

Governance Guide on Investment Management for Credit Co-operatives 2018

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Introduction

1. This Risk Governance Guide on Investments is designed for credit co-operatives (“credit co-op”) and is intended to provide guidelines to the Committee of Management (“COM”), Investment Committee (“IC”) and staff of credit co-ops, so that a credit co-op’s investments can be managed in objective and systematic manner.
2. The COM and IC have a fiduciary responsibility to make prudent investment decisions and take actions that are in the best interests of the members of their credit co-ops. If the co-op officers do not have the necessary investment expertise, the co-op should consider engaging or seeking advice from investment professionals.

Investment Committee

3. A credit co-op should preferably have an Investment Committee (IC) to oversee the investments activities. If an IC is not established, the COM would perform the role of an IC.
4. Notwithstanding the establishment of an IC, the COM remains accountable for the sound management of co-op’s investments.
5. The IC should consist of persons who have relevant knowledge and experience in dealing with financial investments and if applicable, property investments.
6. The IC should seek advice from external investment professionals or consultants, where necessary.
7. The responsibilities of the IC must be documented and should include, but is not limited to:
 - a) Propose investment policy and plan to the COM;
 - b) Propose the appointment of fund manager(s) and/or investment officer (if applicable) to the COM;
 - c) Assess the reasonableness of any investment advice and/or recommendations by external investment professionals and/or staff;
 - d) Approve the purchase or sale of investments, in accordance with the approving authority for investment transactions;
 - e) Meet and review the investment portfolio and performance at least once every 3 months;

- f) Ensure that investment portfolio is in compliance with the latest Written Direction issued by the Registrar of Co-operative Societies ('Registrar') on Investments and any other relevant regulatory requirements;
 - g) Ensure that the investment portfolio is in line with co-op's investment policy and plan; and
 - h) Provide regular reporting of the investment portfolio and highlight any investment issues to the COM at least once every 3 months or as warranted by circumstances
8. In managing the investment portfolio, the IC should ensure that transactions do not impair members' confidence in the co-op.

Investment Policy

9. A co-op should have documented investment policy to provide clear direction in managing the investments on an ongoing and long term basis.
10. A co-op should seek to preserve its capital and avoid high risk instruments, bearing in mind that members expect to get back their deposits in full.
11. The policy should include such information [Refer to Appendix A for "Sample of Investment Policy"]:
- a) Investment objectives
This refers to the end goal in which the co-op aims to achieve with their investments. For example, capital preservation and modest capital appreciation, maximisation of returns, etc. They should be measurable, formally documented and clearly communicated.
 - b) Investment strategy
This refers to the approach selected to achieve the objectives. For example, a co-op with an investment objective of capital preservation and modest capital appreciation may consider a Conservative Portfolio strategy.
 - c) Target annual rate of returns
The target annual rate of returns should be specific and measurable. It should be expressed with a defined investment time horizon and stated as either an absolute percentage or a return relative to a quantifiable benchmark return (for

example, expressed as a rate of return matching, or exceeding a benchmark index by <x>% over a period of <y> years).

- d) Asset allocation [Refer to Appendix B for “Sample of Investment Portfolio and Approach to Asset Allocation”]
- e) Types of assets and/or financial instruments that may be invested in [Refer to Appendix C for “Examples of Financial Instruments”]
- f) Types of assets and /or financial instruments that will not be invested in
- g) Timeframe to hold certain categories of assets and/or financial instruments

12. A credit co-op should seek to diversify its portfolio so as to reduce the impact from market volatility. This is typically achieved by investing across multiple asset classes, and taking into account other factors such as liquidity, credit or business risks where relevant [Refer to Appendix D for “Examples of Risks”].

13. There should also be consideration to ensure an appropriate level of diversification within a particular asset class. For example, in the investment of shares, there could be a specified percentage limit on the holdings in each industry.

14. A co-op should determine the optimal asset allocation by considering how different risks drive the returns of different asset classes.

15. Rapid unanticipated financial market shifts or changes in economic conditions may lead to wide deviations from the target asset allocation and approved ranges. Generally, these deviations should be of a short-term or tactical nature in response to fluctuating market environments.

16. The investment policy should be reviewed by the IC once a year and as warranted by circumstances.

Investment Plan

17. A co-op should have documented investment plan to provide clear direction in managing the investments for a specific time period between one to three years.

18. The investment plan should provide or state:

- a) Total investments (Restricted and Non-Restricted) in dollar value and as a percentage of total portfolio;

- b) Summary of the investments as at the last financial year end, with the market value and actual returns;
 - c) Proposed allocation of investments (dollar value and percentage breakdown) for the new financial year or specific time period. The proposed allocation should be in line with the strategic asset allocation;
 - d) Target annual returns within a specific time period; and
 - e) Details of specific investment related proposals or decision that have material impact to the co-op's financial position (for example, purchase of immovable property, appointment of new fund manager, hiring of investment officer etc.).
19. Members' approval should be obtained for any new or updated investment plan during the General Meeting.
20. Refer to Appendix E for "Sample of Investment Plan".

