

OFFICE OF THE REGISTRAR OF CREDIT UNION

Practice Guidance Note. 3

On Governance of Credit Unions

Applicability

1. The Practice Guidance Note 3 (hereinafter PGN3) is applicable to all credit unions which are registered and deemed regulated by the Registrar of Credit Union under the Credit Union Act 1986 [Cap 165] (the Act hereafter), the CBSI Act 2012 (CBSI Act hereafter) and the Credit Union Standard By-laws 1987 (by-laws hereafter).

Background

2. Credit Unions are customer/member owned financial cooperatives, based on the principles of common bond, volunteerism and member participation. Credit unions are democratically controlled by its members – both customer and shareholders, and whose primary purpose is to maximize the economic benefit of its members by providing savings, credit and other financial services or rewards at competitive and fair rates.¹
3. The Registrar of Credit Unions (ROCU) is responsible for the registration, regulation and supervision of all credit unions operating in the Solomon Islands, pursuant to the Act, and the CBSI Act. The aforementioned Acts seeks to promote stability within the credit union industry, thereby, maintaining confidence in the relationship between members, management and board of directors.
4. The Registrar's Office is mandated to ensure that minimum governance requirements and prudent management practices are observed by all registered credit unions while still fulfilling its obligations to protect the interest of credit union members, and is committed to ensuring the unique characteristics of credit unions are maintained.
5. Regulatory examinations conducted by the Registrar's office reveal that most credit unions' Board and Management have neglected their mandated roles and responsibilities due to the voluntary nature of credit unions and this is usually a first step towards the downfall of most credit unions in Solomon Islands. A weak governance oversight may potentially lead to imprudent lending practices, fraudulent activities and unsound operational processes all of which could lead to erosion of members confidence, their eventual withdrawal of membership and subsequently a credit union failure. Hence, a governance framework and prudent management is crucial for sustainability of credit union movement, and enhance accountability and safeguard members' interests going forward.

¹ World Council of Credit Unions [WOCCU] – “*Technical Guide: Credit Union Regulation and Supervision*”, 2008 & “*Why Credit Unions*”, 2023 [https://www.woccu.org/about/credit_unions].

6. To achieve the central goal and purpose of the credit unions within the limits of the Act, and the CBSI Act; the Registrar of credit unions propose to issue this PGN3 to all credit unions under the vested powers and authority.
7. The PGN3 emphasize that all credit unions must implement internal governance framework and ensure the adherence to sound governance and management conduct practices.
8. This PGN3 is not intended to be exhaustive, but represent the minimum standards that must be observed.
9. The Registrar expects credit unions to take appropriate steps to become compliant with this PGN3.

Purpose

10. The minimum requirements in this PGN3 are based on governance principles and international best practices established by the World Council of Credit Unions (“WOCCU”) in the document “Credit Union Governance” and are in conjunction with the Act, and the CBSI Act; to ensure that credit unions effectively establish sound governance framework and pro-active practices relating to organization risk management within their credit unions.
11. The PGN3 aims to provide each credit union with a minimum standard to promote sound governance practices.
12. The PGN3 also aims to ensure that each credit union is managed soundly and prudently by a competent Board, Management and potential office bearers. This is to allow rational and impartial business decisions in the best interests of the credit union members, its customers, shareholders and stakeholders; and thence promoting stability within the credit union industry.
13. The PGN3 is also aimed at promoting accountability and transparency in credit unions business operations and greater member confidence.

Definitions

14. **“board of directors”** means the body elected by the members of credit union to manage the affairs of the credit union, as defined in section 2 of the Act.
15. **“Business Continuity Management (BCM)”** means the development, implementation, and maintenance of strategies, plans, resources, and actions to ensure specific operations can maintained or recovered in timely fashion in the event of a significant crisis event².

² Definition of significant crisis event – A “significant crises event” in the context of a credit union means any event that causes major disruption and disturbances for a credit union continuity of operation and poses

