



Investing in a social enterprise: Step 1 – What can I invest in?



1. Withdrawable shares or bonds from a society registered under CCBS

Withdrawable shares are shares that you can only sell back to the society, not to anyone else. The society's share offer document will state when you can cash in your shares and how much notice you must give. If the society suspends share withdrawals you may not be able to cash in your shares. There is a legal limit to the value of society shares one person can hold in a single society: £100,000 in Great Britain and £20,000 in Northern Ireland.

Bonds are a form of debt finance, not units of ownership in a company. Bonds are a loan directly from you to the organisation. A society has to repay the amount of the bond to the investor; usually they will do this with some form of interest.

2. Units in an unregulated CIS (UCIS)

A collective investment scheme is one where several investors pool their money in an investment fund. A fund manager will invest the pooled money in one or more types of asset, such as in social enterprises.

We do not regulate investment funds that invest in social enterprises. Because of this, they cannot generally be marketed to retail investors unless they have received advice to invest in them from a firm or advisor we regulate.

3. Shares or bonds from other social enterprises

When you buy shares, you effectively buy some ownership of an enterprise. The enterprise has no legal obligation to repay the amount invested, or to pay interest (or dividends). Social enterprise shares are not usually publicly traded on a recognised stock exchange, which means it will be more difficult to find a buyer for your shares quickly.

Bonds are a form of debt finance, not units of ownership of a company. They can be considered as a loan directly from the investor to the enterprise. Bonds require the enterprise to repay the amount effectively borrowed from the investor, and usually they will do this with some form of interest.

4. Units in a European social entrepreneurship fund

EuSEFs are a type of investment fund created by European legislation. EuSEFs have to invest up to 70% of their capital in social businesses. An investor must invest a minimum of €100,000 and state in writing that they are aware of the risks associated with investing in such a fund.



The Companies Act 2006, Section 755 and 756, prohibits private companies from offering shares to the public.



Investing in a social enterprise: Step 2 – How can I invest?



1. Crowdfunding platform

I can invest only if I meet the certification tests.

Crowdfunding allows investors to invest through an online platform. You can only invest in a social enterprise's unlisted securities if you certify that:

- you are a high net worth individual (your annual income must be at least £100,000 or your net investable assets must be at least £250,000 excluding primary residence, pension and insurance) or
- you are a sophisticated investor (who has the knowledge and experience required) or
- you have received advice from a firm authorised by the FCA or
- you will not invest more than 10% of your net investable assets in these types of security.

Unless you are taking financial advice from a firm authorised by the FCA, the platform must ask questions so they can assess whether you have the necessary knowledge or experience to understand the risks involved in the investment. For example, it is important that investors understand that the securities may not be easy to sell on and may not get back their capital or an investment return. While everyone can invest in the unlisted securities of social enterprises, these FCA rules mean that firms must check investors understand the risks or limit their exposure to an affordable amount.

FCA rules do not apply if the securities are withdrawable shares issued by a co-operative or a community benefit society.

2. Financial adviser

I can invest if the adviser has assessed my suitability for any investment and given me advice.

Financial Advisers must be authorised by us and must comply with our [Conduct of Business rules](#). An adviser can only advise you to invest in unregulated collective investment schemes or in securities issued by social enterprises if this is suitable for your personal circumstances. They must carry out a 'suitability test' to assess your financial position, your investment objectives (including how long you wish to hold the investment and what you wish to achieve) and your appetite for risk.

3. Directly in a social enterprise

I can invest if the promotion to me was approved by an FCA authorised person and the product is appropriate for me.

Social enterprises sometimes issue their own invitations to buy shares or bonds. They must make sure that an FCA-authorized firm has approved the financial promotion before they begin it. When the firm has given its approval, the social enterprise can market its securities to you directly without being subject to further FCA rules.

Co-operative or community benefit societies issuing withdrawable shares or debt securities do not have to get this financial promotion approval as the requirements do not apply.

4. EuSEF fund

I must invest a minimum of €100,000 and state in writing that I understand the risks.



Withdrawable shares and bonds from a society registered under CCBS are not subject to FCA rules and can be marketed freely.



Investing in a social enterprise: Step 3 – How is my investment protected?



1. Directly in a social enterprise

No cover of my loss if it happens because the social enterprise performs poorly or goes bankrupt.

You cannot use [the Financial Ombudsman Service](#) or the [Financial Services Compensation Scheme](#) if the enterprise performs poorly, if you have wider concerns about the investment, or if the enterprise goes bankrupt. This is because social enterprises are exempt from FCA rules for selling their securities.

2. Financial adviser

Ombudsman if I have concerns about sale by the adviser; and FSCS if you have a claim against the adviser and they go bankrupt. No cover if my loss results from the social enterprise performing poorly or going bankrupt.

A financial adviser must meet the rules in the [FCA Conduct of Business](#). The adviser must ensure the product is suitable for you and your objectives when they advise you to invest in it. If you have concerns about the way the investment was sold to you and do not feel they have resolved this satisfactorily, you can take your complaint to the [Ombudsman](#). If you lose your money because you have received unsuitable advice and the adviser goes bankrupt, you can also use the [Financial Services Compensation Scheme](#) ('FSCS').

However, if you lose your money because you have invested in a social enterprise that performs poorly, you will not have access to the ombudsman service or the FSCS.

3. Crowdfunding platform

Ombudsman if I have concerns about sale by the platform; and FSCS if you have a claim against the platform and it goes bankrupt. No cover if my loss results from the social enterprise performing poorly or going bankrupt.

Crowdfunding platforms must meet the rules in the [FCA Conduct of Business](#). For example, all communications must be fair, clear and not misleading and, where investors act without taking financial advice from a firm authorised by the FCA, firms must check that investors have the necessary knowledge or experience to understand the risks involved in investing in unlisted securities. If you have concerns about the way the investment was sold to you, you can complain to the firm. If you do not feel they have resolved your complaint satisfactorily, you can take your complaint to the [Financial Ombudsman Service \(the Ombudsman\)](#). If you lose your money because you have a claim against the crowdfunding platform and it goes bankrupt, you can also use the [Financial Services Compensation Scheme \('FSCS'\)](#).

However, if you lose your money because you have invested in a social enterprise that performs poorly, you will not have access to the Ombudsman or the FSCS.