

CODE OF PRACTICE ON WITHDRAWABLE SHARE CAPITAL (Rec 42)

Introduction

- 1 The Code sets out the minimum standards of good practice to be observed by all Industrial and Provident Societies ("societies") in their acceptance of Withdrawable Share Capital (WSC) In accordance with clause f) this code was reviewed in December 2004 and amended in March 2005.
- 2 The governing principles of this Code are:
 - a) To set out the standards of good practice, which societies will follow in their acceptance of WSC and in their dealings with members;
 - b) That in the conduct of their business, societies will act fairly and reasonably in all their dealings with their members in relation to WSC;
 - c) That societies will help members to understand how their WSC accounts operate;
 - d) To maintain confidence in the security and integrity of their acceptance of WSC, societies recognise that their systems and technology need to be reliable to protect their members and themselves.
- 3 The Code requires societies to provide certain information to members. This will usually be at the time when an account is opened. Information will also be available to members from branches, if any, of the societies.

Code of Conduct

a) **Opening an Account**

- 1 Societies will satisfy themselves about the identity of any persons seeking to open a WSC account to assist in protecting their members and themselves against fraud. Although withdrawable share capital does not currently fall within the requirements for money laundering, good practice requires care is taken in this regard.
- 2 Societies will provide to prospective members details of the identification needed.
- 3 Members and prospective members must be informed in writing at the earliest opportunity as follows:-

"This society abides by a code of practice which requires it to provide a statement to its shareholders of the nature of their investment and any change affecting it. The position you occupy as a shareholder of x society is no different from that of a shareholder in any other corporate body in the sense that, if x society fails, you may not have all, or any of your investment returned to you. [Those societies that have share protection schemes may wish to insert a sentence to that effect here, but they should ensure that they take legal advice before doing so, to ensure that the statement is accurate and fair in relation to the society's specific arrangements.] Your investment is withdrawable without penalty

at the discretion of the Board. The society, unlike banks and building societies, is not subject to prudential supervision by the Financial Services Authority.

If you have any questions regarding the code please address them to:-

X Society Name and Address

[Each Society should include here the address of their Registered Office and relevant Department.]”

b) Terms and Conditions other than Interest

- 1 Written terms and conditions of WSC will be expressed in plain language and will provide a fair and balanced view of the relationship between the member and the society.
- 2 Societies will tell members how any variation of the terms and conditions will be notified. Societies will give members 30 days’ notice before any variation takes effect.
- 3 Societies should issue to their members, if there are sufficient changes in a 12 - month period to warrant it, a single document to provide a consolidation of the variations made to their terms and conditions over that period.
- 4 Societies will not close the WSC account of any member without first giving 30 days’ notice.
- 5 A copy or a summary of the latest Annual Report containing an appropriate audit report will be available to every member on demand for no charge and would normally be made available on the Society’s website.

c) Interest

- 1 Societies will provide members with details of the interest earned by their WSC. These will be in the form of published tariffs which will be available in branches or on request.
- 2 Societies will tell members the basis on which interest is calculated and when it will accrue or be added to their account. Societies will explain also the basis on which they may vary interest rates.
- 3 When societies change interest rates with immediate effect they will publicise those changes by notices in their branches.

d) Advertising of WSC

- 1 Societies in their advertising and promotional material will tell members and potential members that their intended investment will be subject to approval by the society concerned.
- 2 Societies will act responsibly in marketing their WSC. All advertising will comply with the spirit and letter of the British Code of Advertising Practice, the British Code of Sales Promotion Practice, and other relevant Codes of Practice of similar standing.

In particular societies will ensure that all advertising and promotional literature is fair and reasonable, does not contain misleading information and complies with all relevant legislation.

It is incumbent on societies to ensure that members are made fully aware that their capital is subject to risk as capital is in an equity based business.

- 3 For the purpose of this Code the term "advertisement" includes press and broadcast advertisements, direct marketing, window displays, posters, brochures, leaflets, websites and automated teller machine displays.
- 4 Advertisements must conform to the requirements of clause (b)1 above.
- 5 Advertisers of WSC must take special care to ensure that members of the general public are fully aware of the nature of any commitment into which they may enter as a result of responding to an advertisement.
- 6 The registered or business name (and, in the case of press advertisement, direct marketing, brochures and leaflets, the address) of the society must be clearly stated.
- 7 Rates of interest shall not be advertised unless they are described appropriately; the following terms should be used:-
 - a) "Y% gross"
 - b) "Z% compounded annual rate"

Where-

- a) Y is the contractual rate of interest payable not taking account of income tax; an explanatory phrase conveying this meaning must be used to qualify the rate quoted. The member must also be informed that although the interest is paid gross it is liable to tax.
 - b) Z is the rate equivalent to a "gross" rate annualised to take account of the compounding of interest paid other than once a year; an explanatory phrase conveying this meaning must be included if the "compounded annual rate" is quoted. "CAR", following a percentage rate, is acceptable as the abbreviation of "compounded annual rate". A "CAR" must not be quoted without the relevant "gross" rate. A "CAR" must not have greater prominence in size or type or otherwise than the other rate quoted.
- 8 It follows from paragraph 7 that all advertisements in which a rate is quoted must include the contractual rate, i.e. the "gross" rate. No rate shall be given greater prominence in size or type or otherwise than the contractual rate provided interest is due at least annually. Where rates are quoted on the basis of other than a 12 - month period, this must be clearly stated.
 - 9 Advertisements quoting a rate of interest must contain a specific statement indicating the frequency of payment of interest; and either that
 - (i) the rate quoted is fixed for any term specified; or
 - (ii) interest rates are subject to variation.

- 10 Advertisements quoting a rate of interest which are intended for media or direct mail with long copy dates must contain a suitable qualification, such as "rate correct at time of going to press", and may state that time.
- 11 The explanatory phrases and statements required by this Code must be clearly audible or legible as appropriate.
- 12 A general notice to members of changes in rates (or a simple list of the range of accounts and their rates) displayed in offices on a rate board, primarily to fulfil contractual obligations, need only comply with paragraphs 7 and 8 of the Code. In the case of such notices or lists, the word "gross" and "CAR" as appropriate need not appear after each rate. However, it must be clear from the whole of the notice or list which term applies to which rate, for example, by the use of column headings or footnotes.
- 13 Where interest is forfeited on any withdrawal without notice, words such as "instant access" or "immediate withdrawals" must not be displayed together with the rate of interest without clear qualification.
- 14 For accounts which do not allow withdrawals, even after notice, without forfeiting interest, the text of the advertisement must include a statement indicating that, if a withdrawal is made, the stated interest rate will not be achieved.
- 15 Where a maximum or minimum amount must be received to achieve the stated interest rate, the text of the advertisement must include a clear statement to this effect.
- 16 Advertisements must:-
- a) include the full terms and conditions or state that they are available on request;
 - b) clearly state in any part of the advertisement to be retained by the consumer a full postal address at which the advertiser can be contacted during normal business hours and the description and details of the advertised product including the information required by this Code.
 - e) **Complaints**

When societies receive a complaint about the operation of this code, they must investigate it promptly and efficiently. They should notify the complainant of the procedures being adopted, and of the means of redress if they are not satisfied with the initial investigation.
 - f) **Monitoring and Compliance**

This code is drawn up by Co-operatives^{UK} and is subject to review every two years. Compliance with this code will be supervised as part of the monitoring procedure for corporate governance already established by Co-operatives^{UK} for its member societies in the 'Corporate Governance Code of Best Practice'.