



SOUTH AFRICAN RESERVE BANK
Prudential Authority

FOR PUBLIC CONSULTATION – JULY 2021

Prudential Standard CBA-01 – Registration and operational requirements for co-operative financial institutions (CFIs) and co-operative banks

Objectives and Key Requirements of this Prudential Standard CBA-01

This Standard sets out the principles and requirements for registration and operation of a co-operative financial institution (CFI) or co-operative bank 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 co-operative values and principles, the registration of CFIs and co-operative banks, certificate of registration, application for conversion of primary savings co-operative bank, application for approval of amalgamation, division of or transfer by co-operative bank; governance structures, constitution of a CFI or co-operative bank, board composition, the supervisory/audit committee, strategy and business plans, policy and procedures, financial management, and reporting.

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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 section 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 banks with regard to risk management and internal controls have a critical influence on the CFI's and co-operative bank's viability, safety and soundness as well as its ability to meet its business objectives.

3.2 This Standard applies to all CFIs and co-operative banks registered under the Act.

3.2 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.

'**Agency**' means the Development Agency for Co-operative Banks established under section 54 of the Act;

'**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 the membership in accordance with the constitution of the CFI or co-operative bank;

'CFI' means co-operative financial institution as defined in the Act;

'chief financial officer' means the most senior person responsible for the financial management and financial reporting of the co-operative bank;

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

'co-operative bank' means co-operative bank as defined in the Act;

'independent reviewer' is as defined in section 1 of the Co-operative Act,;

'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-01' 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 A CFI's or co-operative bank's board is ultimately responsible for ensuring that the CFI or co-operative bank complies with the principles and requirements of this Standard, including establishing the relevant policies and procedures to ensure adequate day-to-day management of the CFI or co-operative bank.

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 principles and requirements of this Standard.

5.3 The CFI's or co-operative bank's management is responsible for operationalising the standard and making sure that the board is kept abreast of operational developments on a regular basis.

6. Co-operative values and principles

6.1 A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

6.2 CFIs and co-operative banks are formed based on a common bond as described in the Act.

6.3 CFIs and co-operative banks are required, at all times to adhere to the co-operative values of self-help, self-responsibility, democracy, equality, equity and solidarity. This also includes complying with the ethical values of honesty, openness, social responsibility and caring for others.

6.3 Over and above the values, CFIs and co-operative banks must adhere to the seven co-operative principles which serve as the guidelines by which they put their values into practice. These are voluntary and open membership, democratic member control, member economic participation, autonomy and independence, member education, member economic participation and concern for the community.

7. Registration of CFIs and co-operative banks

- 7.1 An applicant CFI or co-operative bank must comply with all the relevant requirements to be registered as a co-operative in terms of the Co-operatives Act.
- 7.2 All CFIs and co-operative banks must be formed on the common bond principle as described in the definition of a co-operative bank.
- 7.3 To be considered for registration as a CFI, the applicant must have a minimum of 200 members and a share capital of at least R100 000.
- 7.4 To be considered for registration as a co-operative bank, the applicant must have a minimum of 200 members and total deposits of at least R5 million.
- 7.5 A CFI 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.
- 7.6 In terms of section 40B(2)(d)(ii) of the Act, the general maximum limit for holdings of deposits by any CFI is prescribed at R50 million.
- 7.7 The form and manner of the application and accompanying registration forms for a CFI and co-operative bank will be determined by the Prudential Authority.

8. Certificate of registration

- 8.1 Upon receipt of the application fee, and once the Prudential Authority is satisfied that the applicant qualifies for registration as a CFI or co-operative bank, a certificate of registration will be issued with a unique registration number, in the form and manner determined by the Prudential Authority.
- 8.2 The certificate must where possible, be displayed in the main business area of the CFI or co-operative bank. The certificate or certified copies of the certificate must at all times be available to members and prospective members.
- 8.3 The registration certificate is not valid, unless it bears the signature of the Chief Executive Officer of the Prudential Authority and the seal or stamp of the Prudential Authority.

