Annual Report on the Co-operative Societies in Singapore

For the financial year ended 31 March 2015

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BY THE REGISTRY OF CO-OPERATIVE SOCIETIES
MINISTRY OF CULTURE, COMMUNITY AND YOUTH

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Contents

INTRODUCTION

1. The Annual Report outlines the key developments in the sector, statistics and the Registry's future plans for the years ahead.

2. Co-operative societies, or co-ops, must be financially sustainable and professionally run to be effective in serving its economic or social missions. For credit co-ops, it is also imperative that they are financially sound. Promoting good governance will be the focus of the plans ahead to uplift the sector.

3. The Registry appreciates the open channel of two-way communication and feedback with the stakeholders in the co-op sector and the general public regarding new or existing policies and programmes.

OVERVIEW OF THE CO-OPERATIVE SECTOR

4. Co-ops are associations of people who voluntarily band together to achieve a common social or economic aim by forming a jointly-owned and democratically controlled business organisation. Co-ops operate on principles of self-help and mutual assistance, and most co-ops have social missions to benefit the society at large.

5. Co-ops in Singapore are regulated by the Registry of Co-operative Societies, under the Co-operative Societies Act (Chapter 62) and Co-operative Societies Rules 2009.

6. Co-ops are classified into three categories:

a) **Consumer and services co-ops** provide goods and services to their members to meet their daily needs. Some of these co-ops have become household names. While these co-ops are business driven, they are anchored by a social mission to help residents in Singapore through moderating the cost of living.

b) **Credit co-ops** provide financial services to their members who are within a pre-existing common bond of association or community of interest.

c) **School co-ops** operate in secondary schools and junior colleges. They aim to expose students to co-op principles and social entrepreneurship.

7. The breakdown of co-ops and their membership numbers according to category is provided in the following table.

Category of co-op	Number of co-ops	Number of members	Total assets[1]
Consumer and Services	49	1,274,000	$7,130 million
Credit	27	143,000	$970 million
School	4	350	$0.7 million
Total	**80**	**1,417,350**	**$8,100 million**

[1] Data derived from co-ops' Audited Financial Statements ("AFS") for the financial year ended 31 December 2014 / 31 March 2015 where available. Otherwise, data was obtained from the last available AFS.

Registration and De-registration of Co-ops

8. The total number of registered co-ops as at 31 March 2015 was 80. During the year, 1 new co-op was registered, 4 co-ops were deregistered and 1 co-op was transferred.

9. The Runninghour Co-operative Limited, registered on 16 May 2014, is a running club that promotes integration of people with special needs, such as the intellectually, physically or visually challenged, through physical recreation. It provides opportunities for persons with special needs to interact with their peers, youths and adults to build bonds and enlarge their social network.

10. Co-ops deregister only after the finalisation of the liquidation process which may span over a few years. The 4 co-ops which were deregistered in the past year were:

a) Theresian Co-operative Society Limited;

b) NTUC JobsConnect Co-operative Ltd;

c) Orchid Park Secondary School Multipurpose Co-operative Society Limited; and

d) ITE Co-operative Society Limited.

11. The NTUC Eldercare Co-operative Limited was transferred to the NTUC Health Co-operative Limited on 8 December 2014.

KEY STATUTORY AND REGULATORY REQUIREMENTS

Statutory Requirements for All Co-operatives

12. It is a statutory requirement that all co-ops must conduct an Annual General Meeting ("AGM") and submit their Audited Financial Statements ("AFS") to the Registry. The key functions of the AGM include, but are not limited to, the approval of the AFS, consideration and adoption of amendments to the by-laws, the election or removal of members of the Committee of Management and the transaction of any other general business of the co-op of which due notice has been given to members.

13. The Co-operatives Societies Act stipulates that a co-op must hold an AGM no later than 6 months after the end of the financial year, unless an extension is granted by the Registrar. The Act also prescribes that co-ops shall submit an annual report on its activities during the year, its audit report and its AFS for the year.

