

**THE THIRD SCHEDULE
before referred to**

**CO-OPERATIVE DEPOSIT PROTECTION SCHEME
CODE OF PRACTICE**

BACKGROUND

The Co-operative Deposit Protection Scheme (“CDPS”) was established by a Deed dated 29th February 1980 made by Co-operative Union Limited (“the Union”) of the one part and Co-operative Bank Limited (“the Bank”) of the other part the text of which was amended by qualifying resolutions dated 29th May 1989 and 15th January 1997 the purpose of which was to set up a scheme to grant certain protection to persons who have deposited money with or who have withdrawable shares in a co-operative society in membership of the Co-operative Union Limited against the consequences of the insolvency of that society.

Following a review of the CDPS by a Working Group appointed by the CDPS Board, the CDPS Board recommended the introduction of a Code of Practice to regulate the taking of deposits (as defined in the said Deed) by Co-operative Societies participating in the CDPS.

This Code has been established by the Union.

Copies of this Code have been lodged with the Office of Fair Trading in accordance with the requirements of the Restrictive Trade Practices Act 1976.

PREFACE TO THE CODE

This Code sets out the standards of good practice to be observed by Co-operative Societies participating in the CDPS (“Participating Societies”) when taking deposits (as defined in the said Deed) from members and customers in the United Kingdom. Any of the Participating Societies may observe higher standards if they wish.

References in this Code to other Codes of Practice are references to such other Codes of Practice as amended substituted or replaced from time to time.

The Code is effective from 15th January 1997 and will be reviewed from time to time.

INTRODUCTION

1. The Code was approved and adopted at a meeting of Participating Societies held on 15th January 1997.

2. The Code is written to promote good practice in the taking of deposits by Participating Societies. Some types of deposits may have their own terms and conditions which will comply with the principles contained in this Code.

3. The Code is in two parts—

Part A—This Part relates to the conduct of their deposit taking activities by Participating Societies.

Part B—This Part relates to the advertising by Participating Societies of interest bearing deposits.

4. The governing principles of the Code are:

(a) To set out the standards of good practice which Participating Societies will follow in their deposit taking activities in their dealings with members and customers;

(b) That in the conduct of their deposit taking activities Participating Societies will act fairly and reasonably in all their dealings with their members and customers;

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- (c) That Participating Societies will help members and customers to understand how their deposit accounts operate and will seek to give them a good understanding of their deposit taking and investment services;
 - (d) To maintain confidence in the security and integrity of their deposit taking activities and investment services. Participating Societies recognise that their systems and technology need to be reliable to protect their members and customers and themselves.
5. The Code requires Participating Societies to provide certain information to members and customers. This will usually be at the time when an account is opened. Information will also be available to members and customers from branches, if any, of the Participating Society. Participating Societies will provide additional information about specific investment services available at any time on request.

PART A

CONDUCT OF DEPOSIT TAKING AND INVESTMENT BUSINESS

OPENING AN ACCOUNT

6. Participating Societies will satisfy themselves about the identity of any persons seeking to open an account to assist in protecting their members and customers and themselves against fraud and other mis-use of their investment services.

7. Participating Societies will provide to prospective investors details of the identification needed.

TERMS AND CONDITIONS

8. Written terms and conditions of investments will be expressed in plain language and will provide a fair and balanced view of the relationship between the member or customer and the Participating Society.

9. Participating Societies will tell members and customers how any variation of the terms and conditions will be notified. Participating Societies will give members and customers reasonable notice before any variation takes effect.

10. Participating Societies should issue to their members and customers, 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.

11. Participating Societies will not close the accounts of any members or customers without first giving reasonable notice.

INTEREST

12. Participating Societies will provide members and customers with details of the interest earned by their respective deposits. These will be in the form of published tariffs which will:—

- (A) be given and sent to members and customers:—
 - (i) when accounts are opened
 - (ii) at any time on request
 - (iii) before changes are made
- (B) and be available in branches.

13. Participating Societies will tell members and customers the interest rates applicable to their accounts, the basis on which interest is calculated and when it will accrue or be added to their accounts. Participating Societies will explain also the basis on which they may vary interest rates.

