



REGISTRY OF CO-OPERATIVE SOCIETIES
Ministry of Culture, Community and Youth

RCS SF 70.6

24 October 2018

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

INVESTMENTS

Application

1. 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 which receive deposits. This Written Direction takes effect from **1 November 2018**, and supersedes the Written Direction on Investments issued on 18 November 2013 (reference: RCS/SF70.6).

Definitions

2. In this Written Direction, unless the context otherwise requires –

“applicable RI limit” means the restricted investments limit applicable to a credit society;

“Central Investment Scheme” or “CIS” means the investment scheme established in conjunction with the Central Co-operative Fund, which any credit society may participate in subject to the terms and conditions of its agreement with the appointed fund manager;

“COM”, in relation to a credit society, means the committee of management or board of directors of the credit society;

“liquid assets” means the following assets:

- (a) cash;
- (b) Singapore dollar deposits in all savings accounts, current accounts and fixed deposit accounts (excluding any interest receivable) with financial institutions licensed by the Monetary Authority of Singapore;

- (c) Singapore Government Securities,
provided that the assets are free from any prior encumbrances;

“minimum liquid assets” or “MLA”, in relation to a credit society, means the credit society’s liquid assets expressed as a percentage of its total deposits, based on the most recent financial statements of the credit society;

“restricted investments” or “RI”, in relation to a credit society, means any form or type of investment other than –

- (a) bonds issued by any statutory board in Singapore;
- (b) Singapore Dollar deposits in financial institutions licensed or otherwise regulated by the Monetary Authority of Singapore;
- (c) Singapore Government Securities;
- (d) capital-guaranteed investment funds or products managed by financial institutions licensed or regulated by the Monetary Authority of Singapore, where the issuer(s) guarantee the return of 100% of the capital invested at a pre-determined date in the future; and
- (e) special investments up to 10% of the total assets of the credit society;

“restricted investments limit” or “RI limit”, in relation to a credit society, means the maximum percentage of the total assets of the credit society that may be invested in restricted investments, where –

- (a) the default RI limit is 10%; and
- (b) a credit society may apply a higher RI limit of 20% or 30%, subject to the conditions in Paragraph 5;

“Singapore Government Securities” means securities or any equivalent instrument issued under the Government Securities Act (Cap. 121A), the Loan Treasury Bills Act (Cap.167) or any other written law in Singapore;

“special investments” or “SI” means investments in any financial product or investment scheme specified in this Written Direction.

- 3. In this Written Direction –
 - (a) unless otherwise specified, “total assets”, in relation to a credit society, refers to the total assets the credit society based on the most recent financial statements of the credit society (whether audited or unaudited);
 - (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.

Investment Restrictions

- 4. The total value of RI held at any time by a credit society which receives deposits shall not exceed 10% of its total assets.

5. Notwithstanding paragraph 4, a credit society which receives deposits may apply a higher RI limit of 20% or 30% under the following conditions:

RI Limit	Conditions
20%	<ul style="list-style-type: none"> (a) The credit society has a positive net equity (<i>i.e.</i> total assets less total liabilities) based on audited financial statements for the immediately preceding financial year; (b) There is in effect a resolution, passed at a general meeting of the credit society, approving the 20% RI limit and the investment plan for a period not exceeding 3 years; (c) The COM shall, in seeking such approval of the general meeting, provide sufficient and relevant information based on the guidelines or templates issued or endorsed by the Registrar; (d) The COM shall notify the Registrar <u>within 30 days</u> of such approval of the general meeting by providing the extract of minutes of the general meeting recording such approval, and the information tabled at the general meeting for seeking such approval; (e) The COM shall report the credit society's investment performance at a general meeting every year based on the guidelines or templates issued or endorsed by the Registrar; and (f) The information on the investment performance of the credit society shall be included in the credit society's Annual Report.
30%	<ul style="list-style-type: none"> (a) The credit society has a positive net equity (<i>i.e.</i> total assets less total liabilities) based on audited financial statements for the immediately preceding financial year; (b) There is in effect a resolution, passed at a general meeting of the credit society, approving the 30% RI limit and the investment plan for a period not exceeding 3 years; (c) The COM shall, in seeking such approval of the general meeting, provide sufficient and relevant information based on the guidelines or templates issued or endorsed by the Registrar; (d) The COM shall – <ul style="list-style-type: none"> (i) notify the Registrar <u>within 30 days</u> of such approval of the general meeting by providing the extract of minutes of the general meeting recording such approval, and the information tabled at the general meeting for seeking such approval; and