Investment Restrictions

21. This section is reproduced from the Written Direction ("WD") on Investments dated 18 November 2013 issued by the Registry of Co-operative Societies.
22. RI refers to any form or type of investment other than:
- a) Singapore Government Securities;
 - b) Bonds issued by any statutory board in Singapore;
 - c) Singapore Dollar deposits in financial institutions licensed by the Monetary Authority of Singapore (MAS); and
 - d) Capital-guaranteed investment funds or products managed by financial institutions licensed by MAS, where the issuer(s) guarantee the return of 100% of the capital investment at a pre-determined date in the future.
23. RI include (but not limited to) the following:
- a) Investment properties;
 - b) Corporate bonds;
 - c) Managed funds;
 - d) Shares in listed companies;
 - e) Shares in private companies;
 - f) Shares in other co-ops; and
 - g) Unit trusts.
24. Shares in other co-ops and investment properties purchased before 30 June 2010 are exempted from the RI limit. However, shares in other co-ops and investment properties purchased on or after 30 June 2010 are still subjected to the RI limit.

25. A credit co-op must not invest in structured products, derivatives and foreign currency denominated instruments.
26. The total RI of a credit co-op must not exceed 10% of its total assets. This restriction is known as the “RI limit”.
27. Despite the 10% RI limit, a credit co-op may apply:
- a) **a higher RI limit of 20%** if it has obtained **members’ approval at a general meeting** where the approval period is up to 3 years; or
 - b) **a higher RI limit of 30%** if it has obtained **members’ approval at a general meeting and Registrar’s approval**¹ where the approval period is up to 3 years.
28. A credit co-op should refer to the latest WD on the stipulated conditions to qualify for higher RI limit.
29. Before making any new investments, a credit co-op should compute the resultant RI%, to see whether it will exceed the applicable RI limit. If the proposed purchase will result in non-compliance of the RI limit, the proposed purchase must not be proceeded. Alternatively, the proposed purchase amount should be reduced so that the co-op can still comply with its RI limit.
30. Before making any new investments, a credit co-op should also consider its liquidity² and working capital needs.
31. A credit co-op must report its RI to the Registrar on a yearly basis and as required by the Registrar.

Identification, Execution and Monitoring

32. A credit co-op should have designated officer(s) to perform investment transactions. The notice of persons authorised to deal for and on behalf of the credit co-op should be endorsed by COM and communicated to the relevant counterparties.
33. For the purpose of this guide, we refer to this person(s) as the Investment Officer(s) (“IO”).

¹ Before the general meeting, a co-op should first seek Registrar’s in-principle approval for the 30% RI limit by submitting the relevant documents such as latest financial statements, investment plan, investment policy and investment reports.

² In maintaining its liquid assets, a credit co-op must adhere to the written direction on Minimum Liquid Assets (MLA).

34. An IO should possess skills such as, critical thinking, analytical, problem-solving and understanding of financial markets. The IO is expected to perform tasks such as, researching, gathering information from financial briefings/articles and assessing financial information as well as keeping knowledge up-to-date about the economy, current financial news and financial markets.

35. The IO is responsible to identify and propose investments to the IC.

36. Due diligence for a proposed investment should be conducted and should include, but not be limited to, an assessment of:

- a) the industry in which the investment operates and current market environment;
- b) the projected performance of the investment over a specific timeframe;
- c) the identified risk factors to which the investment is exposed to or potentially exposed to;
- d) the relevant transactional and holding cost; and
- e) where the investment involves unlisted equity:
 - i. the ownership structure, including information regarding Board membership and senior management personnel;
 - ii. the business plan of the organisation;
 - iii. knowledge of the potential buyers in future; and
 - iv. any future commitments required and any lock-up periods, including any restrictions on the ability to exit the investment.

37. In proposing and seeking approval from the approving authority for any investment transactions (purchase or sale), the IO should provide the relevant details including:

- a) Reason for recommendation
- b) Purchase/sale price and units (if applicable)
- c) Name of counterparty
- d) Associated risks
- e) Estimated or actual returns
- f) Timeframe to hold the instrument
- g) Implication to the RI%
- h) Implication to the asset allocation

38. The basis of recommendation and decision of approving authority should be recorded and documented.

39. A credit co-op should establish approving authority for the purchase and sale of investments. For example, all investments should be approved by IC prior to transaction. If verbal approval was obtained, it should be followed up with a written email or recorded in the minutes of meeting.

