FINANCIAL SERVICES AUTHORITY

SAINT VINCENT & THE GRENADINES

CREDIT UNION INVESTMENT GUIDELINES

Issued:14th September, 2017

INTRODUCTION

The regulation and supervision of non-banking financial services in St. Vincent and the Grenadines including Credit Unions, is exercised by the Financial Services Authority (‘FSA’/ ‘Authority’), under the authority of the Financial Services Authority Act, No. 33 of 2011.

As part of its on-going effort to encourage the adoption of principles of sound governance within the regulated sector, the FSA develops and issues to the industry, Guidelines to ensure the implementation of best practice in critical areas of licensees’ operations. Essentially, these ‘Guidelines’ provide necessary guidance to the Board of Directors and management of regulated entities in implementing appropriate systems to assess, measure, monitor and mitigate risks in identified operational areas.

These Investment Guidelines (‘The Guidelines’) are intended to assist the officers charged with the governance of these establishments in understanding their obligation as custodians to all stakeholders, and especially to its members. They should ultimately provide direction on key considerations which should inform the development of prudent and appropriate investment practices within the sector.

The Board of Directors (“the Board”) of Credit Unions plays a pivotal role in the maintenance of the stability and resilience in the financial system, critical to these pillars are responsible and adequate management of investment activities. Consequently, it is very important that the investment choices available are appropriately assessed, well designed and risks faced are clearly understood prior to commitment.

PURPOSE AND OBJECTIVES

The purpose of these Guidelines is to assist Credit Unions and their advisers in the prudent and proper management of investments, in the best interests of the institution and members.

The key objectives of these Guidelines are:

- to provide an investment framework to assist Credit Unions to invest in accordance with governing legislative provisions;
- to assist Credit Unions to develop comprehensive and clearly defined Investment Policies;
- to outline necessary controls, both compliance and reporting, and to ensure adequate governance principles are applied to investment activities undertaken by Credit Unions;
- to ensure that investment practices are carried out in a prudent and appropriate manner; and
- to strengthen the confidence of all stakeholders in the Credit Union’s investment practices and portfolio.

SCOPE OF APPLICATION

These Guidelines apply to all Credit Unions registered in St. Vincent and the Grenadines.

PROVISO STATEMENT

The Guidelines provide general guidance and explanation of the law and are not intended to replace or override any legislative provisions in respect of investments nor obviate the need for sound independent investment analysis. They should be read in conjunction with the provisions of the Act, as well as any written directives, notices, circulars and other guidelines that the Authority may issue from time to time.

In the formulation of these Guidelines, the Authority did not consider the circumstances specific to any entity in insolation, as such these Guidelines should be viewed as general information for the purpose of Investments. The Authority expects each institution to review the guidance herein and utilize same to model its Investment Policy based on its peculiar circumstances.

LEGAL PROVISIONS

The governing legal provisions with respect to the investment of funds are set out in Section 119 of the Cooperatives Societies Act ('the Act'). Section 119 of the Act requires the Board of all Co-operative Societies to establish "*written policies for investing for income the accumulated funds of the co-operative society not used in the primary business of the co-operative society"*. Section 119 also outlines in detail, specific requirements for investing the funds of the Credit Union, in accordance with specific limits and restrictions.

DEFINITIONS

"***Investments***" refer to investment arrangements authorized under the Act, these Guidelines and best practices as approved by the FSA.

"Investment Policy" refer to a formal written document outlining the Credit Union's investment philosophy, authorization, authorization limits, possible use of consultants and investment advisory contracting.

"Registrar" means the Financial Services Authority.

ROLE OF THE BOARD

The Board of Directors ('the Board') of a Credit Union is ultimately responsible for the quality and integrity of the institution's investment portfolio management function. The Board is responsible for establishing **Written Policies** for investments in keeping with legislative provisions, which shall be approved by the Authority. The Board shall also be responsible for ensuring that the said Policies are adhered to by the Credit Union.

Investments by Credit Unions should be guided by established Investment Policies and Procedure. In undertaking and managing investments, due consideration should be given to the principles of safety, yield and liquidity. In addition, asset-liability matching and diversification should be included in the risk management process of the assets. The Board is expected to apply due care, diligence, skill and prudence in the oversight or management of investments.

Prudent investment practices require appropriate processes that include thorough due diligence in selecting, reporting and monitoring investments. Where the Board lacks sufficient expertise to oversee decisions to fulfil their responsibilities, they should seek the external assistance of an investment advisor or expert.

The Board of Directors must also have appropriate means of ensuring compliance with the Investment Policy and as such is obligated to review regular reports from both management and independent assessors/auditors. Management must provide the Board of Directors with detailed quarterly reports with sufficient information to satisfy the Board that the institution is complying with the Act, its bye laws and Investment Policy.

