

Proposed Policy Changes relating to the Credit Co-operatives

S/N	Existing Rule	Proposed Changes	Rationale
Raising Prudential Standards and Promoting Compliance			
1)	<p>Minimum Liquid Assets (“MLA”) ratio: A credit co-op which receives deposits shall hold at all times liquid assets (i.e. cash on hand, cash in banks and Singapore Government Securities) of <u>at least 13%</u> of its total deposits (from members).</p>	<p>To raise MLA ratio from 13% to 15%</p>	<p>MLA helps ensure that a credit co-op maintains sufficient liquid assets as a buffer against withdrawals. It helps to maintain members’ confidence as liquidity shortages may trigger deposit runs.</p> <p>A higher ratio will provide more buffer to meet sudden surge in withdrawals by members.</p>
2)	<p>Capital Adequacy Ratio (“CAR”) and Dividend Restriction: A credit co-op which holds deposits should maintain CAR (i.e. institutional capital over total assets) of <u>at least 8%</u> by 30 June 2016.</p>	<p>To raise CAR from 8% to 10% with effect from 1 July 2018</p>	<p>Capital adequacy is important as it provides a credit co-op with basic level of institutional capital as buffer to absorb unforeseeable losses. Higher CAR will therefore provide more buffer for a credit co-op.</p>

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3)	<p>Capital Adequacy Ratio (“CAR”) and Dividend Restriction: A credit co-op with less than 6% CAR as at financial year end and intends to distribute dividends from that year’s surplus shall seek the Registry’s written approval for the proposed dividends.</p>	<p>A credit co-op with less than 8% CAR by 30 June 2016 and 10% by 30 June 2018 and intends to distribute dividends from that year’s surplus shall seek the Registry’s written approval for the proposed dividends.</p>	<p>The rule will enable credit co-ops to meet the required CAR early.</p>
4)	<p>Capital Adequacy Ratio (“CAR”): Currently, for computation of CAR, only general reserve, accumulated/ unappropriated funds are considered as “institutional capital”.</p>	<p>The Registry will allow all co-ops to issue permanent (irredeemable) shares, to be purchased by institutional members only. Hence permanent shares issued by credit co-ops and cash donations will be considered as institutional capital. <i>(additional rule)</i></p>	<p>It will facilitate the credit co-ops’ compliance with the CAR requirement by providing additional avenues for credit co-ops to raise institutional capital.</p>
5)	<p>Investment Restrictions: Currently, a credit co-op with restricted investments (“RI”) exceeding the applicable limit (up to 30%) must seek to meet the limit by 30 June 2015. In the interim, the co-op cannot invest in new RI.</p>	<p>A credit co-op with RI exceeding the applicable limit and which intends to distribute dividends from that year’s surplus shall seek the Registry’s written approval for the proposed dividends. <i>(additional rule)</i></p>	<p>This is to promote compliance of the investment restrictions. The primary role of credit co-ops is to provide thrift and loan services, rather than investment services. The restriction will counter the motivation of co-ops to keep the RI high and taking on more risks (i.e. so as to earn investment revenue and pay desired dividend rate to members).</p>

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6)	<p>Exceptional Unsecured Loans: A credit co-op can grant larger loans exceeding the applicable loan limits as long as the excess amount is within the 5% exceptional loan allowance*. There are no restrictions or guidelines on the types of loans that are granted and counted under the exceptional loan allowance. There is also no requirement to provide details to the Registry.</p> <p>* Allowance = 5% of total unsecured loans (excluding medical, education and renovation loans) granted in the preceding financial year.</p>	<p>Credit co-ops will be advised not to grant exceptional loans for these loan purposes: overseas travel, renovation, purchase of luxury items, vehicles, business expansion etc. <i>(additional rule)</i></p> <p>Credit co-ops shall provide more details (through regular returns) of their exceptional loans to the Registry. The information include: name of borrower, loan purpose, amount of loan, each loan as a percentage of total exceptional loans, any check-off arrangement, number of sureties and borrower's monthly income. <i>(additional rule)</i></p>	<p>Exceptional loans are intended to help members who are in financial hardship and need larger loans. Given this policy intent and the concern of over-spending and over-borrowing by individuals, the allowance for exceptional loans should not be used for loan purposes that are related to future expenses on discretionary items.</p>
7)	<p>Exceptional Unsecured Loans: If a credit co-op exceeded its exceptional loan allowance, it is not allowed to grant more exceptional loans.</p>	<p>If a credit co-op exceeded its exceptional loan allowance, the following FY's exceptional allowance will be reduced by the excess amount of exceptional loans granted. <i>(additional rule)</i></p>	<p>This is to promote compliance with the rules on granting of unsecured loans.</p>