40. Following the consent of the approving authority, the IO can execute the transaction to purchase or sell investments.
41. All investment transactions must be promptly (e.g. on the same day of receiving confirmation from counterparty) recorded in co-op's books (whether in hardcopy or electronic form).
42. For good governance and where feasible, there should be segregation of duties to approve, execute, record and monitor investments. (e.g. the officer who approves the investments should not execute the transactions).
43. The IO should monitor the portfolio's performance against the co-op's investment policy, investment plan as well as the applicable RI limit. The IO should report to the IC or COM if there is any deviation from the investment policy, investment plan or non-compliance with the RI limit. The IC or COM should take the necessary actions (such as instructing the IO to rebalance the portfolio to adhere to the approved asset allocation) to address the non-compliance.
44. The IO should also monitor and report the risks of the investments. Reporting would include, but not be limited to, matters such as market and economic developments that may have implications to the co-op's investments.
45. The IC should monitor/assess the investments based on independent source, such as broker statement, fund report/NAV report, valuation report by licensed appraiser, audited report, etc. For co-ops which engage external investment professionals, the IC should monitor the performance against pre-determined measures (e.g. target rate of returns) to determine if the external investment professionals have met the target.

Reporting of Investments

Reporting to the IC or COM

46. The IO should provide a report of the co-op's investments at least once every 3 months and when requested by the IC or COM.
47. The report should include (but not limited to):
 - a) Summary of investment activities for the reported period;
 - b) RI% of the portfolio;
 - c) Asset allocation (planned and actual);
 - d) Highlight any deviation from the investment policy and/or plan;
 - e) Date of purchase, quantity, cost and market price of investments; and
 - f) Realised or unrealised profits/losses of investments.

48. There should be established policies on when the IO should alert the IC in the event the market value of an investment exceeds a pre-determined percentage (up or down). The IC should decide whether to sell or hold on to the investment. The IC should seek COM's approval if the transactions have large financial implications.

49. Refer to Appendix F for "Sample of a Periodic Investment Report".

Reporting to Members

50. The COM should disclose the performance of its investment portfolio for the financial year in the Annual Report and during the AGM. The disclosure should, at the minimum, contain the information based the guidelines issued by the Registrar.

51. The disclosure should provide (including but not limited):

- a) Recap of the approved investment plan;
- b) Breakdown of investments and market value as at financial year end;
- c) Asset allocation (planned vs actual);
- d) Applicable RI limit (if co-op had sought Registrar's approval for 30% RI limit, inform members of Registrar's decision.);
- e) RI% and a representation on whether it is within or above the approved RI limit;
- f) Any past or foreseeable future events that had affected or may materially affect the value of certain investments;
- g) Explanation if expected/target returns are not met; and
- h) Impairment for investment (if any). Reference should be made to the most updated FRS 39: Financial Instruments: Recognition and Measurement. Some examples can be found in Appendix G.

52. Refer to Appendix H for "Sample of Investment Disclosure".

Appendix A: Sample Investment Policy

Introduction

The purpose of this investment policy is to establish guidelines for the co-op's investment activities. The policy includes the investment objectives and co-op's risk appetite, which are used to govern the co-op's investment decision and committee/officer(s) whom the Committee of Management has delegated investment management responsibility.

Scope & Delegation

Except where explicitly stated, the Committee of Management ("COM") delegates all powers and authority to the Investment Committee ("IC") in the day-to-day management of the investment of surplus funds in accordance with the principles established in this policy.

Composition of the Investment Committee

The composition of the IC is as follows:

- | | |
|-----|----------------------------------|
| XXX | - Chairman, Investment Committee |
| XXX | - Member |
| XXX | - Member |

Approving Authority and Authorised Person

The Investment Officer ("IO") has responsibility for managing the co-op's investment. All investments should be approved by IC prior to transaction. If verbal approval was obtained, it should be followed up with a written email or recorded in the minutes of meeting.

Following the consent of the approving authority, the IO may execute the transaction to purchase or sell investments.

The IO shall be the authorised person delegated by IC to buy/sell investments on behalf of the co-op. The notice of authorised person to deal for and on behalf of the co-op shall be endorsed by the co-op and communicated to relevant counterparties.

Investment Objectives

The credit co-op’s investment objectives include:

- a) To generate additional income for the co-op so as to provide dividend rate (on members’ shares and subscription capital) and/or interest rate (on members’ deposits) of at least 1% per year.
- b) To seek investments that provide for capital appreciation while recognising and accepting the risks inherent in investments.
- c) To maintain a degree of liquidity in the portfolio mix which enable co-op to liquidate its investments quickly when there is a sudden increase in demand for cash (for example, when there is sudden surge of withdrawals by depositors).
- d) To safeguard the co-op’s assets against inflationary pressures.

Investment Strategy

The co-op adopts a Moderately Conservative portfolio with Constant Weighting asset allocation.

Investments	Portfolio Limit (%)
Cash and equivalents	10
Equities	50
Fixed Income Securities	70

Investment Decisions

Investment decisions will be based on the investment strategy and these guidelines on specific instruments:

Corporate Bonds must have a strong credit standing. This may be supported by the bond's credit rating (e.g. Standard & Poor's, Moody's) or other relevant means of justification.