RI Limit	Conditions
	<p>(ii) obtain the Registrar’s approval for the 30% RI limit, which may be granted for a term expiring on or before the date the approval of the general meeting lapses;</p> <p>(e) The COM shall report the credit society’s investment performance at a general meeting every year based on the guidelines or templates issued or endorsed by the Registrar;</p> <p>(f) The information on the investment performance of the credit society shall be included in the credit society’s Annual Report; and</p> <p>(g) The credit society shall comply with any other terms and conditions the Registrar may impose.</p>

6. A credit society which receives deposits shall not purchase or make any investment in:

- (a) structured products;
- (b) derivatives;
- (c) foreign currencies;
- (d) foreign currency denominated instruments; and
- (e) cryptocurrency.

7. Shares in other co-operative societies and investment properties purchased before 30th June 2010 shall be excluded from the RI limit. However, shares in other co-operative societies or investment properties purchased on and after 30th June 2010 shall still be subject to the RI limit.

Special Investments (SI)

8. A credit society may invest in the CIS to the extent that the credit society is able to meet the MLA requirement as set out in the prevailing Written Direction on “Minimum Liquid Assets” issued by the Registrar (reference: RCS SF70.1.2).

9. A credit society with negative net assets (based on the most recent financial statements of the credit society, whether audited or unaudited) shall obtain the Registrar’s approval before making any new investments in the CIS.

Power to Vary the Scope of RI, etc.

10. The Registrar may, if he considers appropriate based on the circumstances of a particular credit society or class of credit societies, vary the applicable RI limit, scope of RI, and any term or condition imposed by the Registrar under this Written Direction.

Non-compliance

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

12. Credit societies which do not comply with the requirements in Paragraphs 4 to 9 shall be subject to such MLA and/or other requirements as may be stipulated by the Registrar.

13. 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. It is not part of the Written Direction.

Q1. What is the rationale for imposing the Restricted Investments ("RI") limit of up to 30%?

The primary function of a credit society is to provide financial services to its members by taking in deposits, and granting loans to its members.

In line with World Council of Credit Unions ("WOCCU")'s recommendation that 70-80% of a credit society's total assets should be in loans to members, credit societies should be focusing on their core thrift and loan business, and should not be performing the role of professional fund managers for their members. Investments made by credit societies should generally be liquid, conservative and substantially secure in nature. Credit societies should not be investing in high-risk instruments. WOCCU recommends that the investment in financial assets should not exceed 2% of the society's total assets and it should not hold any non-financial assets¹ unless they are used for business operations.

The Registry has set a RI limit of up to 30% of total assets (subject to prescribed conditions), which is more generous than WOCCU's recommendation. Moreover, there is more flexibility as there are no separate limits for investment in financial and non-financial assets. Hence, a credit society can decide how to manage the allocation of RI within the applicable limit.

Q2. Why is there a need to seek re-approval from members to continue applying the higher RI limit of 20% or 30%?

Higher RI limit means that a credit society is facing higher investment risks. Members of the credit society are entitled to consider the investment performance of the credit society periodically and based on the updated information, decide whether the higher RI limit should continue to apply for a further period of up to 3 years.

Q3. Why is there a need to seek re-approval from the Registry to continue applying the 30% RI limit? What if the Registry does not approve 30%?

The Registry will consider the latest financial position and other updated information from the credit society. The Registry may reject the 30% RI limit if there is serious non-compliance with the regulatory requirements or it is in the best interest of members for the credit society to limit its exposure to restricted investments.