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8)	<p>Unsecured Loan Limits: Credit co-ops with higher CAR and MLA can apply higher tier loan limits. The current limits are:</p> <p><u>From 1 Jul 2016</u></p> <p>Tier A: at least 12% CAR and 15% MLA</p> <ul style="list-style-type: none"> - Loan limit is \$50,000 or 6 months' income* <p>Tier B: at least 8% CAR and 13% MLA</p> <ul style="list-style-type: none"> - Loan limit is \$40,000 or 6 months' income* <p>Tier C: less than 8% CAR or 13% MLA</p> <ul style="list-style-type: none"> - Loan limit is \$20,000 or 4 months' income* <p>* Whichever is lower; provided that guarantor is a member of the co-op or the borrower is on salary check-off arrangement</p>	<p><u>From effective date of change to 30 June 2018 (revised)</u></p> <p>Tier A: at least 10% CAR and 17% MLA</p> <ul style="list-style-type: none"> - Loan limit is \$50,000 or 6 months' income* <p>Tier B: at least 8% CAR and 15% MLA</p> <ul style="list-style-type: none"> - Loan limit is \$40,000 or 6 months' income* <p>Tier C: less than 8% CAR or 15% MLA</p> <ul style="list-style-type: none"> - Loan limit is \$20,000 or 4 months' income* <p><u>From 1 July 2018 (new)</u></p> <p>Tier A: at least 12% CAR and 17% MLA</p> <ul style="list-style-type: none"> - Loan limit is \$50,000 or 6 months' income* <p>Tier B: at least 10% CAR and 15% MLA</p> <ul style="list-style-type: none"> - Loan limit is \$40,000 or 6 months' income* <p>Tier C: less than 10% CAR or 15% MLA</p> <ul style="list-style-type: none"> - Loan limit is \$20,000 or 4 months' income* 	<p>Loan limits are imposed to help credit co-ops manage their credit risks and more importantly, they serve the social purpose of ensuring that members do not over-extend themselves. Apart from the Monetary Authority of Singapore (MAS), credit union regulators such as United Kingdom and Ireland also impose loan limits.</p> <p>The unsecured loan limits imposed on the credit co-ops are already higher than those imposed on the financial institutions and moneylenders. Hence there will be no further relaxation. However, as the required CAR and MLA ratios are raised, the loan limits will be pegged to higher CAR and MLA ratio.</p> <p>The Singapore National Co-operative Federation ("SNCF") has requested to peg Tier A to the proposed required CAR of 10% (going forward). However, to keep to the policy intent where only credit co-ops with better CAR and MLA (above minimum requirements) can</p>

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			apply Tier A, the CAR for Tier A will only be raised to 12% from 1 July 2018. More lead time will be given to the credit co-ops to attain 12% CAR.
9)	Secured Loan Limits: Rules implemented in August 2011 (e.g. applicable loan-to-valuation ratios) are not consistent with subsequent changes by Monetary Authority of Singapore (“MAS”) on residential property and motor vehicle loans.	To align the current rules on residential property and motor vehicle loans to the rules imposed by MAS on the financial institutions.	Currently, the credit co-ops do not grant many residential property and motor vehicle loans. Nevertheless, property loans can constitute a significant portion of an individual’s debts. A discrepancy in the rules (for regulated lenders) may undermine government’s efforts to curb continued upward pressure on residential property prices and to encourage financial prudence among borrowers. Hence, the rules on secured loan limits for credit co-ops will be aligned to those applicable to financial institutions and moneylenders.
10)	Non-compliance of Prudential Requirements: The Registry has not taken any enforcement actions against non-compliance of the prudential requirements so as to provide a longer grace period to the	If there is persistent non-compliance of prudential requirements, a credit co-op shall be given a year to work towards compliance. If there is still non-compliance by the end of the one-year grace period, the co-op may be	The prudential requirements have already been imposed for some time. This recommendation aims to promote compliance of the full set of prudential requirements after the stipulated grace periods.

