

Code of Governance for Credit Co-operatives 2016

Jointly Issued by the Registry of Co-operative Societies
and Singapore National Co-operative Federation

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PREAMBLE

The objectives of this Code of Governance are to:

- a) promote transparency, accountability and risk management;**
- b) guide the members of the credit co-operative's Committee of Management in carrying out its duties, to lead by demonstrating a high standard of conduct and manage the credit co-operative in the best interests of its members; and**
- c) provide an objective framework to assess and improve the level of governance of a credit co-operative.**

1. Credit co-operatives ("credit co-ops") play a constructive social role in providing thrift and loan services to their members. Members of credit co-ops are mostly individuals who have entrusted their hard-earned savings to credit co-ops and expect their deposits and interests to be safeguarded.

2. Good governance is thus important as it seeks to safeguard members' deposits and maintain members' confidence and trust. Good governance, if practised by credit co-ops' top leadership i.e. the Committees of Management ("COM"), will enable a more resilient, effective and prudent organisation.

3. This Code of Governance ("Code"), which updates the previous Code introduced in November 2006, provides the key principles and guidelines of good governance and management. The Code also provides an objective framework for members to assess the level of governance of their credit co-ops. This Code operates on the basis of 'comply or explain'. Co-ops should seek to comply with the Code to the best of their ability. Together with the Code, an evaluation checklist is developed so that credit co-ops can use it to assess their level of compliance with the good practices. If a co-op is currently unable to comply with a particular guideline, it should provide explanation(s), a projected timeline and interim updates to its stakeholders. If a co-op is of the view that a guideline is not applicable for its circumstances, it should explain the circumstances and/or give the rationale for the non-applicability.

4. A co-op should note that the guidelines in the Code do not intend to replace any legislation. In addition, compliance with the guidelines in the Code does not mean that the legal obligations are fully complied with.

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SECTION 1: COMMITTEE OF MANAGEMENT

A. Conduct of Affairs

Principle

1.1 The Committee of Management (“COM”) has a fiduciary duty over members’ deposits and co-operative’s (“co-op”) funds. In discharging its duties and responsibilities, the COM should act honestly and with integrity, exercise due diligence and care, as well as make collective decisions in the best interest of the co-op and its members.

Guidelines

1.2 New COM members should be given appropriate induction or orientation following their election or appointment to the COM so that they understand their roles and responsibilities.

1.3 The roles and responsibilities of the COM should be clearly defined and documented. In addition to the roles and responsibilities as stated in the Co-operative Societies Act, they should also include (but not limited to) the following¹:

- a) Annual General Meeting:
 - (i) Ensure that the resolutions and/or matters arising from the annual general meeting (“AGM”) are considered and addressed by the co-op within a reasonable timeframe. Updates should be provided in the subsequent AGM.
- b) Compliance:
 - (i) Ensure that the co-op complies with its by-laws as well as relevant laws and regulations. If any lapses are found, the COM should rectify the lapses as soon as possible; and
 - (ii) Ensure that the co-op prepares and submits the statutory or other returns as required by the Registry in a timely manner.

¹ The functions of the COM can be found in the Co-operative Societies Act.

- c) Financial Management:
 - (i) Review, on a regular basis (i.e. at least once per quarter), the co-op's management accounts, financial performance and compliance with applicable prudential requirements;
 - (ii) Review and approve the co-op's annual budget; and
 - (iii) Ensure that the assets of the co-op are prudently managed.
- d) Internal Controls:
 - (i) Ensure that the Standard Operating Procedures ("SOPs") and forms used by the co-op are updated and adequately serve their intended purposes;
 - (ii) Approve the follow-up actions arising from findings and recommendations of external auditors and consultants as well as ensure that they are being carried out or implemented within a reasonable timeframe; and
 - (iii) Review the reports or proposals submitted by the Audit Committee.
- e) Loan:
 - (i) Review and approve loans, unless this function is undertaken by a loans committee.
- f) Oversight of Administration:
 - (i) Determine and approve the roles and responsibilities of the Chief Executive Officer ("CEO") or an officer holding an equivalent position or acting in such capacity e.g. General Manager, by taking into account the business processes and available resources to support the work of the CEO;
 - (ii) Oversee and supervise staff (including CEO) to ensure that they are capable of performing their roles. If there are inadequacies, the COM should provide guidance i.e. direct the staff to attend relevant courses, hire additional staff and/or engage professional services to fill the gap;
 - (iii) Review the reports or proposals submitted by staff; and
 - (iv) Ensure that complaints and feedback are reviewed and appropriate actions are taken to address the issues.
- g) Risk Management:
 - (i) Ensure that the co-op maintains a sound system of risk management and internal controls.

