



BOARD OF DIRECTORS

DUTIES & RESPONSIBILITIES

Approved 11/30/2011

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BACKGROUND

Certain provisions of NCUA final rule 701.4, General authorities and duties of Federal credit union directors, took effect on January 27, 2011. The purpose of the rule is to clarify and document the important duties of boards of directors of federal credit unions. It is the intent of the FRB Federal Credit Union's Board of Directors to comply fully with this rules and the NCUA guidelines.

GENERAL DUTIES OF DIRECTORS

There are six key provisions in the final rule:

1. The board of directors is responsible for the general direction and control of a federal credit union. The board may delegate operational functions to management, but not the responsibility for the credit union's direction.
2. A director must carry out his or her duties in good faith, in a manner reasonably believed to be in the best interests of the membership, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.
3. A director must administer the affairs of the credit union fairly and impartially and without discrimination in favor of or against any particular member.
4. A director must have at least a working familiarity with basic finance and accounting practices, including the ability to read and understand the credit union's balance sheet and income statement and the ability to ask, as appropriate, substantive questions of management and auditors.
5. A director must direct the operations of the federal credit union in conformity with the Federal Credit Union Act, NCUA's Rules and Regulations, other applicable laws, and sound business practices.
6. A director may rely on information prepared or presented by employees or consultants the director reasonably believes to be reliable and competent and who merit confidence in the particular functions performed.

BASIC FINANCIAL SKILLS REQUIRED

The board of directors of a federal credit union is charged with the general direction and control of the institution. The key measure of the credit union's success or failure is its financial statements. As such, a director must understand these financial statements to participate in a meaningful manner in the direction and control of the institution.

Accordingly, to be an effective director, an individual must have a certain base level of financial skills, consistent with the size and complexity of the credit union operation they serve. At a minimum, directors must have the ability to read and understand the credit union's balance sheet and income statement. If directors do not have the requisite skills when elected or appointed, they must obtain these skills in a timely manner, as discussed below.

WHAT A DIRECTOR SHOULD KNOW

At a minimum, a director should be able to examine the credit union's balance sheet, income statement and be able to answer the following questions:

- What does this line item mean?
- Why is it important to the credit union?
- Is the value of the line item changing over time? If so, what does that change (either positive or negative) mean?
- Is the change important to the credit union?

A director must understand the specific activities in which his or her credit union engages. In particular, a director must understand not only how these activities generate revenue for the credit union but also, and perhaps most importantly, the various risks associated with these activities that could lead to financial loss.

To do their job in a meaningful manner, it is essential that directors understand the risks found in depository institutions -- that is, credit, liquidity, interest rate, compliance, strategic, transaction, and reputation risk. Moreover, directors must understand the internal control structures at the credit union that limit and control these risks.

TIMETABLE FOR ACQUIRING FINANCIAL SKILLS

Directors who were elected or appointed on or after January 27, 2011, and who come to the position without the requisite financial skills will have six months from the date of election or appointment to acquire the enumerated skills. Sitting directors who already understand their federal credit union's financial statements and risk controls will not have to do anything further to meet the financial requirements of NCUA's directors' duties rule. Sitting directors who were appointed or elected before January 27, 2011, and do not have these skills, have until July 27, 2011 to satisfy the minimum financial standards.

HOW TO ACQUIRE NECESSARY FINANCIAL SKILLS

It is NCUA's intent to ensure that all federal credit union directors have a basic understanding of their credit union's finances.

1. Opportunities and funding for directors to acquire the skills needed to evaluate the credit union's finances included internal credit union training, external training, self-education, on-the-job experience, or a combination of these activities.

OTHER DUTIES

As always, the ultimate responsibility for the credit union's direction and control is not delegable and remains with the board.

- The board delegates management functions to the CEO and her senior management team. The board retains authority to hire, fire, determine duties, set compensation, and discipline the CEO. Directors are expected to ensure that appropriate policies are in place to guide management in the execution of their duties.
- Directors must ensure they are properly informed about what is happening in the credit union. Directors do not rely solely on management reports, but also consider the reports of the supervisory committee and internal and external auditors. The board has the right to also request credit union employees provide information directly to the board, and not through senior management. The board may also hire consultants that report directly to the board, and not to senior management.
- The credit union expects that a director carry out his or her duties in good faith, in a manner reasonably believed to be in the best interests of the membership of the credit union, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances."
- "Good faith" means, generally, that directors should take care not to violate the law, and also not be involved in decisions that benefit the director personally. When in doubt, a director should look carefully at the conflict of interest provisions in the credit union bylaws and NCUA regulations and seek legal counsel if unclear how to proceed on a particular issue.
- Directors must always focus on the best interests of the membership as a whole. Credit unions are not-for-profit cooperatives designed to provide financial services to their member-owners. As such, a credit union's primary purpose is not to seek the biggest possible profit or return on assets (ROA); nor is it appropriate to seek asset growth just for the sake of growth. The primary purpose of a credit union is to provide quality, low-cost financial services that the members need.
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- When making important decisions, directors should always keep in mind the following questions:
 - What financial services do my members need and want? How do I know this?
 - Will my decision today help the credit union provide these member services in a quality manner and at low cost to the members?

The requirement for “*reasonable inquiry*” means that the more complex a decision, and the more important the decision is to the financial interests of the members, the more due diligence the directors need to do in an attempt to make a good decision.

- When making a decision, each director should consider applicable laws and alternative business practices. If unsure, a director should ask questions and gather information before voting on a proposal.

CODE OF CONDUCT

The credit union has adopted a code of conduct to ensure that all directors, volunteers and staff are held to appropriate ethical standards.

BOARD MEMBER EDUCATION CERTIFICATION

Directors will provide a biography of their educational background or financial skills acquired. The information will be retained in the credit union offices by the Supervisory Committee Chairman.



BOARD MEMBER

QUALIFICATION

CERTIFICATION

Name: _____

Employer: _____

Title: _____

Educational Background: _____

Other Special Qualifications: _____

Signature: _____

Date: _____