Within a credit co-op's investment portfolio, the long-term objectives for individual securities (to hold longer than 12 months) are to:

- Obtain steady returns on investments (i.e. dividend yields); and
- Preserve capital.

The short-term objectives for individual securities (to hold less than 12 months) should seek to maximise returns and preserve capital.

Equities

1. The single security limit is set at X% of the equity investment portfolio. When a single security investment exceeds the predetermined X% limit, no additional investment shall be made or the security should be pared down to be within X% limit.
2. Securities held in a single industry shall not exceed XX% of the equity investment portfolio. When exceeded, that investment shall be divested to be within the XX% limit.
3. A paper loss exceeding a pre-determined amount by the IC for any single share security shall trigger the stop-loss limit. That security shall be put on watch list.

Fixed Income

4. Only corporate bonds rated "xx" and above will be purchased and the duration of the bonds shall not exceed YY years.
5. The following single security limit shall apply on corporate bonds – Y%; When a single investment in corporate bond exceeds the predetermined Y% limit, no additional investment shall be made in that bond. When exceeded, that investment shall be divested to be within the Y% limit.

6. For Singapore Government Securities or Statutory Board Bonds, the duration of the bonds shall not exceed YY years, unless a longer duration is approved by the IC.

Performance Monitoring

The IO will monitor the co-op's investment portfolio actively. The reporting to the IC is done at least every 3 months and as warranted by circumstances. In addition, the investment portfolio and performance will be disclosed to members every year.

Appendix B: Sample of Investment Portfolio and Approach to Asset Allocation

Samples of Investment Portfolio Breakdown

The following examples serve as a general guide and do not consider an individual co-op's Restricted Investments ('RI') limit. A co-op must ensure that their investment portfolios are within its applicable limit as prescribed in the Written Direction for Investments by the Registry of Co-operative Societies.

The co-op should seek advice from investment professionals when determining the investment portfolio. The advice should take into consideration the co-op's financial needs, investment targets, current market environment and other relevant factors.

Conservative Portfolio

In a Conservative portfolio, the key objective is to protect the portfolio's principal value. This can be achieved by allocating a large proportion of the portfolio to low risk securities. A small proportion of the portfolio can be invested in high-quality blue chip companies or exchange traded funds in order to combat inflationary risks.

Investments	Portfolio Upper Limit (%)
Cash and equivalents	20
Equities	40
Fixed Income Securities	80

Moderately Conservative Portfolio

In a Moderately Conservative portfolio, the key objective is to protect a large portion of the portfolio's principal value while having a higher risk tolerance than a Conservative portfolio to combat inflationary risk. This can be achieved by allocating a larger proportion of the portfolio securities with high levels of dividend and/or coupon payments.

Investments	Portfolio Upper Limit (%)
Cash and equivalents	10
Equities	50
Fixed Income Securities	70

Aggressive Portfolio

In an Aggressive portfolio, the key objective is to achieve long-term capital appreciation. This can be achieved by allocating a larger proportion of the portfolio securities to equities while diversifying the portfolio with some fixed-income securities.

Investments	Portfolio Upper Limit (%)
Cash and equivalents	10
Equities	80
Fixed Income Securities	40

Samples of Approaches to Asset Allocation

A) Constant-weighting Asset Allocation Strategy

This strategy involves re-allocating assets based on their performance to bring the portfolio back to its original strategic asset allocation in order to achieve its long term target.

The following example serves to illustrate active management under a Constant-weighting Asset Allocation strategy,

Example of co-op ABC's approved Moderately Conservative investment portfolio

Investments	Portfolio Upper Limit (%)
Cash and equivalents	10
Equities	50
Fixed Income Securities	70

Example of co-op ABC current investment portfolio

Investments	Portfolio Allocation (%)
Cash and equivalents	8
Equities	40

Fixed Income Securities	52
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Assuming that in the course of 6 months, “Equities” has outperformed the other asset classes, the portfolio’s current asset allocation would be different from its original asset allocation.

Example of co-op ABC new investment portfolio after 6 months,

Investments	Portfolio Allocation (%)
Cash and equivalents	5
Equities	43
Fixed Income Securities	52

Under a Constant-weighting Asset Allocation strategy, management would rebalance the asset allocation in order to bring the asset mix back to the original asset allocation. Management can consider realising the returns from “Equities” and retaining it as cash or in “Fixed Income Securities”. Both decisions serve to bring the portfolio back to the original strategic asset allocation to achieve the portfolio’s long-term target.

B) Tactical Asset Allocation Strategy

This strategy requires active management in adjusting the percentage of assets held in different instruments or asset-class to take advantage of strong industry performance or market pricing anomalies in the short term. When the desired short-term returns are achieved, management should return to the portfolio’s original strategic asset allocation.

