



Real Estate Council of Ontario (RECO)

Board Governance Review

KEY OBSERVATIONS & RECOMMENDATIONS

Purpose

Purpose of This Report

The purpose of this final report is for KPMG to present findings of the Real Estate Council of Ontario (RECO) 2018 Board Governance Review.

Disclaimer

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Background

Background

The Real Estate Council of Ontario (RECO) engaged KPMG to undertake a Board governance assessment to understand how processes and governance arrangements can be improved and how they compare to leading practice. Throughout our work we have engaged with many key stakeholders, including members of the Board, the Executive Team, other key staff involved in governance and external stakeholders where appropriate. We would like to take this opportunity to thank all those stakeholders for their time and support in completing this review.

This report considers the whole Board and its sub-committees to provide you with a balanced assessment of areas where improvements could be made. Below we set out the framework we use for governance reviews:

Strategy

How well is the Board setting direction for the organization?

Capability and Culture

Is the Board taking the necessary steps to ensure it has the appropriate experience and ability, now and into the future, and can positively shape the organization's culture to ensure it consistently and effectively delivers its consumer protection mandate in a sustainable way?

Processes and Structures

Do reporting lines and accountabilities support the effective oversight of the organization?

Using Data and Information

Does the Board receive appropriate, robust, and timely information and does this support the Board's strategic oversight for the organization?

Our Approach

In order to inform our work we have used a mix of interviews with the Board and Executive Team, review of key documents and papers of the Board and Committees, market research and direct Board and Committee meeting observation.

Background

Role and Responsibilities of a Board Member

Effective governance is dependent on having strong Board members. Board members should understand they are elected not to manage, but to provide oversight, insight and foresight. They should also understand their fiduciary responsibilities and ensure appropriate processes and controls are in place to manage and monitor risks to support RECO as a whole entity and collectively as the Board. As a Board member, you are responsible for upholding the three duties of the Board:

Duty of Care

All members must take effort to ensure they are reasonably informed about the organization's activities, actively and responsibly participate in decisions and do so prudently and in good faith.

Duty of Loyalty

All members are expected to exercise their authority in the best interest of the organization and not in their own interest, the interest of a body they represent or in the interest of another entity.











Duty of Obedience

All members are expected to comply with all applicable legislation and adhere to the organization's policies, mission, rules, etc.


Executive Summary

This Board Governance Review was initiated pro-actively by the Board and Executive Team in order to have in-depth scrutiny of the governance structures and processes for the Board and its Committees and to learn from leading practices in governance. This demonstrates the Board is committed to continuous improvement. The remainder of this report highlights, through commentary and analysis, those areas of good practice and reflections for development which have been evidenced from our work.

We have assigned an overall risk rating based on four levels: green, yellow-green, yellow-red, red. The table below highlights the four areas of our framework, some critical aspects that we consider, and the ratings attached to each area. On the following pages we explain why each area has been scored in that way. Leading practices for this review were derived from examining governance practices within the public sector and other leading private sector Organizations.

Strategy	Capability and Culture	Processes and Structures	Using Data and Information
1. Does the Board have, and oversee, a credible strategy for the organization to consistently and effectively administer REBBA, including a robust plan? 	3. What processes are in place to assess skill requirements of the Board, ensuring an appropriate mix? 	6. Are there clear roles and accountabilities in relation to board governance? 	9. Is appropriate information on organizational and operational performance being analyzed and challenged? 
2. Is the Board sufficiently aware of potential risks to the quality, sustainability and delivery of RECO's strategy and mandate? 	4. Does the Board shape an open and transparent culture? 	7. Are there clearly defined, well-understood processes for resolving issues and oversight of RECO's performance? 	10. Is the Board assured of the robustness of the information? 
	5. Does the Board support continuous learning and development across the Board and the organization? 	8. Is there an appropriate level of engagement between RECO's stakeholders on the one hand, and the Board/RECO on the other? 	

Key to ratings:

-  Green – means area is in line with leading practice
-  Yellow-Green – means area needs minor improvements to achieve leading practice
-  Yellow-Red – means area needs improvements to achieve leading practice
-  Red – means area needs significant improvement to achieve leading practice

Executive Summary

We were engaged by RECO to undertake a Board Governance review. Throughout the interviews and the meetings held with Board members and staff we found a clear commitment to making RECO a world class regulator of the real estate profession. This review was initiated in order to undertake a thorough assessment of Board governance and we commend this pro-activity.



The Board is composed of a wide variety of highly skilled and experienced members, including 3 appointed from the Ministry and 9 elected by registrants. There is a network of committees that have been set up to support the Board, including Audit & Risk, Director Development, Governance, Finance and Insurance committees. From our observations of the committees we found good engagement amongst Board members, supported by strong management, led by the CEO, in providing information and being available to answer questions.