- h) Sub-Committees:
 - (i) Oversee and supervise the work of sub-committees (if any);
 - (ii) Approve the terms of reference, composition and working procedures of sub-committees; and
 - (iii) Review the reports or proposals submitted by the sub-committees.
- i) Whistle-Blowing:
 - (i) Ensure that the co-op has put in place a whistle-blowing policy for staff or any other person to, in confidence, raise concerns about possible improprieties.

1.4 The COM should meet regularly (i.e. at least once per quarter) and as warranted by circumstances. The COM members should not absent themselves without valid reasons.

1.5 The COM should ensure that all COM meetings are properly recorded. The minutes of meetings should be circulated to the COM as soon as practicable.

1.6 The COM should be provided with timely, complete and adequate information so as to enable them to make informed and objective decisions. Every COM member is entitled to make further queries and receive additional information from other COM members and staff.

1.7 The credit co-op should provide funding support to the COM and sub-committee members for the learning and training which equip them with the relevant knowledge and skills to perform their roles effectively.

1.8 COM members should not be given preferential treatment (e.g. lower interest rates than for ordinary members when taking loans from the co-op) unless specific approval is sought from members during a general meeting.

1.9 If a COM member has taken a loan from the co-op, he should set a good example by making prompt repayments based on the loan agreement.

1.10 While the COM may appoint sub-committees (e.g. Loans Committee, Investment Committee, Membership Committee etc.) to assist it in overseeing the specific functions and business affairs of the co-op, it still assumes the final accountability for any decisions made by the sub-committees. Hence, the sub-committees should report to the COM on a regular basis for the COM to monitor and assess the work by the sub-committees.

B. Composition of COM

Principle

1.11 The COM should collectively have the necessary and relevant knowledge and skills to manage the co-op.

1.12 There should be independent representation on the COM to exercise objective judgment on the co-op's affairs independently.

1.13 The roles of the COM and key staff officers should be clearly defined to ensure a balance of power and authority. No individual or small group of individuals should be allowed to dominate the decision-making.

Guidelines

1.14 As a group, the COM should possess an appropriate balance and diversity of skills, experience, and knowledge to manage the co-op. It should also possess core competencies such as accounting or finance, business or management experience, industry knowledge, strategic planning experience and customer-based experience or knowledge. Where such core competencies are not available among the members of the co-op, the COM may bring in non-members with such core competencies to advise the COM. The COM may also engage external professional services, as appropriate.

1.15 The size of the COM should be appropriate so as to facilitate effective decision making, taking into account the scope, nature and complexity of the co-op's operations.

1.16 To facilitate rejuvenation and fresh perspectives, a co-op should practise succession planning and may consider term limits, especially for key positions like Chairman, Secretary and Treasurer.

1.17 The majority of the COM members must be independent² of the co-op to ensure objectivity in decision making.

1.18 The Chairman and the CEO should be separate persons, to ensure an appropriate balance of power, increased accountability and greater capacity of the COM for independent decision making.

² The definition of independent COM members is found in the Co-operative Societies Rules.

1.19 The division of responsibilities between the Chairman and CEO should be clearly established, set out in writing and agreed by the COM.

1.20 The role of Chairman should include (but not limited to)³:

- a) lead the COM to ensure its effectiveness;
- b) ensure that the COM members receive accurate, timely and clear information;
- c) ensure effective communication with the co-op members;
- d) encourage constructive relations between the COM and staff;
- e) facilitate the effective contribution of COM members; and
- f) promote high standards of governance.

