

# **Review of the cooperative and credit union legislation in Great Britain: summary of responses to consultation**

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December 2007



HM TREASURY





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ISBN 978-1-84532-400-1

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# FOREWORD BY THE ECONOMIC SECRETARY TO THE TREASURY

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The cooperatives and credit union sector is immensely diverse, and plays an increasingly important part in delivering public services and widening choice for consumers. The Government has displayed its commitment to the sector in recent years with a series of initiatives, enabling mutuals to better serve their members and the wider economy. The Government has also recently announced funding of £135 million to promote financial inclusion in 2008-11, including £38 million to support the Growth Fund.

Vital though this support is, the sector needs a 21<sup>st</sup> Century legislative framework. The Government's vision is of a thriving and growing sector, where common ownership is a genuine alternative to the company form, and where mutuals can compete on a level playing field, offering diverse products and services, and delivering in their local communities. This requires a sustainable legal framework for the sector that will enable it to grow and develop over the next 10 to 20 years: a framework which is flexible, clear and simple to update in line with changing needs and economic circumstances.

The Government published a first stage consultation in June this year. Over 200 individuals and organisations responded. It is clear that there is an overwhelming commitment to, and recognition of, the need for change to the legislative environment for cooperatives and credit unions in Great Britain.

The Government is minded to make significant changes to bring cooperative and credit union legislation in line with international comparators and to better face the social and commercial realities of the 21<sup>st</sup> Century. The Government intends to bring forward primary legislation, subject to Parliamentary time.

The Government has already announced that the Treasury and the Financial Services Authority will update the "common bond" concept for credit unions to make it possible for tenants and employees of housing associations to join established credit unions. It has also committed to changing the law to permit societies to communicate electronically with their members and statutory authorities.

I hope that these initial steps, together with further work on the legislation in the coming months will enable us to put in place a truly modern framework.



Kitty Ussher



# INTRODUCTION

## The Government's strategic vision

**1.1** Mutual societies including cooperatives and credit unions play a huge role in the economic and social wellbeing of the United Kingdom. Together they have a combined membership of over 30 million and total assets in excess of £400 billion. With over 8,000 cooperatives in the UK, the sector is also a significant employer. The Coop group, the UK's largest cooperative, and the 8<sup>th</sup> largest in the world, employs 87,000 people.

**1.2** Mutuality offers an alternative to other legal forms such as proprietary companies, enhancing competition in the modern global economy. In many European countries mutuality is the preferred form for the provision of essential social services (for example in Spain and Italy) while in others it is the model of choice for services such as banking. (For example, Credit Agricole in France and Rabobank in the Netherlands).

**1.3** The Government welcomes the contribution made by mutual societies in the delivery of Government policy in the UK, and in providing for greater choice and diversity in the UK financial services sector. Mutuals have a particular role to play in financial inclusion, by, for example, encouraging savings and providing an affordable alternative to 'doorstep' credit.

**1.4** The Government has recently announced funding of £135 million to fund initiatives to promote financial inclusion. These include:

- £38 million to increase consumer access to affordable credit through credit unions and other third sector lenders;
- £76 million to fund free face-to-face money advice to financially excluded people; and
- £12 million to fund dedicated staff to work to promote financial inclusion locally, with a focus on increasing the availability and awareness of home contents insurance for low-income people, in particular in areas affected by the recent flood events.

**1.5** The Government wants the mutuals sector to be able to expand, unconstrained by the limitations of an out-of-date legal framework. It has made a number of changes to building societies legislation in recent years, and earlier this year supported a Private Members' Bill, now the Building Societies (Funding) and Mutual Societies (Transfers) Act. However, the Government recognised that there is still much to do to modernise legislation for cooperatives and credit unions, and, in June 2007, published, a consultation document "Review of the GB cooperative and credit union legislation", which sought views on the case for change, and the priorities for legislative reform.

## This consultation response

**1.6** This document summarises the responses to this earlier consultation and sets out the Government's broad intentions.

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<sup>1</sup> For the purposes of this document the term "cooperative" will be taken to include cooperatives and benefit of the community societies registered under the Industrial and Provident societies Act 1965 and credit unions established under the terms of the Credit Unions Act 1979.

**1.7** HM Treasury received over 200 responses to the first stage consultation. The responses came from a wide group of stakeholders, including trade associations and other representative bodies, individuals and individual societies, other Government departments as well as from professional firms that provide services to the sector. A list of respondents is shown in Chapter 5.

**1.8** The Government is grateful to everyone who responded to the consultation document and to those who met with us to discuss and inform the issues raised. It is encouraged that the majority of respondents are in agreement with the broad direction of the proposals.

**1.9** To enable further consideration of the issues, the Treasury has formed a Working Group consisting of stakeholders in the cooperative and credit union sectors, academics, the Financial Services Authority (FSA) and the Office of the Third Sector (OTS). The Working Group will advise the Government on the technicalities of legislative reform.

**1.10** Both the OTS and the FSA have important strategic roles to play in this legislative review. The OTS has a “sponsoring role” to promote and educate the public on the third sector, similar to that performed for companies by the Department of Business Enterprises & Regulatory Reform (BERR). The FSA’s role as registrar (and regulator in some cases), the provision of an efficient registrar function, its relationship with the sector and its customers is also vital to the integrity of the sector.

**1.11** This document is set out as follows:

- Chapter 2 summarises responses covering cooperatives.
- Chapter 3 summarises responses covering credit unions.
- Chapter 4 sets out the Government’s implementation options and proposals.
- Chapter 5 provides details of the respondents to the June consultation.

**1.12** The Government would be grateful for any further comments on the issues set out in this document.

**1.13** This summary of consultation responses will be sent to the representative bodies of the mutuals sector, cooperatives and credit unions in the UK as well as stakeholders in the financial services sector. The document will also be posted on the Treasury public website and printed copies available on request.

**1.14** Please send any comments you may have to:

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# 2

## COOPERATIVES

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**2.1** Over 80 cooperative enterprises responded to the consultation. These included the main representative group for cooperatives in the UK, Coops UK as well as Cooperative Development Scotland (CDS) and the Financial Services Authority (FSA).

### Future direction of the sector

1. What are your views on whether the cooperative sector should have a wider role in financial services (including banking) and what evidence is there for a need for such provision?
2. What are your views on the current title of “industrial & provident society” and do you have any suggestions on a possible name change?

**2.2.** A majority of respondents agreed that the cooperative sector should have the option to engage in financial services, however respondents pointed out that there did not appear to be an urgent need for change, despite the fact that the cooperative model is widely used to deliver financial services throughout the European Union.

**2.3** Respondents were unanimous in their view that the the title ‘Industrial and Provident Society’ was outdated and could even have a negative impact on the sector by appearing old fashioned and out of touch. All respondents requested a name change from the current title. Suggested names include the “Co-operative and Community Benefit Societies” and “Cooperative and Credit Unions”.

### THE GOVERNMENT RESPONSE

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**2.4** The Government considers that there does not appear to be any evidence to support a wider role for cooperatives in the provision of financial services and therefore does not intend to take any action. The Government however sees merit in a name change.

