

ANGLICAN DEVELOPMENT FUND MINIMUM STANDARDS

These **minimum standards** have been developed on behalf of the Anglican Registrars' Network with the support of the Diocesan Financial Advisory Group ('DFAG'). The initial form of the standards were approved by majority resolution of those attending the Annual Australian Registrars' Conference in Bathurst on 21-24 November 2011 and endorsed by the General Synod Standing Committee on 12/05/12 as minimum standards for all Anglican Diocese Development Funds (ADDFs). Individual ADDF Boards may adopt these standards in whole or part in regard to assisting with the development of their own Governance policies.

The purpose of these minimum standards is to identify and control the financial risks associated with the acceptance of deposits and the investment of ADDFs.

It is acknowledged that it may take time for some ADDFs to meet these standards. In these cases this document should be seen as an aspiration document for ADDFs to work towards. It is also acknowledged that for some ADDFs there may be a justifiable reason why a particular standard should not apply in its circumstances. In these cases it is appropriate that the ADDF state its reasons why.

This document was modified by majority resolution of those attending the Annual Australian Registrars' Conference in Queenstown on 19-22 November 2012. Any further modifications to this document also need to be approved by the Australian Registrars' Network by majority resolution of those attending an Annual Australian Registrars' Conference.

1. PURPOSE

ADDFs are funds established for the purpose of raising deposits from parishioners and Diocesan organisations, in order to make loans which further the goals and objectives of the Diocese.

2. ACTIVITIES

- Parishioners and Diocesan organisations invest money with the ADDF, and receive interest on their deposits
- The ADDF lends to Diocesan ventures (eg. parishes, schools, retirement villages, but not individuals), mostly for property development and capital works.
- Any surplus deposits that are not on loan are held either as cash or invested.
- The ADDF must be clearly identifiable with its own financial accounts (balance sheet and Profit & Loss) whether it is or is not the same legal identity as the Diocese.

Note: The activities of a ADDF should not be confused with the normal Treasury Operations of the Diocese whom may choose to have internal loans between various Diocese activities/organisations that all operate under the same or related legal entities.

3. APRA BANKING EXEMPTION NO1 OF 2011

All ADDF accepting external deposits from individuals or any legal entity and making external loans to any legal entity meets the definition of banking business under the Banking Act 1959. However, the Australian Prudential Regulation Authority (APRA) has exempted ADDF's from the requirement to be authorised under the Banking Act where certain specified conditions are met. (*Refer appendix A for conditions*)

Adherence to this exemption is essential. Note: the current exemption will expire in June 2013.

4. MINIMUM STANDARDS

ADDFs are encouraged to adopt standards which are no less stringent than those set out in this document.

If, due to the particular circumstances of an ADDF, there are justifiable reasons for an ADDF adopting a particular standard which is less stringent than a corresponding minimum standard in this document, the ADDF should state in writing the reason for not meeting the minimum standard. A reason for not meeting a minimum standard will not be regarded as justifiable unless the risk to which the standard relates is immaterial in the circumstances of the ADDF or is being prudently managed in some other way.

Adherence to the standards adopted by an ADDF should be monitored regularly by management and the Board of the ADDF. Compliance with such standards should be confirmed with the DFAG annually based on balance date information. If relevant, such confirmation should include a statement which identifies any standard which is less stringent than the corresponding minimum standard in this document and the reasons for not meeting the minimum standard.

4.1 LIQUIDITY

The allocation of investment funds between short and long term investments should be managed to ensure the Fund has sufficient liquidity at all times to meet its expected cash payment obligations.

Minimum liquid assets (Bank, ADI deposits including term deposits, Commonwealth and State Government Securities) should not fall below 10% of total liabilities.

Available lines of credit can be included as liquid assets in this calculation.

4.2 ASSETS

- The ADDF Board should be advised of exposures in excess of 5% of total assets at each meeting.
- Maximum exposure to any one internal Anglican entity should not exceed >30% of total assets.
- Maximum exposure to any one external entity should not exceed >5% of total assets.
- Investments in equities/market linked securities (including property trusts) are not recommended.
- Lending to individuals and loans covered under the Consumer Credit Act should be discouraged due to the reputational risk. Note that loans to employees may be possible within the Consumer Credit Act, however separate legal advice should be sought.
- Fixed interest rates on loans in excess of 12 months should be discouraged unless loans are adequately hedged.
- Actively pursuing a diversified loan portfolio is encouraged. Diversification may occur through different types of lending, to different entities and in different geographical locations.