14. There were 74[2] co-ops that were required to hold their AGM and submit their AFS for the financial year ended 31 December 2013 / 31 March 2014. Of these, 12 or 16% (FY2013: 9 or 12%) of co-ops did not meet the deadline for holding of AGM and, 26 or 35% (FY2013: 32 or 43%) did not meet the deadline for submission of AFS. Most of these co-ops conducted their AGM and/or submitted their AFS within 3 months after the due date. The Registry is exploring different ways to better prompt the co-ops which may overlook the submissions or face difficulties in meeting statutory deadlines. Enforcement actions will be taken if necessary.

[2] This excludes 3 registered co-ops in their first year of operations and 7 co-ops undergoing liquidation.

Consumer/Services and School Co-ops Sector Overview

15. Consumer and services co-ops are business entities which provide goods and non-financial services to members while fulfilling a social mission. These co-ops protect the economic interests of their members through their activities, such as providing employment opportunities, selling goods at reasonable prices or supplying tailored services on a co-operative basis. There are also co-ops which specialize in providing care or raising awareness of people with special needs, such as the elderly or the disabled.

16. The total assets held by 49 consumer and services co-ops amount to approximately $7.1 billion. There are 8 consumer and services co-ops with total assets above $100 million[3]. Of these 8 co-ops, 2 co-ops[4] have over $1 billion in total assets each. There are 9 consumer and services co-ops with less than $100,000 in total assets.

17. School co-ops provide students of secondary schools or junior colleges with bookshops and/or platforms to expose students to entrepreneurship through brick and mortar shops or online businesses. From 2 July 2014, some requirements of the Act relating to school co-ops were modified or exempted to facilitate the registration and operations of the school co-ops. The total assets held by school co-ops amount to $700,000, with the largest school co-op holding $350,000 in total assets.

[3] Data derived from co-ops' Audited Financial Statements ("AFS") for the financial year ended 31 December 2014 / 31 March 2015 where available. Otherwise, data was obtained from the last available AFS.

[4] NTUC Enterprise Co-operative Limited and NTUC Fairprice Co-operative Limited

Credit Co-ops Sector Overview

18. Credit co-ops take in deposits from and give out loans to their members. They have a fiduciary duty to their members to exercise prudent oversight over their deposits.

19. Currently, there are 27 credit co-ops of which 2 are under liquidation. The table below shows the key financial figures for the credit co-op sector in Singapore for the financial year ended 31 December 2014 / 31 March 2015.

Total Assets: $974 million • 7 credit co-ops with total assets over $50 million • Of the 7 above, 2 credit co-ops with total assets over $100 million • 4 credit co-ops with total assets of less than $1 million • Total liquid assets[5] of $411 million
Total Loans to members: $172 million • 2 credit co-ops with total outstanding loans to members over $30 million • 8 credit co-ops with total outstanding loans to members less than $1 million • Average loans to assets ratio is 22% • $120 million of loans were granted to members during the year

[5] As defined in the Written Direction dated 12 March 2010, "Liquid Assets" refer to cash on hand, Singapore dollar deposits in Financial Institutions and Singapore Government Securities.

Total Deposits: $781 million
• 2 credit co-ops with total deposits of more than $100 million • 3 credit co-ops with total deposits less than $1 million • 2 credit co-ops do not take in any deposits • Average deposits per member is $5,500
Total Restricted Investments: $169 million
• 2 credit co-ops with restricted investments over $40 million • 6 credit co-ops with restricted investments less than $1 million • 7 credit co-ops with no restricted investments • 6 credit co-ops have been given the Registrar's approval for restricted investments limit of 30% for up to a period of 3 years • Average restricted investments to assets ratio is 10%

20. 7 credit co-ops[6] hold more than $50 million in total assets each. Together, they account for 75% of the total assets in the sector. They also hold 80% of the sector's total deposits, 70% of the total loans granted and 65% of the sector's profits (before appropriations and comprehensive income).