### Registration

3. What are the advantages and disadvantages of introducing electronic communications for IPSs including set up costs?

**2.5** Most respondents welcomed the idea of introducing electronic communications for societies. It was felt that societies were at present seriously disadvantaged by their inability to communicate electronically with their members or file forms with the statutory authorities. This was felt most acutely in the business sector, as many third parties could not undertake electronic searches to check a society’s status, basic corporate information or credit history. This could lead to loss of business or credibility.

**2.6** Most of the respondents said that electronic submissions of documents would lead to efficiency savings. In addition they would like to be able to communicate electronically with their members although one response pointed out some difficulties in the verification of personal ID. Some dealings would therefore still require a personal visit for example verification of documents for due diligence purposes.

**2.7** There is an understanding that there are costs to introducing electronic communications however the sector was of the view that this should not pose a stumbling block. They felt that there should be no discrimination against co-operatives and mutuals and that the Government should bear some responsibility for ensuring the setting up of an effective, efficient platform and contribute to the set-up costs.

## THE GOVERNMENT RESPONSE

**2.8** The Government accepts the case for allowing electronic communications between societies, their members and the statutory authorities. It shares the concerns highlighted about the public's inability to conduct electronic searches of societies and the negative impact it has on their standing. It has already announced that it intends to change the law to facilitate electronic communication.

### Membership

4. What is an appropriate minimum age for membership of an IPS (if any)?
5. What are your views on the participation of non-user investor members within IPSs?

**Minimum age for membership** **2.9** The majority of respondents suggested that there should be no minimum age limit for membership of a cooperative and suggested that it should be left to individual societies to introduce a minimum age limit if they wish to have one.

**2.10** For the few who suggested a minimum age, 16 years was thought to be appropriate, as they believe that a certain degree of maturity was required to accept the responsibilities of membership. Those who mentioned the minimum age for becoming an officer agreed that it should be reduced from 18 to 16 to bring it in line with company law (Section 157 (1) Companies Act 2006).

**Non-user investor members** **2.11** The majority of respondents agreed with the proposal to allow non-user investor members in cooperatives, and many suggested this did not require legislation.

## THE GOVERNMENT RESPONSE

**2.12** On balance, the Government considers that the minimum age for membership should be brought in line with companies. The Government agrees that the minimum age for being an officer of an IPS should be the same as the minimum for being a company director. The Government does not agree that individual societies should have the option to stipulate a minimum age of their choice.

**2.13** The Government notes respondents' views on the participation of non-user investor members, but believes that for the avoidance of doubt it would be better to legislate to allow the participation of non-user investor members but allow individual societies the freedom to designate their own maximum limits and voting rights.

**2.14** The Government is clear that if there is to be an expansion of the role of non-user investor members there should be safeguards in place to ensure that the mutual nature of societies is not compromised. Such limits might take the form of limits on the total number of such investors and limits on the total or individual sums invested.

## Funding & share capital

6. What are the costs and benefits of raising the financial limit restrictions on withdrawable share capital?

**2.15** All respondents were in favour of changing the withdrawable share capital limit from the current maximum of £20,000. Agricultural cooperatives in particular felt that this was a real issue inhibiting farmers seeking to fund capital-intensive businesses and would prefer a complete removal of the limit.

**2.16** Some retail societies would like to see the withdrawable share capital limit increased in line with inflation, with an immediate increase reflecting price changes since 1994, when the current limit was set. However, societies said that any changes to the limit should not compromise their current status or lead to the loss of exemptions, for example from deposit taker rules. One respondent said this issue should be investigated as a matter of urgency. The Government will therefore seek to clarify the regulatory and legal consequences of removing the funding limit.

## THE GOVERNMENT RESPONSE

**2.17** The Government does not believe it would be appropriate to remove the limit on withdrawable share capital, as this would inevitably invite further regulation. The Government is minded to uprate the limit to take into account inflation since 1994 and to allow flexibility in the legislation to have it updated regularly. In addition, the Government considers it desirable that societies (such as agricultural cooperatives), which require higher share capital, should have the option of applying to the FSA for approval to change their limits on a case-by-case basis.

**2.18** The Government also considers that it would be necessary for societies to make a clearer distinction on whether this funding is risk capital or a deposit, which may be expected to be repaid in full.

## Corporate governance, accountability & reporting

7. What are your views on the application of some proposals (see 2.19 below) from Company Law to IPSs?

8. What would you suggest as an appropriate fee for copy rules for IPSs?

9. What is your view on whether IPS legislation should have adequate and clearer provisions to facilitate easier dissolution, tidying up of the register, and cancellation? Please suggest how this can be achieved.

**2.19** Respondents were nearly unanimous that societies should not be treated differently from companies. There was general agreement that similar arrangements should apply to societies as for companies where appropriate. These proposals included;

- option for directors to provide a service rather than personal address;
- application of the Company Director's Disqualification Act;

- guidance on self-dealing by directors or officers regarding service contracts, property transactions, loans etc as per Companies Act 2006;
- statutory statement of directors/officer's duties as per Companies Act 2006; and
- information on directorships held and requirement for societies to notify change of directors.

**2.20** With regards to “the ability to remove a director by ordinary resolution” it was felt that the diverse nature of societies made it appropriate to leave this matter to the discretion of the body charged with ensuring that registered societies are and remain democratically controlled cooperatives or bencoms. The sector view was that a rigid and uniform statutory rule would be inappropriate and would inhibit the operations and governance of societies.

**2.21** While some respondents tried to quantify a specific amount that would be appropriate for copy rules, the majority felt that it would be inappropriate to specify the amount in legislation. They felt it would be preferable to specify that a reasonable and proportionate administrative fee be charged. It was also suggested that it should be reasonable for societies to make charges for the hard copies but that the rules should be free to download electronically as these were essential for membership duties and the proper exercise of membership rights.

**2.22** The general view was that the dissolution of societies should always be transparent and follow due process to ensure that the rights of all the relevant parties are protected. It was suggested that, where appropriate, the affected parties should be consulted to ensure that any action taken is both in the interests of all concerned and had taken account of any mitigating factors.

**2.23** The majority of respondents agreed that there was a need for a simple and straightforward mechanism for removing long dormant societies. Their inability was seen as clogging up the register and was an undue administrative burden on the rest of societies.

## **THE GOVERNMENT RESPONSE**

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**2.24** The Government agrees that IPS legislation should be aligned with Company Law as far as possible. The Government also sees merit in easier dissolution of societies but stresses that care should be taken in any amendment to the legislation to ensure that in such event, assets of dormant companies are distributed according to the objects of the society to avoid unfair treatment and possible litigation. Government is of the view that it would not be appropriate to specify the charge for copy rules in the legislation but would prefer societies to agree on charges through a democratic vote by its members.

## Accounting & audit arrangements (inc. insolvency)

10. What are the advantages and disadvantages of IPSs publishing a full audit report to support their revenue accounts and balance sheets?

11. Section 255 of the Enterprise Act 2002 allows rescue regimes such as administration afforded to companies to be extended to IPSs. Do you think these regimes should be extended to IPSs, and why? What protections should be in place?

