



SACCO Briefs



THE SACCO SOCIETIES REGULATIONS 2010

FREQUENTLY ASKED QUESTIONS

1

LICENSING

Q1: When is the license due for renewal?

A licensed Sacco Society will be required to apply for renewal of a licence at least ninety (90) days before the expiry of its operating license in respect of its head office and any other place of business. The expiry date for all licence will be 31st December.

Q2: Having been granted a license mid –year (2012), can a Sacco continue using that license in the following year (2013)?

No. Regulation (4) (8) clearly states that, a licence issued under these regulations shall unless revoked be valid up to the 31st December, of the year in which it is issued and may on expiry be renewed.

Q3: What happens to a Sacco Society that applies and does not meet licensing requirements?

Upon application for a licence, Saccos are advised accordingly on a case by case basis on the areas of non compliance and are expected to provide details on how they intend to comply.

Note New Saccos intending to operate FOSA must fulfill the capital requirements before submitting application.

Q4: Will the Authority (SASRA) give a transition period to Saccos that have applied for a licence for them to fully comply?

Yes. Having applied for the licence with a core capital of not less than ten million, Regulation (84) (b-g) states the areas that a Sacco shall concentrate on during the transition period. The transition period covers the capital adequacy requirement, divestiture on non core business and regularization of the external borrowing by June 2014.

Highlighted topics
COVERED

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- 1 Licensing
 - 4 Investments
 - 2 Liquidity and asset liability management
 - 5 Financial performance reporting
 - 3 Risk classification of assets and provisioning
 - 6 Governance

2 LIQUIDITY AND ASSET LIABILITY MANAGEMENT

Q1: Regulations 15(1e) prohibit Sacco Societies from transacting business with non members. How shall Saccos already dealing with non-members handle this?

Sacco Societies are member-owned financial institutions and are therefore created to serve the financial needs of the members. This legal nature accords them the fiscal benefits under the Income Tax Act (section 19A). Sacco Societies should therefore deal with members only and conditions for membership should be clearly defined in the by-laws.

Q2: Regulations 13 (2) states that a Sacco should maintain 15% of its savings deposits in liquid assets. Should a Sacco use the FOSA or BOSA deposits?

Saccos should use the Front Office (FOSA) savings liabilities and should be reflected in the Second schedule Form 2 Liquidity Statement, under the deposit balances.

3 RISK CLASSIFICATION OF ASSETS AND PROVISIONING

Q1: Between Back office (BOSA) and front office (FOSA) loans, which ones are Saccos supposed to provision on?

Both. The gross loan portfolio comprises of all loans and advances provided by the Sacco and they all carry a risk of default. Classification and hence provisioning used be based on the loan agreement when applying for the loan in line with the credit policy.

Q2: When it comes to assessing and provisioning for loans, do loans that are repaid annually classified under the doubtful category?

Regulation 41(1): A Sacco shall make provisions on loans according to the regulatory framework and in accordance to the loan contracts. Therefore a Sacco may classify its loans in consideration of its loan terms and repayment expectations as stipulated in the loan agreement. A Sacco may then provide based on the outstanding months or number of installments.

Q3: When a Sacco is holding collateral against a loan, is it prudent for it to have provisions?

Yes. Regulation (41) (3) clearly states that all loans in a Sacco should be classified and provided for.

Q4: Why shouldn't provisions be spread over the four transitional period?

Regulation (84) on the transitional provisions is specific only to capital adequacy ratios. Loan is the key asset of the Sacco Society and its quality determines the operational success of the Sacco, thus to ensure efficiency of the Sacco, the loan quality should be paramount from the start and hence was not considered as a transition issue.



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A Sacco Society which fails to submit reports and information required by the Authority commits an offence and is liable to a penalty not exceeding Kshs. 100,000

4 INVESTMENTS

Q1: Why is the Authority (SASRA) asking Saccos to sell shares invested in the NACOS?

The Authority has not advised Saccos to sell their shares in equities. However as per circular no 10 of 2011, non-licensed Saccos whose capital were below Kshs 10 Million were requested to consider further investments in the equities of public entities and NACO's as this will further erode their core capital. This was to help such Saccos attain compliance level.