Due to the make-up of the Board as a result of the election process, whereby 9 of the 12 members are elected from the real estate profession, the skills and expertise of the Board are heavily skewed towards this industry. Although this experience is critical to governing RECO, a significant breadth of expertise is required (outside of knowledge specific to real estate) to support effective governance. As a result, there is an opportunity to assess the knowledge and experience of the current Board against a broader range of skillsets such as strategy development and monitoring, financial analysis and management, as well as human resources and talent management for example. The results of this assessment can then be used to determine mechanisms to close these skill gaps through mechanisms such as the candidate identification/election process, use of non-director experts on the Board and Committees and administering relevant training sessions.



The ultimate role of the Board in overseeing RECO is to assist in setting the direction of the organization at the strategic level and monitoring achievement of the strategy, while evaluating the effect of significant decisions and events on the achievement of this strategy. Through our attendance at various meetings, we noticed the nature of the discussion at a number of meetings was at the operational level which is typically the responsibility of management. As such, there is an opportunity to better align discussions with the strategic objectives of the organization, supported through the development of dashboards, elevated meeting materials and an enhanced understanding of the role of the Board.

The delegation of responsibility and authority by the Board of Directors, and the supporting structure, responsibilities and accountabilities of Committees supports efficiency of operations, while ensuring the Board is made aware of, and involved in significant decisions. In the current state, there is an opportunity to re-align the committee structure with the needs of the Board, while delegating more responsibility and authority to these Committees to reduce duplication of effort between the Board and Committees and re-prioritize the Board's time to more strategic matters.

Key Observations & Recommendations


Strategy		
Area of Assessment	What Was Effective?	Areas for Development
<p>1. Does the Board have, and oversee, a credible strategy for the organization to consistently and effectively administer REBBA, including a robust plan?</p> <p>Rating given: </p>	<ul style="list-style-type: none"> Significant efforts are being dedicated to establishing the next strategy for RECO. The Board is engaged in the development of the strategy. In addition a new reporting structure is being proposed to support the Board in oversight of the strategy and enable a thorough understanding of progress and performance. As part of the DAA model, RECO is required to develop business and operational plans to support the organization’s strategy. These are developed routinely. 	<ul style="list-style-type: none"> To finalize the new strategy and reporting format, ensuring the Board has a robust understanding of progress against the strategy at regular intervals (suggested quarterly). This needs to be linked to business and operational plans as appropriate. The Board should consider ways to become more strategic in nature in terms of the questions it asks and discussions held. With development of the new strategy, reporting on the strategy and support from management in understanding key risks to the strategy this will support the Board in its strategic focus.
<p>2. Is the Board sufficiently aware of potential risks to the quality, sustainability and delivery of RECO’s strategy and mandate?</p> <p>Rating given: </p>	<ul style="list-style-type: none"> Significant effort has gone into developing the enterprise risk program at RECO in fiscal 2018. The enterprise risk dashboard is embedded as part of meetings materials for regular Board member review and discussion The Board has engaged a consultant to support in the development of the ER&IM approach. Risk appetite statements are the next step in the process. 	<ul style="list-style-type: none"> The enterprise risk dashboard is included on the consent agenda as part of regular Board meetings, resulting in little discussion on this area. The monitoring and discussion of these risks should be a priority in regular Board meetings. There could be opportunities to further enhance the enterprise risk program through on-going training and development to ensure a risk perspective is taken by all Board members, and the continual refresh of the risk dashboard to ensure that risks remain relevant (ie. governance is typically not a significant risk, and the impact of political advancements would likely be considered a key enterprise risk, along with the loss of key personnel). This will help ensure alignment of the enterprise risk program with the strategy and current environment of RECO.

Key Observations & Recommendations



Capability and Culture		
Area of Assessment	What Was Effective?	Areas for Development
<p>3. What processes are in place to assess skill requirements of the Board, ensuring an appropriate mix?</p> <p>Rating given: </p>	<ul style="list-style-type: none"> The existing Board has vast and deep experience across the real estate profession, including geographic representation from across Ontario. Performance assessments are independently performed on a regular basis to evaluate the performance of the Board and its members. The Board is quite diverse from an age, gender and ethnicity point of view, to ensure a variety of perspectives are shared and considered. 	<ul style="list-style-type: none"> Board tenures of 3 years are consistent with best practices, however a maximum tenure of 9 years, and annual re-establishment of committee membership and their Chairs are not aligned with best practices. The assignment of Chair and Committee members could be enhanced to improve the alignment of skills and experiences with the mandate of the respective Committee, as well as the leadership of the Committee through the Chair role. Increased use of non-director involvement on Committees could be considered to fill skill/knowledge gaps in the short term. The make-up of the Board by 9 industry elected representatives and 3 ministerial appointees does not ensure a sufficient range of skillsets exist,. There could be the opportunity for the Board to consider the following skills when recruiting for future members or consider the skills from the perspective of reliance on executive management or external advisors (given their specialist nature in some cases): strategic risk management, workforce planning and management, information technology and governance/strategy for example. A skills matrix should be developed and maintained by the Board over time as an overview of the skills required to be an effective Board.
<p>4. Does the Board shape an open and transparent culture?</p> <p>Rating given: </p>	<ul style="list-style-type: none"> From interviews with Board members and management, and observations of meetings we noted that there was a focus on registrants and leading the organization, with open discussions held over issues and challenges identified. 	<ul style="list-style-type: none"> The Board can enhance transparency through the publication and disclosure of key items, such as director attendance and expenses, to demonstrate the Boards involvement and oversight. It was noted that on occasion, discussions at non-Board sanctioned/documented events, or between individual Directors had occurred which significantly influenced the outcome of a Board decision. These discussions should be contained within Board sanctioned meetings and appropriately documented.