12. Should IPSs be allowed to have a year-end of their choice? What are the advantages and disadvantages?

**Interim accounts** 2.25 The majority of respondents pointed out the significant cost that societies incurred in publishing a revenue account and balance sheet, as they are required to be audited. This was in contrast with companies who could publish such statements without the requirement of an audit. They contend that this puts societies at a competitive disadvantage with companies.

**Administration regime including insolvency** 2.26 The majority of respondents were of the view that a rescue regime was required for societies but stressed that greater care should be given to take into account the different basis of the various types of societies such as bencoms.

**Statutory year ends** 2.27 All respondents thought that societies should be able to choose their statutory year-end to suit their own commercial and financial convenience, as companies do. This is in contrast to the current IPS legislation, which requires that societies must have year-ends, which fall between 31st August and 31st January unless they apply to the Registrar for special permission to have a different date.

## THE GOVERNMENT RESPONSE

2.28 The Government believes that the requirement for societies to have audited revenue accounts and balance sheet enhances the credibility of the financial information provided by societies. Provision was made in 2006 to update the audit exemption for smaller societies in line with that for companies<sup>1</sup>. The Government considers that a review of the rules on the provision of unaudited interim accounts is appropriate on cost-saving grounds. It would be necessary to ensure that appropriate safeguards are in place. It should be noted however that the IPS Act was amended in 2006 raising audit thresholds and exempting smaller societies from the requirement to have audits.

2.29 On the administration regime, the Government view is that there is enough flexibility in section 255 of the Enterprise Act 2002. It specifies inter alia “ the Treasury may, with the concurrence of the Secretary of State by order provide for a company arrangement or administration provision to apply (with or without modification)”. The Government’s view is that administration or a similar regime is desirable, and will ensure that any such regime is appropriately adapted to IPSs. The Government is of the view that societies should have the flexibility to choose their statutory year-ends to suit their commercial and financial convenience as companies do.

<sup>1</sup> The Friendly & Industrial and Provident Societies Act 1968 (audit Exemption) (Amendment) Order 2006 (SI 2006/265)

## The Registrar function

13. What are the advantages or disadvantages of the introduction of powers of direction and investigation for the Registrar?

14. What are your views on the effect of the introduction of penalties for providing false or misleading information to the Registrar?

15. What are the benefits or otherwise of the FSA having the power to suspend or deregister an IPS for offences such as failure to submit an annual return and failure to pay the periodic fee to the Registrar?

### Powers of direction, investigation and inspection

**2.30** For those respondents that answered this question all felt that there should be an introduction of proportionate powers of direction, investigation and inspection (for the FSA) similar to those available to Companies House. They were of the view that this was necessary in the interests of the credibility of the mutual form and would also mean that the sector was not treated or viewed differently from companies in respect of corporate governance standards.

**2.31** However there were certain concerns that respondents felt needed to be clarified to ensure this would be suitable and able to work. They felt that the FSA has to date not fully utilised its existing powers where it could to protect the integrity of the sector. In addition that the registrar is not necessarily the right place to put these powers as they are to protect the public interest.

**2.32** Therefore they question whether legislative responsibility for cooperative and credit union legislation should be passed to a specialist registrar office and they be given these powers. This office could then actively promote the sector and have the power, where necessary, to impose sanctions to enforce and uphold the legal regime. Under the current environment the FSA cannot act to promote the interests of the sector, as this would be contrary to its remit under FSMA.

### Penalties for providing misleading information

**2.33** All respondents who replied to this question thought that it was necessary to introduce penalties but advised that they be used in a measured and proportionate way. They thought this measure would hopefully prevent instances of regulatory arbitrage with people registering themselves as a society instead of a company thinking there was less chance of them being penalised for providing false information.

**2.34** One response was concerned that this suggestion only seemed to apply to deliberate provision of false or misleading information and pointed out that some smaller IPSs could make administrative and record-keeping errors without malicious intent and should not be penalised for these. Such eventualities were therefore to be borne in mind in any future legislative reform.

### Power to suspend and deregister societies

**2.35** The consultation had sought views on the power of the FSA to be able to suspend and deregister societies under certain circumstances such as failure to submit an annual return or failure to pay the periodic fee. All respondents agreed that this be introduced for societies with certain considerations, the most important being that a statutory process is provided so that societies can re-apply for registration if they are incorrectly or unintentionally deregistered.

**2.36** There was a view that looking at the example of the Registrar of Companies, having this power confirmed that this could be very costly for societies that were deregistered but agreed that this is part of the effectiveness of the sanction.

## THE GOVERNMENT RESPONSE

**2.37** The Government notes the views of respondents and agrees that in order to create a level playing field with companies it would be sensible for the Registrar to have additional powers similar to those at Companies House. The Government is minded to legislate to bring this into force but will ensure that there are appropriate safeguards and appeals mechanisms so that disagreements can be independently resolved.

### Implementation

16. Please list in order of priority the policy changes which would have the most impact on improving the ability of IPSs to compete with proprietary firms. Explain with supporting evidence, why any changes are needed.

**2.38** The majority of respondents mentioned the following issues as requiring immediate attention:

- abolishing or increasing the limit on share capital;
- removal of the minimum age for membership;
- changing the name of societies from the current Industrial & Provident Societies;
- promoting the wider knowledge, understanding and use of the mutual structure;
- introducing electronic communications; and
- removal of the audit requirement for interim accounts.

## THE GOVERNMENT RESPONSE

**2.39** The Government notes respondents' priorities and will bear these in mind in deciding on the best legislative route, subject to consideration of issues such as resources, costs and benefits, as well as the Parliamentary timetable.

## OTHER ISSUES RAISED BY RESPONDENTS

**2.40** Respondents also raised a number of issues that were not included in the first stage consultation document.

**2.41** It was pointed out that the consultation had been directed specifically at cooperatives and credit unions. One respondent felt that it was equally important that the future proposals for reform address all mutuals and not just cooperatives and credit unions.

**2.42** Societies questioned whether the FSA was the appropriate body to regulate and register co-operatives. Respondents had doubts that the FSA as regulator for financial services was the appropriate body as the registration function is marginal to its work. Some thought that another Government department should take on the function or that there should be an independent body.

**2.43** The Housing Corporation raised the issue of multiple regulation and would like to see the possibility of exploring if there could be some form of statutory reform that

would result in a deregulatory measure to delegate or remove some areas of regulatory overlap. For example when the Corporation receives a copy of annual returns from the societies that are housing associations it would share the information with the FSA saving the housing associations the burden of doing this twice.

**2.44** Some also cited giving tax incentives, to encourage greater levels of charitable social investment. It was suggested that there is evidence from many larger corporate and high net worth individuals who have said they would have invested, in substantially larger amounts had there been a tax incentive available. They suggest that the existing Community Interest Tax Reform (CITR) is too narrowly drawn and that tax law should be changed to allow the same tax relief for interest foregone when invested in social bonds for specified charitable causes.

**2.45** There is suggestion for a corporation tax credit for community interest companies and co-operatives, analogous to working tax credits. Where a business is delivering documented social returns and trading for social benefit, yet making small or no profits, it should receive a tax credit, tapering as the profitability of the business improves. As with working tax credits, it is suggested that this encourages further community benefit activity and steps towards profitability, with the result that the short-term loss of revenue is more than offset by long term social benefit. Furthermore if nothing else, co-operatives should benefit from some relief on the first £10,000 of profits generated.