Following the rejection, the credit society may be given a transition period of up to 1 year (or any other period prescribed by the Registrar) to pare down its restricted investments.

¹ WOCCU previously recommended that "financial investments / total assets" should not exceed 10%, but has revised it to 2%.

Q4. What information should be given or disclosed to members in seeking their approval for higher RI limit and investment plan?

The Committee of Management (“COM”) shall report the level of restricted investments as at the immediately preceding Financial Year End (“FYE”) and provide the proposed investment plan.

The below example can be used as a guideline and the COM may consult investment professionals and provide additional details to members as it deems fit.

Example

“This is to seek members’ approval for the credit society to invest up to 20 or 30% of its total assets in restricted investments, for a period of 3 years. Following members’ approval, the COM will seek approval from the Registrar.

As at <FYE date>, our restricted investments amounted to \$C or D% of total assets, as follows:

Restricted Investments	As at <FYE date>	Remarks
(a) Investment property (address)	\$A	Income (e.g. rental) and expenses (e.g. management fees) for FYE and previous FYE. <i>[Alternately, can show the “net income”]</i>
(b) Shares listed on SGX	\$B	Income and expenses for the FYE and previous FYE. <i>[Alternately, can show the “net income”]</i>
Total	\$C	

Based on the total assets of \$E as at <FYE date>, 20% or 30% of total assets will amount to \$F.

If members approve the 30% limit, we plan to place the investible funds broadly based on the following asset allocation:

Restricted Investments	Remarks
(a) Investment Property	Max X%; or Range Y% to Z%
(b) Shares listed on SGX	Max X%; or Range Y% to Z%

(c) Corporate bonds issued in Singapore and managed fund(s) with capital protection mandate	Remaining
Total	100%

With the proposed investment plan, the COM hopes to generate annual returns of at least G%.

All investments transactions are approved by the Investment Committee.”

Q5. What information should be given or disclosed to members in reporting the investment performance?

The COM should report on the level of restricted investments and performance for the immediately preceding 2 financial years.

The below example can be used as a guideline and the COM should consult investment professionals and provide additional details to members as it deems fit.

Example

“On <date>, the members have given approval for the credit society to invest up to 30% of its total assets in restricted investments, for a period of 3 years.

The Registrar has also given approval for the 30% limit, for a 3-year period from <date> to <date>.

As at <FYE date>, our restricted investments amounted to \$D or E% of total assets, as follows:

Restricted Investments	As at <FYE date>	As at <previous FYE date>	Remarks
a) Investment property (address)	\$A	\$J	Information on income (e.g. rental) and expenses (e.g. management fees) for the previous and current financial year
b) Shares listed on SGX	\$B	\$K	Information on income and expenses for the previous and current financial year
c) Corporate bonds issued in Singapore and managed fund(s) with capital	\$C	\$L	Information on income and expenses for the previous and current financial year

Restricted Investments	As at <FYE date>	As at <previous FYE date>	Remarks
protection mandate			
Total	\$D	\$M	

Q6. To apply for a RI limit of 30%, what information needs to be submitted to the Registry? What are Registry’s considerations in evaluating the request?

The Registry will primarily consider the credit society’s audited financial position, current level of RI, and compliance with prudential and any other relevant regulatory requirements.

Hence, a credit society is required to submit the following information or documents:

- (a) Audited financial statements for immediately preceding financial year*;
- (b) Form 1 returns*;
- (c) Investment plan approved by members at general meeting;
- (d) Minutes of general meeting which documented the approval given by the members;
- (e) Investment policy and procedures; and
- (f) Management report(s) of investment performance.

[* Note: If the credit society has not earlier submitted these documents to the Registry.]

The Registry will consider the above information and any other relevant factors which we may seek further information or clarification from the credit society.

