

May 14, 2012

FRAMEWORK FOR REFORMING THE BOARD OF DIRECTORS OF OBSI

DRAFT FOR DISCUSSION PURPOSES ONLY

In response to recommendations made by OBSI's independent reviewers, the Board of Directors has created an ad hoc Governance Committee of the Board to oversee the transition to a new governance structure, develop new governance policies and processes as appropriate, and consult with stakeholders on these changes.

The proposed governance framework outlined below is guided by the following principles: the protection of the independence of the Ombudsman in fact and perception; the involvement and commitment of individuals with knowledge and or experience in consumer-related issues and the financial industry; and, the continued development and promotion of good governance.

The proposals contained in this framework are consistent with the guidelines contained in the Framework for Collaboration with Financial Market Regulators. They also recognize that the independent reviewer noted OBSI had challenges in maintaining independence in Board-level funding decisions.

The Board will review and evaluate the effectiveness of OBSI's proposed governance structure within the next two years, including taking into account changes in the membership. It will consider opportunities for improvement and identify changes necessary to adapt to the changing environment.

Executive Summary

The following are key changes proposed to OBSI's governance framework:

- All directors will be involved in all decisions. There will no longer be an "Independent Directors Committee" that will vote separately on items such as the budget before it reaches the full Board.
- Independence will be protected through director voting majority requirements on key independence questions.
- The industry entities that will have a representative on the Board will provide a shortlist of candidates, from which the Board will choose one director. Currently, industry entities appoint a director directly to the Board.

- The Canadian Bankers Association (CBA), the Investment Industry Regulatory Association of Canada (IIROC), and the Mutual Fund Dealers Association (MFDA) will each provide a shortlist of candidates. One director will be selected from each shortlist.
- To reflect the withdrawal of the Investment Funds Institute of Canada (IFIC) as a participating entity, it will no longer have a role in appointing a director in conjunction with the MFDA. The MFDA will nominate candidates for appointment to the Board.
- Directors will be appointed for two year terms, up to a maximum of six years in aggregate. This period does not include any initial period where a director completes the term of another director. Currently, there are no term limits.
- All directors shall be appointed on the basis of an enhanced competencies matrix while reflecting the diversity of Canadians.
- The Board shall have two standing committees: Finance and Audit; and Governance, Human Resources, and Compensation. Ad hoc committees may be formed as needed.

Background

Our governance is structured to ensure the Ombudsman and OBSI's staff are independent and impartial, and have the necessary resources to carry out their jobs.

A non-profit and independent organization, OBSI is overseen by a Board of Directors. Beyond the composition of the Board, further important safeguards of OBSI's independence are in place.

Rules prohibit the Board or individual directors from being involved with individual complaints. The final decision concerning complaints rests with the Ombudsman. There is no appeal to the Board, nor can the Board influence the decisions of the Ombudsman. However, on behalf of the Board the Chair does consider complaints from OBSI clients who believe that their case has not been handled fairly.

The Ombudsman is accountable to the Board through measures such as annual efficiency and performance targets (such as time to resolve complaints) and other annual objectives as assigned by the Board.

Consultation

The Board of Directors of OBSI invites comment on each of the following components of the draft framework:

1) Board Composition

The Board shall consist of a maximum of eleven (11) Directors chosen by the Board on the basis of the competencies matrix as follows: One (1) director as described in (i) below, one (1) director as described in (ii) below, one (1) director as described in (iii) below, a maximum of eight (8) directors as described in (iv) below. The Board shall, at all times, consist of a majority of Directors as described in (iv) below.

The Chair

The Chair of the Board will be as described in (iv) below and elected by majority of the Board.