**2.46** It was suggested that there should be clearer guidelines for the operation of local trading systems that use non-accumulating local currencies. They contend that since Local Exchange Trading Schemes were introduced in this country, they have involved over 30,000 people in local, community based trading, generating incalculable social capital, nurturing embryonic social enterprise, bringing new people into volunteering and stimulating enterprise in cash poor communities.

**2.47** There was a suggestion for rapid progress towards full personal carbon trading. Even if this were not urgently needed for preventing catastrophic climate change it also represents a competitive disadvantage that co-operatives presently operate under. Co-operatives are making greater efforts, more successfully, to adopt low-carbon business models than conventional businesses. Whether on a large scale (Co-operative Financial Services has installed the largest photovoltaic solar array in the country) or on a small scale (a recent planning enquiry concluded that one Community Housing Co-operative was helping its members live on a third of the national average carbon emissions). Co-operatives are in the forefront of alternatives to fossil fuels. At present, they gain no commercial benefit from this – in fact, it limits their ability to achieve the financial results they otherwise could do – and only a comprehensive system of rationing and trading carbon emissions will put them on a level playing field.

## THE GOVERNMENT RESPONSE

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**2.48** The Government notes the other issues that the sector has raised. Together with the Working Group, Government will further evaluate the issues and consult on specific measures as appropriate.

# 3

## CREDIT UNIONS

**3.1** There were over 100 responses received from credit unions and associated stakeholders.

### Future direction of the sector

17. Should credit unions aim to extend their membership to embrace the more affluent sections of the community? If yes how can this be achieved?

18. Should the use of the term “credit union” continue to be compulsory and be protected from use by other institutions? Please give reasons.

19. What are your views on a suggested name change from credit unions to community banks?

**3.2** There was an almost universal agreement from respondents that credit unions should aim to attract and embrace membership from the more affluent sections of the community. Respondents recognise that the long-term viability of the credit union sector could not be guaranteed if they only had the financially excluded as members. They see it as imperative that they extend membership and services to embrace the affluent as this is seen as the route to long-term sustainability.

**3.3** Some respondents referred to the risks associated with serving both ends of the spectrum - competition for the business of the affluent might lessen the attention paid to the less well off. One credit union feared that a move towards the affluent would make credit unions less attractive to its original members.

**3.4** Various means of embracing the affluent were suggested – increased professionalism, legislative reform especially the payment of contractual interest on members’ shares, and tax changes (lessening the burden on credit unions, and increasing incentives to savers and lenders).

**3.5** All the trade associations and a majority of other respondents were in favour of retaining the credit union name as opposed to a name change to “community bank”. There were mixed responses: the opportunity of using a trading name in addition to the registered name was felt to offer credit unions sufficient flexibility by some. Individually the words “credit” and “union” were seen as having negative connotations, but these were capable of being overcome by good marketing. Respondents noted that some of the advantages of the current name were that it was unique and linked to a worldwide brand whilst some felt that credit unions should have more choice of registered name.

**3.6** Few favoured a compulsory replacement name for “credit union”, but there was support for protection of the term in its application if one were chosen. There was a feeling that a change of name would need to be reflected in the exemptions enjoyed by credit unions from European Directives, which might itself prompt a review of the justification for the exemptions.

**3.7** One group felt that there should be explicit criteria in legislation to govern the FSA’s approval of the use of the words “credit union” in the names of other organisations.

**3.8** Only a few respondents wanted “community bank” as a compulsory replacement for “credit union” in registered names. More respondents wanted to be able to adopt “community bank” as a registered name if they chose, but most were content with being able to adopt it as a trading name. There was a view by some respondents that credit unions were not bonafide “banks”, and that the name “community bank” was misleading and in addition that the term “community bank” did not reflect common bonds based on employment.

**3.9** Others were of the view that the name “bank” was generally seen as carrying negative connotations for prospective credit union members, and that was worse in many ways than the ignorance surrounding the words “credit union”. Many respondents thought it would be a disadvantage to move away from the worldwide credit union brand. Some feared that the consequence of describing themselves as banks would make them subject to EC regulatory provisions and make it harder to plead continuing exemption from European banking directives.

## THE GOVERNMENT RESPONSE

**3.10** The Government accepts the view that credit unions need to embrace the more affluent members of society in order to be sustainable. The Government will bear that view in mind when considering specific proposals like the payment of a contractual rate of interest on members’ shares. Tax changes are however outside the scope of this review.

**3.11** The Government recognises the various connotations associated with the name “credit union” but considers that there is no overall benefit in changing the current position, where the name is compulsory and protected, and credit unions can adopt a trading name of their own choice.

## Membership

20. What are your views on the following issues relating to membership of credit unions?

- Common Bond
- Non qualifying member rules
- Minimum age
- Restriction on number of members
- Prohibition of corporate membership

**Common bond 3.12** The consultation document highlighted the nature of the common bond concept and sought consultees views on some of the components, which the sector had identified as restrictive.

**3.13** Many respondents favoured retaining the common bond concept in some form, because it made credit unions unique, differentiated them from co-operative banks, and underpinned their exemptions from European Directives. Some respondents wanted to maintain the status quo, but there was a clear majority in favour of more flexibility.

**3.14** The most commonly cited reason for this was the desire to forge links with housing associations and employers that were represented in the area of a “live or

work” common bond, but which was frustrated by the credit union’s inability to admit tenants or employees from outside the area. Some credit unions also wanted a change in the common bond concept in order to be able expand their geographical spread.

**3.15** One of the main trade representatives saw greater flexibility as a means of enabling the take-over of failing credit unions. Many credit unions advocated the “field of membership” interpretation of the common bond similar to the model used in New Zealand legislation. This starts with the existing qualifications, allows free combination of those qualifications, and culminates with whatever is “objectively verifiable” (so for example a common bond of “live or work in GB” would presumably be possible).

**3.16** In their joint submission, two of the trade associations saw a need for some limitation on the common bond if the concept were not to be meaningless, but did not specify the boundaries. Overall, respondents tended to think in terms of what seemed desirable to them, rather than in terms of achieving a clear definition of a credit union - as distinct from other organisations, and as warranting special treatment under European Directives.

**Non-qualifying member rules** **3.17** Only a few respondents acknowledged a relationship between non-qualifying membership and the common bond concept. Some were happy with the current 10% limit on non-qualifying members, others wanted a higher limit, but the trade associations and the majority of respondents’ favoured abolition. This was seen as being justified by modern social mobility. The greater likelihood of members moving away would avoid the administration problems inherent in the current rule, which are regarded as an unfair competitive restriction. It was suggested that the core principle should be “once a member, always a member”. One credit union favoured amending the definition of “non-qualifying members” to allow a percentage of ineligible persons to join.

**Minimum age** **3.18** A number of trade associations and respondents preferred the status quo of 16 years, but the majority were in favour of allowing credit unions to choose their own minimum ages for membership. Some respondents favoured using the term “junior member” to describe those who had limited rights. In addition one respondent suggested that the minimum age for a credit union officer should be 16 as is the case for a company director.

