



REGISTRY OF CO-OPERATIVE SOCIETIES

Ministry of Culture, Community and Youth

RCS SF70.1

18 December 2018

WRITTEN DIRECTION TO CREDIT SOCIETIES CO-OPERATIVE SOCIETIES ACT (CAP. 62)

PROVISIONS FOR BAD AND DOUBTFUL LOANS, AND IMPAIRMENT LOSS FOR INVESTMENTS

Application

This Written Direction is issued pursuant to section 93(2) of the Co-operative Societies Act (Cap. 62) (hereinafter referred to as “the Act”) and applies to all credit societies. This Written Direction takes effect from **21 December 2018**, and supersedes the Written Direction on Provisions for Bad and Doubtful Loans, and Impairment Loss for Investments issued on 26 November 2010 (reference: RCS/SF70.1.3).

Definitions

2. In this Written Direction –

- (a) “financial statements” has the same meaning as defined in the Financial Reporting Standards (hereinafter referred to as “FRS”) issued by the Accounting Standards Council (hereinafter referred to as “ASC”) established under the Accounting Standards Act (Cap. 2B); and
- (b) all expressions used shall, except where expressly defined in this Written Direction or where the context otherwise requires, have the same meanings as in the Act.

Provisioning Requirement

3. A credit society shall make provisions for its bad and doubtful loans, and impairment loss for investments in accordance with FRS 109 *Financial Instruments*.

4. The provisions for its bad and doubtful loans, and impairment loss for investments, shall be reviewed by the credit society regularly, and shall be recorded in its financial statements at least half-yearly as at –

- a. the end of the first half of each financial year of the credit society; and
- b. the end of the second half of each financial year of the credit society.

Non-compliance

5. The Registrar may from time to time conduct or commission audits to ensure compliance with this Written Direction.

6. Under Section 100 of the Act, any failure to comply with this Written Direction amounts to an offence. The offence is punishable on conviction to a fine not exceeding \$10,000 and, in the case of a continuing offence, to a further fine not exceeding \$500 for every day or part thereof during which the offence continues after conviction.

Frequently Asked Questions (“FAQs”)

Please note that the FAQs below are provided for the sole purpose of offering additional information regarding the Written Direction. The FAQs are not part of the Written Direction.

Q1. Why does a credit society need to make provisions for bad and doubtful loans as well as impairment loss for investments?

A credit society should be prudent, and maintain adequate provisions to absorb potential credit and investment losses resulting from its operations. Provisions for bad and doubtful loans are made to recognise any potential non-recovery of loans. Similarly, provisions for impairment loss for investments are made to recognise any decline in investment value. With the provisions made, the Balance Sheet as well as Income & Expenditure Statement will better reflect the actual worth of the loans and investments held by the credit society. This will enable the credit society’s Committee of Management (“COM”) to make more timely and informed decisions in the management of loans and investments. For instance, the COM may tighten the qualifying criteria for loan applications so as to minimise bad and doubtful loans in future. They may also instruct more active actions in the recovery of delinquent loans.

Q2. When should a credit society record the first provision that is required under the written direction?

If the financial year end date of a credit society is 31 December, the first provision should be recorded in financial statements as at 31 Dec 2018 (i.e. end of second half of the financial year). The next provision for the year should be made and recorded in the financial statements as at 30 Jun 2019 (i.e. end of first half of the financial year).

If the financial year end date of a credit society is 31 March, the first provision should be recorded in the financial statements as at 31 Mar 2019 (i.e. end of second half of the financial year). The next provision for the year should be recorded in the financial statements as at 30 Sep 2019 (i.e. end of first half of the financial year).

The credit society is free to review and record the provisions more frequently (e.g. monthly or quarterly).

Q3. Where can credit societies obtain information on FRS?

Information on FRS can be obtained from the website of the Accounting Standards Council at www.asc.gov.sg.

Q4. Do credit societies need to provide returns to the Registry on the provisions for bad and doubtful loans as well as impairment loss for investment?

This Written Direction does not require credit societies to provide any returns relating to this prudential requirement. However, the Registry may conduct ad-hoc audits to check if a credit society is complying with the prudential requirement.