4.2.1 CASH

Preference should be given to investment in Australian APRA regulated institutions with a Long Term Credit Rating of A or better.

- Bank/ADI's Deposits accounts
- Bank Accepted Bank Bills
- Bank /ADI's Term Deposits

4.2.2 LOANS

Suggested minimum standards for lending are as follows:

(A) SECURED LOANS TO ANGLICAN RELATED ENTITIES

(THESE COULD BE EITHER AN UNSECURED LOAN WITHIN THE ONE DIOCESE LEGAL STRUCTURE OR WITH AN ASSET CHARGE OVER A SEPARATELY INCORPORATED ANGLICAN ENTITY)

- Minimum security for Diocesan entities is to be a letter of Charge and Undertaking, which is to be held with the Title Deed by the ADDF. Mortgage security is preferred.
- Loans to other Incorporated Anglican Agencies will be considered on their merit with suitable mortgage security or fixed & floating charges offered.
- In all cases serviceability needs to be able to be demonstrated and preferably with minimum interest coverage of 1.5 x – ie, net income before discretionary payments divided by the amount of interest > 1.5.
- Terms up to 20 years, but to be repayable on demand.
- Repayments P&I preferred, however IO or capitalisation of interest if considered appropriate.
- It should be noted that lending to schools and the aged care industry are both specialised by their nature and could be high risk. These risks can be mitigated by careful structuring of the loan facility. Many smaller ADDFs may not have the expertise to structure these facilities but this could be addressed by working with one of the major Banks on club banking facility and sharing loan security on a Pari Passu basis.

(B) UNSECURED LOANS TO ANGLICAN RELATED ENTITIES

(LOANS TO A DIFFERENT LEGAL ENTITY WHERE NO ASSET CHARGE IS TAKEN)

- Small loans for the purchase of depreciating capital assets, such as motor vehicles, computers etc
- Where loan is for property related purposes it is generally expected that the property will be taken as security (refer above)
- Term up to 5 years

(C) SECURED EXTERNAL LOANS IF PERMITTED BY THE ADDF BOARD

(THESE LOANS TO NON RELATED ENTITIES ARE SEEN TO BE OUTSIDE THE INTENT OF THE APRA BANKING EXEMPTION AND CONSIDERATION SHOULD BE GIVEN TO PHASING OUT ON MATURITY)

- Secured by property up to 70% of market valuation, as determined by a licensed valuer (preferably a valuer who is on the panel of a major bank) and contained in valuation report

undertaken for mortgage purposes, and be no older than 3 months.

- Care needs to be taken when loan is secured by a regional city property, taking into consideration market liquidity and other regional factors which may affect property values.
- Guarantee from Directors and or Unit Trust holders (if applicable).
- Repayments can be-Interest only (IO) or a Principal & Interest basis (P&I)
- Maximum term is 3 years for both IO and P&I loans. In the case of P&I, must structure repayments over the term. On expiry of loan, consideration to rolling over for a further term
- Borrowers are to demonstrate serviceability and, if not directly from the security property, from an entity that is linked to the loan either as a borrower or Guarantor. Preferably with minimum interest coverage of 2.0x – i.e., net income (EBITD) divided by the amount of interest > 2.
- Loans would generally not be available when security offered is vacant land, property zoned for rural use, specialised security, or when the purpose of the loan is for speculative development.
- Loans will not be made available to entities or over assets that would place the Church's reputation at risk.

4.2.3 OTHER INVESTMENTS/DIRECT PROPERTY

ADDF's are not a suitable vehicle for holding long term assets such managed funds, direct equities and direct property as they are susceptible to market volatility and often have poor liquidity.

All assets should be valued on a 'marked to market' basis.

4.3 LIABILITIES (DEPOSITS)

It is preferable that source of funds are spread amongst a broad range of depositors to minimise liquidity risk.

