

## Chapter 4

# Defining a co-operative society



## 4.1 Our approach

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This chapter explains our approach to applying the test set out in the Act for registration of a society as a bona fide co-operative society. We give further guidance on subsidiaries at the end of this chapter.
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The Act provides that we can only register a society as a co-operative society where, amongst other things, it is shown to our satisfaction that it is a 'bona fide co-operative society'.
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The phrase 'bona fide co-operative society' is not defined in the Act, though section 2(3) of the Act states that:

"co-operative society" does not include a society that carries on, or intends to carry on, business with the object of making profits mainly for the payment of interest, dividends or bonuses on money invested or deposited with, or lent to, the society or any other person.
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We explain below how we apply section 2(3) and the factors we consider when deciding if a society is a bona fide co-operative society.

## 4.2 Existing mainly to pay profits

- 4.2.1** **G** Section 2(3) does not stop co-operative societies from paying interest or dividends on money invested, deposited with, or lent to the society or any other person. However, if these activities are the main purpose or 'object' of the society's actual or intended business, then it does not meet the definition of a co-operative society and we cannot register it.
- 4.2.2** **G** Compliance with the conditions for registration is an ongoing requirement for registered societies and we are under a duty to maintain arrangements designed to enable us to determine whether a society is complying with the Act. The submission of an application for the registration of a society is the first point at which we must be satisfied that the society falls within the definition of a co-operative society, taking into account section 2(3). Our assessment is based on reading the proposed rules and the information provided in the application form.
- 4.2.3** **G** There may also be other times where we need to assess if the co-operative society meets the definition, taking into account section 2(3). These include, for example, when a co-operative society applies to register a change to its rules, or publishes information suggesting its main object is to make profits to pay interest on shares. In these cases, we will assess all the information available to us in determining whether a co-operative society is capable of registration (or whether its registration should be suspended or cancelled) by virtue of section 2(3).
- 4.2.4** **G** If a co-operative society is already trading, then we may analyse the society's accounts to help us decide if the co-operative society exists mainly for the payment of interest, dividends or bonuses on money invested or deposited with, or lent to the society. This analysis could involve looking at:
- (1) the amounts of surplus distributed to members in proportion to their participation in the co-operative;
  - (2) the level of interest or bonuses paid on money invested, or deposited with, or lent to the society, against:
    - (a) amounts distributed to members as dividends in proportion to their participation in the co-operative;
    - (b) the levels of interest, dividends or bonuses paid by comparable, investor-owned businesses;
  - (3) the nature of the relationship between members and the society, including whether it is an association of persons united mainly for the

purpose of meeting their common economic, social and cultural needs and aspirations by, for instance, accessing goods, services or employment, or if it is actually an association of capital with the main purpose of generating financial returns.

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We decide if a co-operative society falls within section 2(3) on a case by case basis, and would usually have discussions with the society to decide this.



4.3 Defining ‘bona fide co-operative society’

4.3.1 **G** The condition for registration of a co-operative society is that the society is a bona fide co-operative society. The Act sets out in s2(3) (see above) what is not included as a ‘bona fide co-operative society’, but does not go on to say what is included as a bona fide co-operative society. We generally consider something to be a bona fide co-operative society where it is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

4.3.2 **G** We think this description sufficiently sets out the minimum features of a bona fide co-operative society. It is also used by the International Labour Organisation (ILO) in Recommendation 193, and in the International Co-operative Alliance (ICA) Statement of Co-operative Identity.

[**Note:** [http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100\\_ILI\\_code:R193](http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILI_code:R193) and <https://www.ica.coop/en/whats-co-op/co-operative-identity-values-principles>]

4.3.3 **G** Reflecting the ICA Statement of Co-operative Identity, we consider it an indicator that the condition for registration is met where the society puts the values below into practice through the principles quoted below.

**Values**

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

**Principles**

The co-operative principles are guidelines by which co-operatives put their values into practice.

**1. Voluntary and open membership**

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

**2. Democratic member control**

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one

member, one vote) and co-operatives at other levels are also organised in a democratic manner.

3. Member economic participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4. Autonomy and independence

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5. Education, training and information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

6. Co-operation among co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7. Concern for community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

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There is a limit to the extent we can verify and validate the presence of the indicators set out above. We generally expect to be able to verify and validate whether principles 1 to 4 (quoted above) have been met through the rules and governance arrangements of a co-operative society, along with the society’s statements of intent about how it will operate.
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We do not necessarily expect to be able to verify or validate principles 5 to 7 as indicators that the condition for registration is met; however evidence of compliance with those principles would be treated as a positive indicator.
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In applying the guidance above we take into account the diverse nature of co-operative enterprise, in particular through considering the guidance in light of the associative characteristics of the co-operative society. For instance, we know that the relationship between members (as co-owners and users of the co-operative) and their co-operative is different in a consumer co-operative from a worker co-operative or a producer co-operative. Likewise the relationship between members and their society may differ between primary co-operatives (where members are individuals), secondary co-operatives (where members are primary co-operatives), and tertiary co-operatives (where members are secondary co-operatives). Similarly

a co-operative made up of a single group of stakeholders will have different relationships from a co-operative with multiple stakeholder groups as members.

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This guidance is not exhaustive. We recognise the flexibility in the principles which are themselves intended as guidelines. There may well be other indicators that a society is a bona fide co-operative society.

4.4 Subsidiaries

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- If a society is a subsidiary of a parent that is a co-operative society, it must still meet the conditions for registration. When deciding whether a co-operative society which is a subsidiary meets the condition for registration we take into account the nature of the parent-subsidary relationship. For instance, it may be that the purpose of the subsidiary is to meet the common economic, social and cultural needs and aspirations of its parent and another society (including the members of those societies) within that legal group. In this context the fact that membership is limited to those two societies does not necessarily give rise to any issues – including in terms of open membership or autonomy.
- 4.4.2
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- If a society is a subsidiary of a parent that is not a co-operative society, the society must still meet the conditions for registration. The society may find it difficult to meet the condition for registration where its members (including the parent) exist to fulfil only economic need.
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- The rules of a society that is a subsidiary must still comply with the Act. In particular, society rules must not breach statutory thresholds, regardless of the parent-subsidary relationship. For instance, a parent cannot have more than one vote on conversion of the society. ■ RFCCBS 3.4.10 of this guidance sets out further details on this subject.
- 4.4.4
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- If a co-operative society will be the parent of another entity (whether that entity is a society or not), we still expect the parent society to comply fully with the conditions for registration. The way it controls its subsidiary must not compromise the parent’s ability to meet the conditions for registration.