**Restriction on number of members** **3.19** There was no support for a restriction on maximum number of members, which was equated by respondents with the 5,000-member limit formerly in the Credit Unions Act 1979, which was abolished in 2002. Many saw such a restriction as a barrier to growth and competition.

**Prohibition of corporate membership** **3.20** Most respondents wanted to move away from the current law, which restricts credit union membership to natural persons. They thought mainly of being able to admit local community organisations (generally unincorporated) in their own names instead of an individual acting as “trustee”. The motivation appeared to be a combination of service and self-interest. One of the trade representatives offered a list of the types of organisation that might be allowed to join (housing associations, non-profit organisations, firms offering payroll deduction) but otherwise no clear eligibility criterion was offered. It seemed to be a question of the credit union allowing whatever organisation it thought appropriate to join, without further limitation. The nature of some responses suggested that some respondents were thinking in terms of allowing deposits only.

**3.21** One group thought that there would need to be a limitation on organisational deposits in relation to the whole. Other respondents contemplated lending to organisations on the same basis as to individuals (but did not consider a limit on the proportion of such lending to the whole). Where voting was considered, one vote per person (whether natural or legal) was favoured. Some respondents suggested allowing corporate membership, as an alternative to grants/loans but sought restrictions on business lending.

**3.22** A number of the trade associations were clear about the need for measures to prevent dominance/concentration. There was the suggestion that large credit unions might be allowed corporate members, but not the smaller ones. They saw corporate membership as a pre-requisite for their ambition of a “credit union of credit unions” (or “credit union central”) though they were not committed to a particular route. This would be a credit union or other organisation capable of providing central services such as payroll, human resource and data processing for the wider sector.

## THE GOVERNMENT RESPONSE

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**3.23** The Government recognises the need for greater flexibility over the common bond concept, while providing for clear-cut decision making. It is working with the FSA to provide a membership qualification for tenants of registered social landlords that can be combined with existing common bonds. However, it considers that there needs to be some limit on the scope on the membership qualifications chosen by credit unions, if the common bond is not to become a fiction. Such a limit may also be necessary if credit unions want to maintain their current exemptions from European directives. The Government will work with stakeholders to establish an appropriate definition.

**3.24** The Government recognises the problems deriving from increasing social mobility and changing economic structures and considers that the non-qualifying membership rules can be abolished without unduly undermining the common bond concept.

**3.25** The Government sees some merit in allowing credit unions to make their own decision on the minimum age for membership, and the related issues of the minimum age for voting, holding directorships and receiving loans. On balance, however, the Government considers that there should be consistency with companies and is minded to legislate to ensure conformity.

**3.26** The Government is not contemplating the re-introduction of a membership limit or quota (comparable to the 5000-member limit formerly in the Credit Unions Act) but will consider with stakeholders whether a limit on the number of persons eligible is an effective way of limiting the scope of common bonds and preserving credit unions' current exemptions from European directives.

**3.27** The Government accepts that there should be circumstances in which credit unions can admit corporate or unincorporated bodies to membership. The Government will work with stakeholders to establish the scope of this, the relationship of such members to the common bond for individuals, the proportion of such members and their rights to vote, save and borrow.

## Savings

21. What are the advantages and disadvantages of allowing credit unions to pay interest on members' savings?

**3.28** The consultation document pointed out the restriction in the Credit Unions Act, which prevented credit unions from paying interest on members' savings. One trade body set out the advantages of allowing interest as being to remove:

- a competitive disadvantage with more affluent/sophisticated savers, notably in the Individual Savings Accounts/Child Trust Fund markets;
- an obstacle to offering a differentiated range of products (which would attract more savers).

**3.29** Another trade representative body saw the removal of the constraint on paying interest as helping to balance the membership, whilst one group saw it as enabling the design of specific financial products for the financially excluded and different interest rates for the different types of savers.

**3.30** Respondents recognised some disadvantages in allowing credit unions to pay interest on members' savings. Some of the disadvantages identified were that smaller credit unions did not have the sophisticated accounting systems that would enable them to manage different interest rates. Some respondents thought that legislating for credit unions to pay interest on members' savings would be burdensome for the smaller, volunteer-run credit unions, and that the increased risks run by smaller groups would mean an increased reputational risk to the entire credit union movement. One respondent pointed out that a dividend was acceptable to moderate Muslims, whereas an interest payment would not be.

**3.31** It was suggested that credit unions should have the option to choose whether to pay dividend or interest. Some respondents thought the choice should be available only to version 2 credit unions. These are permitted to lend more than £15,000 in excess of members' shareholding. A trade body was of the view that the payment of interest was only viable for larger credit unions, and should be made dependent on the level of reserves, if it was adopted.

**3.32** It was suggested by a respondent that a change from dividends to interest would detract from the co-operative basis of credit unions. The dividend represented the fruits of participation in a shared enterprise. Moving away from the dividend might sensitise members to the interest rate and open credit unions up to competition.

**3.33** A trade body suggested that the dividend limit of 8% would put credit unions at a competitive disadvantage if interest rates rose. Implicit in this was the suggestion that there should be no limit on the interest rate, if interest were permitted.

## THE GOVERNMENT RESPONSE

**3.34** The Government sees merit in a credit union's ability to offer a contractual rate of interest, but suggests that this could open up an unacceptable level of risk for the smaller credit unions. The Government therefore considers that any future legislative change must strike the right balance between these two considerations and to allow credit unions to exercise a degree of choice.

## Provision of auxiliary services

22. What are the costs and benefits of credit unions providing auxiliary services to their members, including for example complementary financial services, hire purchase and holding of land?

## Provision of complementary financial services

**3.35** Response to the question as to whether credit unions should be able to provide complementary financial services was muted. One group acknowledged the question by saying that costs and benefits would vary according to the particular product, and suggested that credit unions should be allowed the flexibility to choose which service they supplied appropriate to the membership.

**3.36** Some of the respondents sought to explain the restriction on credit unions ability to provide services such as hire purchase, holding of land etc as indicative of the complexity of the legislation.

**3.37** One of the respondents sought to explore the problems they saw with the current statutory objects, such as:

- uncertainty this created;
- lack of flexibility and difficulty in developing new products;
- lack of “charitable” objects which they saw as an obstacle to funding;

**3.38** A survey of members conducted by a trade body indicated support for changes to the legislation to include the proposition that the objects of a credit union should include: “To provide any other financial service required by members” (as from WOCCU Model law).

**3.39** In addition it was suggested that credit unions should no longer be limited to cost recovery when providing auxiliary services because:

- it stopped them generating income to build capital and dividend;
- calculating the recovery cost was difficult.

**Hire purchase 3.40** With regards to the question as to whether credit unions should have the power to purchase goods for resale as part of a hire purchase agreement one trade body envisaged the possibility of wider powers for the larger credit unions. One respondent saw absolutely no need for credit unions to be given the power to engage in hire purchase arrangements, as this was not consistent with their primary purpose.

**Holding of land 3.41** One of the reasons given by respondents to the issue of holding of land by credit unions was liberalisation, so that credit unions could gain more income from rent but one respondent feared it would create greater opportunity for corruption.

