



SOUTH AFRICAN RESERVE BANK
Prudential Authority

FOR PUBLIC CONSULTATION – JULY 2021

Prudential Standard CBA-02 - Governance requirements for co-operative financial institutions and co-operative banks

Objectives and Key Requirements of this Prudential Standard CBA-02

This standard sets out the principles and requirements for governance with respect to Co-operative Financial Institutions (CFIs) and co-operative banks registered in terms of the Co-operative Banks Act, 2007 (Act No. 40 of 2007).

It is the ultimate responsibility of the board of directors (board) of the CFI or co-operative bank to ensure compliance with this Standard on a continuous basis.

This standard covers matters concerning general principles of governance, fitness and propriety, culture, board competencies, chairperson of the board, board committees, supervisory or audit committee, allocation and delegation of roles and responsibilities, duties of directors, roles and responsibilities of management, the constitution, remuneration and information submitted to the Prudential Authority.

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1. Commencement

This Standard commences on 1 January 2023

Version number	Commencement date
1	1 January 2023

2. Legislative authority

This Standard is made under section 46(1) of the Co-operative Banks Act, 2007 (Act No. 40 of 2007) (Act) read with sections 105 and 108 of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) (FSR Act).

3. Application

- 3.1 The care, diligence, skill and prudence exhibited by the board and management of CFIs and co-operative bank have a critical influence on the financial institution's viability, safety and soundness as well as its ability to meet its business objectives.
- 3.2 Although governance details may differ from one financial institution to another, the foundations of good governance are created by the board of directors and managers who are entrusted by the members to understand and diligently discharge their responsibilities with prudence.
- 3.3 This standard applies to all registered CFIs and co-operative banks under the Act.
- 3.4 This standard applies in addition to the requirements of the Co-operatives Act, 2005 (Act No. 14 of 2005) (Co-operatives Act) and the Principles of Good Governance for Co-operatives issued under the Co-operatives Act.

4. Definitions and interpretation

- 4.1 The terms used in this standard, unless indicated otherwise, are defined in the Act, the Co-operatives Act or the FSR Act and have the same meaning in this standard.

'auditor' means a registered auditor as defined in the Auditing Profession Act, 2005 (Act No. 26 of 2005);

'board' means the board of directors of the CFI or co-operative bank as appointed by members in accordance with the constitution of such CFI or co-operative bank;

'competence' includes experience, qualifications and continuous professional development;

‘control functions’ means each of the following:

- (a) the risk management function;
- (b) the compliance function; and
- (c) the internal audit function only when required by the Prudential Authority;

‘co-operative bank’ means co-operative bank as defined in the Act;

‘independent reviewer’ means a person who is qualified to be appointed as an accounting officer of a close corporation in terms of section 60(1), (2) and (4) of the Close Corporations Act, 1984 (Act No. 69 of 1984);

‘management’ means the managing director and executive officers of the CFI or co-operative bank;

‘members’ means the members of the CFI or co-operative bank;

‘supervisory or audit committee’ means the audit committee for a co-operative bank and the supervisory or audit committee for a CFI.

- 4.2 The ‘Objectives and key requirements of Prudential Standard CBA-02’ in the preamble at the start of this Standard must not be used in the interpretation of any section of this Standard.

5. Roles and responsibilities

- 5.1 The board of a CFI and co-operative bank is ultimately responsible for ensuring that the financial institution complies with all the requirements and principles of good governance outlined in this standard.
- 5.2 Auditors, independent reviewers, and/or members of the Supervisory/Audit Committee must inform the Prudential Authority in writing of any matter they become aware of in the performance of their functions that will negatively affect the maintenance of the principles and requirements of this Standard.
- 5.3 The board committees and any other control functions in place must at prescribed intervals review and report to the board on the financial institution’s compliance to requirements and principles of this Standard.