³ The functions of the Chairman can be found in the Co-operative Societies Rules.

SECTION 2: AUDIT COMMITTEE

Principle

2.1 The Audit Committee ("AC") should have written terms of reference, which clearly set out its authority and duties.

Guidelines

2.2 The AC must comprise of at least 3 persons, all of whom must be independent of the co-op⁴.

2.3 The COM should ensure that the members of the AC are appropriately qualified to discharge their responsibilities.

2.4 The terms of reference of the AC should state the frequency of the AC meetings and reporting to the COM.

2.5 The AC should have explicit authority to investigate any matter within its terms of reference, full access to and co-operation by staff and full discretion to invite any COM member or staff officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly.

2.6 The duties of the AC should include (but not limited to)⁵:

- a) review the scope and cost effectiveness, independence and objectivity of the auditors (internal and external). Where the external auditors also supply a substantial volume of non-audit services to the co-op, the AC should keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money;
- b) review the financial reporting issues and audit findings so as to ensure the integrity of the financial statements of the co-op and any formal announcements relating to the co-op;
- c) review the adequacy of the co-op's internal controls;
- d) review the effectiveness of the co-op's internal audit functions;

⁴ The definition of independent COM members is found in the Co-operative Societies Rules.

⁵ The functions of the AC can be found in the Co-operative Societies Act.

- e) make recommendations to the COM on the appointment, reappointment and removal of the external auditor, and approve the remuneration and terms of engagement of the external auditor;
- f) review the reports of the auditors (internal and external) and ensure that issues highlighted are being addressed by the relevant officers; and
- g) ensure that all its meetings are properly recorded.

2.7 Each review mentioned under clause 2.6 should be done at least once a year.

2.8 The AC should meet with the auditors (internal and external), without the presence of the co-op's staff, at least once a year.

2.9 The AC should review the policy and arrangements by which the co-op staff and any other persons may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The AC's objective should be to ensure that arrangements are in place for the independent investigation of such matters and for appropriate follow up actions.

SECTION 3: CONFLICT OF INTEREST

Principle

3.1 There should be clear written policies on measures to avoid actual, potential or perceived conflicts of interest by the COM or staff.

Guidelines

3.2 There should be clear written policies and procedures requiring declaration of interests on an annual and ad-hoc basis by the COM and staff. For example, the declaration of vested interests in or relationships with (a) vendors; (b) entities that the credit co-op has or potentially may have contracts or dealings with; (c) COM members; or (d) staff of the credit co-op.

3.3 There should be clear written policies on measures to avoid conflicts of interest in areas where such conflict may arise. For example, the COM and staff should avoid (a) being involved in approving loans to related persons; (b) entering into deals or contracts with entities where COM members, staff, or their family members have interests in; or (c) borrowing money or accepting lavish gifts from suppliers or entities which the co-op has dealings or relationships with.

3.4 COM members and staff who are related parties to a potential transaction should abstain from the deliberations and decision-making of the transaction.

3.5 All such discussions and evaluations by the COM or relevant approving authority that contribute to the final decision should be clearly documented.

3.6 Loans to staff, COM members or other related parties should be disclosed at the COM meetings. Such disclosures should be stated in the minutes of meetings.

SECTION 4: RELATED PARTY TRANSACTIONS

Principle

4.1 The COM should ensure that the co-op's related party transactions⁶ are undertaken on an arm's length basis.

Guidelines

4.2 The co-op should establish policies and procedures on related party transactions, which include the definitions of relatedness, limits applied, terms of transactions, and the authorities and procedures for approving, monitoring, and, where necessary, writing-off of these transactions.

4.3 Related party transactions should be monitored with particular care, and appropriate steps taken to control or mitigate the risks of related party lending. The terms and conditions of such transactions should not be more favourable than transactions conducted with non-related parties under similar circumstances.

4.4 The COM should approve every transaction with a related party and the writing-off of related-party exposures.

4.5 COM members with conflicts of interest should be excluded from the approval process of granting and managing related party transactions.

