

*Draft Regulations laid before Parliament under section 1(8) of the Co-operatives and Community Benefit Societies Act 2003, for approval by a resolution of each House of Parliament.*

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DRAFT STATUTORY INSTRUMENTS

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**2006 No. XXXX**

**INDUSTRIAL AND PROVIDENT SOCIETIES**

**The Community Benefit Societies (Restriction  
on Use of Assets) Regulations 2006**

*Made* - - - - *XXXX*  
*Coming into force* - - *6th April 2006*

The Treasury make the following Regulations in exercise of the powers conferred by section 1 of the Co-operatives and Community Benefit Societies Act 2003<sup>(1)</sup>;

In accordance with section 1(8) of that Act, a draft of this instrument was laid before Parliament and approved by a resolution of each House of Parliament.

**PART 1**

**Citation, commencement and interpretation**

**Citation and commencement**

1. These Regulations may be cited as the Community Benefit Societies (Restriction on Use of Assets) Regulations 2006 and come into force on 6th April 2006.

**Interpretation**

2. For the purposes of these Regulations—

“the 2003 Act” means the Co-operatives and Community Benefit Societies Act 2003;

“the Authority” means the Financial Services Authority;

“charity” –

(a) in relation to a society whose registered office is situated in England and Wales, has the same meaning as in the Charities Act 1993<sup>(2)</sup>; and

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(1) 2003 c.15.  
(2) 1993 c.10.

- (b) in relation to a society whose registered office is situated in Scotland, means a body established for charitable purposes only (that expression having the same meaning as in the Income Tax Acts<sup>(3)</sup>);
- “committee” and “officer” have the meaning given by section 74(1) of the 1965 Act<sup>(4)</sup>(interpretation – general);
- “community benefit society” has the meaning given by section 1(9) of the 2003 Act;
- “community interest company” has the meaning given by section 26 of the Companies (Audit, Investigations and Community Enterprise) Act 2004<sup>(5)</sup>;
- “prescribed community benefit society” means a community benefit society of the kinds prescribed by regulation 5;
- “registered social landlord” means—
- (a) a housing association registered in the register maintained by the Housing Corporation or the Secretary of State under section 1 of the Housing Act 1996<sup>(6)</sup>; or
- (b) in Scotland, a body registered in the register maintained by the Scottish Ministers under section 57 of the Housing (Scotland) Act 2001<sup>(7)</sup>;
- “a restriction on use” means a rule included in the rules of a prescribed community benefit society which is in the terms set out in Schedule 1.

## PART 2

### Restriction on use of assets

#### Effect of restriction on use of assets

3. A prescribed community benefit society which has a restriction on use may not use or deal with its assets except in a case mentioned in section 1(2) of the 2003 Act.

#### Procedure for imposition of restriction on use

4.—(1) A restriction on use may be included in the rules of a prescribed community benefit society at the time when it is registered under the 1965 Act or may be adopted by the society in accordance with paragraph (2).

(2) A prescribed community benefit society may by special resolution amend its rules so as to adopt a restriction on use and, for this purpose, “special resolution” has the same meaning as in section 52 of the 1965 Act<sup>(8)</sup> (conversion into, amalgamation with, or transfer of engagements to company).

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(3) “Income Tax Acts” is defined in Schedule 1 to the Interpretation Act 1978 (c.30).

(4) The “1965 Act” is defined in section 6 of the 2003 Act and means the Industrial and Provident Societies Act 1965 (c.12). The definition of “officer” in section 74(1) was amended by the Friendly and Industrial and Provident Societies Act 1968 (c.55).

(5) 2004 c. 27.

(6) 1996 c. 52.

(7) 2001 asp. 10

(8) Section 52(3), which defines “special resolution”, was substituted by section 1 of the Industrial and Provident Societies Act 2002 (c.20).

## PART 3

### Prescribed societies, circumstances etc.

#### Prescribed community benefit societies

5. All kinds of community benefit societies except—
- (a) a community benefit society that is a registered social landlord; and
  - (b) a community benefit society that is a charity,
- are prescribed pursuant to section 1(1) of the 2003 Act.

#### Prescribed circumstances

6. The following circumstances are prescribed pursuant to section 1(2)(b) of the 2003 Act—
- (a) use or dealing with a society's assets for the purposes of—
    - (i) paying a member the value of his withdrawable share capital or interest on such capital;
    - (ii) making any payment pursuant to section 24 (proceedings on death of nominator), 25 (provision for intestacy) or 26 (payments in respect of mentally incapable persons) of the 1965 Act;
    - (iii) making any payment in accordance with the rules of the society to trustees of the property of bankrupt members or, in Scotland, members whose estate has been sequestrated; or
    - (iv) where the society is to be dissolved in accordance with section 55 of the 1965 Act (dissolution of registered society) or wound up under the Insolvency Act 1986<sup>(9)</sup>, paying its creditors; and
  - (b) the transfer of a society's assets to—
    - (i) a prescribed community benefit society which has a restriction on use and which will apply that restriction to any assets so transferred;
    - (ii) a community interest company;
    - (iii) a registered social landlord which has a restriction on the use of its assets which is equivalent to a restriction on use and which will apply that restriction to any assets so transferred;
    - (iv) a charity (including a community benefit society that is a charity); or
    - (v) a body, established in Northern Ireland or a State other than the United Kingdom, that is equivalent to any of those persons.