The ADDF Board should be advised of exposures in excess of 5% of total liabilities at each board meeting. Mitigants to these positions will be that they would generally be the Diocese and or Anglican agencies that would not withdraw their deposits at one point in time, however there may be erosion over a period of time.

4.4 CAPITAL/EQUITY

The principal purpose of capital is to protect depositors and the wider activities of the Diocese.

4.4.1 FRAMEWORK

- The activities of the ADDFs inherently create a variety of risks. Capital cannot provide complete protection against all risks. Capital permits the ADDFs to absorb losses (up to a certain level) while protecting depositors from loss, and without triggering more serious consequences (e.g. bankruptcy of parish, forced sale of wider assets).

- To measure the adequacy of capital held by an ADDF, the APRA framework (“Standardised Approach”) is to be used as a basis. While ADDF’s are not APRA regulated, the APRA rules have been designed for similar activities and with depositor protection in mind
- The APRA rules involve applying a risk weight factor to each class of asset to arrive at a calculation of risk weighted assets (‘RWA’); and capital must exceed a certain percentage of RWAs.

4.4.2 GUIDELINES

- ADDFs will target a level of capital in the ADDFs to be in excess of 10% of risk weighted assets by the end of the exemption extension period (June 2013).
- Should the level of capital fall below 8% of risk weighted assets then the ADDF Board should be informed and an action plan implemented to increase levels of capital (trigger level).
- Capital will be measured as equity invested by the Diocese into the ADDF (which is subordinated to the claims of other depositors) and retained earnings of the ADDF.
- RWA Calculation methodology: **RWA = asset exposure x risk weight factor.** All assets on the ADDF’s balance sheet must be risk weighted – even if not a direct lending asset
- Risk weighted assets (RWAs) are to be calculated using the following risk weight factors:

(A) Cash, Government Securities, A Rated Australian Banks	10%
(B) Other Australian Banks, Overseas Banks and ADIs:	
-Rating AAA to AA-	20%
-Rating A+ to BBB-	50%
-Rating BB+ to B-	100%
-Rating CCC to D	200%
-Unrated	400%
(C) Internal loans – Unsecured	100%
(D) Internal Loans:	
– Secured Commercial	75%
- Secured Residential	50%
(E) External loans – Secured Residential Mortgage	75%
(F) External loans– Secured Commercial	125%
(G) Other Investments (excluding Equities) with claims on Australian and International Corporate counter parties;	
-Rating AAA to AA-	20%
-Rating A+ to BBB-	50%
-Rating BB+ to B-	100%
-Rating CCC to D	200%
-Unrated	400%
(H) Other Investments/assets and Equities	400%

Note to (D, E & F): To recognise the higher risk exposure caused by holding large individual loans, a concentration risk requirement will be calculated via additional RWA as follows:

(I) To the extent an external loan exceeds 5% of total assets	400%
(J) To the extent an internal loan exceeds 30% of total assets	200%

Note to (A,B &G) Where a bank or corporation is rated by more than one agency adopt the lower rating.

Refer to Appendix B for working example

4.5 GOVERNANCE

- Oversight of the operation of the ADDF to be by a Board with a majority of members having appropriate experience, qualification and current/recent experience in Accounting, Banking, and Financial Services.
- The Diocese is responsible for constituting the ADDF and may appoint members to the Board in accordance with its constitution however the Board should otherwise operate independently from the Diocese and not be unduly influenced by the Diocese in decisions on asset allocation or loan decisions to Diocesan entities.

4.6 RISKS

Each ADDF should put in place a suitable risk management policy to mitigate risk either through insurance or operational policies. Some risks that should be considered are:

- a) Credit
- b) Operational
- c) Interest Rate
- d) Reputational (e.g., realisation of bad loan from individuals)
- e) Other risks (e.g., credit concentration, large exposure)

4.7 ACCOUNTING/REPORTING

There must be separate audited financial accounts (P&L and Balance Sheet) for the ADDF produced annually and prepared in accordance with Australian Accounting Standards.

The annual accounts for the ADDF together with excess exposure reports, liquidity and capital ratios should be provided to the DFAG annually within 120 days of the financial year end.

