

Chapter 6

Capital

6.2 Loans

- 6.2.1 **G** The rights given to loan-stock holders or other lenders should not undermine the society's compliance with the conditions for registration. The main areas of concern are the constitutional and financial rights which an instrument may confer to the holders of such instrument.

Constitutional rights

- 6.2.2 **G** A holder of loan stock is one of the society's creditors, and so will not normally have any constitutional rights in the society. However, sometimes the loan stock or another instrument for lending gives the creditor the right to appoint a member of the society's board. This appointment can start at the point the loan is made or in specific circumstances, such as the society running into financial difficulties. This is likely to be acceptable so long as the society complies with its condition for registration by, for instance, not compromising member control of the society.

Financial rights

- 6.2.3 **G** Loan securities are private contractual arrangements between the society and the holder of the security. There is nothing to prevent a society from issuing loan securities in accordance with its own rules.

- 6.2.4 **G** The rate of interest offered is a commercial matter.

- 6.2.5 **G** If a society uses loans or similar methods to distribute profits this is an indicator that the society is not meeting its condition for registration.

Conversion of loan stock

- 6.2.6 **G** Loan stock or other debt securities might be issued on the basis that they can be converted into shares in the society at a later stage. The society should consider the factors we have outlined above when it decides what rights it attaches to these shares on conversion.