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CCECP Response to CICA Exposure Draft, "Guidance for Directors - Dealing With Risk in the Boardroom"

Peter D. Jackson, CA
Director, Criteria of Control
The Canadian Institute of Chartered Accountants
277 Wellington Street West
Toronto, Ontario
M5V 3H2

Re: Exposure Draft - "Dealing With Risk in the Boardroom"

Dear Mr. Jackson,

The Canadian Centre for Ethics & Corporate Policy is pleased to respond positively to the above exposure draft. We support the general thrust of the material. We are pleased to note references to words such as "trust" and "culture", in relation to risk mitigation for consideration at the board level.

We believe that strong ethical values are very important for an organization's short, medium and especially long term, success. We note that the Criteria of Control Board appears to support our belief, for example by the inclusion of a Section entitled "Approving and monitoring the organization's ethical values" in *Guidance for Directors - Governance Processes for Control*, published in 1995. Nevertheless, we suggest that the importance of ethical values could be given somewhat more emphasis in this exposure draft, as noted in the following suggestions:

1. The exposure draft points out that organizations may have different risk tolerances, and indeed some organizations seek out risk because of the concomitant opportunities and, if the risks are managed, rewards. The point might be made, in our view, that ethical values are important at whatever level of risk tolerance an organization chooses. Indeed, the higher the risk tolerance, the more important the ethical values may become. This could be covered in the section headed "Considering whether the organization is in control", on page 2.

2. The last sentence in the second paragraph on page 2 might refer specifically to ethical values as follows,

Whether an organization is in control or not depends on elements as basic as the culture of the organization and its ethical values, the adaptability and resourcefulness of . . .

For additional emphasis, this sentence could be moved to the front of the second paragraph. Note that in the above suggested wording, we have removed the "also".

3. Also in this section there might be a more specific reference to the aforementioned section on ethical values in *Governance Processes for Control*.
4. We recognize that the sample questions under "Reviewing strategy" on page 3 are not intended to be a complete list, and we support the importance of the example concerning employee health and safety and well-being. Nevertheless, consideration might be given to the following possible questions:
 - Do management practices support fair and honest respect for, and treatment of, all the organization's stakeholders?
 - Does financial management promote and require honest, fair and objective financial performance reporting at all levels, including reports to the Board?
5. In the sample questions for the board on page 4, under "Approval of specific proposals", the first bullet might cover ethical values specifically by saying "How does this proposal further our mission, vision and ethical values . . ."
6. In "Questions for individual directors to reflect on", on page 8, a question might be added asking directors to consider their comfort level concerning the honesty and fairness of the organization's business practices. The issues (and difficulties) concerning acting on any such discomfort are well expressed in the last two of the existing four bullets.

In summary, The Canadian Centre for Ethics and Corporate Policy encourages the Criteria of Control Board constantly to maintain the emphasis on the importance of ethical values in organizations in all its Recommendations, Guidelines and studies and Research Reports.

This response was prepared by an ad hoc sub-committee of the Board, consisting of Prof. Morley Lemon, FCA, David Selley, FCA, and Ted Scott, Partner, McMillan Binch.

Yours truly,

Larry Hebb

cc. Michael Rayner