## THE GOVERNMENT RESPONSE

**3.42** The Government accepts that the objects and powers of credit unions require clarification, and that credit unions should be given some flexibility, compatible with preserving their identity as a distinctive financial organisation. The Government notes respondents’ views that limiting the charges for auxiliary services to cost recovery is unduly restrictive and is minded to remove this.

**3.43** The Government considers that there is little appetite at present for the power to buy goods for the purpose of hire-purchase but that further consideration be given as to whether credit unions ought to be given this opportunity for future development. The Government accepts that the current law on the holding of land requires clarification and intends to provide a degree of flexibility consistent with maintaining credit unions' focus on their core business of savings and loans rather than on property dealings.

## Governance, accountability and reporting

23. What are your views on electronic communications between credit unions and their members?

24. Should credit union members be given a statutory right to vote by proxy? Please give reasons

25. Should there be restrictions on transactions with directors and connected persons and if so what should they be? Please give reasons.

26. Should the application of Company Directors Disqualification Act be extended to credit unions? Please give reasons.

27. Should there be a power in the new legislation to assimilate the law for building societies and companies to the law for credit unions?

28. How should charges for a copy of a credit union's rules be determined?

**Electronic communication** **3.44** Almost all respondents were in favour of facilitating electronic communications. Some argued that the geographical spread of credit unions had increased and they should be allowed to use modern means of communicating such as the Internet rather than by post. A trade body said that the legislation needed to allow flexibility for future technological developments. The argument against electronic communication was that it might result in credit unions losing contact with its members who did not participate in technological developments or have access to such technology. They cautioned that there should be safeguards in place to protect such members.

**Statutory right to vote by proxy** **3.45** The majority of respondents were in favour of proxy voting, but not necessarily for this to be enshrined in statute. Many respondents thought it should be for credit unions themselves to decide whether to allow proxy voting, which is the current legal position. Some respondents felt that proxy voting would enhance democracy in large, diverse credit unions. It would give an opportunity of being heard to members who lived in remote locations and who might not be able to afford the time or expense of attending a meeting in person and not necessarily as the member intended.

**3.46** On the other hand, some respondents felt that proxy voting would tend to reduce democracy in the smaller credit unions because they were dependent upon the active assistance of volunteers. Allowing the members to vote by proxy would diminish the likelihood of their attendance in person and therefore their participation in the enterprise. A number of individual respondents said that more discussion was needed before a decision could be made about changing the law.

**3.47** Some respondents favoured postal ballots rather than proxy voting because it meant that members themselves were able to vote for or against a motion (whereas a proxy may be mandated to listen to discussion at a general meeting, and to vote for or

against a motion according to the persuasiveness of arguments, and not necessarily as the member intended.

**3.48** There was a fairly muted response in relation to the question on restrictions on transactions with directors and connected persons. Of those expressing views, the majority favoured the status quo arguing that there was enough clarity in the FSA handbook (CRED) though some favoured inclusion of some specific provisions in legislation.

**3.49** A number of respondents made the point that the credit union's directors were often heavy users of credit union services - and they thought that any changes to the legislation should not necessarily preclude or prevent this. Some respondents suggested that the same requirements as in Companies Act 2006 could be put in place in order to prevent directors from taking unfair advantage based on asymmetric information.

**3.50** One of the respondents pointed out that there should be no participation in decision-making by someone with personal interest and that there should be full disclosure of conflicts of interest. The current position appears to leave this to the discretion of individual societies.

**Company Directors Disqualification Act** **3.51** There was general support for some of the proposals in the Company Directors Disqualification Act to be extended to credit unions among representative bodies and individual respondents. They considered that the approved persons regime in the Financial Services and Markets Act (FSMA) already provided some protection to credit unions from appointing unsuitable directors, but that this proposal was seen as providing an additional safeguard, and creating a level playing field with companies.

**Assimilating building society and company law** **3.52** The trade bodies were unanimous in favouring further consultation on whether there should be a power to assimilate the law for building societies and companies into the law for credit unions. This would mean that credit union law could be kept up-to-date with the latest developments in related fields by Order rather than primary legislation, which may not be available. Respondents did not want credit union law to fall behind but were keen to ensure that changes that were made as a result were consistent with the nature of credit unions and made only after consultation.

**3.53** A survey of members' views conducted by a trade body was inconclusive on this issue: 11% of members favoured a power for company law only; 16% for building society law only; 32% for both; and 41% thought there should be no such power.

**Charges for copy rules** **3.54** Almost all respondents were against the 10 pence maximum charge set out in statute, and against setting out a fixed charge in statute at all.

**3.55** A few respondents said explicitly that the change should be left to the discretion of credit unions. Others however, thought that that the charge should have a statutory basis. Some respondents said that the decision on charging should be reserved to the membership in a general meeting. A majority said the charge should be based on cost.

## THE GOVERNMENT RESPONSE

**3.56** The Government intends to make an Order under the Electronic Communications Act 2000 to remove obstacles to the appropriate use of electronic communications by credit unions.

**3.57** The Government sees merit in the idea that members of large and diverse credit unions should have the same rights to vote by proxy as the members of building

societies and companies. The Government intends to work with stakeholders to establish how this category of credit unions should be defined.

**3.58** The Government agrees that there should be restrictions on transactions with credit union directors comparable to those in the Companies Act 2006, and that the provisions of the Company Directors Disqualification Act should extend to credit unions.

**3.59** The Government considers that there should be a power to assimilate the law for building societies and companies into the law for credit unions. This would enable the use of secondary legislation to keep credit union law up-to-date with developments in related fields as appropriate. The Government believes that the requirement to consult on changes would provide appropriate safeguards. A similar power, colloquially called the “Gareth Thomas power” already exists for cooperatives.

**3.60** The Government agrees that the charge for a copy of a credit union’s rules should be limited to reasonable cost-recovery, with a provision for the membership in general to determine a specific figure.

29. Should all credit unions still be required to produce annual accounts audited by a registered auditor or should there be exceptions for smaller credit unions? Please give reasons.

30. What are your views on auditors being required to report to the Registrar any issues of concern about a credit union’s financial practices and procedures?

**Accounting &  
audit  
including  
insolvency**

**3.61** A majority of respondents favoured audit by a registered auditor, without exceptions, in order to protect depositors’ funds. All respondents were in agreement that the current arrangements for auditors to report to the Registrar any issues of concern were satisfactory and did not require a change.

## THE GOVERNMENT RESPONSE

**3.62** The Government accepts the argument that audit by a registered auditor enhances depositor protection and that it should therefore be compulsory for all credit unions. In addition the Government concurs with the sector’s views about the auditor’s ability to report directly to the Registrar any issues of concern about a society’s financial practices or procedures.

## Implementation

31. Please list in order of priority the policy changes which would have most impact on improving the ability of credit unions to compete with proprietary firms. Explain with supporting evidence, why any changes are needed.

**3.63** Respondents raised the following as priority areas:

- Liberalisation of the common bond concept;
- Changes to the non-qualifying member rules to allow for greater flexibility for credit unions to retain members who for one reason or another no longer explicitly met the common bond rules; and
- The ability to pay interest on deposits.

