

Transitional arrangements for co-operative financial institutions

Objectives and key requirements of this Prudential Standard

This Standard provides for transitional arrangements for co-operative financial institutions until the finalisation of operational, prudential and governance standards under the co-operative financial institutions regulatory and supervisory framework being developed by the Prudential Authority.

It is the responsibility of the board of directors of a co-operative financial institution to ensure that the institution meets the requirements of the Transitional Arrangement Standard on a continuous basis.

The Transitional Arrangement Standard sets out the requirements for registration with the Prudential Authority and the basic principles relating to the maintenance of effective risk management by co-operative financial institutions.

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1. Commencement and transitional provisions

This Standard commences on 26 September 2018.

Version number	Commencement date
01	26 September 2018

2. Legislative authority

This Prudential Standard is made in terms of sections 46(1) read with 44(4)(b) of the Co-operative Banks Act, 2007 (Act No. 40 of 2007) (the Act) and sections 105 and 108 of the Financial Sector Regulation Act, 2017.

3. Application

This Prudential Standard applies to all co-operative financial institutions and provides for transitional arrangements until the finalisation of operational, prudential and governance standards under the co-operative financial institutions regulatory and supervisory framework being developed by the Prudential Authority.

4. Roles and responsibilities

The board of directors (board) of the co-operative financial institution is ultimately responsible for ensuring that the co-operative financial institution complies with the principles and requirements of this Prudential Standard.

5. Application to register as a co-operative financial institution under the Act

- 5.1. The requirements and pre-conditions for registration with the Prudential Authority are set out in Attachment 2.
- 5.2. All applications for registration as a co-operative financial institution, including any relevant supporting documents, must be provided in the form and manner set out in Attachment 3 (Form PA001), Attachment 4 (Form PA002) and Attachment 5 (Form PA003).
- 5.3. A prospective co-operative financial institution must comply with all the relevant requirements to be registered as a co-operative in terms of the Co-operatives Act, 2005.
- 5.4. All co-operative financial institutions currently registered by the CBDA must, apply for registration to the Prudential Authority in terms of the Act on or before 1 August 2019.
- 5.5. As of 1 October 2018, every co-operative financial institution that immediately before that date was registered as a co-operative financial institution by the CBDA under the Exemption Notice continues to exist as a registered co-operative financial institution as if it had been registered under the Act and may continue to conduct the business for which it was so registered until its application under paragraph 5.4 is finalised by the Prudential Authority.

6. Reporting on financial performance

- 6.1. The financial year-end for all registered co-operative financial institutions is the last day of February of each year.
- 6.2. Subject to the provisions of paragraph 6.4, all registered co-operative financial institutions must report to the Prudential Authority on their financial performance on a quarterly and cumulative basis at the end of May, August, November and February each year.
- 6.3. The report referred to in paragraph 6.2 must be made in the form and manner determined by the Prudential Authority and published on its website.
- 6.4. The Authority may require a co-operative financial institution to submit information and reports on a more frequent basis.

7. Application to be a co-operative bank and thresholds for a co-operative financial institution

- 7.1. A co-operative financial institution must, once it has maintained at least R5 million in members' deposits for a period of at least six consecutive months, apply for registration as a co-operative bank in terms of the Act, unless specifically exempted by the Prudential Authority.
- 7.2. A co-operative financial institution that does not qualify to be registered as a co-operative bank may not hold more than R50 million in members' deposits.

8. Changes to the constitution of co-operative financial institution

A co-operative financial institution must obtain the prior written approval of the Prudential Authority to make any changes to the constitution of the co-operative financial institution.

9. Financial soundness requirements

- 9.1. Co-operative financial institutions must comply with the prudential requirements set out in Attachment 6 and such further prudential requirements that are specific to a co-operative financial institution as may be specified in writing by the Prudential Authority.
- 9.2. Full compliance with the governance and operational requirements set out in Attachment 7 may be achieved over time. The co-operative financial institution, at the request of the Prudential Authority, must demonstrate how compliance with these requirements has been incrementally achieved.