“**Director**” means an individual who:

- (i) is nominated from a shortlist submitted by the Canadian Bankers Association and appointed by the Board; or,
- (ii) is nominated from a shortlist submitted by the Investment Industry Regulatory Organization of Canada and appointed by the Board; or
- (iii) is nominated from a shortlist submitted by the Mutual Fund Dealers Association and appointed by the Board; or
- (iv) is nominated through a process other than as described in (i), (ii), or (iii); and:
 - a. is not a partner, director, officer, employee or a person acting in the capacity of, or the holder of a “Significant Interest” in a participating Financial Service Provider and or Industry Entity;
 - b. is not an employee of the Corporation;
 - c. is not an employee of a government department or agency responsible for financial sector policy or regulation, or consumer policy or regulation;
 - d. is not a current member of the federal House of Commons or member of a provincial or territorial legislative assembly;
 - e. has not, in the two years prior to election as Director, held a position described in (i)-(iii) nor (iv)(a)-(d) above; and,
 - f. is not an immediate family member of any persons listed in (i)-(iii) nor (iv)(a)-(e) above.

“**Significant Interest**” means in respect of any person the holding, directly or indirectly, of the securities of such person carrying in aggregate 10% or more of the voting rights attached to all of the Financial Service Provider outstanding voting securities.

The following governance measures are to ensure the independence of the Ombudsman's function.

Quorum

Any meeting where a majority of Directors are present and where Directors as defined in clause (iv) above constitute a majority of those present.

Voting

For non-independence questions, votes shall be decided by a majority of Directors present.

For key independence questions, votes shall be decided by a majority of Directors present and a majority of Directors in office as defined in clause (iv) above. For example: the appointment and removal of the Ombudsman; adoption and amendment of terms of reference for the Ombudsman; approval of the budget for OBSI; compensation of the Ombudsman; and, nomination and election of non-industry nominated directors.

2) Directors will be appointed for two year terms, up to a maximum of six years in aggregate. This does not count any initial period where a Director completes the term of another Director. The office of Chair will be appointed for a two-year term; if a Director is appointed as Chair in that Director's fifth year as a Director, that Director may continue to serve as Director until the expiry of the Director's term as Chair.

3) Directors shall be appointed on the basis of a competencies matrix. The Board of Directors as a whole should possess a strong mix and balance of skills, knowledge and experience while reflecting the diversity of Canadians. Directors should represent a variety of different perspectives and capabilities in order to fulfill their roles and responsibilities as a team. Competencies required for the Board as a whole include the following:

Knowledge of or experience in:

- Consumer and Investor Issues
- Investment Industry
- Banking Industry
- Dispute Resolution
- Financial Expertise
- Financial Literacy
- Legal/Regulatory Framework
- Public Affairs and Communications
- Stakeholder and Government Relations
- Strategic Planning
- Governance/Board Service
- Human Resources and Compensation

4) In recruiting for new Directors, the Board shall assign the search process to the Governance Committee. On behalf of the Board, the Committee shall:

- Include in the Committee's number one Board Director with knowledge or experience in consumer and investor issues, one Board Director with knowledge or experience in the industry, and one Board Director with knowledge of corporate governance.
- Consider candidates who are identified by Board-approved processes, those who are proposed by stakeholders, and those who are self-proposed.
- Identify the competencies required based on a review of the competencies matrix and the current makeup of the Board.
- Request names of possible candidates from individuals or parties it may determine as appropriate.
- Ask stakeholders to suggest more than one candidate if possible.
- Encourage stakeholders to nominate individuals with skills across the full range of competencies, not just in a stakeholder's own area of activity.
- Remind stakeholder nominees that the duty of Board Directors is to OBSI and not to the nominating stakeholders.