APRA BANKING EXEMPTION No 1 of 2011

All ADDF accepting external deposits from any legal entity and making external loans to any legal entity meets the definition of banking business under the Banking Act 1959. However, the Australian Prudential Regulation Authority (APRA) has exempted ADDF's from the requirement to be authorised under the Banking Act where certain specified conditions are met. (Refer appendix A for conditions). This exemption is due to expire on 27 June 2013.

The conditions are as follows:

- 1 The Fund must be and continue to be:
 - a) recognised at law as being formed for religious and charitable purposes stated in a trust deed, ordinance or other foundation document governing the Fund (Fund constitution); and
 - b) limited to the purposes stated in the Fund constitution; and
 - c) operated not-for-profit.
- 2 The Fund's financial products must have the sole or dominant intention of furthering the religious and charitable purposes of the Fund.
- 3 A copy of the Fund constitution setting out the Fund's religious and/or charitable purpose/s must be available for inspection on request by APRA.
- 4 The Fund or its controlling entity must not offer via the Fund:
 - a) Cheque account facilities unless the account holder is:
 - i. A body constituted by or under the authority of a decision of the central governing body of a related religious organisation; or
 - ii. A body in relation to which the central governing body of a related religious organisation is empowered to make ordinances or other binding rules; or
 - iii. A person acting as a trustee of a trust for or for the use, benefit or purposes of a related religious organisation; or
 - iv. An employee of a body mentioned in subparagraphs (i) to (iii) above who received their stipend or remuneration via an account of the Fund; or
 - b) Electronic Funds Transfer at Point of sale (EFTPOS) facilities; or c)
 - c) Automatic Teller Machine (ATM) facilities.
- 5 The Fund or its controlling entity must in all cases ensure that advertising and marketing material of the Fund contains clear and prominent disclosures (the required disclosures) to the effect that:
 - a) Neither the controlling entity nor the fund is prudentially supervised by APRA;
 - b) Contributions to the Fund do not obtain the benefit of the depositor protection provisions of the Banking Act 1959; and
 - c) The Fund is designed for investors who wish to promote the charitable purposes of the Fund.
- 6 The Fund or its controlling entity may advertise and market the Fund on-line or in print produced by or under the auspices of the controlling entity (or the religious institution that established the Fund). All advertising and marketing material of the Fund must contain the required disclosures outlined in condition 5.

The following Anglican entities are listed on the APRA exemption list:

- Adelaide Synod Trust Fund
- Anglican Community Fund (Inc) (previously known as Anglican Deposit Fund Perth (Inc))
- Anglican Development Fund Diocese of Bathurst
- Anglican Development Fund Diocese of Canberra & Goulburn
- Anglican Development Fund (Diocese of Melbourne)
- Anglican Development Fund (Diocese of Tasmania)
- Anglican Development Fund – Gippsland
- Anglican Financial services (ANFIN) (Diocese of Brisbane)
- Anglican Managed Investments Fund – Diocese of Bathurst
- Anglican Savings and Development Fund – Diocese of Newcastle
- Glebe Income Accounts (Anglican Church Diocese of Sydney)
- The Corporate Trustees of the Diocese of Grafton – Grafton Diocese Investment Fund
- Diocesan Development Fund – Diocese of Armidale
- Diocesan Development Fund – Anglican Diocese of Bendigo
- Murray Anglican Development Fund
- Riverina Anglican Development Fund
- Wangaratta Anglican Development Fund

Note under the original exemption No 1 which expired on 27 June 2011 it required the following additional conditions where applicable:

- 7 Unless the Fund representative has already provided APRA with a letter certifying that the Fund complies with conditions 1 to 6 of this order (or a subsequent exemption order), the Fund representative must within one month of the date of this determination provide APRA with a letter that either:
 - a) Certifies that the Fund complies with conditions 1 to 6; or
 - b) Gives details of the extent to which the Fund does not comply with conditions 1 to 6.
- 8 If condition 7(b) applies, the Fund representative must within twelve months of the date of this determination provide APRA with a letter certifying that the Fund complies with condition 1 to 6.
- 9 In conditions 7 and 8, “Fund representative” means the Chief Executive Officer of the Fund or its controlling entity (or another senior manager of the Fund or its controlling entity delegated for this purpose).