16. **“Business Continuity Planning (BCP)”** means a credit union’s risk management strategy for threats that may terminate or significantly disrupt core business. It involves mitigation activities and contingency planning for response and recovery actions. BCP necessarily embraces disaster recovery planning.
17. **“by-laws”** means the standard by-laws and includes the registered supplementary by-laws, as defined in section 2 of the Act.
18. **“credit committee”** means the committee elected by the members of credit union under the by-laws to consider and approve loans, as defined in section 2 of the Act.
19. **“credit union”** means a co-operative, non-profit organization registered under section 8 of the Act having as its objectives and principles set out in section 15 of the Act, as defined in section 2 of the Act.
20. **“governance”** means the system designed to control and distribute power within the credit union in three separate levels of external, internal and individual governance. External governance requires credit unions to comply with basic standards of transparency, auditing or public accountability and compliance with financial report, international credit union Safety and Soundness Principles and national legal and regulatory frameworks. Internal governance requires credit unions to serve members through adherence to international operating principles by having robust framework in place regarding structure, continuity, balance and accountability. Individual governance requires individual officers like board of directors, Committee members and potential officers to practice integrity and commitment and be competent.³
21. **“members”** means a person who joins a registered credit union in accordance with its by-laws, as defined in section 2 of the Act.
22. **“officer”** means the chairman, secretary, manager, a member of the board of directors, the supervisory committee, the credit committee and includes any other person empowered under this Act or the by-laws to give directions relating to the business of a credit union, as defined in section 2 of the Act.
23. **“Registrar”** means the Registrar of credit unions appointed pursuant to Section 3 of the Act, as defined in section 2 of the Act.
24. **“remuneration”** means any type of compensation paid by a credit union to its officer on a regular basis in the form of wages/salary and other benefits for their service or the work that they perform for the credit union; which should set out clearly in the by-laws and any relevant policy of the credit union.

extreme difficulty or danger for the credit union in terms of financial health, image and or reputation of the credit union.

³ World Council of Credit Unions [WOCCU] – “Credit Union Governance”, 2005

25. **“senior management”** means a team comprising of general manager and officers whose combined efforts or conducts have positive impacts on the day-to-day administration and operations of the credit union.
26. **“supervisory committee”** means the respective committees elected by the member of credit unions, to provide independent review on the books of credit unions, as defined in section 2 of the Act.

Governance Minimum Requirements

27. Fit and Proper Persons

- a. Each credit union must ensure that its board of director, committee member, senior manager or potential office bearer is fit and proper to carry out the duties and responsibilities of his/her position. The Registrar establishes and consider a person to be fit and proper to hold the abovementioned positions to possess the following attributes:
- i. Integrity, probity, competence, soundness of judgement and commitment to fulfil his/her responsibilities;
 - ii. High ethical standards in all personal and professional interactions;
 - iii. Basic financial skills;
 - iv. Diligence with which the person is fulfilling or is likely to fulfil the responsibilities of the position;
 - v. Devote and commit the time and respect necessary to fulfilling their duties; especially through participation and attendance at regular board meetings and the annual general meeting and decisions of the board.
- b. Fit and Proper Test: The Registrar may deem a person unfit if:
- i. The person has engaged in any deceitful or oppressive or otherwise improper (whether lawful or not) activities and practices or which would discredit his/her method of conducting business;
 - ii. The person fails to fulfil his/her duties and obligations to the credit union under the PGN3, the Acts, the by-laws etc;
 - iii. The interest of a credit union is likely to be in any way threatened by the person holding that position.

28. Supplementary By-law

- a. The board of director is responsible to ensure the establishment and regular review of the credit union’s supplementary by-laws and ensure it is registered with the Registrar’s Office.

29. Compliance

- a. Credit unions should consult with the Office of the Registrar if they believe they cannot meet these PGN3.

Board of Directors

30. Composition and Appointment

- a. The election and appointment of the board of directors should be in accordance with section 53 and 54 of the Act.
- b. The board of directors should comprise of a President, Vice President, Secretary, Treasurer or a Secretary-Treasurer and should consist of not less than five (5) directors in compliance with the by-laws 17 and 18, and Section 53 and 54 of the Act, respectively.

31. Functions, Roles and Responsibilities

- a. In accordance to section 57 of the Act and by-laws 19, the board of directors shall have the ultimate responsibility for setting the strategic direction of the credit union, for driving the governance and operational culture and policy making of the credit union and for providing oversight of Management of the credit union; and to ensure the welfare of the credit union and its members.
- b. The duties of the Board shall include but are not limited to the following:
 - i. To execute its fiduciary duties ⁴to its members and the Registrar's Office in accordance to section 57 of the Act, by-laws 19 and supplementary by-laws;
 - ii. To decide the time and committed to attending board meetings, the annual general meeting and any other general meeting, as failure to attend board meetings may result in dismissal;
 - iii. To exercise independent judgement⁵;
 - iv. To formulate and approve policies for all major activities, in particular on the credit union's lending, savings, finance, investment, liquidity and asset liability management, accounting, audit, internal control systems, education and deciding the maximum individual loans which may be made without security;
 - v. To administer the credit union's investment of funds in accordance with Section 40 of the Act;
 - vi. To approve the credit union's annual operating budget for each calendar year;
 - vii. To approve the interest rates on members loans and the rate of dividend to be paid on members shares subject to the Act;
 - viii. To ensure credit unions have proper recording of their assets and liabilities, revenues and expenses, reserves and all other transaction affecting the credit union's financial position;

⁴ Definition of fiduciary duties – "fiduciary duties" means the board of directors have a legal obligation or responsibility to act solely in the best interest of the credit union and its members; board of directors have the duty to maintain trust and confidence of its members.

