

Building Societies (Prudential Standards) Bill 1990

EXPLANATORY MEMORANDUM

Clause 1 sets out the purpose of the Act.

Clause 2 provides for the commencement of the Act.

Clause 3 sets out definitions to be inserted in section 3 (1) of the **Building Societies Act 1986**.

Clause 4 establishes the Victorian Building Societies Advisory Committee and sets out its powers of submitting recommendations to the Minister, reporting on matters relating to building societies and tendering advice to the Registrar on matters that are referred to it.

Clause 5 inserts a new Division 2A of the **Building Societies Act 1986** to create a Building Societies Reserve Board—

- (a) having power to monitor and enforce the prudential standards that apply to building societies and ensure that an effective system of prudential supervision is applied to building societies;
- (b) performing its function subject to the general direction and control of the Minister;
- (c) constituted by members appointed by the Minister and the Registrar who is an ex-officio member;
- (d) having the power to appoint examiners to investigate any matters relating to prudential standards and report to the Reserve Board.

Building societies must submit returns to the Reserve Board which can require further information if necessary.

Auditors of building societies will be required to satisfy the Reserve Board of their suitability and such auditors will submit a quarterly return to the Board.

The Reserve Board has the power to give a general direction to a building society to comply to the Building Societies Act or the Building Societies (Prudential Standards) Bill.

The Reserve Board has the power to impose an administration levy on the industry to fund its operations.

The Reserve Board has the power to administer a general reserve fund and a liquidity support fund. These powers are transferred from the Building Societies Council to the Building Societies Reserve Board.

Clause 6 provides for new section 48A. This provision provides a maximum shareholding limitation and requires a society to cancel excess shares. The provision provides for an exemption for existing societies.

Clause 7 repeals the existing section 53 and inserts a new provision in its place, placing restrictions on the power to invest. A society will be required to invest 50 per cent of the total assets of the building society in loans and investments made for approved residential purposes.

The provision also includes a regulation making power to specify classes of assets and the percentage of total assets to be held in each class.

The clause also contains a provision for mortgage insurance.

Clause 8 inserts after Division 2 of Part 4 a new Division 3. Division 3 provides that—

- (a) a society must at all times hold prime assets that meet the prime assets ratio, which determines the society's liquidity;
- (b) a society must comply with capital adequacy requirements, which control the backing of shareholders funds to society assets;
- (c) a society must notify the Reserve Board of large credit exposures and the Reserve Board may approve or disapprove a large credit exposure or approve the exposure subject to such conditions as it thinks fit;
- (d) the Reserve Board may by notice vary capital adequacy requirements where a society has undertaken excessive risks or where it is expedient to do so in the interests of members. Such notice may be varied. The provision allows for an appeal to the Minister;
- (e) societies are prohibited from investing in foreign currency unless they meet certain conditions.

Clause 9 Offences.

Clause 10 inserts a new Division 3 in Part 6 and provides for—

- (a) a merger between a credit society or a friendly society;
- (b) the mechanism by which the merger is to take place;
- (c) a certificate confirming a partial merger, or, in the case of a total merger a new certificate of incorporation.

Clause 11 makes consequential amendments to the **Co-operation Act 1981** to allow credit societies to merge with building societies. The Registrar may on the advice of the Reserve Board direct a credit society to merge with a building society. The provision also specifies when a merger takes effect.

Clause 12 makes consequential amendments to the **Friendly Societies Act 1986** to allow friendly societies to merge with building societies. The Registrar may on the advice of the Committee direct a friendly society to merge with a building society. The provision also specified when the merger takes effect.

Clause 13 Miscellaneous provisions provide—

- (a) for the appointment of a deputy Registrar; and
- (b) that management contracts are void.

Clause 14 Consequential amendments.