



Mutual Societies Application Note

Notification of increased limit on withdrawable share capital

Please take time to read these notes carefully. They will help you to fill in the form correctly.

These notes are for information only. They are not a full statement of legal obligations under the relevant legislation. You may wish to seek legal advice on how to comply with the legislation.

If after reading these notes you need more help please:

- check our website for more information on Mutual Societies: www.fca.org.uk/mutuals
- email mutual.societies@fca.org.uk; or
- call the Contact Centre 0845 606 9966

Terms in this form

'FCA', 'us' and 'we' refer to the Financial Conduct Authority or Prudential Regulation Authority.

'You' refers to the person signing the form on behalf of the society.

'The 2014 Act' is the Co-operative and Community Benefit Societies Act 2014

Legislation and what to expect

The Industrial and Provident Societies (Increase in Shareholding Limit) Order 2014

This Order came into effect on 6 April 2014 and applies to societies registered under the Co-operative and Community Benefit Societies Act 2014 (2014 Act), but not to credit unions. The legislation relating to credit union shareholding has not changed.

Registered societies can have share capital referred to as withdrawable share capital (WSC). This is also referred to as 'community shares' by some.

Before 6 April 2014 an individual could subscribe up to a limit of £20,000 in WSC. From 6 April 2014 individuals will be able to subscribe up to the new limit of £100,000, if the rules of the society allow or if the committee passes a resolution that allows for this in accordance with the procedure set out below.

Non-withdrawable shares are also a type of share available for societies to issue. The amount that can be invested in non-withdrawable shares is unlimited. This Order has no impact on non-withdrawable shares.

Registered societies have been able to hold shares in other societies registered under the 2014 Act to any amount. This position remains unchanged by the statutory instrument.

What impact will this have?

Although the legislation has changed societies must still comply with their own rules.

Many societies have rules that state something to the effect of 'members can hold shares up to the statutory limit'. In these cases, the society will be able to accept up to £100,000 in total from any individual member without the need to change its rules.

However, other societies may have rules that specify something to the effect of 'members can hold shares up to £20,000' or some other lower figure. If this is the case, the limit in the society's rules will still stand. So, on 6 April 2014 and thereafter, the society will still be limited to whatever their rules say, unless the limit is changed as explained below.

Changing the limit

Rule changes normally need to be made in accordance with the rules of the society. This usually requires passing a resolution at a general meeting of the membership. However, the statutory instrument creates a time-limited power for the committee of a society to change a figure specified in their rules.

The committee of the society can resolve to increase the maximum shareholding to any amount up to £100,000.

To exercise this power the committee must pass a resolution recorded in writing at a committee meeting. Notice of the resolution must be given to the FCA within 60 days (beginning with the date of the resolution).

This power can only be used for a period of eighteen months beginning with 6th April 2014, so if a society wishes to use this power, it must pass the resolution by 5 October 2015. After that date, the society can only change the limit through the rule amendment process set out in its rules.

The society can also only use this power if it has not registered any other rule amendment since 6 April 2014. So if a society wishes to vary the shareholding limit in its rules and is making some other rule amendment after 6 April 2014, it should take that opportunity to also vary the shareholding limit.

The resolution by the committee is only effective until the next rule amendment is made. So if the committee makes this resolution, any subsequent rule amendment should include an amendment to the maximum shareholding limit.

Considerations

While a society can increase the shareholding limit in its rules to £100,000, it should consider, based on its circumstances and the views of its members, whether it is appropriate to do so.

If a significant proportion of a society's share capital is held by a small number of members, the imbalance could lead to liquidity problems and possibly the risk of destabilisation if the holders wish to withdraw their shares. There is also the risk of undue influence, despite shareholders normally holding equal voting rights.

Where a society's rules will result in the shareholding limit automatically increasing to 6 April 2014, but the society does not wish to have such a high limit, it can choose to introduce a limit lower than £100,000 in the manner outlined above.

This legislation does not affect the existing shareholding of any member. Societies should also keep in mind that they cannot mandate an existing member to increase their shareholding without first having that member's consent in writing (see s15(2) of the 2014 Act). So, for instance, if you require members to hold a minimum of £500 in shares, and you want to raise that to £1000, then each member must consent to that change in writing.

What to expect

We will send you a formal acknowledgement after registration.

Details of increase in shareholding limit

This section will help you to complete the form.

Full current name of society (front page)

You must give the full current registered name, please do not use abbreviations.

Society details

1 Society details

Register number

The register number is the number the society was given when it was first registered. If you are not sure what this is please search on the Mutuels Register at <http://mutuals.fsa.gov.uk> using the name of your society.

Confirmation of increase in withdrawable share capital limit (WSC)

2 Committee agrees to vary the maximum WSC limit to (any amount up to £100,000)

You must insert the figure the committee/board resolved to become their new withdrawable share capital limit. This figure must not exceed £100,000.

3 Date of committee meeting where the resolution was passed (dd/mm/yyyy)

You must insert the date of the committee meeting where the resolution was passed. This form must be received at the FCA within 60 days from this date.

Below is an example of a resolution:

Sample resolution:

*The committee, confirming that the society has not registered any rule amendment since 6 April 2014, hereby resolves that (i) the limit determined for the purpose of s14(7) of the Co-operative and Community Benefit Societies Act 2014 is increased to **[insert figure - not more than £100,000 or 'the amount prescribed by legislation']**; and (ii) to give notice of this resolution to the Financial Conduct Authority within 60 days from today.*

4 No rule amendment has been registered since 6 April 2014

The committee can only exercise its power to increase the withdrawable share capital increase if it has not passed any other rule amendment since 6 April 2014.

5 The society understands that the committee resolution is only effective until any future rule amendment is registered

The committee resolution is only effective until any future rule amendment is registered. Therefore in the future if a society proposes to register a rule amendment, that rule

amendment will need to include the increase withdrawable share capital limit for it to be retained.

Signature

6 The Secretary of the society must sign and date below

We require all signatures to be original signatures.

End of form