9. Application for conversion of primary savings co-operative bank

- 9.1 A primary savings co-operative bank may apply for conversion to a primary savings and loans co-operative bank.
- 9.2 A primary savings co-operative bank that wishes to convert to a primary savings and loans co-operative bank must provide full details of the proposed conversion in the form and manner determined by the Prudential Authority.

10. Application for approval of amalgamation, division of or transfer by co-operative bank

A co-operative bank that wishes to amalgamate with another co-operative bank and transfer assets, rights, liabilities and obligations to another co-operative bank in accordance with section 57 of the Act, must apply for approval for the amalgamation, division of or transfer by a co-operative bank in the form and manner determined by the Prudential Authority providing therewith full details of the proposed scheme of arrangement(s).

11. Governance structures

- 11.1 At a minimum, CFIs and co-operative bank are required to maintain the following

governance structures:

- (a) a constitution;
- (b) an active board;
- (c) board committees;
- (d) strategic plan;
- (e) business plan;
- (f) financial reporting;
- (g) audit and control functions, if applicable; and
- (h) annual general meetings.

11.2 The Prudential Authority may, based on the nature, scale and complexity of a CFI or co-operative bank, specify additional governance structures.

12. Constitution of a CFI or co-operative bank

12.1 The constitution as the primary governing document of a CFI or co-operative bank may only be amended by the members (subject to meeting the relevant quorum) at the annual general meeting or special members meetings.

12.2 Any changes to the constitution, prior to being tabled to the members for final ratification and subject to the approval of the Registrar for co-operatives, must be submitted to the Prudential Authority for approval in the form and manner determined by the Prudential Authority.

12.3 In addition, a CFI must ensure that its constitution provides:

- (a) that directors of the CFI, other than the managing director, may not be employees of such CFI or co-operative bank;
- (b) only members in good standing can be directors of the CFI. Directors in arrears with such amount and type of debt payable to the CFI as determined by the Prudential Authority for more than three months must be disqualified from continuing as a director and must vacate his or her office. The CFI must establish the mechanisms in terms of which this requirement will be processed.
- (c) for the determination of the remuneration and other benefits of directors, including the managing director, at the annual general meeting.
- (d) there is the establishment of a supervisory or audit committee consisting of members that are not directors, to -
 - (i) assist the board in its evaluation of the adequacy and efficiency of internal control systems, accounting practices, information systems and auditing processes within the CFI;
 - (ii) facilitate and promote communication regarding the matters referred to in sub-paragraph (i) above or any other related matter between the members, board, executive officers, and auditors; and
 - (iii) introduce measures that may serve to enhance the credibility and objectivity of financial statements and reports prepared with reference to the affairs of the CFI.

12.4 The requirements referred to in paragraph 12.3 are provided for in section 13 of the Act for co-operative banks.

13. Board composition

13.1 All directors of the board must be members.

13.2 The managing director serves in an ex-officio capacity with no voting rights.

13.3 No director on the board, other than the managing directors, can be an

employee of the CFI or the co-operative bank. The number of board members must be commensurate to the nature, scale and complexity of the business of the CFI or co-operative bank concerned.

- 13.4 The minimum number of board members must at any given time be as prescribed in the constitution, and at a minimum be at least nine members, and an odd number.
- 13.5 The composition of the board of the CFI or co-operative bank must be appropriate with regard to competence of the board members having regard to the nature, scale and complexity of the business conducted.
- 13.6 Board members must reflect the general membership of the CFI or co-operative bank in terms of gender and age profiles.
- 13.7 Board members are limited to three consecutive terms, board terms will be as prescribed in the constitution, but may not exceed three years a term.
- 13.8 In consideration of paragraph 13.7 above, the Prudential Authority may on application consider the extension of the maximum term for board members.
- 13.9 The board must stagger the terms of individual board members to ensure continuity.
- 13.10 The board must maintain a board charter, inclusive of terms of reference, and code of ethics for the board.
- 13.11 Elected and appointed members must undertake to implement the provisions of the constitution, comply with the relevant legislative frameworks and protect the interest of the members.