6. General

- 6.1 In consideration of the constitution of a CFI and a co-operative bank, the board’s key responsibilities fall under the following categories:
- (a) **Co-operative values and principles:** Approve and monitor organisational ethics, adherence to co-operative principles and values, operational and compliance standards and policies. Acknowledging that acting ethically and responsibly goes beyond mere compliance with legal obligations. Reinforcing the principle of acting with honesty and integrity to create, protect and return value to members, including acting ethically towards the broader community;
 - (b) **Strategic planning:** Considering, approving, and monitoring strategic business plans for the CFI or the co-operative bank. Finalising a clear set of strategic objectives designed to ensure the sustainable creation, protection and return of value for members. Obtaining collaboration and support for these strategic objectives from the members. Monitoring and reviewing implementation of the strategic objectives and reporting regularly to members as to the implementation, monitoring and review of the strategic objectives;

- (c) **Oversight:** Approving and overseeing management's implementation of the CFI's or co-operative bank's strategic objectives, governance and risk management frameworks as well as the corporate culture. This should also include mechanisms to determine how the performance of the board and senior management is monitored and evaluated;
- (d) **Structure and composition of the board:** CFIs and co-operative banks must have a board that meets the organisation's minimum requirements, is of an appropriate size, diversity and composition, and has the skills, independence and commitment to discharge its duties and responsibilities effectively. The members of the board must be fit and proper persons;
- (e) **Risk identification:** Recognizing, identifying, and evaluating the risks involved in a CFI's or co-operative bank's business operations;
- (f) **Accountability:** The board is primarily accountable for the governance and performance of the CFI or co-operative bank. The board is also accountable for ensuring that the CFI or co-operative follows the applicable laws, behaves in an ethical manner, and manages the member's funds with due care;
- (g) **Relationship with stakeholders:** The CFI or co-operative bank must consider and implement processes and procedures to define clear roles and ensure effective relationships with stakeholders;
- (h) **Succession planning:** Ensuring that the board has a plan of succession to replace board members or the Managing Director/Chief Executive Officer should it become necessary;
- (i) **Communications:** Ensuring that the financial institution cultivates a system of effective and courteous communications among its members, board, management group, other employees and stakeholders in the CFI or co-operative bank system, and the general public;
- (j) **Systems integrity:** Ensuring that business operations are functioning properly and effectively, and under a sound system of internal controls; and
- (k) **Competent management:** Ensuring that the board hires a managing director with the necessary experience, knowledge and qualifications to operate the CFI or co-operative bank and is a fit and proper person as contemplated in paragraph 7 and appropriately oversees his or her activities.

6.2 In addition to the responsibilities outlined in paragraph 6.1, the board must ensure that:

- (a) an effective board approved and documented governance framework is developed and implemented by the CFI or co-operative bank;
- (b) the governance framework:
 - (i) is proportionate to the nature, scale and complexity of the business and risks of the CFI or co-operative bank;
 - (iii) includes effective systems of corporate governance, risk management and internal controls; and is reviewed at least annually;
- (c) the governance framework is supported by a board approved risk management framework;
- (d) its multiple roles and responsibilities are clearly specified and include establishing and overseeing the risk-management function and material risk decisions;

- (e) it oversees internal control functions (including ensuring independence between the control functions and adequate resources of control functions);
- (f) there is compliance with all supervisory and oversight requirements;
- (g) there are appropriate processes in place that support strong communication between different levels of management and board committee, and the encouragement of employee participation, including whistleblowing;
- (h) the CFI or the co-operative bank has comprehensive internal processes to assist the board and management to monitor and assess the adequacy and effectiveness of the financial institution's risk-management policies, procedures, systems, and controls;
- (i) the internal processes referred to in sub-paragraph (h) above should be structured wherever feasible in accordance with the three lines of defence governance model, comprising of defence line 1 - management and internal controls, defence line 2 - control functions and defence line 3 – internal audit; and
- (j) members of the board, directors and management declare all conflicts of interest.

7. Fitness and propriety of directors, members of the supervisory / audit committee, management and executive officers

- 7.1 Members of the board, directors, members of the supervisory or audit committee, management and executive officers of a CFI or a co-operative bank must be fit and proper.
- 7.2 The CFI or co-operative bank must have processes in place to assess the fitness and propriety of new directors, members of the supervisory or audit committee, management and executive officers as well as review the fitness and propriety of existing persons at least on an annual basis.
- 7.3 When assessing and reviewing the fitness and propriety the CFI or co-operative bank must have regard to its code of conduct that requires members of the board, the supervisory or audit committee; management and executive officers to:
 - (a) act in accordance with the highest standards of honesty and ethical conduct;
 - (b) protect and safeguard the assets and resources of the co-operative bank against loss, theft, misuse and misapplication;
 - (c) ensure effective communication with and provision of accurate information relating to financial and operational matters to the members;
 - (d) ensure full, accurate, sensible, timely and meaningful disclosures in reports submitted to the Prudential Authority and other regulatory authorities;
 - (e) treat information obtained in the performance of his or her functions with the necessary confidentiality; and
 - (f) compliance with all applicable legislation and report any non-compliance or unlawful behaviour to the relevant regulatory authorities.
- 7.4 In addition, the CFI or co-operative bank must consider the following when assessing the fitness and propriety for new board members, members of the supervisory or audit committee; management and executive officers as well as when reviewing the fitness and propriety of existing appointments:

- (a) the competence and soundness of judgement of the person for the fulfilment of the responsibilities of the particular office and class of co-operative bank;
- (b) the diligence with which the person concerned is likely to fulfil those responsibilities;
- (c) previous conduct and activities of the person in business or financial matters; and
- (d) any evidence that the person -
 - (i) has been convicted (and that conviction has not been expunged) of a financial crime as defined in section 1 of the Financial Sector Regulation or any offence involving dishonesty;
 - (ii) has been convicted of an offence committed after the Constitution of the Republic of South Africa, 1993 (Act No. 200 of 1993), took effect, and sentenced to imprisonment without the option of a fine;
 - (iii) has contravened the provisions of any law the object of which is the protection of the public against financial loss;
 - (iv) is a former director or manager of a CFI or co-operative bank or any other bank and that the person's actions contributed to the inability of that CFI or co-operative bank or other bank to pay its debts; or
 - (v) has taken part in any business practices that, in the opinion of the CFI or co-operative bank, were deceitful, prejudicial, or otherwise improper (whether unlawful or not) or which otherwise brought discredit to that person's methods of conducting business.

7.5 An appointment of a board member, member of the audit or supervisory committee, management or executive officer is only final after the appointment has been approved by the Prudential Authority. The application for approval of the Prudential Authority for the appointment must be made in the form and manner determined by the Prudential Authority.

7.6 Individuals who are holding, or who are proposing to hold, the office of a director, managing director or an executive officer of a CFI or co-operative bank, must submit information in the form and manner determined by Prudential Authority.

7.7 The information determined by the Prudential Authority must be completed and submitted to the Prudential Authority when –

- (a) a new director, managing director or executive officer has been appointed;
- (b) a director, managing director or executive officer has changed his or her address; or
- (c) a director, managing director or executive officer has vacated his or her office;
- (d) circumstances arise where the Prudential Authority may request further information.

8. Culture

8.1 CFIs and co-operative banks must have in place a demonstrated co-operative culture that is core to the business model and which supports appropriate

outcomes including ethical behaviour, promotion of member interest as well as sound and prudent management.

- 8.2 The board is responsible for overseeing and ensuring compliance with the appropriate co-operative culture within the financial institution and should set the tone at the top.

9. Board competencies

- 9.1 The board must have the necessary knowledge and skill to be able to exercise competent and independent judgement when considering all matters relating to the operation and governance of the CFI or co-operative bank.
- 9.2 To enable directors to understand their roles and responsible as well as enhance their knowledge and skills, the financial institution must implement new director orientation, training and awareness programs.
- 9.3 The programs referred to in paragraph 9.2, above must inform directors about new and on-going business developments, the changing risk profile of the financial institutions as well as regulatory and supervisory requirements and changes.
- 9.4 The board must assess its effectiveness at least on an annual basis. The annual review must include the following areas:
- (a) the profile of qualifications, knowledge, skill, experience, and involvement required of directors;
 - (b) the quality and effectiveness of the board's performance;
 - (c) the processes utilised for setting agendas and priorities;
 - (d) the quality and timeliness of materials provided for meetings;
 - (e) the conducting of meetings: whether adequate time is given to directors to scrutinise and discuss issues that are relevant to the board's role and responsibilities; and
 - (f) the robustness of discussions and level of scrutiny applied by the board.

10. Chairperson of the board

- 10.1 The principal role of the chairperson is to manage and provide leadership to the board of the CFI or the co-operative bank.
- 10.2 The chairperson is accountable to the board and as a collective the board is accountable to the members.
- 10.3 The chairperson must ensure that adequate time is allocated for discussion of board matters, especially discussions of a strategic or policy nature.
- 10.4 The Chairperson must promote a culture of openness and debate among directors, management and heads of control functions in line with the requirements for control functions such as risk management and internal controls.