The following examples serves to illustrate active management under a Tactical Asset Allocation strategy,

Example of co-op ABC’s approved Moderately Conservative investment portfolio

Investments	Portfolio Upper Limit (%)
Cash and equivalents	10
Equities	50

Fixed Income Securities	70
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Example of co-op ABC current investment portfolio

Investments	Portfolio Allocation (%)
Cash and equivalents	8
Equities	40
Fixed Income Securities	52

Assuming that new information suggests that certain equities are expected to rise over the next 12 months, management may consider allocating a higher proportion of assets to “Equities” to take advantage of this opportunity.

Example of co-op ABC new investment portfolio over the next 12 months,

Investments	Portfolio Allocation (%)
Cash and equivalents	5
Equities	43
Fixed Income Securities	52

C) Dynamic Asset Allocation Strategy

This strategy involves rebalancing the portfolio based on the anticipated performance of each asset class in the market.

The following examples serves to illustrate active management under a Dynamic Asset Allocation strategy,

Example of co-op ABC’s approved Moderately Conservative investment portfolio

Investments	Portfolio Upper Limit (%)
Cash and equivalents	10

Equities	50
Fixed Income Securities	70

Example of co-op ABC current investment portfolio

Investments	Portfolio Allocation (%)
Cash and equivalents	8
Equities	40
Fixed Income Securities	52

Assuming that there is an anticipated rise in bond yields, management would rebalance the portfolio to place a larger emphasis on “Fixed Income Securities”.

Example of co-op ABC new investment portfolio after rebalancing

Investments	Portfolio Allocation (%)
Cash and equivalents	10
Equities	20
Fixed Income Securities	70

Under this strategy, there is no fixed strategic asset allocation in which management returns to. Instead, the portfolio’s asset-mix remains fluid and reactive to market changes, albeit within the approved portfolio limits.

Appendix C: Examples of Financial Instruments

Instruments	Description	Considerations
Singapore Government Securities	Bonds issued by the Singapore Government with periodic interest rate repayments and return of principal upon maturity	<ul style="list-style-type: none"> • Periodic source of income • Low credit risk as it is fully backed by the Singapore Government • Low liquidity risk
Statutory Board Bonds	Bonds issued by a Statutory Board of Singapore Government with periodic interest rate repayments and return of principal upon maturity	<ul style="list-style-type: none"> • Periodic source of income • Low credit risk as it is fully backed by the Singapore Government • Low liquidity risk
Equities	Shares of corporations	<ul style="list-style-type: none"> • Among the different classes of shares, shares of corporations with large market capitalisation tend to have <ul style="list-style-type: none"> ○ Lower liquidity risk ○ Lower volatility ○ Lower credit risk ○ Limited capital appreciation potential • Shares of corporations with medium market capitalisation tend to have <ul style="list-style-type: none"> ○ Medium liquidity risk ○ Medium credit risk ○ Medium potential for capital appreciation • Shares of corporations with small market capitalisation tend to have <ul style="list-style-type: none"> ○ Higher liquidity risk ○ Higher volatility ○ Higher credit risk ○ Higher growth potential

Instruments	Description	Considerations
		<ul style="list-style-type: none"> ○ More susceptible to economic forces
Corporate Bonds	Debt securities with periodic interest rate repayments and return of principal upon maturity	<ul style="list-style-type: none"> ● Lower volatility than equities ● Periodic source of income ● Credit risk ● Issuer risk ● Interest rate risk ● Inflation risk <p>Corporate Bonds are generally rated by credit rating agency such as Standard & Poor's (S&P), Moody's, and Fitch Group. Each of the agency has a different credit rating tiers³. Hence, when considering to invest in bonds, co-op should understand the definition of the different credit rating tiers and check the bond's credit rating.</p>
Real Estate Investment Trusts (REITs)	Trust fund with underlying assets consisting of a pool or properties or mortgages	<ul style="list-style-type: none"> ● Perceived stability in income ● Diversification due to portfolio of multiple properties ● Low liquidity risk ● Geographical risk
Exchange traded fund (ETF)	Trades on a basket of assets listed on the exchange	<ul style="list-style-type: none"> ● Diversification from portfolio of companies ● Low management fees ● Low liquidity risk
Unit Trusts	A portfolio of assets according to the fund's stated investment objective and strategy	<ul style="list-style-type: none"> ● Fund is managed by a fund manager with relevant expertise ● Reduce unsystematic risk through the fund's diversified portfolio ● Reduced returns due to management fees payable

³ S&P: Rating ranges from "AAA" to "D"; Moody's: Rating ranges from "Aaa" to "C"; Fitch: Rating range from "AAA" to "D"

Instruments	Description	Considerations
		<ul style="list-style-type: none"> • No control over investment decisions made by the fund manager • Risks are dependent on underlying asset portfolio

Example of Risk Levels for Investment Instruments

Risk Level	Investment Instruments
High	<ul style="list-style-type: none"> • Options* • Futures*
Medium	<ul style="list-style-type: none"> • Real estate • Mutual funds • Equities • High yield bonds / debt
Low	<ul style="list-style-type: none"> • Government bonds / debt • Fixed / Savings account with a reputable bank • Cash and cash equivalents

* This is considered a “derivative”, hence according to WD, this investment is not allowed.