[6] AUPE Multi-purpose Co-operative Limited, Singapore Government Staff Credit Co-operative Society Limited, Singapore Mercantile Co-operative Society Limited, The Singapore Police Co-operative Society Limited, Singapore Teachers' Co-operative Society Limited, Straits Times Co-operative Limited and TCC Credit Co-operative Limited.

Credit Co-ops' Prudential Requirements

21. Since early 2010, the Registry has introduced a series of prudential requirements on credit co-ops to strengthen prudence in operations and accountability to members, improve risk management standards and refocus the credit co-ops towards the thrift and loan business. The requirements are implemented in phases so that credit co-ops can progressively adjust their operations and adapt to the changes. For the requirements on Restricted Investments and Capital Adequacy, credit co-ops were given 5 years (i.e. up to 30 June 2015 and 30 June 2016 respectively) to meet the requirements.

22. Details on the requirements can be found in the Annex. An update of credit co-ops' compliance with the prudential ratios for the financial year ended 31 December 2014 in comparison to the previous two financial years is provided in the following table.

Number of Credit Co-ops that have met the minimum prudential ratios:

Prudential Requirement	FY2014^	FY2013^	FY2012*
Minimum Liquid Assets	22	22	24
Capital Adequacy Ratio	17[7]	19	20
Restricted Investments	18	15	11

^ – out of 23[8] credit co-ops which take in deposits in FY2014 and FY2013
* – out of 25 credit co-ops which take in deposits in FY2012

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[7] 2 more credit co-ops did not meet the 8% CAR requirement as compared to the previous financial year due to deficit or reduced surplus while deposits increased.

[8] 2 credit co-ops do not take in deposits. Hence they are not subject to the prudential ratios.

23. Capital adequacy is important to a deposit taking entity as it serves as a basic level of buffer for unexpected losses. The Registry had separately met the co-ops where the CAR was still below the 8% requirement as at 31 December 2014. All credit co-ops have to meet the 8% CAR requirement by 30 June 2016.

24. These co-ops shared the difficulty in building their retained earnings due to limited revenue growth and the need to maintain good returns (dividends and/or interests) to their members. The Registry advised these co-ops to take more active steps to increase their institutional capital, for example, by reducing the dividend rate to members, lowering the interest rate on deposits and/or setting limits on deposits per member. For long term sustainability, credit co-ops must ensure that they can afford the returns to members.

25. Following further consultations with the co-ops sector, we have made some concessions on the restricted investment. The revised Written Direction governing credit co-ops' investments was effective from 20 November 2013. It allows credit co-ops to apply for higher restricted investments limits of up to 30%, subject to conditions. Credit co-ops have to obtain members' approval at a general meeting for a higher limit (i.e. 20% or 30%), and a 30% limit will require further approval from the Registrar. The Registry will primarily consider the credit co-op's audited financial position, current level of restricted investments, approach in managing its investments and compliance with prudential and any other relevant regulatory requirements.

26. To date, the Registry has received applications from 8 credit co-ops for the 30% limit. After careful consideration of the co-ops' financial

positions, prudential ratios and investment documents, the Registrar granted approval to 6 credit co-ops, for up to a period of 3 years.

27. Credit co-ops must monitor their investments closely to ensure that they remain compliant with the applicable restricted investments limits. Credit co-ops that wish to apply for the higher limit of 30% should engage the Registry as early as possible. The Registry will advise on the conditions, for instance, whether the co-op's planned disclosure of investment information to members is deemed sufficient.

KEY DEVELOPMENTS

Audits on Credit Co-ops

28. Audits were conducted to review the credit co-ops' compliance with the prudential requirements, and the adequacy and effectiveness of their related internal controls. The audits provided the co-ops with the necessary guidance to implement proper policies and procedures to address the weaknesses.

29. 5 credit co-ops were selected in the first round of audits which commenced in March 2014. Upon completion, each credit co-op was issued a report which provided specific recommendations to address identified gaps in compliance, processes or internal controls.