Key Observations & Recommendations


Capability and Culture (continued)

<i>Area of Assessment</i>	<i>What Was Effective?</i>	<i>Areas for Development</i>
<p>5. Does the Board support continuous learning and development across the Board and the organization?</p> <p>Rating given: </p>	<ul style="list-style-type: none"> • Director development is an item given sufficient attention, with training courses available to Board members, and funded by RECO to support them in their role • An onboarding process is completed for all new Board members which provides an appropriate level of detail, in the right areas, and focused at the right level to support timely onboarding of new Board members. 	<ul style="list-style-type: none"> • The training completed by the Board should be focused on the role of a board member, and based on skills/experiences that do not already exist which could include the increased use of whole Board training, rather than attendance at individual events. • Aside from the independent performance assessment which is conducted by the Board on a periodic basis, there is no annual performance assessment completed for Board members to ensure strengths are captured, and improvement opportunities are identified for resolution.



Key Observations & Recommendations

Process and Structures		
Area of Assessment	What Was Effective?	Areas for Development
<p>6. Are there clear roles and accountabilities in relation to board governance?</p> <p>Rating given: </p>	<ul style="list-style-type: none"> Board roles and responsibilities are documented in a clear and concise manner, and supported through an effective onboarding program. Committee responsibilities are clearly defined and documented. 	<ul style="list-style-type: none"> We have noted that attendance at Board and Committee meetings has been variable amongst Board members and would encourage continued focus on trying to maximize attendance at these meetings. The Board may wish to develop a minimum benchmark for attendance. The delegation of authority and the alignment of roles and responsibilities and supporting committees can be restructured to more effectively deliver on the Boards mandate to oversee and govern RECO. There are opportunities to streamline governance processes at RECO, particularly on consolidating committees and re-aligning agendas to risks and strategic issues. The Finance and Audit and Risk Committees should be combined, the Governance Committee could take on Director Development Committee responsibilities as well as any HR matters. A committee responsible for strategy and performance may be beneficial to provide greater scrutiny in these areas, and the Insurance Committee should not be a Board level committee as it is too operational in nature. Consolidate the Employee and Director expense policy into a single policy, and circulate on an annual basis for certification regarding understanding and compliance to all Board members.
<p>7. Are there clearly defined, well- understood processes for resolving issues and oversight of RECO's performance?</p> <p>Rating given: </p>	<ul style="list-style-type: none"> A formal CEO report is prepared and distributed as part of regular Board meetings which effectively summarizes the performance of RECO's operations. An action log has been formally implemented to ensure the completion of actions coming out of prior Board and Committee meetings. 	<ul style="list-style-type: none"> Communication protocol should be established between the Board and management to ensure appropriate individuals are communicating at appropriate intervals, while ensuring relevant information from these discussions is included in sanctioned Board meetings. The alignment of fiscal and board years would eliminate redundancy and improve the alignment of goal setting and achievement between the Board and management. From our observations of the Board and Committee meetings, Instances were noted where discussions became quite circular in nature, or reiterated past decisions of the Board.

Key Observations & Recommendations

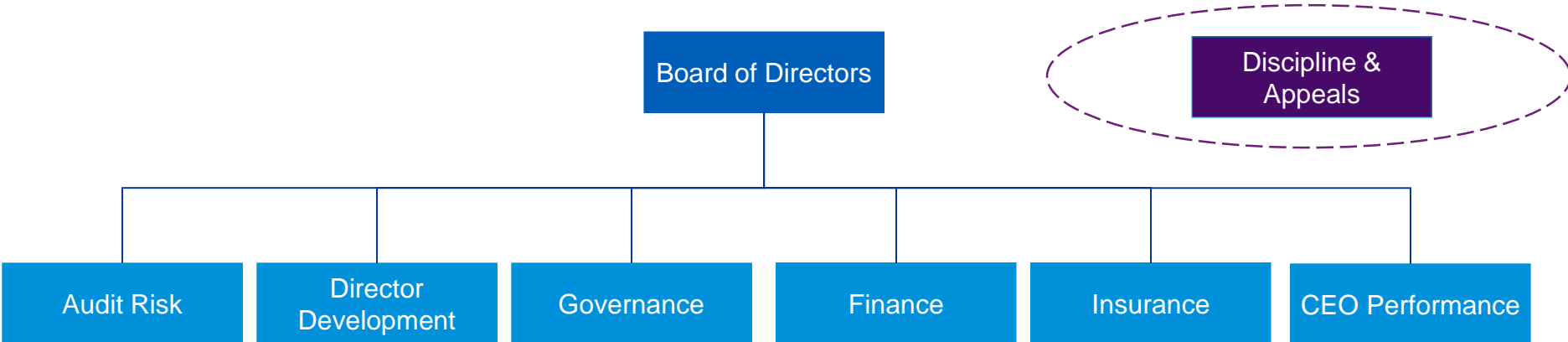
Process and Structures (continued)		
Area of Assessment	What Was Effective?	Areas for Development
<p>8. Is there an appropriate level of engagement between RECO's stakeholders on the one hand, and the Board/RECO on the other?</p> <p>Rating given: </p>	<ul style="list-style-type: none"> RECO actively engages with the public through its website, social media and attendance at industry events RECO regularly meets with the government to discuss changes in the environment, and the potential impact on the organization. 	<ul style="list-style-type: none"> Attendance at events and posting on social media should be a) defined by whether the individual is attending/posting as a Board member and b) limit RECO's exposure to any reputational risk. Proactivity could be enhanced in the relationship with the government to ensure alignment of understanding and direction, and enhance proactive decision making and risk management