At minimum, the Board is required to:

- Approve and adopt an Investment Policy;
- Review periodically and at least once a year, the Investment Policy affixing proof of review and any revised outcome to the Policy;
- Ensure the selection and appointment of qualified and competent management to administer the investment management function;
- Ensure that an independent inspection/audit is performed at least annually of the management function to assess whether the Credit Union's Investment Policy and accompanying procedures are effective and being appropriately adhered to;
- Review significant investment proposals prior to undertaking, in particular, related party transactions and transactions where potential conflict of interest exist or may arise; and
- Review, on a quarterly basis, trends in portfolio quality and value.

CONFLICT OF INTEREST

Conflicts of interest are categorized as follows:

- actual conflicts of interest (this is where a person involved in making an investment decision and/or managing an investment, faces a real existing conflict);
- potential conflicts of interest (a person involved in making an investment decision and/or managing an investment is in or could be in a situation which may result in a conflict);
- perceived conflicts of interest (a person involved in making an investment decision and/or managing an investment is in or could be in a situation which may appear to be a conflict, even if this is not the case).

A conflict of interest arises where one's personal interests or influence, are weighed and are likely to influence, or be perceived to influence the person's decision making.

In carrying out their responsibilities with respect to the oversight of investments, the Board shall at all times abide by the relevant provisions, guidelines and standards of professional conduct. The Board should ensure that investments are managed in the interests of beneficiaries (members, the Credit Union) and safeguard against any conflicts of interest occasioned by investments either directly or indirectly to themselves or the employees of the Credit Union.

The Investment Policy established by the Board should address the issue of conflict of interest so as to ensure as far as reasonably possible that investment judgment and decision making are not influenced by personal interests, and where such is likely to occur, provide the required guidance on an appropriate prescribed course of action.

Directors who are aware of a conflict of interest in respect of a potential investment opportunity must disclose such to the Board and should recuse himself or herself from a meeting or any part thereof where the investment is being discussed or where a decision is to be taken on the investment opportunity.

OBJECTIVE OF THE INVESTMENT GUIDELINES

Investment Portfolio Management

Managing the investment portfolio is a fundamental component in the safe and sound management of all Credit Unions. Sound management practices involve managing the risk/reward relationship and controlling and minimizing the investment portfolio risk across a variety of dimensions. To this end, emphasis must be placed on the quality of the portfolio components, concentration/diversification, maturity, volatility, type and need to maintain adequate liquidity.

Underpinning effective, portfolio management is the development and implementation of clearly defined written policies, which state the objective of the institution and the parameters under which investment activities are to be assumed, managed and controlled.

Investment portfolio objectives assist in ensuring that investments are sound and prudent and that the risk presumed is acceptable, given the expected return. These objectives should reflect the Credit Union's risk philosophy, classify instrument criteria, establish the foundation for the development of investment management strategies, and provide the basis for monitoring portfolio features and measuring portfolio performance.

Notwithstanding that investment habits may differ amongst Credit Unions, because of its significance to the overall soundness of the entity's financial health and stability of the sector, an Investment Policy should cover at minimum:

1. Investment Strategy and Attitude;
2. Investment Objectives and Expectations;
3. Overall Risk Appetite and Tolerance including major risk associated with investments;
4. Identification of the Roles of those involved in the Investment Process;
5. Compliance Requirements of the Act; and
6. Goals of the Credit Union.

INVESTMENT/RISK OVERSIGHT COMMITTEE

The Board should establish an Investment or Risk Oversight Committee ("the Committee") in accordance with section 57 (1) of the Act, to assist with the overall process of investment management in the Credit Union.

Sections 57 (2), (3) and section 58 of the Act shall apply to the Committee.

Objective of the Committee

The Committee may be a formal sub-committee of the Board. The Board shall however be responsible for the overall process of investment management in the Credit Unions, which includes the related system of risks evaluation and internal control. The Committee shall be constituted to assist the Board in the discharge of its duties and responsibilities in this regard. The objective of the Committee is to have general oversight of the investment management portfolio of the Credit Union.

Composition

The Committee shall consist of a minimum of three (3) members who shall be appointed by the Board, together with the Chief Executive Officer. The Committee shall be constituted from among the membership of the Credit Union. The Chairperson of the Committee shall be appointed by the Board from among the members of the Committee.

Investment or Risk Management Committee Meetings

The Committee shall hold at least four (4) meetings annually as far as practicable on a quarterly basis. Special meetings may be convened as required. The Chairperson shall ensure that Minutes of the meetings are prepared and available for presentation to the Board as required.

If the Chairperson is not present at a meeting of the Committee, the members present shall nominate from among themselves, a member to chair the meeting.

Members of the management team with responsibility for the day-to-day management of investments and or risk, may be required to attend meetings of the Committee to provide it with relevant input and reporting as deemed necessary for the purposes of the Committee.