30. Learning from the first round of audits, the Registry is refining the audit process and expanding the scope of work going forward. The Registry hopes that through these audits, credit co-ops will be able to improve their existing practices to better protect their members' interests.

Engagement and Public Consultation

31. On 10 December 2014, the Registry invited the Singapore National Co-operative Federation ("SNCF") and key officers of all credit co-ops to attend an engagement session, chaired by the Permanent Secretary (Culture, Community and Youth) to share the policy thinking and future direction regarding the regulation of credit co-ops. Officers from 22 credit co-ops and SNCF attended the session.

32. During the session, the Registry shared some new policy thinking to enhance the governance and management of credit co-ops. The policy changes were part of an ongoing process to strengthen regulatory oversight of the sector so as to better protect members' interests and uphold public confidence in credit co-ops.

33. The proposed recommendations were categorised into 3 broad areas:

a) raising prudential standards and promoting compliance;

b) improving governance standards; and

c) enhancing regulatory powers to deal with distressed and errant credit co-ops.

34. It was a fruitful session with the exchange of views between the Registry and the credit co-ops.

35. Following the engagement session, the Registry invited feedback on the proposed changes from credit co-ops, co-op members and the general public from 22 December 2014 to 2 February 2015. At the close of the public consultation period, the Registry received feedback from the SNCF

and a few credit co-ops. To better understand some of the suggestions and comments, the Registry separately met SNCF and 3 credit co-ops to seek clarifications regarding their feedback, explain the policy changes in greater depth and explore other possible options to achieve the desired outcomes. The Registry appreciates the useful feedback and active participation by the sector to shape the regulatory policies.

UPCOMING INITIATIVES

Amendments to the Co-operative Societies Act

36. The Registry considered the feedback from the credit co-op sector and has refined the recommendations on our proposed policy changes relating to the credit co-ops. We are currently working on the draft amendment bill, as part of the process to amend the Co-operative Societies Act. Other proposed amendments include empowering the Registrar to take protective actions when a credit co-op runs into financial difficulties and removing the prohibitions on co-op's ordinary membership in order to promote the inclusiveness of the co-op movement.

Code of Governance and Risk Governance Guides for Credit Co-ops

37. The Registry and the apex body, SNCF, are also working together to update the 2006 Code of Governance to:

- guide the Committee of Management in carrying out their duties and managing a credit co-op in the best interest of members;
- promote transparency, accountability and risk management; and

- provide an objective framework to assess and improve the level of governance of a credit co-op.

38. The Code will be complemented by an evaluation checklist which credit co-ops can use to ascertain their level of compliance with the Code.

39. There will also be risk governance guides developed on:

a) internal controls;

b) investment management; and

c) loan management.

40. These guides will be useful references of good practices which the credit co-ops can adopt to develop or improve their own standard operating procedures.

41. The Registry looks forward to introducing the Code and risk governance guides in 2016.

Capability Building

42. Lastly, the Committee of Management ("COM") and key staff of credit co-ops should possess the relevant knowledge on credit co-op operations to effectively perform their roles and properly discharge their management responsibilities. Hence, the Registry and SNCF are working together to develop new initiatives and review existing programmes to build the capabilities of the credit co-ops' COMs and key staff, such as:

a) develop a mandatory induction course for credit co-op officers and key staff to build up their capabilities;

b) review of shared accounting services programme under the Central Co-operative Fund so that credit co-ops can tap on such services to improve their operations and compliance; and

c) facilitate board matching so as to bring in qualified and competent persons to serve on the credit co-ops' COMs.

PROMOTION AND DEVELOPMENT OF THE CO-OP SECTOR

43. Co-ops contribute 5% of the first $500,000 of their annual operating surplus to the Central Co-operative Fund ("CCF"), and will contribute 20% of any operating surplus during the financial year in excess of $500,000 to either the CCF or the Singapore Labour Foundation ("SLF").