Appendix D: Examples of Risks

Example of Risks

Risk Type	Description
Interest Rate	The risk that the value of a fixed-rate debt instrument or preferred stock would decline as a result of rising interest rate.
Business Risk	The risk associated with a specific security. It arises from the business operation of the issuer of the security. Most commonly associated with stocks or bonds issued by businesses. This risk can be mitigated with a diversified investment portfolio.
Credit Risk	This risk that a bond issuer is unable to meet interest rate and/or principal repayment. In general, higher interest rate returns are met with higher credit risks.
Call Risk	The risk that bond issuers will call the callable debt security prior to its maturity. This is more likely to occur when interest rates decline as bond issuers would have the incentive to halt high interest rate payments to bondholders and re-issue bonds at lower interest rates. Consequently, bondholders lose out on high interest rate bonds and can only invest in a low interest rate environment.
Inflationary Risk	The risk that the underlying value the returns from an asset will be eroded as inflation decreases the value of the asset denominated in a specific currency. The best way to combat this risk is through the incorporation of appreciable assets in the investment portfolio. Appreciable assets include stocks or convertible bonds.
Liquidity Risk	The risk that an investor is not able to buy or sell an investment asset when desired to prevent a loss.
Market Risk (Systematic Risk)	The risk of an event occurring that affects all risk in a similar manner. This cannot be controlled by diversification.
Currency Risk	The risk that a change in price of a currency against another would result in adverse implications for an investment portfolio.
Volatility Risk	The risk that negative movements in value would reduce the value of an investment.
Correlation Risk	The risk of increasingly similar behaviour of investment returns amongst asset classes, reducing the benefits of diversification.
Unsystematic Risk	The risk associated with the specific company or industry invested in. This risk can be reduced through diversification.

Appendix E: Sample of Investment Plan

Background

Pursuant to the Written Direction on Investments dated 18th November 2013, all credit co-operatives are required to disclose an Investment Plan for Restricted Investment to its members at the Annual General Meeting. The Investment Plan would have to be passed as a Resolution and submitted to the Registrar within 30 days of the AGM.

This Investment Plan for is in place for the purpose of disclosing to members the investment performance and provide details of the planned investment approach for the FYXX to FYXX+3

Objectives

The Purpose of the Investment Plan is to establish investment guidelines for the stewardship of the co-operative's investible funds. This should be read in tandem with the co-op's Investment Policy.

The credit co-op's investment objectives include:

- a) To generate additional income for the co-op so as to provide dividend rate (on members' shares and subscription capital) and/or interest rate (on members' deposits) of at least 1% per year.
- b) To seek investments that provide for capital appreciation while recognising and accepting the risks inherent in investments.
- c) To maintain a degree of liquidity in the portfolio mix which enable co-op to liquidate its investments quickly when there is a sudden increase in demand for cash (for example, when there is sudden surge of withdrawals by depositors).
- d) To safeguard the co-op's assets against inflationary pressures.

In maintaining its Restricted Investments portfolio, Investment Committee shall avoid any transactions that might impair members' confidence in co-op. The Committee shall also exercise due diligence and care when making investment decisions.

In order to pursue the above listed investment objectives, the co-op proposes to adopt a Moderately Conservative portfolio. The approved investment portfolio limit for each asset class is listed below (includes both Restricted and non-Restricted Investments).

Investments	Portfolio Limit (%)
Cash and equivalents	10
Equities	50
Fixed Income Securities	70

Management would manage the investment portfolio by adopting Constant Weighting asset allocation.

The co-op would consider both the investment portfolio breakdown limits and risk appetite when making all investment decisions. These decisions are further explained below.

Disclaimer

The Investment Committee acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for any individual securities credit risk or market price changes, provided that deviations from expectation are reported in a timely fashion, and appropriate action is taken to control adverse developments.

Performance of Restricted Investments

As at FY ended [date] XX, our restricted investments amounted to \$XXX, or XX% of total assets, as follows:

Restricted Investments	As at 31 Dec 2016	As at 31 Dec 2015	Remarks
(a) Investment Property			FYE 31 Dec 2016 Income (rental) = Expenses = FYE 31 Dec 2015 Income (rental) = Expenses =
(b) Equities			FYE 31 Dec 2016 Income (Dividends + Gains from sale of equities) = Expenses = FYE 31 Dec 2015

			Income (Dividends + Gains from sale of equities) = Expenses =
(c) Fixed Income Securities			FYE 31 Dec 2016 Income (Interests + Gains from sale of securities) = Expenses = FYE 31 Dec 2015 Income (Interests + Gains from sale of securities) = Expenses =
Total			
RI as a % of total assets			
Approved RI Limit			

The rate of returns for the FY ended 31 Dec 2016 was x% and this has exceeded/not exceeded the target rate of return of y%.