4.6 The co-op's internal auditor should review all related party transactions and keep the COM informed of such transactions, the findings and conclusions from its review.

⁶ "Related party transaction" means a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions include transactions with related parties, COM members and COM member-related entities. "Related party", in relation to a co-op, means any of its associates or subsidiaries, its parent entity or any subsidiary of its parent entity.

SECTION 5: HONORARIUM, ALLOWANCE, SALARY AND BENEFITS

Principle

5.1 The quantum of honorarium, allowance, salary and/or benefits to the COM and staff should be aligned with the long-term interests of the co-op.

Guidelines

5.2 There should be established policies on honorarium, allowance, salary and/or benefits to co-op officers⁷.

5.3 Officers should not decide their own honorarium, allowance, salary and/or benefits.

5.4 The quantum of honorarium, allowance, salary and/or benefits for the officers should take into account:

- a) the relevant experience and qualifications of the officer;
- b) all the contributions to the co-op by the officer;
- c) the duties and responsibilities of the position;
- d) the size and complexity of the co-op's business; and
- e) whether the officer is appointed in an ex-officio capacity.

5.5 The quantum of the honorarium, allowance and/or other benefits to the whole COM shall be tabled as a resolution during a general meeting for members' approval⁸.

5.6 The honorarium or allowance and/or other benefits to the whole COM should be disclosed in the audited financial statements.

5.7 If a COM member is also a paid employee of the co-op, and is receiving honorarium or allowance and/or other benefits for his/her service in the COM, the

⁷ "Officer" includes a chairman, vice-chairman, director, secretary, assistant secretary, treasurer, assistant treasurer, COM member, employee, internal auditor, liquidator or other person empowered under this Act, the Rules or the by-laws, to give directives in regard to the business of a society or to supervise the business;

⁸ The restrictions on honorarium, allowance and benefits can be found in the Co-operative Societies Act.

components should be separated. The honorarium or allowance and/or other benefits should commensurate his/her COM role and should be declared accordingly, while the salary should commensurate his/her employee role.

SECTION 6: INTERNAL CONTROLS

Principle

6.1 The co-op should maintain a sound system of internal controls to safeguard the members' interests and the co-op's assets.

Guidelines

6.2 The COM should ensure that a review of the effectiveness of the co-op's material controls, including financial, operational, information technology (IT) systems and compliance controls, and risk management, is conducted periodically. Such review may be performed by internal auditors (in-house or outsourced) or external consultants.

6.3 Appropriate corrective and preventive actions should be promptly taken to address any identified lapses relating to internal controls.

6.4 The SOPs and forms should be periodically reviewed and updated.

6.5 There should be appropriate segregation of duties. Segregation of duties is the concept of assigning multiple persons to complete a task, such as, in the approval, execution, custody and recording functions. For example, the cheque preparer should not be an authorised signatory.

6.6 The COM should clearly define and communicate to all staff, the organisation structure, policies on limits of authority and delegation of responsibilities.

6.7 There should be monthly bank reconciliation, prepared within a month from the close of the reporting month.

6.8 In approving loans to members and other transactions, the approving officer should ensure that there are proper and complete supporting documents.

6.9 The COM should implement controls to secure the co-op' premises, documents, computers, files and data.

6.10 The co-op's books and records (whether in hardcopy or electronic form) should be promptly updated.

6.11 Given the ongoing threat of money laundering and terrorist financing, the co-op should seek information from their members, in addition to the basic information (such as name, NRIC and address etc.), relating to their employment and income. The co-op should also put in place processes to identify and report any suspicious transactions (e.g. large deposits by a member which do not match his/her earning ability) to the relevant authorities.

SECTION 7: INTERNAL AUDIT

Principle

7.1 The co-op should have an effective Internal Audit function.

Guidelines

7.2 The Internal Audit function should be adequately resourced and independent from the activities it audits. The function can either be in-house, outsourced to accounting/auditing firm, or performed by Internal Auditors of another entity.

7.3 In-house Internal Auditors should possess relevant finance and accounting knowledge/qualifications as well as devote sufficient time to perform the internal audit role.