10. Fit and proper directors and management

- 10.1. The co-operative financial institution must annually submit to the Prudential Authority a return in the form and manner determined by the Prudential

Authority and published on its website confirming that:

- 10.1.1. board members of the co-operative financial institution individually and collectively have the appropriate educational qualifications, experience or expertise, relevant skills and knowledge required for the effective and prudent oversight of the co-operative financial institution;
 - 10.1.2. executive officers appointed by the co-operative financial institution are competent to prudently manage the business of the co-operative financial institution;
 - 10.1.3. the necessary development and training of members in terms of the constitution of the co-operative financial institution and the co-operative principles has taken place;
 - 10.1.4. the Authority has been advised of any changes that have taken place in the co-operative financial institution's board of directors membership and executive officers; and
 - 10.1.5. all relevant developments with regards to related person relationships within the co-operative financial institution at a board, management and general staff level have been reported to the Prudential Authority.
- 10.2. The manager or person to be appointed to the position of manager must possess appropriate educational qualifications, experience or expertise, relevant skills and knowledge requirements for the prudent management of the co-operative financial institution.

11. Inspections of co-operative financial institutions

Co-operative financial institutions registered with the Prudential Authority will, among others, be monitored through onsite inspections, as well as offsite reviews and assessments of all relevant reports and information submitted in terms of this Standard or such further requirements as may be specified in writing by the Prudential Authority.

12. Non-compliance with standards and requirements of the Prudential Authority

- 12.1. A co-operative financial institution must immediately report any non-compliance with any relevant provision of this Standard or requirements specified by the Prudential Authority to the Prudential Authority.
- 12.2. The co-operative financial institution must in its annual report to be tabled at its annual general meeting, disclose all enforcement action taken against it by the Prudential Authority.

13. Structure of this Standard

- 13.1 This Standard includes Attachments that set out supporting details such as definitions and requirements. These Attachments must be complied with.
- 13.2 This Standard is organised as follows:

Attachment 1: Definition of terms

Transitional arrangements for CFIS –TCFI-01

Attachment 2:	Requirements for registration
Attachment 3:	Application for registration
Attachment 4:	Membership share register
Attachment 5:	Directors' commitments
Attachment 6:	Minimum prudential standards for co-operative financial institutions
Attachment 7:	Governance and operational requirements

Attachment 1: Definition of terms

In this Prudential Standard, any word or expression that is defined in the Act has that meaning. The following table sets out definitions of additional terms used throughout this Standard:

Term	Definition
Capital	Mandatory membership shares, indivisible reserves, retained earnings and any other non-distributable funds of a permanent nature as approved by the Authority.
capital adequacy ratio	Means capital over total assets.
CBDA	Co-operative Banks Development Agency established in terms of the Co-operative Banks Act, 2007 (Act No. 40 of 2007).
CIPC	The Companies and Intellectual Property Commission, established in terms of section 185 of the Companies Act, 2008 (Act No. 71 of 2008).
co-operative	Means a co-operative as defined in the Co-operatives Act.
Co-operatives Act	Co-operatives Act, 2005 (Act No. 14 of 2005)
co-operative principles	The internationally accepted principles of co-operation, exemplified by the principles adopted by the International Cooperative Alliance.
executive officer	Means any employee of the co-operative financial institution that reports directly to the manager of the co-operative financial institution.
Financial Sector Regulation Act, 2017	The Financial Sector Regulation Act, 2017 (Act No. 9 of 2017).
investments	As prescribed in regulation 3.2 of the Co-operative Banks Regulations, No 32357,

	1 July 2009.
liquid assets	Are defined as investments, as prescribed in regulation 3.2 of the Co-operative Bank Regulations, No 32357, 1 July 2009, as amended, with tenure not exceeding 32 days and convertible into cash at any time, without incurring any penalty.
Prudential Authority	The Prudential Authority, a juristic person within the administration of the South African Reserve Bank, established in terms of section 32 of the Financial Sector Regulation Act, 2017. Also means the 'Authority' referred to in the Co-operative Banks Act.
Registrar of Co-operatives	The Registrar of Co-operatives Commissioner appointed in terms of section 189 of the Companies Act, 2008 (Act No. 71 of 2008).
related person	As defined by the Regulations made in terms of section 86 of the Co-operative Banks Act, 2007, published under Government Notice R712 in <i>Government Gazette</i> 32357 of 1 July 2009, being a person or member who is directly or indirectly controlled by the same person or member; and a person or member who is so interconnected with another person or member that should one of them experience financial difficulties, one or all of them would be likely to experience a lack of liquidity.
sustainability	The ability to generate sufficient income to be able to cover operational expenses and set aside required reserves after paying a fair interest or dividend on deposits.