The Internal Auditors, as well as Investment Advisors, may be invited to attend meetings to assist the Committee to make effective decisions.

Duties and Responsibilities

The duties of the Committee include but are not limited to:

1. Providing the Board of Directors with guidance on the development of an effective and compliant Investment Management Framework- to oversee implementation, management and periodic assessment.

2. Reviewing the Investment Governance framework to ensure compliance with the Act, these Guidelines and investment strategy as outlined in the approved Investment Policy of the Credit Union.

Powers of the Investment or Risk Management Committee

The Committee shall be authorized to seek any information it requires from Management within the scope of its duties and responsibilities, to effectively manage the established investment framework of the Credit Union.

The Committee may delegate its functions, while still retaining full authority and responsibility for any such delegated functions. Any delegation must be within the approved delegation limits of the Board.

Reporting

The Committee shall report its findings, decisions and any recommendations to the Board of Directors. The minutes and supporting documents of each Committee meeting shall be filed at the Credit Union's headquarters and be made available to any member upon request.

Fitness & Propriety of Committee Members

The Board shall undertake an assessment of the fitness and propriety of the members of the Committee using the FSA's Guidelines: ***Establishing a Code of Conduct for Corporate Governance in the Financial Service Sector issued under Section 10 of the Financial Services Authority Act 2011***. These guidelines must be applied in determining the desired capabilities of Investment or Risk Management Committee members.

ROLE OF MANAGEMENT

The Management or designee should:

- administer the Investment Policy approved and adopted by the Board of directors;
- prepare and submit periodic reports on the portfolio as prescribed by the Investment Policy;
- maintain an investment register;
- assess and monitor investment exposure;
- consult with investment advisers and broker-dealers to assist in the investment management process; and
- where investment decision exceeds predetermined parameters for management as established in the Credit Union's Investment Policy, management is required to obtain written approval from the Board prior to the purchase and or sale of investments.

GENERAL AREAS OF INVESTMENT ACTIVITIES AND ACCEPTABLE COUNTERPARTIES

The policy document should contain a statement of the following general areas of investment, the instruments and institution in which funds are to be invested as classified by Section 119 (2) of the Act: -

- Any central Credit Union, central finance facility, deposit guarantee or stabilization funds for Credit Unions or any other Credit Union;
- Shares or deposits in, loans to, or on the security of institution with limited liability;
- Any company licensed to accept deposits;
- Any stock, debentures, funds or securities issued by the Government;
- Securities, the payment of interest on which is guaranteed by the Government;
- Securities issued in a CARICOM Member State by a company incorporated in that Member State and listed by the stock exchange of a CARICOM Member State if the company has paid dividends on its shares for the preceding five consecutive years;
- Securities issued in a CARICOM Member State by a Credit Union that is registered in a CARICOM Member State in accordance with the laws of that CARICOM Member State;
- Real property in accordance with Section 198(5) of the Act; and
- Any other manner permitted by the Registrar.

PORTFOLIO DIVERSIFICATION:

The purpose of diversification of counterparties is to ensure that no single deteriorating counterparty is able to undermine the capital preservation objective of the portfolio.

The Investment Policy should outline diversification requirements in keeping with the Act and the Credit Union's established risk appetite, endeavoring at best to avoid concentration in any one issue, issuer, industry, security type or geographical location.

The aim is to spread the investments by a number of different parameters to manage different risks within the portfolio. At a minimum, the policy must place sound and prudent aggregate and individual exposure limits for each class or type of security and for a single issuer and group of associated issuers in which the Credit Union is permitted to invest. Therefore, consideration must be given to the following to achieve diversification:

- Issuer type;
- Security type;
- Liquidity;
- Maturity time frame;
- Geographical concentration;
- Quality of investment securities to be held;
- Other Regulatory requirements; and
- Income levels and return expectations.

RISK CONSIDERATIONS

When preparing an Investment Policy, consideration should be given to operational management elements such as administration, compliance, audit, technology, fraud control, market risk and liquidity risk.

Acceptable Investment Activities:

- **Buying**: An Investment Policy should outline under what circumstances investments may be undertaken. This may be to improve returns, marketability and quality, or to realign the portfolio's composition relative to established benchmarks.

- **Settlement**: Settlement of securities is a core function in investment management. The purpose of the settlement process is to ensure that transactions are settled on due date and the entity does not incur undue losses because settlement is not made on time. It is therefore critical that the necessary resources, systems, infrastructure, as well as control framework and measures are in place to minimize risk of losses.

- **Keeping Investment Records**: An Investment Policy should clearly outline the expectations of officers and management with regards to the maintenance of an investment register to account for investments.

COMMENCEMENT

This Guidelines shall come into effect this **14th day of September 2017.**

Issued by:

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