14. Supervisory or Audit Committee

- 14.1 Each CFI or co-operative bank must put in place a Supervisory or Audit Committee whose membership is elected at the annual general meeting.
- 14.2 The roles and responsibilities of the Supervisory or Audit Committee are prescribed in the constitution of the CFI and co-operative bank, the Act as well as the Prudential Standard CBA02 – Governance requirements for CFIs or co-operative banks.

15. Strategy and business plan

- 15.1 Each CFI and co-operative bank is required to maintain and regularly update its strategic plan, which is commensurate with the nature, scale and complexity of its activities.
- 15.2 The strategic plan must give effect to a robust and effective business plan.
- 15.3 The board of the CFI or co-operative bank must therefore have adequate processes, structures and mechanisms to satisfy itself that appropriate systems are in place to identify, evaluate and manage the strategic goals with respect to profitability and sustainability as set out in the strategic plan on a frequent basis.
- 15.4 The strategic plan must also contain specific details regarding actual outcomes, key milestones to be reached and persons responsible for implementation.

16. Banking services provided by CFIs and co-operative banks

- 16.1 The banking services provided by co-operative banks are prescribed in the Act.
- 16.2 CFIs may only provide, participate in or undertake the following banking services:

- (a) solicit and accept deposits from its members;
- (b) open savings accounts for its members, in the name of each member, into which that member may deposit or withdraw money and from which that member may instruct the co-operative bank to transfer or pay money;
- (c) open a savings account or cheque account in the name of that CFI with any banking institution registered with the Prudential Authority;
- (d) provide trust or custody services to members;
- (e) conduct any additional banking services as may be prescribed by the Prudential Authority; and
- (f) invest money deposited with it in investments prescribed by the Prudential Authority.

17. Policies and procedures

- 17.1 The CFI or co-operative bank is required to maintain documented policies and procedures to govern how it manages its day-to-day operations.
- 17.2 Each policy must contain the policy objectives, responsibility and authority levels, frequency of review and responsibility for review, and exceptions.
- 17.3 The requirements for policies are provided for in Prudential Standard CBA03-Risk management and internal controls for CFIs and co-operative banks.

18. Auditors and independent reviewers

- 18.1 CFIs and co-operative banks must ensure that there are policies and procedures in place to rotate auditors or independent reviewers every 5 years.
- 18.2 A CFI or co-operative bank must apply to the Prudential Authority for approval of its auditors/independent reviewer. The Prudential Authority will consider among others, the fitness and propriety of the auditor or independent reviewer. The appointment of the auditor or independent review is not finalised unless prior approval has been received from the Prudential Authority.

19. Financial management

- 19.1 CFIs and co-operative banks are required to prepare financial statements on a regular basis and ensure these are audited. This includes regular bank reconciliation and member statement reconciliations.
- 19.2 CFIs and co-operative banks must have a means to communicate on a regular basis or as requested, the details of members transactions with the CFI or co-operative bank, including member savings, member loans, and member share capital. This must be in a format that members can understand.
- 19.3 Additionally, CFIs and co-operative banks must maintain a detailed record of all its assets, including investments.
- 19.4 CFIs and co-operative banks are required to report on an annual basis to the Prudential Authority and the Registrar for Co-operatives on their annual financial performance in a manner prescribed.
- 19.5 The reports on annual financial performance must be made available to the general members at the general meeting, and as and when the members may require.

20. Reporting to the Prudential Authority

- 20.1 The board must ensure that the CFI or co-operative bank reports to the

Prudential Authority on its annual general meetings, financial performance (income statement, balance sheets, management accounts), audit, compliance with the Act and prudential standards at intervals and in the form and manner determined by the Prudential Authority.

- 20.2 The Prudential Authority may specify other areas of reporting when it becomes necessary based on the nature, scale and complexity of the CFI or co-operative bank.