Attachment 2: Requirements for registration

Requirements for registration as a co-operative financial institution

Applications	
Form/Notes	<i>CIPC (registrar of co-ops)</i>
CR1	Application form including:
CR4	Appointment of auditors
CR5	Reservation of name
Form	<i>Prudential Authority</i>
PA 001 Attachment 3	Application for registration form (include CIPC customer code number)
	Members resolution
	Proof of bank account
PA 002 Attachment 4	Membership Share Register confirming 200 fully paid up active members
	At least R100,000 in shares on registration.
PA 003 Attachment 5	Signed Director's commitment

Attachment 3: Application for registration

Co-operative Financial Institution

APPLICATION FOR REGISTRATION



INSTRUCTION FOR COMPLETION OF FORM

1. Write or print in legible characters with deep permanent black ink, and lodge one set of the documents (of international size A4) with the Prudential Authority at SARB-PA@resbank.co.za.
2. The application form and every page of every document attached must be signed by the chairperson of the proposed Co-operative Financial Institution (CFI).
3. Provide an explanation and motivation in respect of any of the required documentation listed below which is not submitted.
4. Please note that the Prudential Authority may require a proposed applicant to furnish additional information/documents, or a report by an auditor/or any other knowledgeable person approved by the Prudential Authority, on aspects relating to the application.

BACKGROUND: Co-operative Financial Institution

Name of Organisation: _____ Name Abbr.: _____

Registered Office physical address: _____

Postal Code

Postal Address: _____

Postal Code Tel No. Cell No. eMail: _____

Common Bond Description: _____

Representative Body Membership No. CIPC Customer Code Number of Members: Total Member Shares: R Total Member Savings: R

CONTACT INFORMATION: NB: Two duly appointed directors

1 ☐ Mr ☐ Mrs ☐ Ms: Full Names: _____ Position: _____Tel No. Cell No. eMail: _____2 ☐ Mr ☐ Mrs ☐ Ms: Full Names: _____ Position: _____Tel No. Cell No. eMail: _____

SUPPORTING DOCUMENTATION CHECK LIST:

- | | |
|--|--------------------------|
| 1. Forms CR1, CR4/CR8 and CR 5. | ☐ |
| 2. Member Share Register (PA Form 002) with a minimum of 200 fully paid up members. | ☐ |
| 3. Two (2) certified copies of the CFI's constitution that meets the requirements of constitution guidelines issued by the PA. | ☐ |
| 4. Certified ID copies of all founder members. | ☐ |
| 5. Latest certified bank statement. | ☐ |
| 6. Member Resolutions to register with the PA. | ☐ |
| 7. Savings policy. | ☐ |
| 8. Credit/loans Policy (if applicable). | ☐ |
| 9. National Credit Regulatory certificate of registration (if applicable). | ☐ |
| 10. Certificate of Membership to a registered Representative Body. | ☐ |

- | | |
|---|--------------------------|
| 11. Business plan which INCLUDES: | ☐ |
| 1. A short description of the background of the organization, experience in the sector and overall strategy to serve the target market. | ☐ |
| 2. Its human and operational capacity to operate efficiently and competently. | ☐ |
| 3. The board of directors and management experience, knowledge and qualifications. | ☐ |
| 4. 3 year financial forecast showing viability plan of the entity. | ☐ |
| 5. Product Sheet. | ☐ |
| 12. Signed Directors' Commitment (PA Form 003). | ☐ |

Name: _____

Date:

Position: _____

Signature: _____

Attachment 4: Membership share register

Co-operative Financial Institution

MEMBER SHARE REGISTER

	NAME AND SURNAME	SA ID or Other	ID NO.	DATE JOINED	VALUE OF SHARES
1					R
2					R
3					R
4					R
5					R
6					R
7					R
8					R
9					R
10					R
11					R
12					R
13					R
14					R
15					R
16					R
17					R
18					R
19					R
20					R
21					R
22					R
23					R
24					R
25					R
26					R
27					R
28					R
29					R
30					R
31					R
32					R
33					R
34					R
35					R
TOTAL					R

Name: _____

Position: _____

Date:

D	D	M	M	Y	Y	Y	Y
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Signature: _____

Attachment 5: Board of Directors' Commitments

Co-operative Financial Institution

BOARD OF DIRECTORS' COMMITMENTS



We, as directors of _____

Co-operative Financial Institution (CFI), on

D	D	M	M	Y	Y	Y	Y
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acknowledge that:

1. Failure to comply with any of the conditions of the registration may result in action taken by the Prudential Authority.
2. We owe our members a duty of care and may be held liable should the CFI misuse member savings during our term of office.

