



REGISTRY OF CO-OPERATIVE SOCIETIES

Ministry of Culture, Community and Youth

18 July 2024

GUIDELINES FOR PAYMENT OF DIVIDENDS AND/OR HONORARIA FROM RESERVES

These Guidelines are issued to co-operative societies (“co-ops”) pursuant to section 93B(1) of the Co-operative Societies Act 1979 (“the Act”), to provide information on the process for co-ops that plan to use their reserves for the payment of dividends and/or honoraria. These Guidelines are not intended as legal advice. If a co-op has any doubt about the scope or application of the legal requirements mentioned in these Guidelines, it should seek legal advice. In these Guidelines, “Registrar” means the Registrar of Co-operative Societies, while “Registry” means the Registry of Co-operative Societies.

BACKGROUND

- Under section 72(1) of the Act, a co-op may distribute a portion of its net surplus from the preceding financial year to its members as dividends or as honoraria to its officers.
- Should a co-op wish to use its reserves for the payment of dividends and/or honoraria when it has no or insufficient net surplus from the preceding financial year for such payments, it may do so under section 72A(2) of the Act. However, the co-op must ensure the following legal requirements are met before making such payments for any financial year:

#	Requirements
(a)	If the co-op’s by-laws expressly or impliedly prohibit it from using its reserves to pay dividends and/or honoraria, the co-op must first amend its by-laws to remove the prohibition. The co-op must also ensure that the conditions (if any) stated in its by-laws for such payments are all met.
(b)	The co-op must obtain the Registrar’s approval for the proposed use of its reserves to pay dividends and/or honoraria. The total dividends to be paid from its reserves and, if applicable, from the net surplus from the preceding financial year must not exceed the maximum rate under section 72(2) of the Act.
(c)	The co-op must obtain its members’ approval at an annual general meeting (“AGM”) for the proposed use of its reserves to pay dividends and/or honoraria. The resolution must be passed by the majority (or, if the by-laws prescribe a majority, the prescribed majority) of members present and voting at the AGM.

DOCUMENTS TO BE SUBMITTED

- A co-op that plans to seek the Registrar’s approval under section 72A(3) of the Act (as stated at paragraph 3(b) above) should do so **at least 2 months** before the AGM to seek members’ approval. In applying for the Registrar’s approval, a co-op **must** provide the following information and documents, **failing which the application may be rejected**:



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#	Document/ information
(a)	<p>Written confirmation that (i) the proposed use of the co-op's reserves for the payment of dividends and/or honoraria is consistent with its existing by-laws, or if not, that (ii) the co-op will seek its members' approval to amend its by-laws to allow the proposed use of its reserves for the payment of dividends and/or honoraria.</p> <p>In the event of (ii), the co-op must also specify the proposed by-law amendments. The Registrar may grant approval under section 72A(3) of the Act subject to the condition that the payment out of the co-op's reserves can only be made after the by-law amendments specified by the co-op have been passed and registered¹, in addition to any other conditions which the Registrar may reasonably impose.</p>
(b)	<p>The proposed rate and quantum of dividends and/or honoraria, as well as the considerations for the proposed rate and quantum. The co-op should also provide information on the rate and quantum of dividends and/or honoraria paid in the last two financial years.</p>
(c)	<p>Written confirmation that the co-op is tapping on its general, unallocated reserves (such as the "Accumulated Surplus") or reserves allocated specifically to the payment of dividends and/or honoraria, if any. Co-ops should not use funds ringfenced for other purposes on payment of dividends and/or honoraria.</p>
(d)	<p>The co-op's Audited Financial Statements ("AFS") for the preceding financial year and, if the co-op is a credit co-op, its Form-WD1 as well. If the final signed AFS and/or Form-WD1 is not ready, the co-op may provide its management accounts or the draft² AFS, and/or draft Form-WD1 as applicable.</p>
(e)	<p>All proposed appropriations in the financial year from the co-op's net surplus from the preceding financial year and its reserves.</p>
(f)	<p>Any other documents or information requested by the Registry.</p>

CONSIDERATIONS FOR APPROVAL

5. In evaluating a co-op's application for approval under section 72A(3) of the Act, the Registrar will consider the factors in the table below. **A co-op must satisfy itself that it has met the pre-requisites in paragraph 5(a) and (b) before applying**, as an application which does not meet these pre-requisites may be rejected.

¹ In the event the by-law amendments are not approved by members at the AGM, the Co-op shall not proceed with the payment of dividends and/or honoraria from its reserves.

² The Registrar may issue approval subject to the condition that there are no material differences between the figures reflected in the management accounts or draft AFS and/or Form WD-1 and in the final AFS and/or Form WD-1, in addition to any other conditions that the Registrar may reasonably impose.