Further regulation (48) (4), limits Saccos in making financial investments in non government securities to a maximum of forty percent (40%) of core capital or five percent of its total deposits liabilities. Thus Sacco societies are free to invest up to this regulatory limit.

5 FINANCIAL PERFORMANCE REPORTING

Q1: Formal financial statements were previously prepared annually (as at 31st December). How will Saccos be reporting on a monthly basis through returns?

The returns requested are not different from the regular management reports required by the Sacco for the month to month performance monitoring.

Q2: What is the prescribed format of reporting for the regulatory returns?

These can be found in Form 1 to Form 8 of the second schedule in the Regulations and the Authority's (SASRA) website.

Q3: Is there an approved system or list of software vendors by the Authority (SASRA)?

No. Maintaining or approving the list of software vendors is outside the mandate of the Authority (SASRA) as per the law and the above is entirely a management issue for the Saccos. In sourcing for the software, the Sacco Society should consider the minimum requirement as stipulated in regulation 4,3(b)

Q4: When or how soon can a Sacco start submitting the regulatory returns after licensing?

By the 15th day of the month after the month of licensing.

Q5: With the new system for submitting returns, what happens when a Sacco submits an incorrect/incomplete or a late return?

The system will be able to reject incomplete returns or returns submitted in a different format. Late returns will be accepted by the system but will be flagged off as returns submitted past the deadline date.

Further, Reg. 75 (1) (a) A Sacco Society which fails to submit reports and information required by the Authority commits an offence and is liable to a penalty not exceeding Kshs. 100,000

(b) A Sacco Society which submits incorrect reports and information to the Authority commits an offence and is liable to a penalty not exceeding Kshs. 100,000 per incident.

Q6: Will the returns sent through the system be signed electronically?

Currently no. Each Sacco will designate persons complete with a user name and password with the responsibility to log in and send returns. The Authority will therefore take the returns to be correct. However, going forward the Authority is considering adoption of digital signature.



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6

GOVERNANCE

Q1: How should a Sacco constitute the board committees given the skills requirement for compliance?

While regulation 60(8) stipulates that the Board of Directors shall establish such number of board committees as may be necessary to effectively discharge its function, it is imperative that such committees are aligned to the key functional units in the Sacco Society. Board committees are established to provide expertise attention and oversight to the respective operational units. This provides an effective link between the Board of directors and the management team. Thus the committee constituted should be cost effective and efficient without overlap.

Q2: Why should the chairman of a Sacco not be a member of the audit committee as prescribed by the model by-laws?

Reg. 57(2) The Audit committee shall consist of not more than three members appointed from the Board, one of whom shall be conversant with financial and accounting matters; Provided that the chairman of the Board of Directors shall not be eligible to be appointed as a member of the audit committee.

The responsibilities of the audit committee as stipulated in the Regulations require a high degree of independence and therefore this degree of independence and impartiality should be maintained by ensuring that as the audit committee presents its findings to the board, the deliberations thereof

are unbiased and neutral to the audit committees findings. The chairman can only remain neutral when s/he did not participate at the committee stage.

Q3: Who should be entrusted with the authority to sign cheques in the Sacco?

The authority should be defined in the internal policy manuals of the Sacco and should be guided by the Act and regulations. However, the board's mandate is to provide strategic and policy direction hence operational matters should be left to the technical Sacco staff on delegated authority of the board.

Reg. 64 provides that the Chief Executive Officer (CEO) is responsible to the Board of Directors for the day to day running of the business of the Sacco.

The Board should therefore not engage in a day to day management of the Sacco but ensure that there is a clear separation of responsibilities between the operations of the Board of Directors and executive responsibilities of the Chief Executive Officer for the running of the Sacco.

Q4: How many times in a year should the supervisory and other committees meet?

Regulation (60) (5) states the maximum or minimum times the Board shall meet. The committees and supervisory committee meetings, depends entirely on the activities and budget of the Sacco and are to be convened or done on a need basis.

Q5: What happens on June 2014?

The four year transitional period ends in June 2014 by which date all deposit taking Saccos should comply with the operational regulations and prudential standards. Deposit taking Saccos should ensure full compliance without fail.

For more information, please get in touch with:



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