We further commit ourselves to ensuring that:

3. Board of Directors, Audit/Supervisory Committee Members, Credit Committee members and full time staff will complete designated course/courses within one year of being elected as directors.
4. As directors we further commit to ensuring that the person employed as the General Manager, Managing Director, Manager, administrator or person ultimately responsible for the day-to-day running of the CFI will be competent and employed in a fair and transparent manner.
5. We commit to ensuring that the Co-operative Financial Institution operates within the terms of the Co-operatives Act, Co-operative Banks Act, the co-operative principles and prudential standards.
6. We undertake to ensure that our members are made aware, at least once a year, on the activities of the CFI and the co-operative principles.
7. We undertake to inform the Prudential Authority of any operational changes in the CFI within one (1) month of such a change.

SIGNED: At least five (5) duly appointed directors must sign on behalf of the board

1	CHAIRPERSON	☐ Mr ☐ Mrs ☐ Ms	Name: _____	Surname: _____		Signature: _____	
2	VICE CHAIRPERSON	☐ Mr ☐ Mrs ☐ Ms	Name: _____	Surname: _____		Signature: _____	
3	TREASURER	☐ Mr ☐ Mrs ☐ Ms	Name: _____	Surname: _____		Signature: _____	
4	SECRETARY	☐ Mr ☐ Mrs ☐ Ms	Name: _____	Surname: _____		Signature: _____	
5	DIRECTOR 1	☐ Mr ☐ Mrs ☐ Ms	Name: _____	Surname: _____		Signature: _____	
6	DIRECTOR 2	☐ Mr ☐ Mrs ☐ Ms	Name: _____	Surname: _____		Signature: _____	
7	DIRECTOR 3	☐ Mr ☐ Mrs ☐ Ms	Name: _____	Surname: _____		Signature: _____	
8	DIRECTOR 5	☐ Mr ☐ Mrs ☐ Ms	Name: _____	Surname: _____		Signature: _____	
9	DIRECTOR 6	☐ Mr ☐ Mrs ☐ Ms	Name: _____	Surname: _____		Signature: _____	
10	DIRECTOR 7	☐ Mr ☐ Mrs ☐ Ms	Name: _____	Surname: _____		Signature: _____	

Attachment 6: Minimum prudential standards for co-operative financial institutions

No.	Standard	Descriptor	Minimum
1	Registration	Companies Intellectual Property Commission (CIPC)	✓
		SARS	✓
		National Credit Regulator (NCR)	✓
		Unemployment Insurance Fund (UIF)	✓
		Prudential Authority	✓
2	Outreach	No of active savers	Min 200
			Minimum monthly savings growth of average of R50 per member per month once registered
3	Compliance	Financial statements (returns)	✓
		Audited financial statements	✓
		Board meetings	✓
		Annual general meetings	✓
4	Portfolio quality	Delinquency	<5%
		Loan loss provision	
		1-6 months	35%
		6-12 months	50%
		12 months and above	100%
5	Sustainability	Savings to total assets	Max 80%
		Loans to total assets	Max 80%
		External credit	Max 15%
		Solvency*(total assets/total liabilities)	100%
		Non-earning and fixed assets to total assets	Max 5%
			CFI will be sustainable within 3 years
6	Capital structure**	Member share capital	Min R100,000
		Capital adequacy ratio	Min 6%
7	Liquidity	Liquid assets to total deposits ratio	Min of 10%
8	Exposures (as a percentage of assets)	Board member loans collectively	Max 25%
		Loan per member	Max 10%
		Individual share investment	Max 20%
		Individual savings deposit	Max 10%
		Investments	See definitions

* **Solvency:** Formula: $\frac{[(a-b)-(c+d)]}{(e+f)}$

Where:

- a. Total Assets
- b. Provision for bad debts
- c. Total External Credit
- d. Total Non-Interest Bearing Liabilities
- e. Total Savings
- f. Voluntary Shares

** A co-operative financial institution must obtain the prior written approval from the Prudential Authority to introduce any other form of capital. All other forms of capital must as a minimum preserve the co-operative principles of a co-operative financial institution as well as the safety and soundness of the system within which it conducts the business of co-operative financial institution.