11. Board committees

- 11.1 The board should put in place appropriate board committees commensurate with the nature, scale and complexity- of the CFI or co-operative bank.
- 11.2 Board committees support the board in the execution of specific oversight functions within the financial institution.
- 11.3 Committee members must address relevant issues and make recommendations to the board.

- 11.4 At a minimum, a CFI or co-operative bank must constitute a Governance committee, Credit Committee, as well as an Education and Training Committee.
- 11.5 The terms of reference for board committees, inclusive of the frequency of meetings, must be documented and approved by the board.
- 11.6 Board committees should function independently from each other and be provided with sufficient authority, resources and assigned responsibilities in supporting the board.
- 11.7 Each committee is required to maintain adequate records of its activities and to report to the board on a regular basis.
- 11.8 The board may put in place additional committees as it deems appropriate to facilitate the efficient governance of the CFI or co-operative bank.
- 11.9 Depending on the nature, scale and complexity of the institution, the Prudential Authority may require the financial institution to establish additional board committees.

12. Supervisory or audit committee

- 12.1 The supervisory or audit committee is elected by the general members of the CFI or the co-operative bank at the annual general meeting.
- 12.2 The members of the supervisory or audit committee are not members of the board and are accountable to the members.
- 12.3 The supervisory or audit committee plays a critical role in ensuring that the requirements of corporate governance is adhered to by the CFI or co-operative bank.
- 12.4 The role of the supervisory or audit committee is to have independent oversight of the operations of the CFI or co-operative bank to ensure that the interests and assets of the members are protected and safeguarded.
- 12.5 In fulfilling its responsibilities the supervisory or audit committee must:
 - (a) regularly review the systems for risk management and internal controls and provide an independent assurance to the members and the board that the systems are effective.
 - (b) must provide an independent assurance to the members and the Prudential Authority, if requested, that the CFI or co-operative bank complies with the requirements of this standard.
 - (c) must report to the members of the CFI or the co-operative bank, board and the Prudential Authority any matters identified during the performance of its responsibilities that are contrary to this standard or will negatively affect the maintenance of a sound risk management framework.
 - (d) review of the audited/independently reviewed Annual Financial Statements (AFS) prior to dissemination and ensure that any adjustments are effected prior to being tabled at Annual General Meeting (AGM) for approval.
 - (e) Have an internal process followed to address all the issues raised by the external assurance providers.

13. Allocation and delegation of roles and responsibilities

- 13.1 As the governing body of the financial institution all powers and responsibilities reside with the board.

- 13.2 The board may delegate some of the activities or functions associated with its roles and responsibilities to board committees or members of management, or in certain cases, to external parties.
- 13.3 The prior approval of the Prudential Authority is required when a CFI or co-operative bank makes a decision to outsource roles and functions to external parties as such decision will introduce material risks to the prudent management of the financial institution.
- 13.4 The allocation of roles and responsibilities between the board and management is one of the most critical governance decisions made by the board. The board must retain all strategic and policy decisions and only delegate day-to-day management decisions.
- 13.5 The Prudential Authority must be notified of all delegations by the board to management.
- 13.6 Delegation does not abrogate the accountability of the board for decisions made under delegation. Any action committed or omitted under a delegation is deemed to have been committed or omitted by the board.
- 13.7 Effective delegation requires a strong and disciplined governance model. The board of a CFIs and co-operative banks must develop an appropriate system of delegation in which:
 - (a) delegations are appropriately and clearly mandated and documented;
 - (b) there are adequate checks and balances;
 - (c) there is provision for the monitoring and reporting on delegations;
 - (d) there is no undue concentration of powers; and
 - (e) withdrawal of delegations are specifically addressed.

14. Duties of directors

- 14.1 A director of a CFI or a co-operative bank in effecting their duties and responsible must act honestly, diligently, reasonably, in good faith and must exercise due care.
- 14.2 Directors must:
 - (a) comply with the fit and proper requirements of the CFI or the co-operative bank as well as the requirements of this standard
 - (b) act in the best interests of the CFI or co-operative bank and members; and
 - (c) exercise independent judgment and objectivity in decision making, taking into account the interests of the members and the CFI or co-operative bank as well as and the applicable regulatory requirements.
- 14.3 A director of the CFI or co-operative bank must have the commitment necessary to fulfil his/her role, as demonstrated by, for example, a sufficient allocation of time to the affairs of the financial institution.
- 14.4 A director of the CFI or co-operative bank must act without favour, providing constructive and robust challenge of proposals and decisions and asking for information when the director considers it necessary.