Proposed Restricted Investments Limit

If members approve the RI limit of X% for a period not exceeding [n] years, the investible funds will be based on the following asset allocation:

Restricted Investments	Remarks
(a) Investment Property	Up to Max XX%
(b) Shares listed on SGX	Up to Max XX%
(c) Corporate bonds issued in Singapore and managed fund(s) with capital protection mandate	Remainder
Total	100%

With the proposed investment plan, the co-op hopes to generate annual returns of at least y%. As such, the Investment Committee intends to invest a further \$YY in the coming Financial Year to stay within the RI limit of X%. All investments transactions will be approved by the Investment Committee.

The plan, if approved by members, will serve as the primary investment guideline for the period from [DDMMYY to DDMMYY] and will be strictly adhered to.

Appendix F: Sample of Periodic Investment Report

The approved **RI for FYXX** (e.g. FY2016) was **XX%** (e.g. 20%) and the following is co-op's planned vs actual asset allocation as at **XX XXX XXXX** (e.g. 30 Jun 2016).

Investment Positions			
Members Approved Asset Allocation			
Period: 01.OX.201X to 31.OX.201X			
Approved RI%	20%		
Investment Asset Class	Planned RI Portfolio	Actual RI Portfolio	
	%	\$	%
Investment Property	Up to Max 40%	4,250,000	31.98%
Shares listed on SGX	Up to Max 30%	3,023,635	22.75%
Corporate bonds	Remainder	6,015,693	45.27%
Total	100%	13,289,328	100.00%

Summary		
Income & Expenses Summary		
Period: 01.OX.201X to 31.OX.201X	Current Period (S\$)	Year to Date (S\$)
Dividend and Interest	3,475.00	35,955.00
Cost of Purchase/Sales	800.00	2,145.00
Net Income	2,675.00	33,810.00
Activity Summary		
Period: 01.OX.201X to 31.OX.201X	Current Period (S\$)	Year to Date (S\$)
Total Investment (as at previous period)	-	19,079,851.00
Investment Inflows	1,303,150.00	1,303,150.00
Investment Outflows	341,893.00	341,893.00
Total Investment	-	20,041,108.00
Compliance with approved RI limit		
As at 31.OX.201X		
Total Restricted Investments		\$13,289,328.00
Total Assets		\$90,000,000.00
Approved RI%		20%
RI%		14.77%
Compliant?		Yes

Investment Positions					
Restricted Investments					
Description	No. of units held	Cost per unit	Cost Valuation	Market Valuation	Unrealised Profit/Loss
Investment Properties					
Property A	-	-	3,500,000.00	3,500,000.00	-
Property B	-	-	750,000.00	750,000.00	-
Total Investment Properties			4,250,000.00	4,250,000.00	-
Corporate Bonds					
Company A Bonds	1,750,000	1.768	3,094,000.00	4,908,043.00	1,814,043.00
Company B Bonds	500,000	1.121	560,500.00	559,500.00	(1,000.00)
Company C Bonds	950,000	0.577	548,150.00	548,150.00	-
Total Corporate Bonds			4,202,650.00	6,015,693.00	1,813,043.00
Structured Products / Deposits					
-	-	-	-	-	-
Total Structured Products / Deposits			-	-	-
Listed Shares					
Company Z	635,000	1.025	650,875.00	648,335.00	(2,540.00)
REIT A	1,000,000	0.451	451,000.00	411,000.00	(40,000.00)
REIT B	1,000,000	0.755	755,000.00	755,000.00	-
Company X	300,000	5.113	1,533,900.00	1,209,300.00	(324,600.00)
Total Listed Shares			3,390,775.00	3,023,635.00	(367,140.00)
Shares in Private Companies					
-	-	-	-	-	-

Total Shares in Private Companies			-	-	-
Managed Funds					
-	-	-	-	-	-
Total Managed Funds			-	-	-
Unit Trusts					
-	-	-	-	-	-
Total Unit Trusts			-	-	-
Shares in other co-operatives (purchased and held since 1 July 2010)					
-	-	-	-	-	-
Total Shares in other co-operatives			-	-	-
Deposits in other co-operatives					
-	-	-	-	-	-
Total Deposits in other co-operatives			-	-	-
Other restricted investments					
-	-	-	-	-	-
Total Other restricted investments			-	-	-
Total Restricted Investments				13,289,328.00	1,445,903.00
Non-Restricted Investments					
Description	No. of units held	Cost per unit	Cost Valuation	Market Valuation	Unrealised Profit/Loss
Bonds issued by Statutory Boards					
Stat Board Bond A	700,000	1.025	717,780.00	717,780.00	-
Stat Board Bond B	1,000,000	1.588	1,588,000.00	1,588,000.00	-
Stat Board Bond C	1,000,000	0.701	701,000.00	701,000.00	-