Attachment 7: Governance and operational requirements for co-operative financial institutions

No	Descriptor	Standard	Minimum
1	Governance		
	Constitution	Compliant with constitution	✓
	Board of Directors	Number of fit and proper board members	9-15
		Term of office (3 years per member)	Maximum 2 terms
		Meetings	At least quarterly
		Minutes	✓
	Board committees	Governance committee	✓
		Credit committee	✓
		Supervisory/Audit committee	✓
		Education and training committee	✓
	Strategic plan and business plan	Documented, implemented and reviewed	✓
		Mission, Vision, Organogram, Key strategic issues, Objectives, Targets, Timelines and Responsible people	✓
	Financial reporting, Audit and AGM	Financial reports	✓
		Income statement	✓
		Balance sheet	✓
		Audited financial report	✓
		Annual General Meeting	✓

No	Descriptor	Standard	Minimum
2	Policy and procedures		Documented, adhered to and reviewed
		Savings	✓
		Loans, loan write off	✓
		Membership and recruitment	✓
		Liquidity Management	✓
		Investment	✓
		Human resources	✓
		Performance management	✓
		Succession planning	✓
		Training and development	✓
		Staff recruitment, contracts and job descriptions	✓
		Maintain management and staff CVs	✓
		Procurement	✓
		Health and Safety	✓
		IT	✓
		Security	✓
		Code of conduct for board and management	✓
		Risk management	✓
		Review of policies	✓

No	Descriptor	Standard	Minimum
3	Management		
	Signs of growth	Membership	Positive + inflation
		Assets growth	Positive + inflation
	CFI Physical structure	Office	Established and reviewed
		Office furniture, computers	✓
		Banking hall	✓
		Security	✓
		Safe and strong room	✓
		Fire detector	✓
		Alarm system	✓
	Human resources management	Staff training programs	✓
		Job descriptions	✓
		Contract/conditions of service	✓
		Performance management system	✓
		Qualified management and staff	✓
		Organisational chart and salary structure	✓
	Record keeping	Financial reporting to board	✓
		Recruit bookkeeper/accounts clerk	✓
		Minutes	✓
		Member documents	✓
		Source documents	Monthly
		Financial Records	✓
		Information back up	✓
	Management information systems	Integrated banking and accounting system	✓
		System access control	✓
		Back up	✓
		Disaster recovery plan	✓
	Internal controls	Segregation of duties	✓
		Authorisations	✓
		Access controls	✓

No	Descriptor	Standard	Minimum
	Financial Management		
4	Accounting	Financial statements analysis	Monthly
		Bank reconciliation statement	Monthly
		Register of assets	Current
		Investments	✓
	Compliance	Financial reporting – PA	Annually
		Financial reporting – CIPC	Annually
		All other requirements above (1-6)	✓
		All other legal requirements	✓
		Minimum prudential requirements	Quarterly

No	Descriptor	Standard	Minimum
		Marketing and Products	Developed and Implemented
5		Marketing budget	✓
		Marketing Task team/officer	✓
		Marketing plan	✓
		Signage	✓
		Branding	✓
		Member recruitment plan	✓
		Advertising – print and electronic media	✓
		Research member product needs	✓
		Product development and review	✓
		Product pricing and costing	✓
		Product prototype and test run before roll out	✓
		Member feedback mechanisms	✓
		Enhance branding, marketing plan	✓
		Intro advance banking e.g. ATM	✓

No	Descriptor	Standard	Minimum
6		Co-operative principles	
	Open and voluntary membership	Members join without discrimination	✓
	Democratic member control	Members to attend meetings	✓
		Members influence how the CFI is run	✓
	Autonomy and independence	Non-availability of outside influence in the management and operations	✓
	Education, training and information	Display principles at CFI office	✓
		Hand out principles to members and prospective members	✓
		Educate all members about co-ops	✓
		Regularly update members on progress of CFI	✓
		Financial literacy, budgeting, business development training for members	✓
	Member economic participation	Members to save continuously	✓
		Members to access loans for provident and productive purposes	✓
	Co-operation amongst co-operatives	Financial co-op forums	✓
		Participation in local and international forums	✓
		Financial co-op conferences	✓
	Concern for the community	Education, reserve fund before dividends	✓
		Scholarships, bursaries, orphanage etc.	✓
		Community development plans	✓