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	credit co-ops.	<p>disallowed from taking in new deposits. The prohibition will only be lifted after the co-op has met all prudential requirements and put in place adequate prudential safeguards. <i>(additional rule)</i></p> <p>If the credit co-op still fails to meet all the requirements after 2 years, the Registrar shall have the power to deregister the credit co-op (it may remain as a non-credit co-op). The Registry may waive the penalties after considering mitigating factors (e.g. a credit co-op shows that it is making efforts to work towards the requirements). <i>(additional rule)</i></p>	
Improving Governance Standards			
11)	<p>Qualification Requirements of Committee of Management (“COM”) and key staff officers: Currently there are no qualification requirements of COM and key staff officers.</p>	<p>There will be minimum qualifications for COM and other key staff officers. For example:</p>	<p>It is critical to ensure that members of the COM and key employees are equipped with sufficient skills and expertise to enable them to properly fulfil their roles and responsibilities. This is particularly important for those in key roles requiring specialised knowledge and expertise.</p>

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		<p>(a) At least one member of the Audit Committee and the key finance officer should have recent and relevant accounting or related financial management expertise¹ and work experience.</p> <p>(b) The Chief Executive Officer (“CEO” or equivalent) should have recent and relevant business management or financial management expertise or work experience.</p> <p>(c) For credit co-ops which are unable or prefer not to hire accountants as their key finance officers, the Registry may allow them to use the shared accounting services as recommended by SNCF or other service providers (as approved by the Registry) instead.</p> <p>(d) At least one member of the Investment Committee should be professionally qualified or have sufficient relevant work experience.</p> <p>(e) A credit co-op managing restricted investments of above the value of</p>	<p>A competency and skills matrix will be developed which outlines the necessary core competencies and expected competency levels. It will establish the timeframes within which these competencies should be attained. It will also map each core competency to the training courses/programmes offered by Singapore National Co-operative Federation (“SNCF”) or other accredited training providers.</p> <p>This recommendation aims to level up the credit co-ops’ capability to operate with higher professionalism.</p> <p>To defray the increase in expense in initial years, credit co-ops could utilise the existing Capacity and Capability Development grant² to help defray the costs of hiring qualified persons.</p>

¹ This includes having academic qualifications in accountancy, business, finance or equivalent.

² Up to 15% of the Co-op’s total contribution to the Central Co-operative Fund (CCF) and capped at \$15,000 whichever is lower.

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		<p>\$50mil, without external fund managers, is required to have a qualified investment officer to assist the Investment Committee in managing the portfolio. Such a person should have a degree in accountancy, business, finance or equivalent, or have sufficient relevant work experience.</p> <p>Please refer to <u>Annex B</u> for more details. <i>(additional rule)</i></p>	
12)	<p>Co-option of Committee of Management (“COM”) during term of office: Under the Act, if there is a vacancy during the term of office and the number of COM officers falls below 5, a co-op may co-opt a co-op member to the COM until the next AGM.</p>	<p>A credit co-op can co-opt up to 2 new persons to the COM, even if there is no vacancy. To provide more objectivity, the co-option must be approved by the whole COM.</p> <p>The Registrar may also direct a credit co-op to co-opt up to 2 new persons if the Registrar is of the view that the existing COM needs additional expertise.</p> <p>In addition, non-members can be co-opted, so that a co-op can tap on the expertise of individuals who do not qualify for membership.</p>	<p>This will allow credit co-ops to bring in persons with relevant skills and knowledge who can beef up the strength and capability of the COM.</p> <p>The Singapore National Co-operative Federation (“SNCF”) may assist those credit co-ops which are interested to co-opt new persons into their COM.</p>

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13)	<p>Reporting of Qualifications of Committee of Management (COM) and other key officers: Currently, co-ops submit the information of the COM which includes name, NRIC, addresses, occupations and telephone number in their returns to the Registry. The Registry does not have information on co-op officers' academic background and working experience.</p>	<p>Credit co-ops shall submit the academic background and relevant working experience of its COM members, advisors and key staff officers (e.g. CEO or equivalent and key finance officer) annually.</p> <p><i>(additional rule)</i></p>	<p>The additional information will enable the Registry to assess the competency of the credit co-ops' COM, advisors and key staff officers.</p>
14)	<p>Training for credit co-op officers: Officers take courses related to co-op operations on a voluntary basis.</p> <p>For example, the Singapore National Co-operative Federation ("SNCF")</p> <ul style="list-style-type: none"> (a) organises courses on investment, accounting, governance and induction courses for new COM members; (b) offers bursaries to staff/members of co-ops who seek to upgrade their skills at the polytechnics; (c) offers shared book-keeping services; and 	<p>The Registry will work with SNCF to develop a competency and skills framework for COM and key staff officers. The framework will facilitate the sourcing and recommendation of suitable courses for the key officers. There will be a mandatory induction course covering regulatory requirements, COM responsibilities and key areas of credit co-op operations etc.</p> <p>The COM and key staff officers must attend the course within 6 months of their election or appointment to office. If the person does not attend or complete</p>	<p>The COM and key staff officers should be knowledgeable, experienced and well-trained to manage the credit co-op. The COM should also ensure that they are able to devote sufficient time and attention to the affairs of the credit co-op. Key staff officers should seek to acquire the relevant knowledge in credit co-op operations to effectively perform their roles and properly discharge their management responsibilities.</p>