Key Observations & Recommendations

Use of Data and Information		
<i>Area of Assessment</i>	<i>What Was Effective?</i>	<i>Areas for Development</i>
<p>9. Is appropriate information on organizational and operational performance being analyzed and challenged?</p> <p>Rating given: </p>	<ul style="list-style-type: none"> • CEO reporting contains important information with respect to performance and progress against objectives 	<ul style="list-style-type: none"> • Continued development and formalization of the strategy and supporting strategic objectives and related plans to support achievement of objectives. This would include the identification of key performance indicators that highlight progress against strategic objectives • Oversight of the complaints process could be enhanced through more robust reporting. • Some information being presented to, and discussed with the Board is at a quite granular/operational level, without clear coversheets to guide the nature of the discussion, leading to operational as opposed to strategic discussions
<p>10. Is the Board assured of the robustness of the information?</p> <p>Rating given: </p>	<ul style="list-style-type: none"> • A very strong preparation and review process has been developed to ensure the appropriateness, completeness and accuracy of the information presented at Board meetings. 	<ul style="list-style-type: none"> • There is no mechanism in place to routinely provide assurances to Board members and the Executive Team over the quality of data being used in the performance and meetings materials. This is vital so that the Board and Executive Team can be confident in the data they are using to make day-to-day decisions. Leading practice would be to develop an information assurance framework, highlighting where there could be weaknesses in data quality and the actions needed to provide assurance over the data.