⁵ Definition of independent judgement – "independent judgement" means board of director to employ independent, fair and impartial judgements in decision making and exercising power of office fairly and without prejudice or favoritism; as well as free from avoidable conflicts of interest and improper influences.

- ix. To examine treasurer's quarterly financial statement made under by-law 29 and monthly inspection of the credit union's cash in hand, securities, bank accounts, cheque books and books of account;
 - x. To make contracts on behalf of the credit union;
 - xi. To oversee and appoint the senior management or officers directly responsible for the day-to-day operations and management of the credit unions that have appropriate skills and experience to implement board's objectives and determine their hours of attendance at the registered office;
 - xii. To fill casual vacancies and be in any committee until the election of successors;
 - xiii. To establish the responsibilities and training requirements, accountability and authority of management, board of directors and various committee members;
 - xiv. To establish appropriate and prudent risk management policies and effectively evaluation management's performance;
 - xv. To develop and manage succession planning;
 - xvi. To approve applicable business continuity plan on disaster management and recovery plan for the credit union;
 - xvii. To ensure the credit union has independent process for the supervisory committee to conduct its internal independent function; and
 - xviii. To perform any other business necessary to the operation of the credit union in accordance with the Credit Union Act.
- c. The board shall provide the Registrar's Office upon its request, with full access of the credit union's books, papers, records and other sources of information under its control within such time as may be specified by the Registrar's Office in accordance with Section 49 and 50 of the Act.
- d. Each board of directors shall act with prudence and diligence of good business practice and shall be responsible for any loss⁶ which the credit union suffers through acts of carelessness; negligent or against the directions of the law of Solomon Islands including the Act and by-laws.
- e. It is the primary responsibility of the board and management to ensure that the credit union is complying to the PGN3 and statutory requirements and has best management practices to limit risks to prudent levels.

32. Functions, Roles and Responsibilities for Secretary and Treasurer or Secretary-Treasurer

⁶ Definition of loss – in context of a credit union "loss" means financial loss where there is excess of expenses over revenues with regard to the sum of all transactions for the financial year; and loss of or damage to assets. Losses may cause by failed processes, policies, systems or events that disrupt operations or criminal activity such as fraud, misappropriate property, noncompliant to the Act and by-laws.

- a. The election and appointment of the secretary and treasurer or secretary-treasurer should be in accordance with section 54 of the Credit Union Act and by-laws 22 and 23.
- b. The secretary and treasurer or secretary-treasurer shall perform roles and responsibility in accordance to by-laws 22 and 23.

33. Board Meeting⁷

- a. The Board must meet at least once in every 3 months. Each Director must attend at least 75% of all Board meetings held in each financial year in accordance to by-law 18. Every effort must be made to attend all Special Board Meeting.
- b. A special Board meeting may be called at any time in accordance to by-law 18.
- c. The Board must keep minutes of all meetings and decisions made appropriately recorded.
- d. The Board must ensure its availability to meet with the Registrar's Office as and when requested.

Board Committees

- 34. Board of directors shall ensure election of a supervisory committee with specific roles and responsibilities in accordance with sections 31, 53 and 63 of the Act and by-laws 17 and 20.
- 35. Each board of directors shall ensure election of a credit committee with specific roles and responsibilities in accordance with Section 31, 44, 53, 58 and 59 of the Act and by-laws 17 and 21.
- 36. Each board of directors may establish additional board committees as deemed necessary in accordance with the size and activities in the best interest of the members and in accordance to the Act and by-laws, and must consult with the Registrar's Office.

Remuneration

- 37. No director and no member of a committee shall be entitled to receive any remuneration in connection with his/her duties as a director or a committee member of a credit union, except the secretary and the treasurer or the secretary-treasurer may be paid such remuneration as determined by the board of directors in compliance with Section 55 of the Act.

⁷ Types of acceptable meeting modes considering the pandemic era are: face-to-face (with every director collocated), virtual (with directors joining meeting online from separate locations) or hybrid (with some directors collocated and other directors joining online from different locations).