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#	Description
(a)	<p>Financial Indicators</p> <p><u>Non-credit co-ops</u></p> <p>i. Capital Buffer - The co-op must have a capital buffer (calculated as a percentage of the co-op's Institutional Capital over its total assets) of at least 10% even after the proposed payment(s) from its reserves.</p> <p>ii. Sufficient Liquidity – The co-op must have at least 12 months of cash reserves even after the proposed payment(s) from its reserves. This figure is tabulated by taking the average of the last two financial years' expenditure (excluding non-cash expenditure such as depreciation) as per the AFS. Co-ops which are unable to meet this requirement but have alternative sources of liquidity may provide a proposal for the Registrar's consideration³.</p> <p><u>For credit co-ops</u></p> <p>The Registrar will assess whether the co-op has met the prevailing prudential ratios⁴ issued by the Registrar for credit co-ops, namely the Capital Adequacy Ratio ("CAR"), Minimum Liquid Assets ("MLA") and Restricted Investments ("RI") limit, as at the preceding financial year-end.</p> <p>The co-op must additionally demonstrate that it will still meet the CAR requirement even after the proposed payment(s) from its reserves.</p>
(b)	<p>Compliance Track Record – The Registrar will consider the co-op's timeliness in submission of AFS and conduct of AGMs for the last two financial years (i.e. an AGM must be held within 6 months from financial year-end unless Registrar's approval has been sought for an extension).</p>
(c)	<p>Reasonableness of dividends and/or honoraria proposed – The Registrar will amongst other things, assess the proposed rate/quantum against those declared in the last 2 financial years (i.e. the proposed rates and quanta should generally be comparable).</p>
(d)	<p>Governance Standards – The Registrar will consider if there are any known adverse governance issues concerning the co-op, such as adverse findings or concerns from audits or inquiries conducted under the Act. The Registrar may consider mitigating factors such as whether the co-op has made efforts to address any findings or concerns identified.</p>
(e)	<p>Other matters – The Registrar may consider any other factors relevant to the application.</p>

³ This alternative is to cater for co-ops who may for example have other sources of liquidity such as investments which can be readily liquidated.

⁴ The prevailing prudential ratios may be found on the website www.mccy.gov.sg/coop under the section "Prudential requirements for credit co-ops".



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FREQUENTLY ASKED QUESTIONS (FAQs)

Q1: Can my co-op pay dividends from our reserves if we have not amended our by-laws?

Your co-op should ascertain, and seek legal advice where necessary, whether its by-laws allow payment of dividends from its reserves. If there is anything in the by-laws which expressly or impliedly prohibits such payment, such as a definition that “dividend” means a portion of the net surplus of the co-op distributed among the members of the co-op where “net surplus” means the remaining provision of the surplus after provisions have been made in accordance with section 71 of the Act, then your co-op will have to amend its by-laws to remove the prohibition before making any such payment from its reserves. The same applies to payment of honoraria from its reserves. In the event of doubt over the legal requirements, please seek legal advice. Co-ops are strongly encouraged to seek the Registry’s comments on the proposed by-law amendments at least 2 months before any general meeting or referendum to approve the amendments.

Q2: What is ‘Institutional Capital’ as referred to in paragraph 5(a) of these Guidelines?

“Institutional Capital” means the aggregate of the following:

- i. A co-op’s accumulated surplus/deficit or unappropriated surplus;
- ii. A co-op’s general, unallocated reserves or funds (*i.e.* excluding reserves and funds established for specific purposes, such as a common good fund, building fund, fair value or revaluation); and
- iii. A co-op’s permanent shares subscribed and paid up by institutional members pursuant to section 66B of the Act.

Q3: What constitutes as ‘cash reserves’ as referred to in paragraph 5(a)(ii) of these Guidelines?

“Cash reserves” means the following assets:

- i. Cash;
 - ii. 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;
 - iii. Singapore Government Securities,
- provided that the assets are free from any prior encumbrances.

Q4: Why is the Registrar’s approval required for the use of reserves for dividends and/or honoraria?

Co-ops’ reserves are built up slowly over the years through collective efforts of past and present officers and members. These reserves are critical for co-ops to meet any losses due to unforeseen events or for operational needs. Co-ops must therefore be prudent with their use of reserves. The Registrar’s approval acts as a safeguard that co-ops are maintaining sufficient capital buffer for their long-term viability while balancing the need to provide reasonable dividends or honoraria.



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Q5: Why are members' approval required for the use of reserves for dividends and/or honoraria? How should the resolution be worded?

As a member-owned business, each co-op must ensure that its members are agreeable to the use of reserves for dividends and/or honoraria. By referring to the AFS, members will be able to understand the financial impact of such payments on the reserves before making an informed decision. The Committee of Management must be able to answer members' questions, if any, at the AGM.

Currently, co-ops are already required to seek members' approval for the payment of dividends and/or honoraria. In the respective resolutions, co-ops should indicate how much of the reserves are being used, if any. In the event of doubt over the legal requirements, please seek legal advice.

Q6: How will the Registrar determine if the proposed dividend and/or honorarium rate proposed is reasonable?

Many co-ops endeavour to maintain a consistent rate of dividend and/or honorarium. However, some co-ops may incur a loss in a financial year or earn lower profits than the preceding financial year. Hence, they may wish to tap on their reserves to maintain the same or comparable dividend and/or honorarium rates. This is reasonable if the co-op has been prudent in building its reserves over the years.

If a co-op is intending to use its reserves to pay a higher than usual rate of dividend and/or honorarium, the co-op should provide the Registrar with its considerations as well as why it thinks it is a prudent decision. The co-op would also have to manage its members' expectations as it may not be able to maintain such higher rates across the years.

Q7: Why is the Registrar considering regulatory compliance or governance concerns when determining whether to allow co-ops to use their reserves for dividends or honoraria?

A co-op must be able to demonstrate that it has sound governance to be able to make sound and prudent decisions in the best interest of itself and its members. It is therefore relevant to consider if there are any known adverse compliance or governance issues concerning the co-op. Co-ops should maintain a good compliance track record as well as sound governance and internal controls.