#### Prescribed rules

7. A restriction on use is prescribed as unalterable pursuant to section 1(4)(b) of the 2003 Act.

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(9) 1986 c.45.

## PART 4

### Enforcement measures

#### Condition for exercise of enforcement measures

8. In deciding whether and how to exercise the powers conferred by regulations 9, 10 and 11, the Authority must adopt an approach which is based on the principle that those powers should be exercised only to the extent necessary to maintain confidence in community benefit societies.

#### Enforcement notification

9.—(1) If the Authority considers that a prescribed community benefit society is contravening or has contravened regulation 3, it may issue an enforcement notification.

(2) An enforcement notification is a notification which imposes requirements on a society to take all such steps as may be necessary for securing that a contravention is brought to an end or is not repeated.

#### Restitution

10.—(1) If the Authority considers that—

- (a) a prescribed community benefit society has contravened regulation 3;
- (b) the society has suffered loss as a result; and
- (c) an officer of the society has been knowingly concerned in the contravention,

the Authority may require the officer concerned, in accordance with such arrangements and within such period as the Authority considers appropriate, to pay to the society such amount as appears to the Authority to be just having regard to the extent of the loss suffered by the society as a result of the contravention.

(2) If all or any of the amount payable by the officer is outstanding at the end of the period within which payment is required to be made, the society may recover the outstanding amount as a debt due to it.

(3) The Authority may not exercise the power in paragraph (1) if it considers, having taken into account any representations made to it in response to a warning notice, that the officer concerned took all reasonable steps to secure that the society did not contravene regulation 3.

#### Removal of officers

11.—(1) If the Authority considers that a prescribed community benefit society has contravened regulation 3 and that an officer of the society has been knowingly concerned in the contravention, the Authority may direct the society to remove the officer from his office or position.

(2) The Authority may not exercise the power in paragraph (1) if it considers, having taken into account any representations made to it in response to a warning notice, that the officer concerned took all reasonable steps to secure that the society did not contravene regulation 3.

#### Warning notice

12.—(1) If the Authority proposes to exercise a power conferred by regulation 9, 10 or 11, it must give a warning notice to the society and any officer in relation to whom the power is to be exercised.

(2) A warning notice must—

- (a) state the action which the Authority proposes to take;

- (b) be in writing; and
  - (c) give reasons for the proposed action.
- (3) A warning notice must specify a reasonable period within which the persons to whom it is given may make representations to the Authority.
- (4) The Authority may extend the period specified in the notice.
- (5) The Authority must then decide, within a reasonable period, whether to exercise the power concerned.

### **Decision notice**

**13.**—(1) If the Authority decides to exercise a power conferred by regulation 9, 10 or 11, it must give a decision notice to the society and any officer in relation to whom the power is exercised.

- (2) A decision notice must —
- (a) be in writing;
  - (b) give reasons for the decision to exercise the power concerned;
  - (c) set out the terms of, as the case may be, the enforcement notification, requirement for payment or direction for removal of an officer; and
  - (d) indicate that there is a right of appeal to the High Court or, as the case may be, the Court of Session and that any appeal must be brought within 28 days.
- (3) Subject to regulation 14(4), a society which is subject to an enforcement notification or a direction for removal must comply with it.

### **Appeal**

**14.**—(1) If the Authority decides to exercise a power conferred by regulation 9, 10 or 11, the society and any officer in relation to whom it is exercised may appeal to the High Court or, in the case of a society or an officer of a society whose registered office is situated in Scotland, to the Court of Session.

- (2) On an appeal from any decision of the Authority, the court has the power to—
- (a) quash or vary the decision of the Authority, including the power to reduce the amount of the payment required under regulation 10(1) to such amount as it thinks proper; and
  - (b) substitute its own decision for any decision quashed on appeal.
- (3) An appeal to the court must be made before the end of the period of 28 days beginning with the date on which the decision notice in question is given.
- (4) A decision to exercise a power conferred by regulation 9, 10 or 11 is not to be treated as having any effect—
- (a) during the period within which an appeal may be brought; and
  - (b) if the matter is the subject of an appeal, until the appeal has been finally disposed of.