44. The Co-operative Societies Act states that the CCF is used to further co-op education, training, research, audit and for the general development of the co-op movement in Singapore.

45. Co-ops' contributions to the SLF are used to support initiatives that are in line with its mission of furthering the development of a labour movement of unions and co-ops and to promote the welfare of union members and their families. These initiatives aim to:

a) help needy union members in time of financial need;

b) safeguard workers' welfare and rights through developing compassionate and committed union leaders to represent workers; and

c) moderate the costs of daily essentials for working families by partnering social enterprises.

46. Co-op contributions to the CCF for the financial year ended 31 March 2015 was $3.6 million and co-op contributions to the SLF for the financial year ended 31 December 2014 was $37.4 million.

Central Co-operative Fund

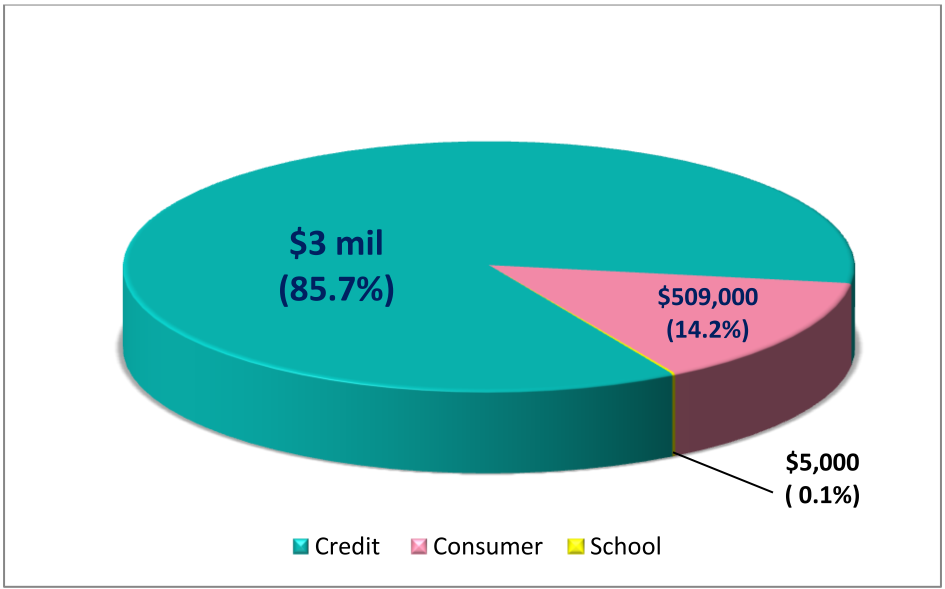
47. The Minister of Culture, Community and Youth appoints the Central Co-operative Fund Committee for the purpose of overseeing the CCF. The current Committee is serving a three-year term effective from 1 March 2015 and comprises the following individuals:

Position in Committee	Name	Organisation
Chairman	Mr Chandra Das	Managing Director of Nur Investment & Trading Pte Ltd
Members	Mr Chan Tee Seng	Chairman, Singapore National Co-operative Federation; CEO, NTUC First Campus Co-operative Ltd
	Mr Low Puk Yeong	Senior Director, Registry of Co-operative Societies
	Mr Ma Wei Cheng	Vice-chairman of AUPE Multi-purpose Co-operative Limited
	Mr Tan Kian Chew	Group CEO of NTUC Fairprice Co-operative Limited

