

Chapter 4

Defining a 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.

4.2.5

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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.