14. When Participating Societies change interest rates with immediate effect they will publicise those changes by notices in their branches and in the press.

CONFIDENTIALITY

15. Participating Societies will observe a strict duty of confidentiality about their members and customers personal financial affairs and will not disclose details of members or customers accounts or their names and addresses to any third party except as permissible under the rules of Participating Societies other than in the four exceptional cases permitted by law, namely:—

- (i) where a Participating Society is legally compelled to do so;
- (ii) where there is a duty to the public to disclose;
- (iii) where the interests of a Participating Society require disclosure;
- (iv) where disclosure is made at the request or with the consent of the member or customer.

16. Participating Societies will not use exception (iii) above to justify the disclosure for marketing purposes of details of members or customers accounts or their names and addresses to any third party including other societies or companies within the same group.

17. Participating Societies will at all times comply with the Data Protection Act 1984 when obtaining and processing members and customers data.

Participating Societies will explain to their members and customers their right of access under the Data Protection Act 1984 to their personal records held on computer files.

MARKETING OF SERVICES

18. Participating Societies will not pass members or customers names and addresses to other societies or companies in the same group in the absence of express consent.

19. Participating Societies will give new members and customers at the time they open their accounts the opportunity to give instructions that they do not wish to receive marketing material.

20. Participating Societies will remind members and customers from time to time and at least once every three years of their right to give instructions at any time that they do not wish to receive marketing material.

21. Participating Societies will not use direct mail indiscriminately and in particular will exercise restraint and be selective:—

- (a) where members or customers are minors; and
- (b) when marketing securities and investments.

22. Participating Societies in their advertising and promotional material will tell members and customers and potential members and customers that their intended investment will be subject to approval by the Participating Societies concerned.

23. Participating Societies will act responsibly and prudently in marketing their investments and securities. All advertising will comply with the British Code of Advertising Practice, the British Code of Sales Promotion Practice, and other relevant Codes of Practice of similar standing.

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

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CREDIT LIMITS

- (a) (a) No Participating Society will take deposits in the form of withdrawable share capital or loan capital the aggregate of which shall at any time exceed the amount of the credit limit determined by applying the formula set out in sub-clause 24(b) below;
- (b) The credit limit referred to in sub-clause 24(a) above shall be determined by applying the following formula—

$$\frac{R}{B}$$

where

R is a figure equivalent to 150% (or such lesser proportion not being less than 100% as the Board may from time to time determine) of the Society's distributable reserves (meaning the total revenue reserves of the Society) and B is the aggregate amount of the Society's borrowings (as defined in clause 24(c) below) both as recorded in the most recent annual return of the Society to the Registrar of Friendly Societies or in the audited financial statements submitted with that return.

- (c) For the purpose of the formula set out in sub-clause 24(b) above the expression "the aggregate amount of the Society's borrowings" means but is not restricted to the total of moneys on loan from the Superannuation Fund, Bank Loans, Finance Leases (as per Accounting Standard SSAP21 or any modification or replacement thereof), Other Loans, Bank Overdrafts, Petrol Company Loans, Bank Borrowings, Loans from Regional Development Agencies and similar government quangos, Bonds, Notes, Loan Stock, Debentures, Acceptances, Documentary Credits, Deferred Payments for assets tangible or otherwise acquired, and Letters of Credit, together with all other borrowings and loans of whatsoever description but excluding borrowings protected under the Scheme, moneys due under operating leases, and all contingent liabilities, and reduced by cash and balances at bank with the exception of monies held on trust for funeral bond holders.

CORPORATE GOVERNANCE—CODE OF BEST PRACTICE

25. Participating Societies will observe and implement the recommendations of the Code of Best Practice in relation to their corporate governance as published by the Central Executive of the Union in July 1995.

PART B

ADVERTISING OF INTEREST BEARING DEPOSITS

GENERAL

26. The terms of this part of the Code apply to the advertising of all interest bearing deposits offered by Participating Societies within the United Kingdom. For the purpose of this Code the term "advertisement" includes press and broadcast advertisements, direct marketing, window displays, posters, brochures, leaflets and automated teller machine displays. Interest bearing deposits are defined as shares, loans, bonds, etc on which interest is paid to the depositor.