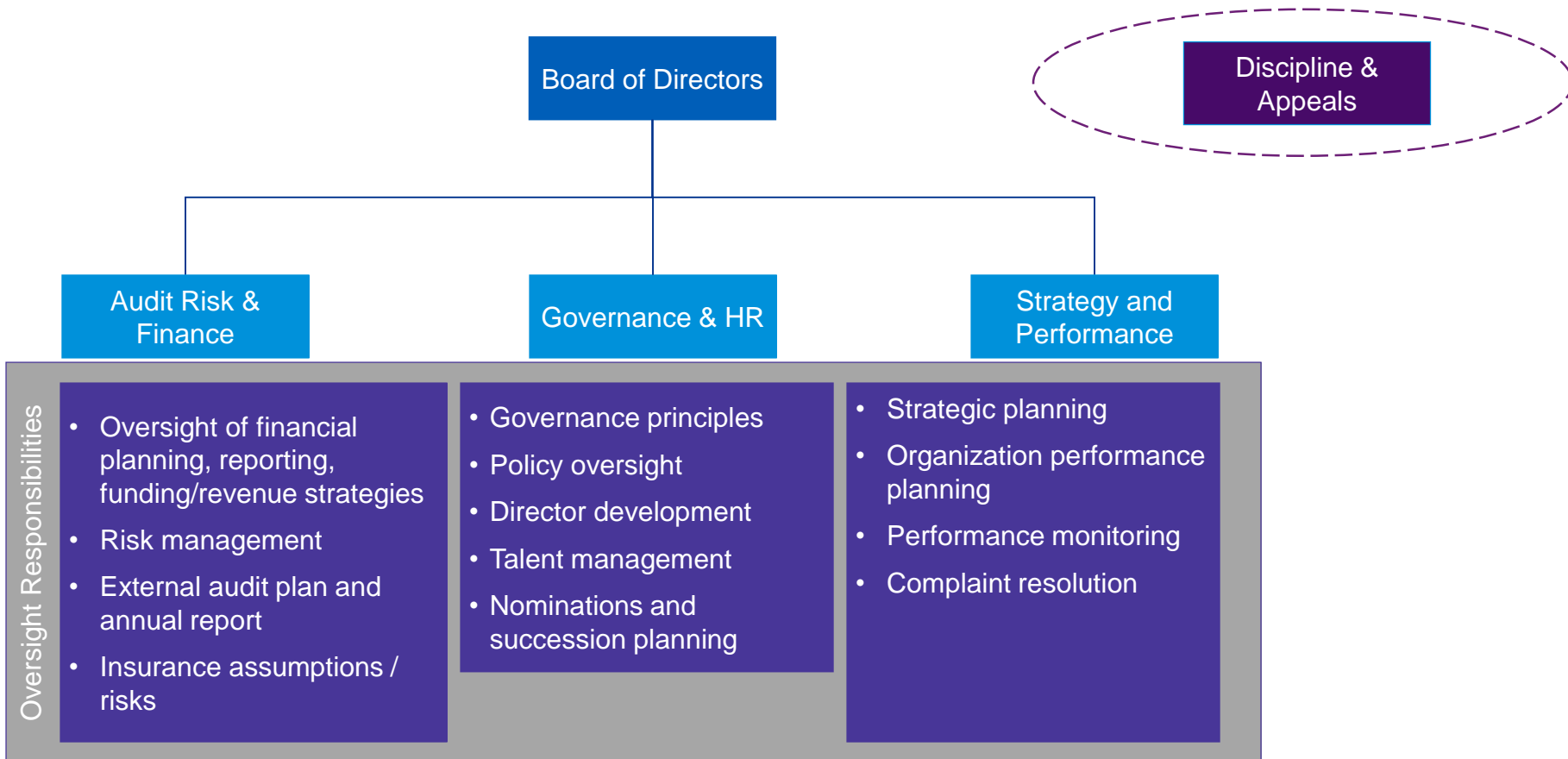
Existing Committee Structure Diagram

The graphic below demonstrates the existing Committee structure that RECO has in place to support the Board



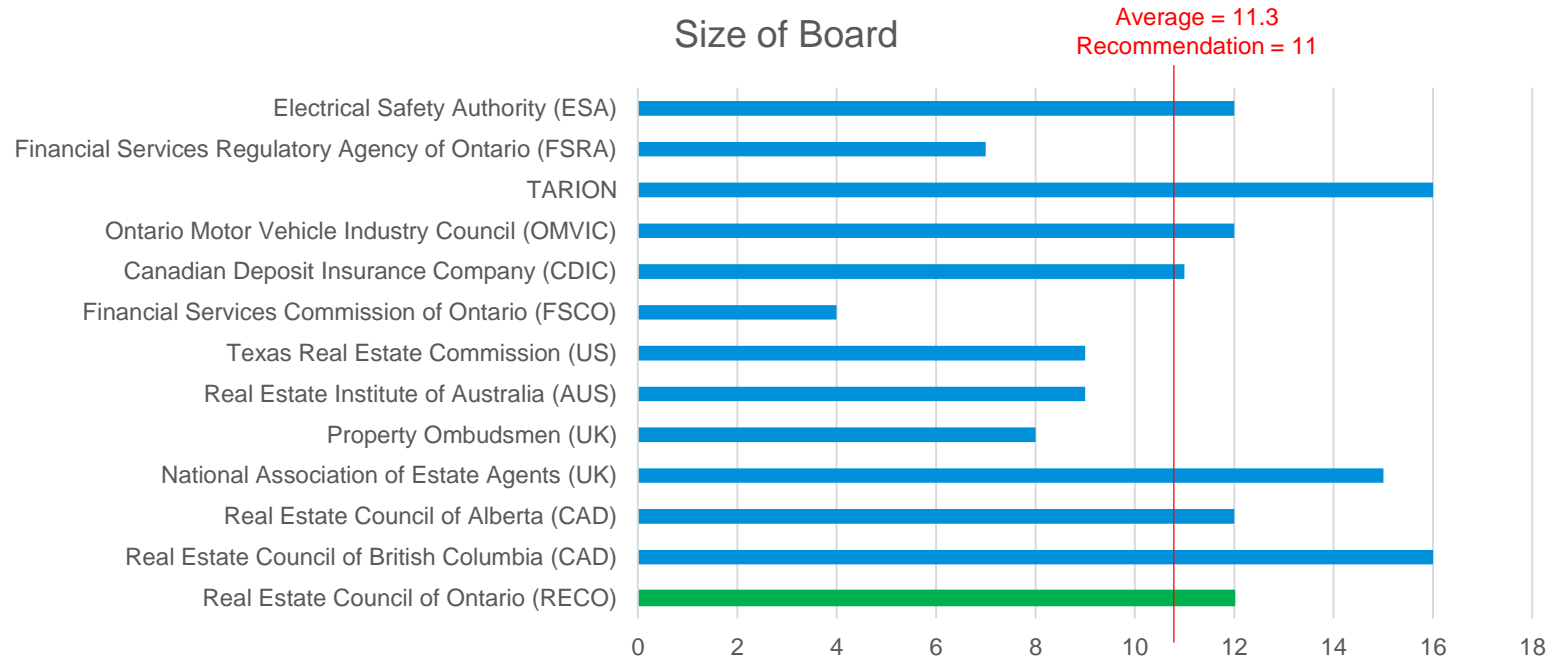
Possible Committee Structure Diagram

The graphic below demonstrates a potential Committee structure that RECO may consider to support the Board