5) All Board Directors shall exhibit the following attributes. They shall:

- Be Independent Minded
- Act with Integrity
- Display Good Judgment
- Enjoy a Positive Reputation Among Stakeholders
- Work Well as Part of a Team
- Demonstrate a Willingness to Learn and Grow
- Be Good Strategic Thinkers
- Demonstrate Flexibility and Responsiveness to Change
- Fully Participate in Board Meetings
- Exhibit Strong Analytical Ability

6) The Chair of the Board shall also:

- Be Recognized for Board Leadership. E.g.:
 - Board Chair experience
 - Experience as Chair of a Significant Board Committee
 - CEO with Extensive Board Interaction
- Be Able to Champion the Vision, Mission and Strategic Plan of the Organization
- Be a Respected Leader
- Engage Effectively with Multiple Stakeholders
- Demonstrate Consensus-Building Skills

- Possess Excellent Communication/Presentation Skills
- Exhibit a Willingness to Commit to Meeting the Demands of the Role
- Act as the Key Linkage Between the CEO and the Board
- Understand the Structure of the Canadian Financial Sector

7) Committee Chairs shall also:

- Demonstrate an Ability to Chair the Committee
- Set the Agenda and Effectively Conduct the Affairs of the Committee
- Provide Strategic Leadership
- Ensure the Committee Operates as a Cohesive Unit
- Facilitate the Effective Functioning of the Committee, Independent of Management
- Strive to Enhance the Quality of the Committee's Governance
- Demonstrate Consensus Building Skills
- Act as the Key Linkage Between the Committee and the Board
- Manage Priorities Effectively

8) The Board shall have the following standing committees:

- Finance and Audit Committee
- Governance, Human Resources and Compensation Committee

Ad hoc committees may be formed as needed

9) The Board shall undertake a full evaluation of its own performance at a minimum once every two years. The evaluation will be conducted and reported to the Board by a third party. This third party will not be the same one conducting the tri-annual external review of OBSI's operations. The evaluation shall include a review of the Board, its committees, the Chair of the Board, the Chairs of committees, and peer reviews of Directors.

10) The Board shall provide robust orientation for new directors as well as continuing education.

11) The Board shall meet quarterly. A fifth meeting will be devoted to strategy and meetings with stakeholders. Additional meetings may be scheduled as appropriate.

12) The Board shall actively manage its own renewal, succession planning for the Chair and Chairs of Committees.

OBSI Governance Checklist

DESCRIPTION	Final
Corporate	
OBSI Terms of Reference	<input type="checkbox"/>
General By-law	<input type="checkbox"/>
Letters Patent	<input type="checkbox"/>
Supplementary Letters Patent	<input type="checkbox"/>
Mission Statement and Core Values	<input type="checkbox"/>
Board	
Mandate/Charter	<input type="checkbox"/>
Composition of the Board	<input type="checkbox"/>
Meetings Procedure (Rules of Order)	<input type="checkbox"/>
Succession Planning Policy	<input type="checkbox"/>
Committee	
Governance, Human Resources and Compensation	<input type="checkbox"/>
Finance and Audit Committee	<input type="checkbox"/>
Charter for Committee Chairs	<input type="checkbox"/>
Chair	
Chair Criteria	<input type="checkbox"/>
Roles and Responsibilities (Position Description)	<input type="checkbox"/>
Definition of Chair Independence	<input type="checkbox"/>
Directors	
Director Criteria	<input type="checkbox"/>
Board Skills and Competencies Matrix	<input type="checkbox"/>

Roles and Responsibilities (Position Description)	<input type="checkbox"/>
Application for Membership and Consent to Act	<input type="checkbox"/>
Director Orientation	<input type="checkbox"/>
Other Board Policies	
Code of Conduct/Conflict of Interest Policy	<input type="checkbox"/>
Board Evaluation Policy	<input type="checkbox"/>
OBSI Complaint Policy (Client Unsatisfied with OBSI Service)	<input type="checkbox"/>
Travel and Expenses Policy	<input type="checkbox"/>
Financial Disclosure Policy	<input type="checkbox"/>
Stakeholder Communications Policy	<input type="checkbox"/>
Whistleblower Policy	<input type="checkbox"/>

REQUEST FOR COMMENTS

OBSI's Board of Directors invites written comment on each of the following components of the draft framework.

Comment letters may be addressed to:

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Comments will be accepted until June 1, 2012, and will be posted on OBSI's website.