A credit society may first seek Registrar’s in-principle approval for the 30% RI limit by submitting the available documents. Once the credit society has provided sufficient disclosure at its general meeting and obtained members’ approval, it can submit the outstanding returns if any, to the Registry and seek formal approval. Upon the Registrar’s approval, the credit society can apply the 30% RI limit. If there is material change to the information provided before the general meeting, a re-assessment of the credit society’s application for 30% RI may be done.

Q7. Can a credit society apply 30% RI limit once members have given their approval?

No. The higher limit will only take effect after members’ and Registrar’s approval.

Q8. What if a credit society did not provide or disclose sufficient information to members when seeking approval for higher RI limit?

The approval by members will be not valid if a credit society did not provide or disclose sufficient information to members.

Q9. Will a credit society be penalized if the applicable RI limit (i.e. 10%, 20% or 30%) is breached due to increases in the market values of their quoted investments?

No, a credit society will not be penalized under such circumstances. However, as the level of restricted investment has exceeded the applicable limit, the credit society is not allowed to purchase any new restricted investments.

Q10. What is the penalty if a credit society cannot meet the applicable RI limit (i.e. 10%, 20% or 30%)?

Non-compliance with the RI limit, which is imposed by a written direction, is an offence under Section 100(1)(c) of the Co-operative Societies Act.

Under Section 100(1)(c), it shall be an offence if a person (which includes a credit society), without reasonable excuse, disobeys any written direction issued under this Act. Under Section 100(3), the credit society, if convicted, is liable to a fine of up to \$10,000 and, in the case of a continuing offence, to a further fine of up to \$500 for every day or part thereof during which the offence continues after conviction.

Q11. What is the difference between the Central Investment Scheme (CIS) and Special Investment (SI)?

The CIS is an investment scheme established in conjunction with the Central Co-operative Fund in which any credit society can voluntarily participate, subject to the terms and conditions set by the appointed fund manager. SI is a category of investments identified by the Registrar, which consists of the CIS. In future, the Registry may consider other financial products to be classified as SI.

Q12. Why is there a need to cap SI at 10% of the total assets?

The investment in SI is not risk free and hence there needs to be a cap on the amount that is not treated as RI.

Q13. Does a credit society require members' approval at a general meeting to invest in the CIS?

The Registry currently does not require a co-op to seek members' approval of any proposed investment in CIS. However, the COM may choose to seek members' approval, especially if the amount of proposed investments is material to the credit society.

Q14. How are RI and SI calculated if a co-op invests in CIS?

The investments in SI of up to 10% of its total assets will not be counted as RI of a co-op. If the co-op invests more than 10% of their total assets into SI, the amount in excess of 10% will be counted as RI.

Example 1

ABC Co-op has total assets of \$100m and its applicable RI limit is 20%. This means that it can hold RI of up to \$20m (i.e. 20% x \$100m = \$20m). The Co-op currently does not have any RI and wishes to invest \$12m in CIS.

Proposed \$12m in CIS	
Up to 10% of Total Assets => Not counted as RI	Any amount in excess of 10% of Total Assets => Counted as RI
SI = 10% x \$100m = \$10m	Investment in SI excess of 10% of Total assets = \$12m - SI of \$10m = \$2m (to be counted as RI) Resultant RI% = RI / Total Assets = \$2m / \$100m = 2% (within 20% applicable RI limit)

Example 2

XYZ Co-op has total assets of \$100m and its applicable RI limit is 20%. This means that it can hold RI of up to \$20m (i.e. 20% x \$100m = \$20m). The Co-op currently has 19% RI and wishes to invest \$12m in CIS.

Proposed \$12m in CIS	
Up to 10% of Total Assets => Not counted as RI	Any amount in excess of 10% of Total Assets => Counted as RI
SI = 10% x \$100m = \$10m	Investment in SI excess of 10% of Total assets = \$12m - SI of \$10m = \$2m (to be counted as RI) Resultant RI% = RI / Total Assets = (\$19m + \$2m) / \$100m = 21% (exceeded 20% applicable RI limit by 1%)

XYZ Co-op may only invest up to \$11m into CIS (1% to be counted as RI; resultant RI% will be 20%, in compliance with its applicable RI limit).