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	<p>(d) develops a new IT system to manage deposits and loans.</p> <p>SNCF administers a Capacity and Capability Development (CCD) grant scheme (funded by the Central Co-operative Fund) to provide funding for training and capacity building in the areas of facilities enhancement, IT hardware, software and systems, and hiring of qualified accountants.</p>	<p>the course, he will not be eligible for re-election or re-appointment.</p> <p><i>(additional rule)</i></p>	
15)	<p>Code of Governance: The Registry and SNCF developed and introduced the Code of Governance for co-ops in 2006. The Code covers these areas: Board Matters, Conflict of Interest Policy, Human Resource Policy, Accountability & Audit, Management of Funds and Corporate Communications. Co-ops are strongly encouraged to adopt the Code.</p>	<p>The Registry will work with SNCF and the sector to update the 2006 Code of Governance. This Code will remain as a principle-based guide and the co-ops should set and/or revise their internal policies and procedures to be in line with the governance principles.</p>	<p>By applying the updated Code, it will help key officers to effectively perform their roles and discharge their management responsibilities.</p>

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16)	Nil	<p>The Registry and SNCF will work together to develop risk governance guides for credit co-ops:</p> <p>(a) <u>Internal Controls</u> – covering key concepts for effective risk management, common risk areas in the payment, collection and custody functions as well as fundamental control measures;</p> <p>(b) <u>Loan Management</u> – covering functions and risks relating to credit evaluation, credit administration and loan repayments as well as control measures and portfolio monitoring to address these risks; and</p> <p>(c) <u>Investment Management</u> - describing the functions and risks relating to investment policies, acquisition and divestment as well as control measures and portfolio monitoring to address these risks.</p>	<p>These best practices guides will serve as useful reference to guide co-op officers in managing the operations. Credit co-ops will be consulted in the development process.</p>
17)	<p>Annual Report and Audited Financial Statements: No requirement to disclose prudential ratios and details of defaulted loans (number of such loans and total</p>	<p>Credit co-ops are required to disclose the following to their members in annual general meetings and in their audited financial statements:</p>	<p>The disclosure of prudential ratios will promote higher transparency and all stakeholders can have sight of a credit co-op’s compliance with prudential ratios. The disclosure of loan</p>

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	amount).	<p>(a) Minimum Liquid Assets ratio;</p> <p>(b) Capital Adequacy Ratio;</p> <p>(c) Restricted investments as a % of total assets (“RI%”)</p> <p>The statutory auditors will be required to ascertain compliance as part of their audit procedures. The auditors’ report should include an opinion on whether a credit co-op has met the prudential requirements.</p> <p>Credit co-ops are also required to disclose the following in their Annual Reports:</p> <p>(a) Delinquent loans – total amount</p> <p>(b) Delinquent loans³ – breakdown of amount by number of months in arrears:</p> <p style="padding-left: 40px;">(i) “1 month to 3 months”;</p> <p style="padding-left: 40px;">(ii) “more than 3 months to 6 months”;</p> <p style="padding-left: 40px;">(iii) “more than 6 months to 12 months”; and</p>	<p>information will enable stakeholders to understand and monitor the loan trends. It will also help to assess whether the provisions for bad and doubtful loans are reasonable.</p>

³ Delinquent loans refer to loans that did not receive full regular repayment based on the loan contract. Loans with monthly repayments shall be considered as delinquent when a full payment has not been made for the past 1 month.

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		(iv) "more than 12 months". (v) Total outstanding unsecured loans (vi) Total exceptional unsecured loans (amount and number of loans) (vii) Total outstanding secured loans <i>(additional rule)</i>	
18)	Statements of Accounts: Under the model by-laws issued by the Registry, a credit co-op shall have a by-law which states that the Statements of Accounts must be sent to the members at least once a year.	Statement of Accounts shall be sent to members at least twice a year.	By sending Statement of Accounts to members at least twice a year, members will have additional opportunity to check and verify their deposits and outstanding loans with their credit co-ops. If there is any discrepancy to the figures spotted by members, there can be more timely correction or investigation by the credit co-ops.
19)	Some credit co-ops are active in non-credit businesses like consultancy services, running childcare centre etc. Any losses from these businesses may risk members' funds.	The Registry will discuss with the credit co-ops regarding their plans on non-credit businesses to mitigate the risks or even divest from such businesses in the longer term.	While the non-credit business activities generally provide regular income and they exist to benefit the members, there can still be business risks that may jeopardise the members' deposits. Hence, it is prudent for the Registry to

