

OFFICE OF THE REGISTRAR OF CREDIT UNION

Practice Guidance Note. 5

On Allowances for Member of Board of Directors and Committees of the Credit Unions

Applicability

1. This Practice Guidance Note 5 (hereinafter PGN5) is applicable to all credit unions registered and regulated by the Registrar of Credit Union under the Credit Union Act 1986 [Cap 165] (the Act hereinafter), the CBSI Act 2012 (CBSI Act hereinafter) and the Credit Union Standard By-Laws 1987 (by-laws hereinafter).

Background

2. Board of directors and committee members, as part of their roles and responsibilities implement policies and procedures to guide operation of a credit union. They also provide oversights and evaluate existing controls to ensure they are robust and mitigate risks faced by a credit union.
3. In recognition of the roles and responsibilities performed, a credit union may decide to provide financial incentives to be paid to the board of directors and committee members.
4. Regulatory examinations conducted through onsite inspection and offsite monitoring discovered allowances being paid by credit unions to board of directors and committee members take up a large portion of credit union expenditure, and every effort should be made to regulate related expenditure, as well as rationalize and streamline allowances.
5. Excessive allowances and personal expenses being paid to credit unions directors and committee members have become a potential threat to the health of the credit unions sustainability and financial viability.

Purpose

6. This PGN5 sets out the minimum guideline to form part of the supplementary by-law for the prudent management of allowances and related expenses in accordance with section 18 and 55 of the Act.
7. The objective of PGN5 is to ensure that each credit union pays reasonable allowances and relevant expenses in accordance with the Act, its supplementary by-law and good management practice.

8. To ensure that each credit union pays allowances only for the approved meetings as stated in the Act and in its supplementary by-laws, and when they fall due.

Definitions

9. **“Allowances”** means any type of financial payment by a credit union to members of the board and committees occasionally, which may include expenses for board members sitting, committee members sittings, and other related expenses; which should set out clearly in the supplementary by-laws or any relevant policy of the credit union.
10. **“Board of directors or board members”** means the body or individual elected by the members of credit union to manage the affairs of the credit union, as defined in section 2 of the Act.
11. **“Committee members”** means individual elected by the members of credit union under the by-laws to be a member of the credit committee or the supervisory committee or other committees deemed necessary by the credit union.
12. **“Conduct risk”** means the risk that arises from poor, inappropriate, unethical or unlawful behaviour on the part of a credit union’s board of directors, committee members and Management. Conduct risk can have significant implications for members, credit unions, and the credit union industry.
13. **“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.
14. **“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.
15. **“Members”** means a person who joins a registered credit union in accordance with its by-laws, as defined in section 2 of the Act.
16. **“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.
17. **“Supplementary By-laws”** means ancillary by-laws of a credit union registered with the Registrar but does not include the standard by-laws, as defined in section 2 of the Act.

Minimum Requirements: Allowance of Directors and Committee Members

18. The allowance is to be set by the credit union members and annually reviewed by the members during the Annual General Meeting (AGM).
19. The board of each credit union is ultimately responsible for documenting of the credit union's allowance policy and its effective application.
20. A credit union must establish and implement a documented "Allowance Policy Section", within the supplementary By-law approved by the board and voted by the members.
21. In pursuant to section 18 and 55 of the Act, the allowance policy or supplementary by-law must, at a minimum:
 - a. Aligns with the Credit Union size, nature of business operations, risk management, financial performance and strategy plan;
 - b. Promotes sound and effective management of both financial and non-financial risks, sustainable performance and the credit union's long-term financial viability;
 - c. Not compromising the ongoing viability, solvency and reputation of the credit union;
 - d. For board of directors and committee members, sound performance of duties and exercising powers in the best financial interest of members; and
 - e. Supports the prevention and mitigation of conduct risk.
22. To align with paragraph 20 and 21 of this PGN5 and to form part of the allowance policy section, each credit union must set out in its Supplementary By-laws including but not limited to the followings:
 - a. Appropriate process, procedures and arrangements to determine the applicable allowances;
 - b. Specific details on acceptable types of allowances e.g. sitting allowances, travel or duty allowances;
 - c. Specific process and procedures on when/frequency and how the different types of allowances will be due and disbursed; and
 - d. Specific details on the relevant and approved amounts for the various types of allowances.
23. There should be a formal and transparent procedure for setting/fixing the allowance packages of board members and committee members.
24. Process of awarding allowances should go hand-in hand with open and transparent reporting on attendance, and sustained and meaningful performance evaluation.

25. The Board and the committees are accountable to the credit union members to ensure that allowance payments are only made where the official is fully meeting their role and agreed responsibilities as per PGN3 and PGN4.
26. No credit union shall pay any allowances or financial benefit other than those stated under the allowance policy or the supplementary By-laws in whatsoever form to its directors and committee members at any time.
27. A credit union is required to only pay any allowances as, and when, they fall due for payment. Payment of allowances in advance is prohibited.

Reporting Requirement to the Registrar of Credit union

28. 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.

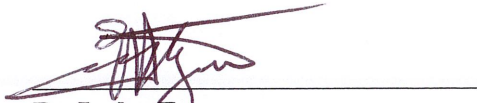
Enforcement and Corrective Measures

29. The Registrar's Office will monitor credit unions for sound and prudent management of allowances, through a combination of on-site examination and off-site supervision.
30. A credit union, which fails to comply with the minimum guideline contained in this PGN5 which forms part of its supplementary by-law or to submit certain reports to the Registrar's Office, which are materially inaccurate, will be considered as following unsound and unsafe practices.
31. 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

32. The effective date of this Practice Guidance Note is January 1st, 2025.

Issued this 30th day of **November**, 2024.



Dr Luke Eorau
Registrar of Credit union