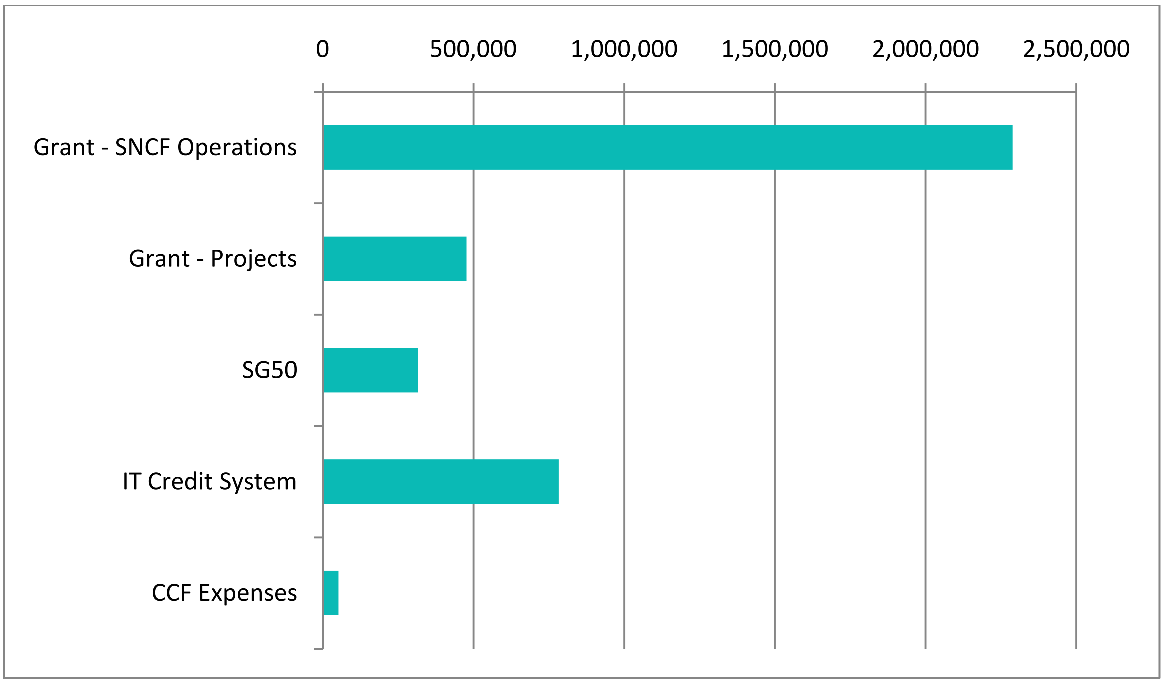
48. SNCF, the co-op industry body, serves as Secretariat to the CCF Committee. SNCF offers services including training, shared services, CCF

grants and networking opportunities. It also serves as the collective voice representing the co-op movement on local and international platforms.

49. The following graphs illustrate the sources of contributions received by CCF and its expenditure for the financial year ended 31 March 2015.



Graph 1: Contributions to CCF; $3.58m



Graph 2: CCF Expenditure; $3.92m

Key initiatives to promote and develop the sector during the financial year included:

(a) Awareness Building

Journey Walls were displayed at schools, libraries and co-ops' events to spread the history and values of co-ops. SNCF was also awarded the Honourable Mention Award in the TOP.COOP Competition conducted by the International Summit of Co-operatives in October 2014. The competition showcased and honoured the co-op's positioning through innovative advertising campaigns and communication, and its ability to harness the involvement of fellow co-ops or public to create awareness.

(b) Campus & Youth

SNCF has been actively reaching out to schools to raise awareness of the co-op model amongst the youth. SNCF collaborated with schools and youth groups to organise scholarship fairs, career fairs, guest lectures, events and camps to raise awareness of the co-op movement.

(c) Capability Building

Delegations of co-ops attended international co-op conferences, which allowed them to meet co-operators from around the world and learn from their experiences and best practices. SNCF also conducted courses and provided training materials to improve governance and raise the capability level of the co-ops. There were about 400 attendees attaining 3,800 training hours in FY2014.

(d) CCF Grants

In the financial year ended 31 March 2015, $114,000 worth of New Co-op grants were disbursed or accrued to be disbursed to provide financial assistance to the new co-ops with strong social missions. An additional $44,000 was granted to support our existing co-ops with the acquisition of hardware, software and facility enhancement to improve their operational environment. A further $173,000 in grants was granted to co-ops to subsidise their training costs, hiring of professional accounting staff and audit fees.