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			assess the non-credit businesses and discuss with the credit co-ops to minimise or mitigate the risks posed by the non-credit business.
20)	Institute Governance Audits: In 2014, the Registry started to audit credit co-ops on their meeting of prudential requirements and internal controls. The Registry plans to broaden the audit to all the credit co-ops in batches and the full round of audits are likely to be completed by early 2016.	Governance audits will be made a regular and routine requirement. The intention is to have the Registry or external consultants audit credit co-ops at least once every 3 years. Larger, higher impact or higher risk co-ops may be audited at shorter intervals.	Regular governance audits will ensure that credit co-ops operate with reasonable level of governance and take timely corrective actions if there are lapses and/or gaps found.
More Robust Regulatory Surveillance and Oversight			
21)	Regulatory powers to deal with distressed credit co-ops: The legislation does not have wide range of powers to enable the Registry to take appropriate actions in dealing with a credit co-op in distress.	The Registrar will be empowered to better deal with a credit co-op in distress, such as: (a) If a credit co-op is or is likely to become insolvent, or is or is likely to become unable to meet its obligations or is about to suspend payments, it must inform the Registry immediately;	The proposed powers are in line with the Monetary Authority of Singapore's powers in managing finance companies and international practices in managing credit unions.

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		<ul style="list-style-type: none"> (b) The Registrar may require a credit co-op to immediately do or not to do any act or thing whatsoever in relation to its business as the Registrar may consider necessary; (c) The Registrar may appoint statutory adviser(s) to advise the credit co-op on the proper management of its affairs and/or business; and (d) The Registrar may appoint statutory manager(s) to manage the business. 	
22)	<p>Use of Co-operative Societies Liquidation Account (“CSLA”): Currently, CSLA holds the proceeds from liquidated co-ops and the law did not explicitly provide that CSLA can be used to fund resolution actions relating to distressed credit co-ops (such as appointment of interim manager, grant to facilitate transfer of co-op etc.).</p>	<p>To allow CSLA to be used to fund resolutions actions on a case by case basis.</p>	<p>This is to enable the Registry to take appropriate and timely actions to better protect the interests of members in dealing with credit co-ops in distress.</p>

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Other Changes			
23)	<p>Advertising: Credit co-ops are not allowed to advertise their thrift and loan services in the mass media. The rationale was that credit co-ops should only serve their own members and therefore should not advertise on mass media platform as this would reach out to the general public.</p>	<p>Credit co-ops may advertise on mass media on these conditions which include:</p> <ul style="list-style-type: none"> (a) Advertisements should be accurate and shall not be misleading; (b) The membership criteria based on pre-existing common bond must be clearly stated; and (c) Besides the applicable interest rate, the administrative fees and other charges shall be disclosed. 	<p>Following the 2008 amendments, credit co-ops have amended their by-laws to make clear the membership criteria based on pre-existing common bond. Hence, even if credit co-ops advertise their services on the mass media, they can only admit persons who meet the criteria.</p> <p>The attached conditions for advertisements help to ensure:</p> <ul style="list-style-type: none"> - proper conduct of credit co-ops in advertising their services; and - that the existing and potential credit co-op members have accurate information to make more informed decisions when considering the services of credit co-ops.

Annex B

Minimum Qualifications for Credit Co-op Key Officers

Role	Required Qualification	Proposed Requirement	Criteria Applicability
Audit Committee	Have recent and relevant accounting or related financial management expertise <u>AND</u> work experience.	At least one member of the Audit Committee should be qualified.	For all credit co-ops
Key Finance Officer		(1) Appoint qualified key officer in-charge; <u>OR</u> (2) Use of approved shared services for co-ops which are unable to hire qualified accountant.	
Chief Executive Officer (or equivalent)	Have recent and relevant business management or financial management expertise <u>OR</u> work experience.	Appoint qualified chief executive officer	For all credit co-ops
Investment Committee	Professionally qualified in accounting or related financial management expertise <u>OR</u> have sufficient relevant work experience.	At least one member of the Investment Committee should be qualified.	For credit co-ops with: <ul style="list-style-type: none"> ▪ Restricted Investments of more than \$10mil; <u>OR</u> ▪ Given approval to apply 30% restricted investments limit
Key Investment Officer		Appoint qualified key officer in-charge	For credit co-ops with Restricted Investments of more than \$50mil managed internally ⁴

⁴ For credit co-ops which do not have external fund managers to manage their restricted investments of at least \$50mil.