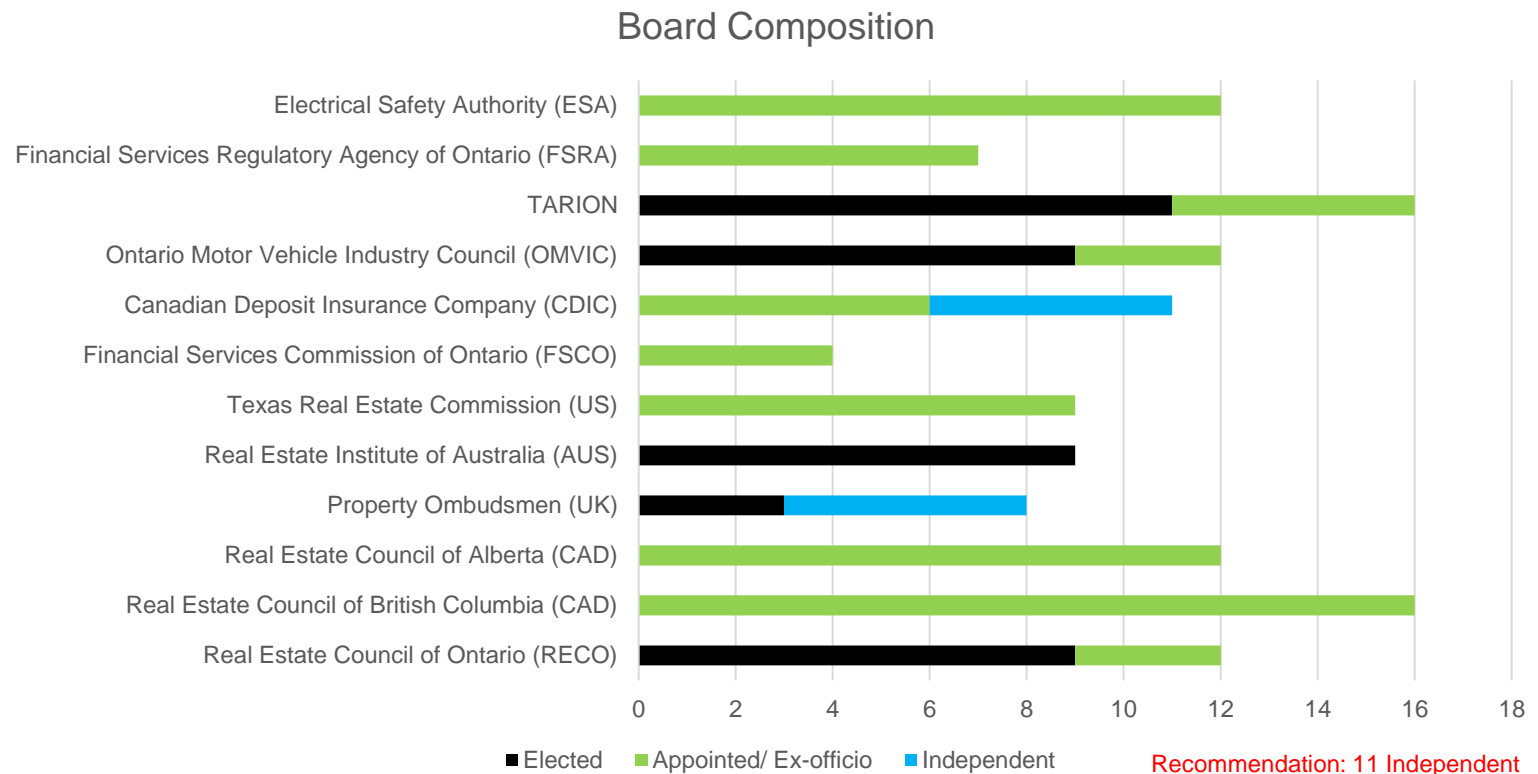
Size of Board

The graphic below highlights the size of the Board in terms of number of members as compared to other similar organizations.