(e) IT Shared Service

An IT shared deposits and loans system was developed to help credit co-ops improve their data management and better serve members' needs. 5 credit co-ops have since adopted the IT system.

(f) Marketing Shared Service

It was launched in June 2014 to help co-ops with their marketing activities. As at the end of the financial year, 7 co-ops had either already commissioned or was going to commission a website. SNCF also helped co-ops which were unable to afford the cost to have a website through free public software.

(g) Commemorative Book

A commemorative book documenting the history of co-ops in Singapore was launched in conjunction with Singapore celebrating SG50 during SNCF's 35th Anniversary Celebrations on 26 September 2015.

CONCLUSION

50. The Registry focuses on improving and strengthening the co-op sector and will continuously review its existing policies and legislation to ensure relevance. We will also assess the needs of the sector and initiate programmes to build capabilities and develop competencies of the COM officers and key staff, to ensure co-ops meet their social goals and effectively serve their members.

51. The Registry will keep on engaging co-ops, especially co-ops which face difficulties meeting statutory requirements.

52. We value our partnerships with all stakeholders. Hence we will continue to foster deeper relationships to build a more vibrant, resilient and sound co-op sector.

PRUDENTIAL REQUIREMENTS FOR CREDIT CO-OPERATIVES

The Registry issues Written Directions which state the prudential requirements for credit co-ops. The issuance and effective dates of the Written Directions are in the table below:

Written Direction on Prudential Requirement	Issue Date	Effective Date
Minimum Liquid Assets	12 March 2010	31 March 2010
Investment Restrictions	31 May 2010 **Revised:** 18 November 2013	30 June 2010 **Revised:** 20 November 2013
Provisions for Bad and Doubtful Loans, and Impairment Loss for Investments	26 November 2010	1 January 2011
Capital Adequacy and Restriction on Dividend	21 April 2011	30 June 2011
Secured Loan Limits	29 August 2011	1 November 2011
Unsecured Loan Limits	31 October 2011	1 April 2012
Submission of Financial Returns	2 February 2012 **Updated:** 7 May 2013	6 February 2012 **Updated:** 10 May 2013

Minimum Liquid Assets

The prudential requirement on Minimum Liquid Assets ("MLA") stipulates that credit co-ops have to maintain sufficient liquid assets to meet withdrawals and maintain members' confidence. Credit co-ops are required to hold a MLA of at least 13% of their deposits at all times.

Investment Restrictions

The primary function of a credit co-op is to provide financial services to its members by taking in deposits and granting loans to its members. To ensure that credit co-ops focus on their core thrift and loan business and not performing the role of professional fund managers for their members, investments made by credit co-ops should generally be liquid, conservative and substantially secure in nature. The Registry has set a Restricted Investments ("RI") limit of up to 10% of total assets (or up to 20% or 30%, subject to conditions prescribed in the Written Directions), and had given credit co-ops up to 30 June 2015 to comply with its applicable limit.

Provisions for Bad and Doubtful Loans, and Impairment for Investments

Credit co-ops must make the relevant provisions and impairments in accordance with FRS39 at least half-yearly.

Capital Adequacy Ratio and Restriction on Dividends

Capital Adequacy Ratio ("CAR") stipulates that credit co-ops have to maintain sufficient institutional capital to absorb operational losses. Credit co-ops that hold deposits have to maintain CAR of no less than 8% of its total assets. In addition, a credit co-op with less than 6% CAR as at financial year end and intends to distribute dividends from that year's surplus must seek the Registry's written approval for the proposed dividends. As a transitional arrangement, credit co-ops which were unable to meet the requirement as at 30 June 2011 have to seek to raise their CAR and meet 8% CAR by 30 June 2016.

Secured and Unsecured Loan Limits

Credit co-ops may grant secured and unsecured loans in accordance with the limits prescribed by the Registry, which vary according to loan type.