15 Roles and responsibilities of management

- 15.1 A manager of a CFI or co-operative bank must:
 - (a) act honestly, prudently responsibly and with due care when performing his/her duties;

- (b) comply with the fit and proper requirements of the financial institution; and
 - (c) be suitably qualified with the necessary skills and knowledge to effectively deliver on his/her duties and responsibilities.
- 15.2 Subject to appropriate delegation from the board, management is responsible for and must:
- (a) carry out the day-to-day operations of the financial institution effectively and in accordance with the CFI's or co-operative bank's board-approved culture, business objectives and strategies for achieving those objectives in line with the financial institution's long-term interests and feasibility;
 - (b) promote fair treatment of members;
 - (c) provide the board with adequate and timely information to enable the board of directors to carry out its duties and functions, including the monitoring and review of the performance and risk exposures of the financial institution, and the performance of management
 - (d) maintain adequate and orderly records of the CFI or co-operative bank;
 - (e) promote strong risk management and internal controls, through their personal conduct, through the implementation of transparent policies, and by communicating to all employees their responsibilities in these areas; and
 - (f) not interfere with and support the activities that control functions carry out in the rightful exercise of their responsibilities, including that of providing an independent view of governance, risk, compliance and control related matters.
- 15.3 In addition management must have oversight of the following:
- (a) signs of growth i.e. membership of the CFI or co-operative bank and asset growth;
 - (b) delivery of the business of the CFI or co-operative bank in a safe environment;
 - (c) human resources management including but not limited to the maintenance of appropriate staff records and recruitment of suitably qualified staff, job descriptions, implementing appropriate organisational structures and staff training programs;
 - (d) record keeping, including but not limited to membership records in line with appropriate Know Your Customer (KYC) principles;
 - (e) management information systems, whether manual or end-user computing, including access controls and backups;
 - (f) internal controls including appropriate segregation of duties.

16. Constitution of a CFI or co-operative bank

- 16.1 The constitution of a CFI or co-operative bank is a key governance document. The requirements for the constitution of a co-operative bank and CFI are provided for in the Act and Prudential Standard CBA01 – Registration and operational requirements for CFIs and co-operative banks.

17. Remuneration

- 17.1 CFIs and co-operative banks must ensure that remuneration of staff of the CFI or co-operative bank is dealt with responsibly and is aligned with the long-term effects of risks.
- 17.2 Remuneration that is paid to both the staff of the CFI or co-operative bank and the directors must be considered in light of the co-operative principles as well as the nature and objective of CFIs and co-operative banks.

18. Information submitted to the Prudential Authority

18.1 General

- (a) The Prudential Authority may require any additional information or documents or a report from an auditor or from any other knowledgeable person on aspects relating to the forms/returns
- (b) All of the required returns shall be based on and be reconcilable with the management accounts as presented to the management and board of the CFI and the co-operative bank.
- (c) The Prudential Authority may approve in writing any deviation in the manner in which the forms or returns of a CFI or co-operative bank are completed.
- (d) Depending on the nature, scale and complexity of the CFI or co-operative bank, the Prudential Authority may exempt the financial institution from submitting certain returns on the basis indicated, but the PA may not exempt a CFI or a co-operative bank from submitting its annual financial statements.
- (e) A CFI or co-operative bank must keep and preserve its records and information submitted to the Prudential Authority in a manner that prevents the loss, destruction or falsification thereof.

18.2 Information on directors, managers, members of the supervisory/audit committee and members

- (a) The CFI and co-operative banks must annually submit to the Prudential Authority a return in the form and manner determined by the Authority information on directors, managers, members of the supervisory or audit committee and members.

18.3 Minutes of general meeting

- (a) A CFI or co-operative bank must, within 30 days after a general meeting, submit a copy of the draft minutes to be kept in terms of section 31(1)(a) of the Co-operatives Act to the Prudential Authority, including adopted resolutions, together with the adopted minutes of the previous general meeting.
- (b) The CFI or co-operative bank must submit the information referred to in sub-paragraph (a) above in the form and manner determined by the Prudential Authority.