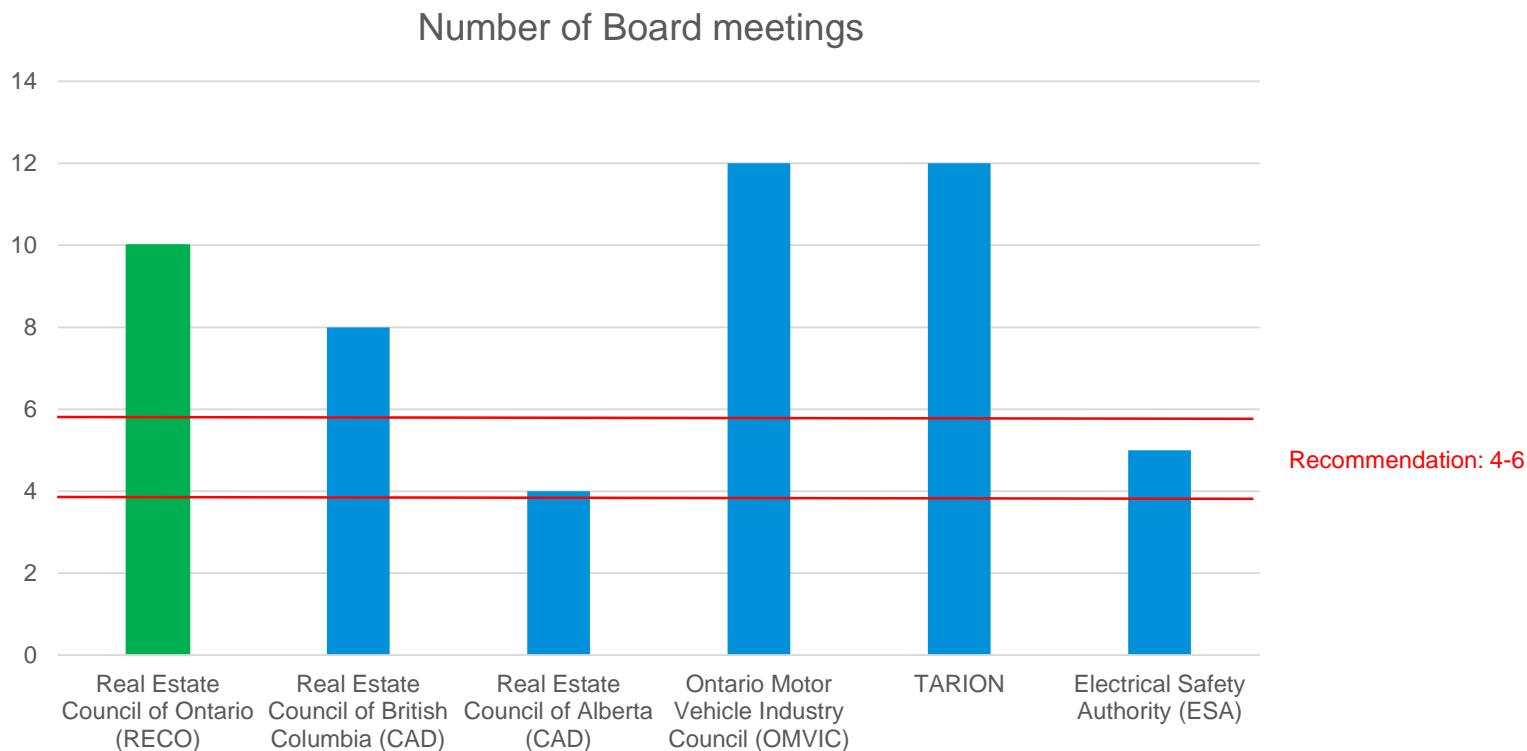
Composition of the Board

The graphic below highlights the composition of the Board in terms of how the Board is developed as compared to other similar organizations.