## GOVERNMENT RESPONSE

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**3.64** The Government accepts the case for liberalisation, consistent with preserving the identity of credit unions. It is working with the FSA towards providing a membership qualification for tenants of registered social landlords that can be combined with existing common bonds, and will consider what further liberalisation might be appropriate.

**3.65** The Government considers that the non-qualifying member rules can be abolished without unduly undermining the common bond concept. In addition the government agrees that there is merit in allowing societies to pay interest on members' deposits.

## OTHER ISSUES RAISED BY RESPONDENTS

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- Islamic finance and the need to cater for Islamic financial products
- Doubts about the usefulness and utility of dividend limits
- The need for greater clarification of credit unions' powers in relation to subsidiaries.
- Indirectly qualifying members: why do family members have to share the same address?
- Credit union central: The legislation ought to provide for the ability to form a "super credit union" or central service organisation capable of providing a wide range of services to the sector such as payroll, administration and finance.
- Tax changes could be used to lessen the burden on credit unions, and increase incentives to savers and lenders to facilitate the growth of the sector.

## THE GOVERNMENT RESPONSE

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**3.66** The Government notes the other issues that the sector has raised. Together with the Working Group, Government will further evaluate the issues and consult on specific measures as appropriate.

# 4

## LEGISLATIVE OPTIONS AND PROPOSALS

### LEGISLATIVE OPTIONS

**Primary legislation** **4.1** Most of the legislative changes identified could be enacted in primary legislation, subject to being able to find Parliamentary time.

**Legislative Reform Order** **4.2** Orders under the Legislative and Regulatory Reform Act 2006 can be used to remove or reduce burdens in legislation (including primary legislation). “Burdens” include financial costs, administrative inconveniences and obstacles to efficiency, productivity or profitability.

**4.3** There are certain safeguards in the Act to ensure that an Order does not remove protection or interfere with any right or freedom, and is fair and proportionate. There are also specific, detailed procedures under the Act, which include requirements for consultation and laying of a draft Order before Parliament. Further analysis would be required to determine which proposals could be implemented in a Legislative Reform Order (LRO).

**Other secondary legislation** **4.4** There are two types of statutory instruments, affirmative instruments, which Parliament must expressly approve; and negative instruments, which become law without a debate or vote but may be opposed by a motion, brought in either House, following a prayer by one or more Members.

**4.5** This document identifies various powers, which could be used to implement some of the recommendations. Implementing changes in secondary legislation would have the advantage of flexibility and would not require Parliamentary time for a Bill. However, it would not be possible to deal with all of the recommendations in secondary legislation.

**4.6** The Government has considered the responses to the first stage consultation and sets out its initial response and legislative options in the table below.

Issue	Government Response	Implementation options
<b>COOPERATIVES</b>		
Q.1. A wider role for co-operatives in financial services.	No action planned at this stage.	
Q.2. Title “industrial & provident society”	Accepts case for change.	Would require primary legislation
Q.3. Electronic communications	Accepts case for change. Work underway.	Implement the Electronic Communications Act 2000 for coops and credit unions.  Review IPS and CU legislation
Q.4. Minimum age	Agrees should be brought in line with Company Law.	Amend via an Legislative Reform Order (LRO) or primary legislation

Q.5. Participation of non-user investor members.	Believes legislation is needed.	Amend via LRO or primary legislation.
Q.6. Withdrawable share capital.	Accepts case for general uprating, and is minded to allow application for approval to change limits on a case-by-case basis.	Amend IPSA 1975 to uprate limit and to allow approval for individual limits.
Q.7. Application of elements from Company Law Review (as set out in paragraph....)	Accepts case for alignment with Company Law	Align with company law under the IPS Act 2002
Q.8. Fee for copy rules.	Would not be appropriate to specify in legislation.	Should be at society's discretion and democratic vote.
Q.9. Dissolution.	Agrees that dissolution should be made easier.	Amend via LRO or primary legislation.
Q.10 Full audit reports.	Believes that full audit reports would enhance the credibility of financial information provided by societies. Agreed the position of smaller societies needs examining.	Align with company law under the IPS Act 2002 or amend Act via LRO or primary legislation.
Q.11. Rescue regimes	Believes administration or similar regime is desirable.	Orders (negative resolution) made under the Enterprise Act 2002 can apply the changes to the IPS Acts (& friendly societies)
Q.12. Year-end	Societies should have option to choose their statutory year-end.	Align with company law under the 2002 IPS Act.
Q.13. Registrar's powers of direction and investigation.	Accepts the case for aligning with company law, subject to appropriate safeguards.	Possibly align with company law under the 2002 IPS Act. May require primary legislation.
Q.14. Penalties for providing false or misleading information.	Accepts the case for aligning with company law	Possibly align with company law under the 2002 IPS Act. May require primary legislation.
Q.15. FSA powers.	Accepts the case for additional powers with appropriate safeguards including appeals mechanisms.	Possibly align with company law under the 2002 IPS Act. May require primary legislation.
<b>CREDIT UNIONS</b>		
Q 17 Expansion of membership.	Accepts the view that credit unions need to embrace wider sections of society.	No requirement for change.
Q 18 Use of the term "credit union".	No case for change.	

Q 19 Change to “community banks”	No case for change.	
Q 20		
a. Common bond	Accepts the need for liberalisation. Work on housing association tenants underway.	Further changes would require amendment to the act by a Legislative Reform Order (LRO) or primary legislation.
b. Non qualifying member rules	Agrees non-qualifying member rules can be abolished without undermining common bond concept.	Would require changes to the Act via LRO or primary legislation.
c. Minimum age	Is of the view that there should be conformity with Company law.	Amend via LRO or primary legislation
d. Restriction on number of members	No case for change.	
e. Prohibition of corporate membership	Accepts the case for corporate membership. Believes this should be subject to a limit.	Would require amendment to Act or primary legislation.
Q 21 Interest on savings.	Accepts the case, subject to safeguards.	Would require amendment to Act by LRO or primary legislation.
Q 22 Auxiliary services	Accepts the need for some flexibility.	Would require amendment to Act by LRO or primary legislation.
Q 23 Electronic communications	Accepts the case. Work underway.	Amend using the Electronic Communications Act 2000.
Q 24 Proxy voting.	Accepts the case for larger credit unions.	Would require amendment to Act or primary legislation.
Q 25 Restrictions on transactions with directors.	Accepts the case for aligning with company law.	Amend legislation to allow power to assimilate the law for companies to credit unions, similar to the “Gareth Thomas” power currently available for IPSs.
Q 26 Company Directors Disqualification Act.	Accepts the case for application to credit unions.	Amend legislation to allow power to assimilate the law for companies to credit unions, similar to the “Gareth Thomas” power currently available for IPSs.
Q 27 Assimilation of company and building societies law.	Considers such a power should exist.	Amend legislation to allow power to assimilate the law for companies to credit unions, similar to the “Gareth Thomas”

		power currently available for IPSs.
Q 28 Copy charges.	Agrees charges should ideally be limited to cost recovery, with provision for individual credit union membership to determine a figure.	Should be at society's discretion and democratic vote.
Q 29 Audited accounts.	Believes audited accounts should be compulsory for all credit unions.	Would require amendment to Act by LRO or primary legislation
Q 30 Reporting issues of concern	Agrees with the sector's views about auditor's ability to report directly to registrar.	Would require amendment to Act by LRO or primary legislation

## NEXT STEPS

**4.7** The Government will consult on the basis of firm proposals in Spring 2008. It has formed a Working Group comprising of sector stakeholders, representative groups and academics to advise on the mechanics and technicalities of implementing the legislative proposals as well as priorities.