27. Advertisements must comply with the spirit and letter of this Code, the British Code of Advertising Practice, the Independent Broadcasting Authority Code and with any relevant legislation.

28. Advertisements must state that in the event of the offering society being unable to repay the deposit due to insolvency the CDPS will repay 90% of the capital with a maximum payment per investor of £18,000.00.

29. Advertisers of interest bearing deposits 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.

30. The registered or business name (and, in the case of press advertisements, direct marketing, brochures and leaflets, the address) of the Participating Society must be clearly stated.

INTEREST RATES

31. 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) 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 depositor must also be informed that although the interest is paid gross it is liable to tax.
- (b) 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. The rules for calculation of compound annual rates are set out in the Supplement to the Code.

32. It follows from paragraph 31 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 interest is paid less frequently (e.g. after 5 years) the “CAR” must be shown and the contractual rate shall be given no greater prominence than the “compounded annual rate”. Where rates are quoted on the basis of other than a 12 month period, this must clearly be stated.

33. Advertisements quoting a rate of interest must contain a specific statement indicating—

- (a) the term, if any, of the deposits;
- (b) the frequency of payment of interest; and either that
- (c) the rate quoted is fixed for any term specified; or
- (d) interest rates are subject to variation.

34. 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.

35. The explanatory phrases and statements required by this Code must be clearly audible or legible as appropriate.

NOTICE OF RATES

36. A general notice to shareholders and lenders of changes in rates (or a simple list of the range of deposits and their rates) displayed in offices on a rate board, primarily to fulfil contractual obligations, need only comply with paragraphs 31 and 32 of the Code. In the case of such notices or lists, the words “gross” and “CAR” as appropriate need not appear after each rate. However, it

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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.

TERMS AND CONDITIONS

- 37. A clear indication of the type of deposit must be given by satisfying the following—
 - (a) Advertisements must contain a clear statement of the conditions for withdrawal, including the amount of any charges levied, the period of any notice required and the extent of any interest forfeited.
 - (b) 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.
 - (c) 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.
 - (d) Where a maximum or minimum amount must be deposited to achieve the stated interest rate, the text of the advertisement must include a clear statement to this effect.
- 38. Advertisements which invite deposits by immediate coupon response must—
 - (a) include the full terms and conditions or state that they are available on request;
 - (b) clearly state in the 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.

SUPPLEMENT TO THE CODE

RULES FOR CALCULATION OF COMPOUNDED ANNUAL RATES

GENERAL

- 1. These rules relate to the Code of Practice issued by the trustees of the CDPS for the advertising of interest bearing deposits.
- 2. Paragraphs 31(b) and 32 of the Code refer to the use of compounded annual rate (“CAR”) as the rate equivalent to a “gross” rate, annualised to take account of the compounding of interest paid other than once a year.

USE OF FORMULA

- 3. The compounded annual rate is given by the following formula—

$$\frac{r}{[(1 + m \times 100) - 1]} \times 100$$

where

r is the nominal annual rate and m is the number of times interest is paid in a year.

ASSUMPTIONS FOR CALCULATIONS

- 4. For the purpose of calculation of the compounded annual rate—

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- (a) it shall be assumed that there are no other associated costs or benefits arising during the period in which the account is held;
- (b) compounded annual rates shall be quoted to two decimal places, except in cases where the final digit or digits is/are zero(s), in which case it/they may be omitted. The decimals shall be rounded up or down to the nearest 0.01% viz. 12.154% should be rounded down to 12.15%, 12.147% should be rounded up to 12.15%, 12.155% should be rounded up to 12.16%. For the purpose of rounding to two decimal places, the third digit after the decimal only should be taken into consideration and subsequent digits ignored. Where the third and fourth decimal places are 50, the figure should be rounded up. For example, 12.5650% becomes 12.57% but 12.5649% must not be rounded to 12.565% and then 12.57%.