38. Credit unions may consult with the Office of the Registrar for other allowances for applicable officers, that is provided for in the by-laws and is ratified by the members resolution at the annual general meeting, for example, sitting allowances. Credit unions must only pay such allowances as, and when, they fall due for payment and not in advance.
39. The board of directors of a credit union may appoint a manager and other employees on such remuneration as it thinks fit in accordance to section 65 of the Act.

Management

40. The credit union's senior management is responsible and held accountable for the credit union's day-to-day operations. Key delegated responsibilities of senior management include, but are not limited to the following:
- a. Developing and implementing prudent strategies, business plans, organizational controls, and policies appropriate for the credit union;
 - b. Developing and implementing processes or systems that identify, assess, manage, or monitor the effectiveness of risk management practices and controls in relation to business activities and operations of the credit union';
 - c. Keeping the board adequately informed about the performance of the credit union by providing timely, relevant, comprehensive and accurate financial and management reports, on any significant risk that may affect the business objective or financial stability of the credit union;
 - d. Establishing an effective system of internal control and ensuring a strong control culture;
 - e. Ensuring the credit union's strategic direction, processes or systems, reporting lines and risk tolerances are clearly communicated throughout the organization;
 - f. Documenting the areas of responsibility for each officer and ensuring that reporting lines are clear and appropriate in the context of the scale, nature and complexity of the credit union;
 - g. Administering management information systems to enable timely and accurate dissemination of information to the Board and the Registrar's Office; and
 - h. Undertake the necessary due diligence to appointing the credit union's employees to engage skilled and competent staff and support them with training and development opportunities to sustain the delivery of short- and long-term business objectives and the risk management framework of the credit union.

External Audit

41. The board or the senior management of the credit union must acquaint itself fully with the responsibilities of external auditors and be rigorous in its selection of auditors based on professional merits.

42. The selection and appointment of the external auditor must be authorized by the Registrar's Office and approved by the supervisory committee in accordance with section 48 of the Act.
43. The board must satisfy that there is no relationship between the auditor and the credit union or any related person that could compromise the independence of the auditor, and must require confirmation of this from the auditor.
44. The board must ensure that annual external audits are carry-out and reports are produced and signed off within the required time as prescribed in each credit unions' by-laws.
45. The external audit reports shall directly forward to the Registrar's Office and then to the supervisory committee and the SICUL in accordance with Section 48 of the Act.

Conflict of Interest/Related Party

46. Directors of credit unions must take all necessary measures to avoid conflicts of interest. The board of directors of each credit union is ultimately responsible to:
 - a. ensure not to take unprofessional advantage of the position as a board of director to benefit directly or indirectly, as a personal or any associated person;
 - b. ensure any or potential conflict of interest must be fully disclosed and made aware to the board;
 - c. ensure personal interests and those of his/her immediate family members or close relationships to any of the directors or office bearers must not be allowed to surpass those of the credit union or its members;
47. consider whether to refrain from participating in the discussions and voting process or in the extreme removed from their position or must resign, where a conflict of interest arises;
48. always be alert to the potential for conflicts of interest between management's interest and the director's fiduciary duties;
49. ensure all transaction between a credit union and a director or associated person shall be at arm's length ⁸with substantially the same terms and conditions in respect of charges, fees, interest rate, liability, maturity, price, repayments, risk, security etc. as the similar transactions between a credit union and a third-party transaction;
50. ensure a director or associated person should never receive a payment or commissions, either directly or indirectly, for work done on behalf of the credit union,

⁸ Definition of arm's length – "arm's length" means any transaction between a credit union and an officer or associated persons must be done independently without collusion or one party influencing/pressuring the other party; there must be act of fairness between a credit union and an officer or associated persons in business dealing.

purchase or sale of assets by the credit union or other business arrangement with third parties; and

51. ensure that officers of associated bodies of the credit union must not be appointed as a director, committee member or officer of the credit union to comply with the requirements set down on by-laws 24.

