compliance Officer should have a functional reporting relationship to the board committee performing the risk function, and should have the opportunity to meet in camera with the committee.
- **Recommendation:** There should be an internal audit function in place that is responsible for internal audit, and it should have a functional reporting relationship to the audit committee. This internal audit function should have the opportunity to meet in camera with the committee.
- **Recommendation:** Financial institutions should have the equivalent of a Risk Appetite Statement including risk tolerance levels and, it should be reviewed on an annual basis and approved by the board.

VI: Code of Conduct and Conflict of Interest Policies and Practices

Strong codes of conduct and conflicts of interest policies are an integral part of a high performing ABC and its governing board. Board members of Alberta's financial institutions are subject to the highest standards of conduct and ethics. Just as board members are expected to adhere to codes of conduct and conflict of interests policies and practices, so too are the employees of the financial institutions. Boards have a responsibility to actively monitor themselves to ensure members are clear of conflicts of interest.

The Panel reviewed with each financial institution its approach to codes of conduct and conflicts of interest. Each of them provided an overview of how it administers its codes of conduct and conflict of interest policies. Similar to other areas reviewed, the Panel benchmarked its review of this area against private sector comparators. The Panel noted that it is best practice to review and sign annually the Code of Conduct and Conflict of Interest policy. It is also best practice to ensure that Declarations of Interest are reviewed and signed annually and that members be alert to any real and/or perceived risk that might arise throughout the annual cycle.

The Panel noted the possibility of real and/or perceived conflict of the municipal representatives on the AFCA board. This results from the fact that municipal representatives who are on the board may be asked to approve financing for an initiative or project that directly or indirectly benefits the municipality they serve.

The Panel also discussed the importance of "whistleblower" policies with each financial institution. The Panel asked for a description of the "whistleblower" policies and comments on the effectiveness of the policy. The Panel was satisfied that policies are in place.

- **Recommendation:** The Code of Conduct and Conflict of Interest policies should be included in the orientation program for each new board member.
- **Recommendation:** The Code of Conduct and Conflict of Interest policy should be reviewed and signed off by each board member on an annual basis.
- **Recommendation:** A Declaration of Interest form should be reviewed and signed off by each board member on an annual basis.

- **Recommendation:** It is incumbent upon the chair to ask board members to identify any real or perceived conflicts on the agenda of a board meeting at the beginning of every meeting.
- **Recommendation:** The Panel suggested that ACFA should simplify its Code of Conduct.
- **Recommendation:** There should be a “whistleblower” policy in place that is easy for employees to access and understand.

VII: Strategic Direction

In discussions regarding strategy, and strategic direction, the Panel acknowledged that these financial institutions are created by government and have a specific mandate and role to fulfill. Strategic direction for the financial institution may be based on a confirmation of its mandate and role during the mandate and role review process. It is also determined by long-term objectives and short-term targets that may be set by the responsible minister. Given the diversity of the mandate and roles of the financial institutions under review the strategic direction discussion was wide ranging in nature.

- **Recommendation:** The board should review and sign off on the strategic direction of the financial institution on a yearly basis. The board is responsible for holding management strictly accountable for meeting the goals set out in the strategic direction through the execution of the strategic plan.

VIII: Relationship with the Minister

APAGA clearly outlines the powers and responsibilities of the responsible minister for each of Alberta’s ABCs. Further, additional pieces of legislation, mandate and role documents and/or terms of reference documents often outline additional parameters for the relationship between the board, president/CEO, minister and department. The Panel discussed with each financial institution its relationship with the minister including how often meetings are held, their discussions related to mandate and role documents as well as strategy and objectives, as appropriate. Each of the financial institutions made positive comments about its relationship with the minister. The Panel noted the significant number of changes in recent years of both ministers and deputy ministers in the ministries responsible for the financial institutions.

- **Recommendation:** The board chair and president/CEO should meet annually with the minister and deputy minister to confirm mandate and strategy, and as soon as possible in the event of a new appointment of a minister or deputy minister.
- **Recommendations:** An agency governance best practice workshop should be put into place to allow for ministers and their delegates, such as deputy ministers and assistant deputy ministers that have responsibility for ABCs to better understand their roles and responsibilities.
- **Recommendation:** The Mandate and Role Document should articulate the relationship, interaction and communication desired between the board, the board chair, the president/CEO, the minister and the department.

IX: Conclusion

The 28 recommendations outlined in this report are meant to serve as a best practice guide against which the four financial institutions reviewed should govern themselves. The Panel would like to reiterate that it recognizes the diversity among the four financial institutions and therefore has made a concerted effort to draft recommendations that broadly encompass the mandate and role of each. It should be noted that overall, the recommendations arise out of a discussion involving best practices and APAGA requirements and not out of noteworthy deficiencies in the current governing practices across the financial institutions.

The Panel would like to commend those representatives that it met with from the four financial institutions for their commitment to best practices in governance.