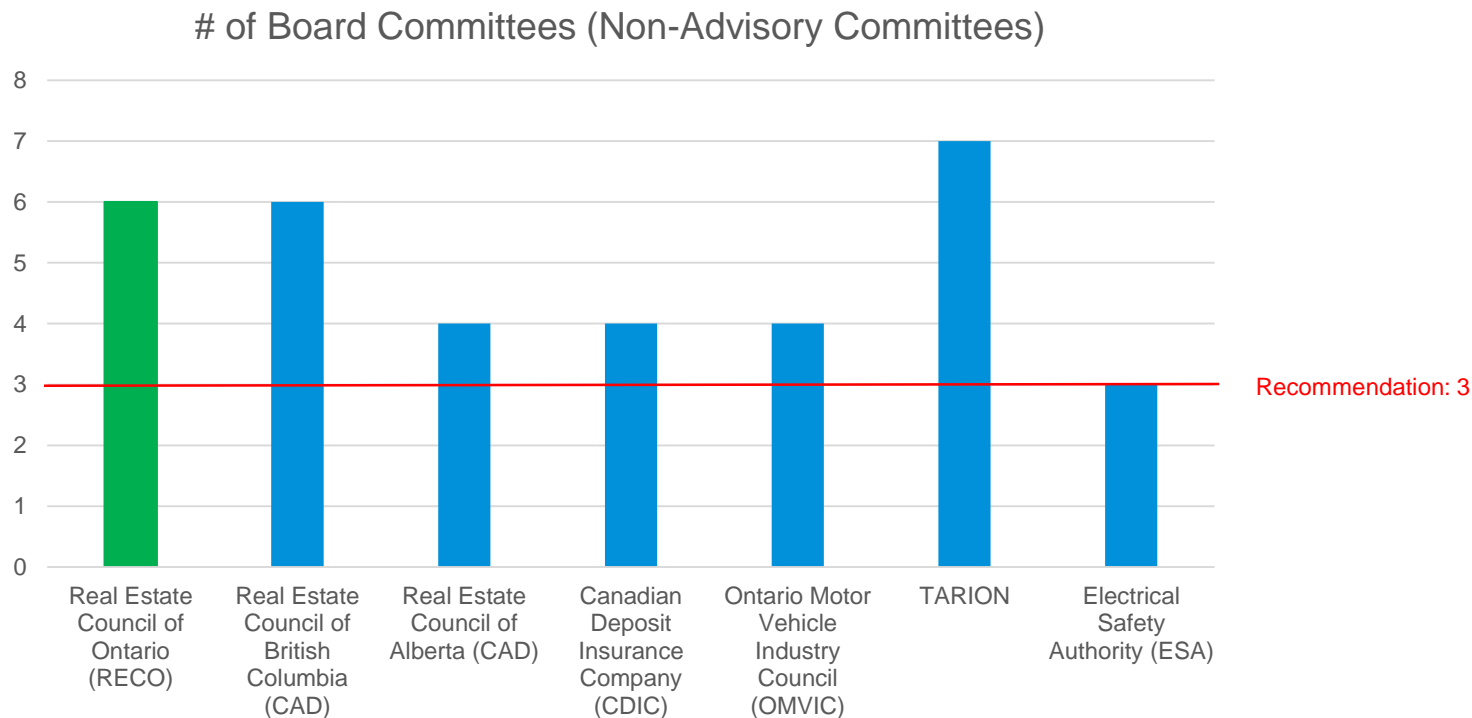
Number of Board Meetings

The graphic below highlights the number of meetings held by the Board as compared to other similar organizations.



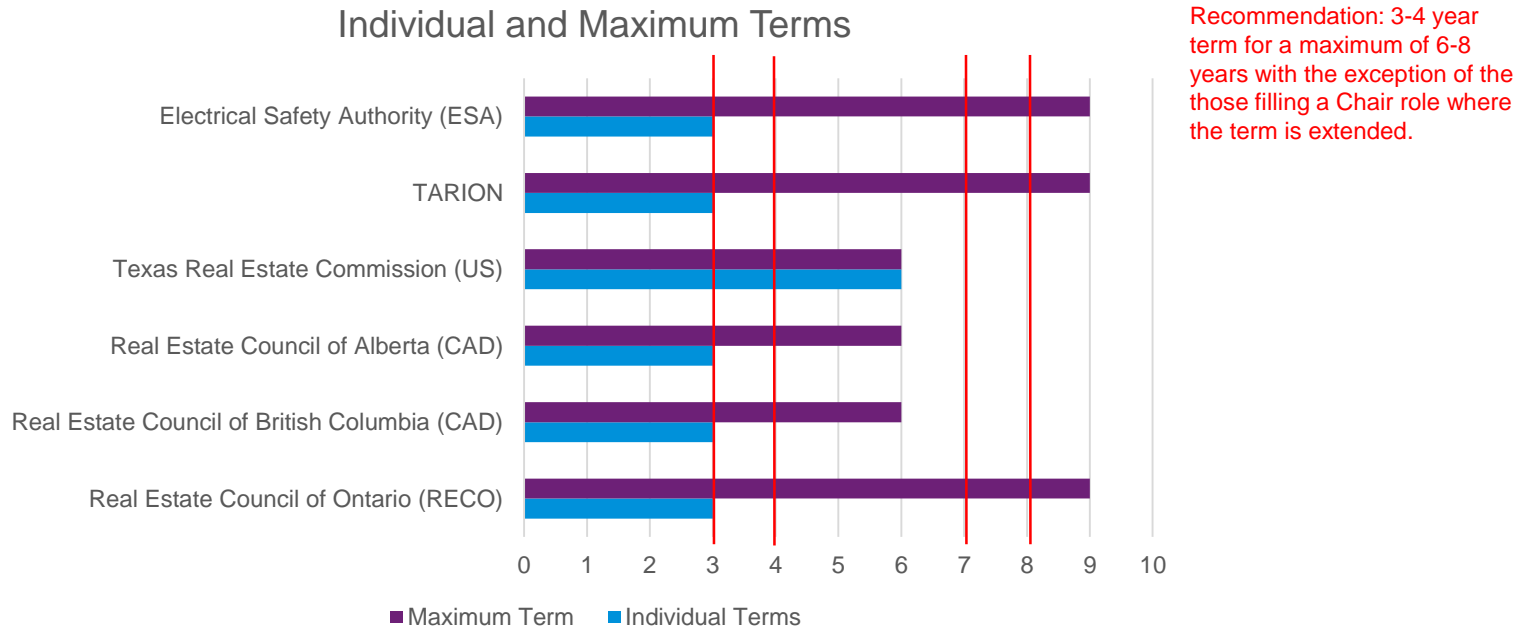
Number of Board Committees

The graphic below highlights the number of committees in place to support the Board as compared to other similar organizations. While RECO is not out of line with some other organizations (RECBC and TARION), there are opportunities from a leading governance practice perspective to streamline committees and ensure appropriate strategic level discussions during meetings.



Individual and Maximum Term Length

The graphic below highlights the individual and maximum term length for Board members as compared to other similar organizations.





Thank You

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