**4.8** The Group will advise on detailed policy analysis. For example, one of the key issues for cooperatives is the funding limit or Withdrawable Share Capital. Two options have been identified: complete abolition (favoured by Agricultural Cooperatives) or the uprating of the limit in line with inflation.

**4.9** There are various risks associated with each option. Complete abolition (which would require primary legislation) would need to take into account the impact of regulation by FSA as a deposit taker, EU regulation, tax implications and the fact that the Financial Services Compensation Scheme does not at present cover such deposits. The same issues would arise even if this limit were uprated (by use of secondary legislation) in line with inflation to, say, £100,000. In addition there needs to be a comprehensive analysis of the impact including cost/benefit to the sector.

**4.10** For credit unions a key issue is the common bond concept. Although there is unanimous agreement that the bond should be liberalised it is still not at all certain how widely the common bond could be extended without undermining the core principle of membership. The Working Group will assist with detailed redefinition of the common bond, proposals on the boundaries and how this can be implemented.

**4.11** The Government will publish detailed proposals, including draft implementing legislation and an associated impact assessment for the issues identified in this document by Spring 2008.

## INTERIM MEASURES

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**4.12** In the interim, and as a clear signal of the Government's commitment to the mutual sector, the Economic Secretary on 25 October 2007 announced the delivery of two key reforms:

- the relaxation of the common bond concept for credit unions. The Treasury and the FSA are working together to include tenants and employees of housing associations within the common bond of existing credit unions.
- the use of an Order under the Electronic Communications Act 2000 to permit cooperatives to communicate with their members and authorities electronically.

**4.13** The Government will also consider how cooperatives and credit unions can better be linked with the Government's Enterprise agenda. In particular, the Government wants to ensure that people wishing to set up businesses have the same information about the broad range of alternative business forms available, including the mutual form. The Government will also seek to promote the wider knowledge, understanding and use of the mutual society structure.



# 5

## LIST OF CONSULTATION RESPONDENTS

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### Cooperatives

Anglia Regional Co-operative Society  
Brambles Housing Co-op  
Canolfan Cydweithredol Cymru/ Wales Co-operative Centre  
CDS (Co-operative Development Society)  
Charity Law Association  
Chelmsford Star Coop  
Citylife  
CNW (Cooperatives North West)  
Community Broadband Network  
Confederation of Co-operative Housing (CCH)  
Co-operative & Mutuals Solutions Ltd (CMS)  
Co-operative Assistance Network Ltd  
Co-operatives Futures  
Co-operatives North West  
Co-operatives South East  
COOPS UK  
Cornerstone Housing Co-op  
Country Markets  
D&L Scott  
Delta T Devices Ltd  
East of England CO-OP  
EFFP (English Farming & Food Partnership)  
Ethical Consumer Research Association  
Ethos PR  
Fane Valley Co-op Society Ltd  
Financial Services Smaller Business Practitioner Panel (SBPP)  
Footprint Worker Coop  
Headingley Development Trust  
Heart of England Coop email no attachment  
Lincolnshire Cooperative Ltd  
Midcounties Co-operatives Ltd  
Midlands Co-operative Society Ltd  
National Food Stores Ltd  
National Housing Federation (NHF)  
One Community Limited  
Penrith Co-op  
Phone Co-op ltd  
Plunkett Foundation  
Plymouth & South West Co-operation Ltd

Radical Routes  
Scottish Agricultural Organisation Society (SAOS)  
Scottish Midland Co-operative Society  
Shared Interest  
Situ8  
Southern CO-OPS  
Star Holdings  
Tamworth coop  
The Channel Islands' Cooperative Society Ltd  
The Guild (Eastern Region) LLP  
Triangle Wholefoods Collective Ltd /a Suma  
True Food Community Co-op  
Upstart Services Ltd  
Upstream Ltd  
Rochdale Social Enterprise Forum  
Rochdale Federation of Tenants and Residents Associations  
CDA (Brave Ltd)  
Building Societies Association  
Harlow CDA  
Baker Brown Associates  
Tower Hamlets Co-operative Development Agency  
NCVO  
Ian Snaith, Law Faculty, University of Leicester  
Charles Richard Wood  
Charlie Cattell, Social Economy Consultant  
Samuel Hope, School of Business and Social Sciences, Roehampton University  
The Tool Factory llp  
Graham Mitchell, MC3 LLP  
Housing Corporation  
Co-operative & Community Finance  
Credit Union Training and Enterprise  
Co-operative Development Scotland (CDS)  
Supporters Direct  
ABCUL  
Social Enterprise East Midlands  
Community Development Finance Association (CDFA)  
Social Enterprise Coalition  
Trowers & Hamlins  
The Social Enterprise People  
UK Society for Co-operative Studies (UK SCS)

## Credit Unions

ABCUL (Association of British Credit Unions Limited)  
ABCUL South West Chapter  
National Association of Credit Union Workers (NACUW)  
UK Credit Unions Limited (UKCU)  
ACE Credit Union Services  
Credit Union Consultation Working Group  
Graham Hickman - confidential  
Watling & Grahame Park CU Ltd - confidential  
Penilee CU Ltd  
Ellesmere Port & Nelson CU Ltd  
North Lincolnshire CU Ltd  
Just CU Ltd  
Leicester Carribean CU Ltd  
Bedford CU Ltd  
Partners CU Ltd  
Tim Presswood, Chair Manchester CU Ltd  
Watford CU Ltd  
Hope (Plymouth) CU Ltd  
East Renfrewshire CU Ltd  
Sharon Angus - Crawshaw Crewe and Nantwich CU Ltd  
Rainbow Saver Anglian CU Ltd  
Tamworth CU Ltd  
Police CU Ltd  
Northumberland CU Ltd  
Firesave CU Ltd  
Hull & east Yorkshire CU Ltd  
Ipswich and Suffolk CU Ltd  
Moneywise Newcastle CU Ltd  
Scotwest CU Ltd  
Neath Port Talbot CU Ltd  
Mendip  
Community CU Ltd  
Captial CU Ltd  
Llandudno & District CU Ltd  
Blackburn Seafield & District CU Ltd  
North London Enterprise CU Ltd  
Torfaen CU Ltd  
Tower Hamlets CU Ltd  
Pendle Community CU Ltd  
Glasgow CU Ltd  
Worcestershire CU Ltd

Scottish Transport CU Ltd  
Jubilee Tower CU Ltd  
Kirklees CU Forum  
Camden Plus CU Ltd  
Exeter CU Ltd  
Glasgow Taxi Trade CU Ltd  
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ISBN 978-1-84532-400-1



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