### **Court orders**

- 15.**—(1) If, on the application of the Authority, the court is satisfied that—
- (a) there is a reasonable likelihood that a prescribed community benefit society will contravene regulation 3; or
  - (b) a prescribed community benefit society is contravening or has contravened regulation 3 and there is a reasonable likelihood that the contravention will continue or be repeated,

the court may make an order restraining (or in Scotland an interdict prohibiting) the contravention by the society.

- (2) If, on the application of the Authority, the court is satisfied that—
- (a) an officer of a prescribed community benefit society is likely to be knowingly concerned in a contravention of regulation 3; or
  - (b) an officer of a prescribed community benefit society is or has been knowingly concerned in a contravention of regulation 3 and there is a reasonable likelihood that the contravention will continue or be repeated,

the court may make an order requiring him to take such steps as the court may direct to prevent the contravention or bring it to an end.

(3) The jurisdiction conferred by this regulation is exercisable by the High Court or, in the case of a society whose registered office is situated in Scotland, the Court of Session.

(4) Nothing in this regulation affects the right of any person other than the Authority to bring proceedings in respect of the matters to which these Regulations apply.

## PART 5

### Miscellaneous and supplemental

#### **Service of notices and other documents**

**16.**—(1) This regulation applies where under these Regulations a notice is to be given to any person.

- (2) The notice may be given to the person in question—
- (a) by delivering it to him;
  - (b) by leaving it at his proper address;
  - (c) by sending it by post to him at that address; or
  - (d) by transmitting it to him by electronic or other means.
- (3) The notice or other document may be given or sent to a body corporate by being given or sent to its secretary or clerk.
- (4) The proper address of a person is—
- (a) in the case of a body corporate, the address of the registered office of the body; and
  - (b) in any other case, the last known address of the person in question.

#### **Application of the 1965 Act with modifications**

**17.** Schedule 2 (which applies the 1965 Act with modifications) has effect.

Signatory text

Date

*Name*  
Two of the Lords Commissioners of Her  
Majesty's Treasury

## SCHEDULE 1

Regulation 2

### Restriction on Use

The rule included in a prescribed community benefit society's rules must be in the following terms—

#### **“Restriction on use**

Pursuant to regulations made under section 1 of the Co-operatives and Community Benefit Societies Act 2003:

- (1) All of the society's assets are subject to a restriction on their use.
- (2) The society must not use or deal with its assets except—
  - (a) where the use or dealing is, directly or indirectly, for a purpose that is for the benefit of the community;
  - (b) to pay a member of the society the value of his withdrawable share capital or interest on such capital;
  - (c) to make a payment pursuant to section 24 (proceedings on death of nominator), 25 (provision for intestacy) or 26 (payments in respect of mentally incapable persons) of the Industrial and Provident Societies Act 1965;
  - (d) to make a payment in accordance with the rules of the society to trustees of the property of bankrupt members or, in Scotland, members whose estate has been sequestrated;
  - (e) where the society is to be dissolved or wound up, to pay its creditors; or
  - (f) to transfer its assets to one or more of the following—
    - (i) a prescribed community benefit society whose assets have been made subject to a restriction on use and which will apply that restriction to any assets so transferred;
    - (ii) a community interest company;
    - (iii) a registered social landlord which has a restriction on the use of its assets which is equivalent to a restriction on use and which will apply that restriction to any assets so transferred;
    - (iv) a charity (including a community benefit society that is a charity); or
    - (v) a body, established in Northern Ireland or a State other than the United Kingdom, that is equivalent to any of those persons.
- (3) Any expression used in this rule which is defined for the purposes of regulations made under section 1 of the 2003 Act shall have the meaning given by those regulations.”

## SCHEDULE 2

Regulation 17

### Application of the 1965 Act with Modifications

**1.—**(1) Subsection (3) of section 2(**10**) (registration of society) shall, for the purpose of the registration of a prescribed community benefit society that has included in its rules a restriction on use, have effect as if, after “thereunder”, there were inserted “and the provisions of the Community Benefit Societies (Restriction on Use of Assets) Regulations 2006”.

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(10) Section 2(3) was amended by [S.I.2001/2617](#) and [S.I.2001/3649](#).



(2) Subsection (3) of section 10(11) (amendment of registered rules) shall, for the purpose of an amendment made to the rules of a prescribed community benefit society in accordance with regulation 4(2), have effect as if, after “this Act”, there were inserted “or the provisions of the Community Benefit Societies (Restriction on Use of Assets) Regulations 2006”.

2. Section 16(12) (cancellation of registration of society) shall apply to a prescribed community benefit society that has a restriction on use as if—

(a) at the end of subsection (1)(c), there were inserted—

“; or

(iv) on proof to the Authority’s satisfaction that the society has contravened regulation 3 of the Community Benefit Societies (Restriction on Use of Assets) Regulations 2006”; and

(b) in subsection (4), after “subsection (1)(c)(ii)” there were inserted “or (iv)”.

