EXPLANATORY MEMORANDUM TO

THE INDUSTRIAL AND PROVIDENT SOCIETIES AND CREDIT UNIONS (ELECTRONIC COMMUNICATIONS) ORDER 2014

2014 No. 184

1. This explanatory memorandum has been prepared by HM Treasury and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

2.1 When a new Industrial and Provident Society ("IPS") is registered, the registration application must be submitted to the Financial Conduct Authority ("FCA") together with two copies of the society's rules. Where the application is made by electronic means this Order allows for only one copy of the rules to be submitted.

3. Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None.

4. Legislative Context

4.1 This Order will add to the powers the FCA already have regarding the requirements and manner of delivery of documents as set out in sections 72A and 74A of the Industrial and Provident Societies Act 1965.

4.2 Once in force the FCA will be able to make provision for online electronic applications for registration of new IPSs.

4.3 This Order forms part of a package of legislation reform for registered societies, which is made under various powers with a view to commencement on 6th April 2014.

5. Territorial Extent and Application

5.1 This instrument applies to Great Britain and the Channel Islands.

6. European Convention on Human Rights

6.1 The Financial Secretary to the Treasury has made the following statement regarding Human Rights:

> In my view the provisions of the Industrial and Provident Societies and Credit Unions (Electronic Communications Order) 2014 are compatible with the Convention rights.

7. Policy background

- ***What is being done and <u>why</u>***

7.1 This instrument is one measure for implementing the Government's commitment to promote mutual bodies and foster diversity in the UK economy. The objectives are to preserve and strengthen the unique features of societies registered under the 1965 Act, and to promote a diverse, healthy and successful mutuals sector which is able to offer a broad range of services to growing numbers of members.

7.2 The 1965 Act provides for the registration of IPSs, of which there are two types; co-operative societies and community benefit societies. A co-operative society is a business owned and run by and for the benefit of its members. A community benefit society must satisfy the same co-operative principles as a co-operative society and must also be operated for the benefit of the community in which it works. All IPSs embody democratic principles; in particular, members have equal voting rights regardless of the level of their financial commitment. This enables members, who may be employees, customers or residents, to be involved in the running of the business.

7.3 Over 7,000 IPSs were registered in Great Britain in 2013. The number has grown as the sector has continued to provide a popular and successful structure for mutually run business. IPSs cover a vast range of activities and industries including public service providers, football clubs, wind farms, web designers and agricultural suppliers. Some have hundreds of members and are large employers; others have just a handful of members. IPSs are found in all parts of the UK (legislation governing registered societies is devolved in Northern Ireland).

7.4 Currently societies need to provide two printed copies of the society's rules to the FCA with an application for the registration of a new society. This proposed measure will provide an additional procedure which will give the FCA the option of allowing societies to submit electronic copies of registration documents instead of printing and posting conventional paper documents. Where an application is submitted electronically one copy of the society's rules will be acceptable. If in due course the FCA make provision to accept electronic applications this additional procedure will give societies the option of submitting registration documents online, but will not be compulsory as new societies will be still be allowed to send in documents by post. This additional electronic registration process will make it quicker, easier and cheaper to register a new society.

7.5 New credit unions are also registered in terms of the Industrial and Provident Societies Act 1965 by virtue of the Credit Unions Act 1979 and as such this additional registration procedure will apply to electronic registration applications for new credit unions.

- **Consolidation**

7.6 This Order amending section 2 of the Industrial and Provident Societies Act 1965 will be consolidated in the Co-operatives and Community Benefit Societies Consolidation Bill which is due to come into force on 1 August 2014.

8. Consultation outcome

8.1 The Government consulted publically on a package of measures (including this Order) proposed for the reform of IPS legislation; see *Industrial and Provident Societies: growth through co-operation* issued on 26 July 2013. The consultation period was eight weeks (until 20 September 2013). This was proportionate to the scale and subject matter of the consultation and took into account the capacity of interested parties to respond. The Treasury had regard to the specialised nature of the issues raised; the low number of likely respondents; the prior involvement of some interested parties; and its on-going dialogue with industry representatives about the proposals and the timing of the consultation.

8.2 The Treasury received 42 responses from a variety of sources, including mutual sector representatives, individuals, trade bodies, legal advisers and consumer groups.

8.3 29 respondents gave views on this measure. All but two of those who commented were supportive of the approach and welcomed the changes. There was a general view that the current requirements are out of date in terms of modern electronic communications and that the measure will be beneficial to societies and bring their registration systems into line with companies.

8.4 A full Government consultation response has been published at: www.gov.uk/government/consultations/industrial-and-provident-societies-growth-through-co-operation

9. Guidance

9.1 The Treasury is not intending to issue any guidance in connection with these Regulations.

10. Impact

10.1 The impact on existing business, charities or voluntary bodies run as IPSs is nil. In the case of new societies planning to register with the FCA the impact will be wholly positive in that the registration procedure will be simpler.

10.2 The impact on the public sector is negligible. If in the future the FCA makes provision to accept electronic registration applications this additional procedure may incur some set up and familiarisation costs. These are expected to be absorbed within the FCAs existing budget.

10.3 The Regulatory Policy Committee has confirmed that this measure qualifies for its fast-track process; therefore no impact assessment has been prepared.

11. Regulating small business

11.1 Many IPSs are run as small businesses. These changes to the registration process for new societies were well received by the majority of consultation respondents. Applying this legislation to IPSs will have a positive impact for new societies.

12. Monitoring and review

12.1 While no specific review is planned for this instrument, it will be reviewed with regard to future policy regarding co-operative and community benefit societies.

13. Contact

13.1 Candice Mullineux at HM Treasury can answer queries regarding the instrument. Phone: 0207 270 1037; or email: Candice.Mullineux@hmtreasury.gsi.gov.uk