Business Continuity

52. The board of directors is responsible for the risk management of potential business continuity risks to ensure that the credit union is able to meet its financial and service obligations to its members and other creditors.
53. The board remains responsible for BCM whether or not business operations are outsourced.
54. The board and management must establish clear lines of accountability and reporting for individuals with BCM responsibility.
55. Board of directors for each credit union must document appropriate BCP that captures both the current operational plan and contingency plans involving succession and disaster management.
56. The board must ensure to maintain a forward-looking strategy by undertaking actions including but not limited to the followings:
 - a. Review the effectiveness of the credit union operational strategy on a periodic basis and revise when necessary;
 - b. Develop major action plans;
 - c. Develop risk appetite by specifying the types and degree of risk that the credit union is willing to accept;
 - d. Review of the annual budget;
 - e. Develop business plans for future operations;
 - f. Create performance objectives;
 - g. Management and approval of major capital expenditures and acquisitions;
 - h. Evaluation of credit union performance.
57. The board is responsible to create succession plans for both directors and management to ensure the continuous sustainability/existence of the credit union.
58. The board is responsible to approve a disaster management and recovery plan and review and update on regular basis to ensure its effectiveness. The disaster management plan should include a business resumption plan that outlines the necessary steps for the credit union to return to operations.

AGM Requirements

59. The board must give at least 14 clear days written notice of every Annual General Meeting (AGM)⁹ to each member and fixed at a location or place of business of the credit union to ensure sufficient member participation. The notice must state, the date, time, place and agenda of the meeting.
60. For adjournment of AGM, the board must give at least 2 days written notice in line with similar procedure of notice for AGM to the members.
61. The board must ensure that the AGM is held each year as soon as practicable after the accounts have been audited in conformity with its supplementary by-laws and the order of business at the AGM and in pursuant to by-law 12.
62. The board to ensure that the order of business at AGM must comply with the requirements set down on section 52 of the Act and by-laws 12.
63. The board in accordance to section 52 of the Act and by-law 13 may call a special general meeting as and when need arises.

Training

64. The credit union must at least provide training to its board of directors appointed as soon as their appointments is finalized, recorded and information reached the Registrar's Office. The training must include but is not limited to, familiarization program on the credit union's business operation, risk management, governance practices, and internal controls.

Internal Control Compliance

65. The board of directors is ultimately responsible for ensuring that an adequate and sound internal controls system is established, implemented and maintained. The senior management or officers as appointed by the board is responsible for the development and implementation of such internal control system.
66. The board must review the systems of internal controls at least annually to determine whether they function to expectation and to ensure they remain appropriate.
67. The supervisory committee must ensure that the credit union complies with regulatory requirements, prudential requirements, taxation rules and various reporting obligations.
68. The supervisory committee is responsible for the ongoing monitoring of the credit union's internal controls as it provides an independent assessment of the adequacy and compliance with established procedures, processes and controls; and has access to

⁹ Types of acceptable meeting modes considering the pandemic era are: face-to-face (with every member collocated), virtual (with members joining meeting online from separate locations) or hybrid (with some members collocated and others joining online from different locations).

all records and activities conducted by the credit union. The frequency and scope of the internal audit review and testing of internal controls within the credit union must commensurate with the size, nature, complexity and risk of the credit union's activities.

69. Internal audit function must be independent from the day-to-day functioning of the Credit union.

Risk Management Framework

70. The board must ensure that the credit union has risk management policies and systems in place to identify, measure, monitor, control, and report all risks associated with the credit union.
71. All credit unions must ensure to develop and implement appropriate risk management policies relating and including but not limited to the following:
- a. Operational Risk Management
 - b. Code of Conduct for board of directors, committee members and officers
 - c. Credit Risk Management
 - d. Liquidity Risk Management
 - e. Capital Risk Management
72. The board and management or senior office bearers must ensure to periodically review and analyse its own existing and prospective business strategies, products and market conditions to identify and measure the types and significance of the current and potential risks that must be managed and controlled.

Reporting Requirement to the Registrar of Credit union

73. Each credit union must submit to the Registrar of Credit union such report as may be required and, in the form, and frequency as the Registrar's Office may prescribe.

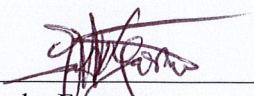
Enforcement and Corrective Measures

74. The Registrar's Office will monitor credit unions for sound governance, through a combination of on-site examination and off-site supervision.
75. A credit union, which fails to comply with the requirements contained in this PGN3 or to submit certain reports to the Registrar's Office, which are materially inaccurate, will be considered as following unsound and unsafe practices.
76. The Registrar's Office may, if it has grounds to believe that the actions of the credit union is detrimental to the interest of members, and to the confidence and stability of the financial system, direct the credit union to pursue all corrective actions, impose additional conditions that the Registrar's Office may consider appropriate, or issuance of an order to deregister.

Effective Date

77. The effective date of this Practice Guidance Note is July 1st, 2023.

Issued this 22nd day of June 2023.



Dr Luke Forau
Registrar of Credit Union