3. Section 48(13) (production of documents and provision of information for certain purposes) shall apply to a prescribed community benefit society that has a restriction on use and to an officer or former officer of such a society as if, in subsection (1)—

(a) after “section 16(1)(c)(ii)” there were inserted “or (iv)”; and

(b) after “of this Act” there were inserted “, or regulation 9, 10 or 11 of the Community Benefit Societies (Restriction on Use of Assets) Regulations 2006 or for the purposes of gathering evidence to enable the court to exercise its powers under regulation 15 of those Regulations”.

4. Section 50(14) (amalgamation of societies) shall apply to a prescribed community benefit society that has a restriction on use as if—

(a) at the beginning of subsection (1), for the word “Any” there were substituted “Subject to subsection (1A), any”; and

(b) after subsection (1), there were inserted—

“(1A) A registered society that—

(a) is a prescribed community benefit society; and

(b) has a restriction on use,

may only amalgamate with another registered society that is a prescribed community benefit society and has a restriction on use and, for this purpose, “prescribed community benefit society” and “restriction on use” have the same meaning as in the Community Benefit Societies (Restriction on Use of Assets) Regulations 2006.”.

5. Section 51 (transfer of engagements between societies) shall apply to a prescribed community benefit society that has a restriction on use as if—

(a) at the beginning of subsection (1), for the word “Any” there were substituted “Subject to subsection (1A), any”;

(b) after subsection (1), there were inserted—

“(1A) A registered society that—

(a) is a prescribed community benefit society; and

(b) has a restriction on use,

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(11) Section 10(3) was amended by [S.I.2001/2617](#) and [S.I.2001/3649](#).

(12) Section 16 was amended by [S.I.2001/2617](#); there is another amending instrument which is not relevant.

(13) Section 48(1) was amended by [S.I.2001/2617](#).

(14) Section 50 was amended by [S.I.2001/2617](#).

may only transfer its engagements in accordance with subsection (1) where the effect of that transfer would be that the whole or any part of the society's assets would be transferred to another registered society that is a prescribed community benefit society and has a restriction on use and, for this purpose, "prescribed community benefit society" and "restriction on use" have the same meaning as in the Community Benefit Societies (Restriction on Use of Assets) Regulations 2006."

6. Section 52 (conversion into, amalgamation with, or transfer of engagements to company) shall apply to a prescribed community benefit society that has a restriction on use as if, in subsection (1), for "a company under the Companies Acts" there were substituted—

“—

- (a) a community interest company (within the meaning of section 26 of the Companies (Audit, Investigations and Community Enterprise) Act 2004<sup>(15)</sup>);
- (b) a company under the Companies Acts that is a registered social landlord (within the meaning of the Community Benefit Societies (Restriction on Use of Assets) Regulations 2006); or
- (c) a company under the Companies Acts that is a charity (within the meaning of those Regulations).”

7. Section 59 (restriction on dissolution or cancellation of registration of society) shall apply to a prescribed community benefit society that has a restriction on use as if, at the end, there were added “and that any such conveyance or transfer complied with the society's restriction on use”.

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## EXPLANATORY NOTE

*(This note is not part of the Regulations)*

These Regulations, which are made under section 1 of the Co-operatives and Community Benefit Societies Act 2003 (c.15), enable certain community benefit societies to ensure, by means of a special rule, that their assets are only used for a purpose that is for the benefit of the community or for other limited purposes.

The Regulations set out—

- (a) the terms of such a rule (called “a restriction on use”) and how it may be imposed (regulation 4 and Schedule 1);
- (b) the purposes for which a society's assets may be used once it has a restriction on use (regulations 3 and 6);
- (c) the kinds of community benefit society which may have a restriction on use (regulation 5); and
- (d) that a restriction on use is unalterable (regulation 7).

The Financial Services Authority may enforce a restriction on use by—

- (a) issuing an enforcement notification requiring the society to take the necessary steps to ensure that a breach of the restriction on use is brought to an end or is not repeated; or

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<sup>(15)</sup> 2004 c.27.

- (b) requiring an officer of a society who has been knowingly concerned in a breach of the restriction on use, to make a payment to the society or directing that he be removed from his position (regulations 9, 10 and 11).

Provision is made for warning notices (regulation 12) and appeals (regulation 14).

The courts are given the power, on an application by the Financial Services Authority, to make an order restraining a breach of a restriction on use and directing an officer of the society to take steps to prevent a contravention or bring it to an end (regulation 15).

Consequential modifications to the application of the Industrial and Provident Societies Act 1965 (c.12) are made in Schedule 2 to the Regulations.

A Regulatory Impact Assessment of these Regulations is available from the General Insurance, Mutuels and Inclusion Team, HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ and at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk). Copies have been placed in the libraries of both Houses of Parliament.