7.4 The Internal Auditor's responsibilities should include (but not limited to) the following:

- a) evaluate the reliability, adequacy and effectiveness of the internal controls and risk management processes of the co-op;
- b) review the internal controls of the co-op to ensure prompt and accurate recording of transactions and proper safeguarding of assets;
- c) review whether the co-op complies with its by-laws and the relevant regulatory requirements;
- d) review whether the co-op adheres to established policies and SOPs;
- e) review whether the co-op has taken or is taking the appropriate steps to address control deficiencies; and
- f) report to the AC the findings arising from the reviews and if lapses are found, provide recommendations to the AC on the possible corrective/preventive actions.

7.5 The Internal Auditor should have unfettered access to the AC, the COM, as well as the co-op's documents, records, properties and personnel.

7.6 The Internal Auditor has the right to seek information and explanation from the COM, sub-committees and staff.

SECTION 8: ACCOUNTABILITY AND DISCLOSURE

Principle

8.1 As a member-owned organisation, the COM is primarily accountable to the co-op members for the governance and performance of the co-op. The co-op should treat all members fairly and equitably. It should also uphold and facilitate the exercise of members' rights. There should be adequate and timely disclosure to members.

Guidelines

8.2 The co-op should provide relevant and material information to its members on a timely basis. In disclosing information, the co-op should provide sufficient details, especially on matters pertaining to financial and governance issues.

8.3 Where the COM or members have identified any issues such as financial and governance matters, the COM should update members of the actions that are taken and/or to be taken to address these issues.

8.4 The latest by-laws, Annual Report and Audited Financial Statements should be made easily available to all members (e.g. sent to members, placed on the co-op's website and/or obtainable from office premises).

8.5 The number of COM meetings held in the year, as well as the attendance of every COM member at these meetings, should be disclosed in the co-op's annual report.

8.6 The number of AC meetings held in the year, attendance of every AC member at these meetings as well as a summary of their activities should be disclosed in the co-op's annual report.

8.7 The Statement of Accounts should be sent to each member at least once a year or within five working days upon members' request (in person or online). If members of a co-op are able to view their Statement of Accounts through online services, the co-op should ensure that there are adequate safeguards to ensure data security, integrity and confidentiality.

8.8 The COM should report at the AGM on key activities occurring since the last general meeting and matters required under the Act, including the proposed

distribution of net surplus and the work of the COM in the preceding financial year. The COM should also explain why certain deliverables shared in the previous AGM were not met or implemented, if any.

8.9 The COM should present to the members a balanced and objective assessment of the co-op's performance, financial position and prospects (e.g. highlight foreseeable risk factors).

8.10 The COM should seek members' prior approval for major decisions or transactions that may materially affect members' interests (e.g. relocation of office unit for credit services, removal of specific funds or increase in notice period for withdrawal of deposits).

8.11 If the COM plans to undertake a capital development project which requires significant funds or to acquire/sell any immovable property, the co-op should disclose sufficient details of the transaction to members (e.g. the purpose, description, budget and the planned implementation timeline). Where applicable, the COM should present available and feasible options for members to consider and decide.

8.12 The COM should ensure that its members have the opportunity to communicate their views and to vote at general meetings.

8.13 The co-op should provide in its by-laws as well as disclose to potential members the following matters:

- a) the maximum notice period⁹ for a member to withdraw deposits, subscription capital and share capital;
- b) the treatment of dormant accounts and unclaimed balances in deposit accounts after a specified number of years;
- c) upon withdrawal of ordinary shares, the amount receivable by a member is the nominal value or net asset value (based on the latest available Audited Financial Statements) of the shares, whichever is lower; and
- d) in the event of liquidation of the co-op, a member can receive at most his/her deposits, subscription capital, share capital, dividends and any patronage rebates (if applicable).

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⁹ The specific notice periods for the withdrawal of share capital, subscription capital and different types of deposits may be stated in other platforms accessible to members (e.g. co-op's website, social media pages or administrative rules). The co-op should highlight to members changes to the notice periods and provide a reasonable time frame before the effective dates for transparency.