Stat Board Bond D	1,000,000	0.333	333,000.00	333,000.00	-
Stat Board Bond E	1,000,000	0.912	912,000.00	912,000.00	-
Total Bonds issued by Statutory Boards			4,251,780.00	4,251,780.00	-
Singapore Govt Securities					
-	-	-	-	-	-
Total Singapore Govt Securities			-	-	-
Exempt Shares in other co-operatives (i.e. purchased on and before 30 Jun 2010, and held since 30 Jun 2010)					
-	-	-	-	-	-
Total Exempt Shares in other co-operatives			-	-	-
Investment Properties (i.e. purchased on and before 30 Jun 2010, and held since 30 Jun 2010)					
Property X	-	-	1,100,000.00	1,100,000.00	-
Property Y	-	-	500,000.00	500,000.00	-
Property Z	-	-	2,500,000.00	2,500,000.00	-
Total Investment Properties			2,500,000.00	2,500,000.00	-
Capital guaranteed financial products					
-	-	-	-	-	-
Total Capital guaranteed financial products			-	-	-
Total Non-Restricted Investments				6,751,780.00	0.00
Total Investments (Restricted and Non-Restricted)				20,041,108.00	1,445,903.00

Transactions									
Description	Date of Transaction	No. of units	Cost per unit	Cost Valuation (Sales)	Sale Valuation	Cost Valuation (Purchase)	Income	Cost	Realised Profit/Loss
Sales of Bond D	XX.XX.201X	167,000	1.679	280,393.00	300,786.96	-	-	100.00	20,393.96
Coupon payment from Bond B	XX.XX.201X	6,000	1.679	-	-	-	300.00	-	-
Purchase of Bond C	XX.XX.201X	950,000	0.577	-	-	548,150.00	-	500.00	-
Purchase of listed shares (REIT B)	XX.XX.201X	1,000,000	0.755	-	-	755,000.00	-	100.00	-
Sale of listed shares (Company Y)	XX.XX.201X	60,000	1.025	61,500.00	59,325.00	-	-	100.00	(2,175.00)
Dividends received from Company Z (\$0.005/share)	XX.XX.201X	635,000	1.025	-	-	-	3,175	-	-
Total Transactions				341,893.00	360,111.96	1,303,150.00	3,475.00	800.00	18,218.96
Remarks: All transactions made are in accordance to the investment policy and plan, except for the purchase of Bond C. The Investment Committee give approval on [date] to allow the purchase of Bond C even though the corporate bond is not rated.									

Appendix G: Impairment of Financial Assets

Impairment is recognised when there is objective evidence of a loss event that results in a decrease of estimated future cash flows that can be reliably estimated. The following are examples highlighted from FRS 39,

- a) significant financial difficulty of the issuer or obligor;
- b) a breach of contract, such as a default or delinquency in interest or principal payments;
- c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- e) the disappearance of an active market for that financial asset because of financial difficulties; or
- f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - a. adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount); or
 - b. national or local economic conditions that correlate with defaults on the assets in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

Appendix H: Sample of Restricted Investments Disclosure

Information on Restricted Investments

Restricted investments	FY(XXX+2)	FY(XXX+1)	FY(XXX)
Investment Property			
Equities			
Fixed Income Securities			
Total Assets			
RI as a % of Total Assets			

Restricted Investments	Remarks (Planned Allocation)	Actual (as at XX date)
(a) Investment Property	Up to Max XX%	
(b) Equities	Up to Max XX%	
(c) Fixed Income Securities	Remainder	
Total	100%	100%
Generate annual returns of at least XX% and invest a further \$XXX in FY (XXX) to stay within the XX% (RI ratio) limit. All investments transactions will be approved by the Investment Committee.		Annual return of XX% and invested \$XXX in the FY XXX. The targeted annual return of XX% was not met because XXX.

[If the actual allocation deviates from the planned allocation, provide explanation and whether there is plan to adhere to it within a stated period.]

Income from Restricted Investments

Restricted Investments	As at 31 Dec 2016	As at 31 Dec 2015	Remarks
(a) Investment Property	(i) Rental Income (rental) = (ii) Expenses = =	(i) Rental Income = (ii) Expenses = =	Example: Property at ABC Rd was purchased in Oct 2015.
Net Income (i) – (ii)			
(b) Equities	Income (Dividends + Gains from sale of equities) = Expenses =	Income (Dividends + Gains from sale of equities) = Expenses =	
Net Income (i) – (ii)			
(c) Fixed Income Securities	Income (Interests + Gains from sale of securities) = Expenses =	Income (Interests + Gains from sale of securities) = Expenses =	
Net Income (i) – (ii)			
Total Net Income			

Significant Impairments

[If there is a significant impairment in the value of any investments held in the portfolio, reason for impairment and subsequent management action should be disclosed to members.]