Glossary of Financial Terms

Asset lock:
A rule which prevents the residual assets of the society being distributed to members. A residual asset is any money left over after everyone has been paid what they are owed, including shareholders. If a society has an asset lock, its rules will usually specify what must happen to these residual assets; normally they are transferred to another asset-locked body with similar aims and objectives to the society that is being wound up. (See also: statutory asset lock)

Bank of England Prudential Regulation Authority (PRA):
One of the two bodies that replaced the Financial Services Authority, the PRA is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. Societies offering withdrawable share capital are normally exempt from these regulations.

Authorised adviser:
A professional who has been approved by the Financial Conduct Authority to provide advice.

Bond:
An 'unsecured loan' agreement which usually states when the loan will be repaid, and how much interest will be paid on the loan.

Community benefit society:
A legal entity, registered under the Co-operative and Community Benefit Societies and Credit Unions Acts that aims to serve the interests of the broader community, beyond its own membership. They can use some of their profit to pay 'interest' on share capital but cannot use profit to pay a 'dividend' to members. They can opt to have a 'statutory asset lock'.

Community interest company:
A special type of company, subject to different regulations, which pursues a stated community interest. Community interest companies, along with all other types of company, cannot issue withdrawable shares, and are subject to regulation when issuing 'transferable shares' to the public.

Co-operative and Community Benefit Societies and Credit Unions Acts:
A body of legislation that, like company law, provides limited liability status to a corporate entity. There are two types of society, a 'cooperative society' and a 'community benefit society'. Both types of society can offer membership through the sale of shares. All members have one vote each, regardless of how many shares they have purchased.

Co-operative society:
A legal entity, registered under the Co-operative and Community Benefit Societies and Credit Unions Acts, serving the mutual interests of its members. Membership is usually open to one or more of the following categories of person: customers, workers, suppliers or investors. They can use some of their profit to pay ‘interest’ on share capital and a ‘dividend’ to members. They cannot elect to have a ‘statutory asset lock’.

Debenture:
A type of loan agreement which is secured against a list of specific assets owned by the organisation.

Dividend:
A share of the profit paid to members based on their transactions (purchases, sales, wages etc) with the society. Not to be confused with dividends in companies, which are paid to shareholders based on the number of shares held. Only co-operative societies can pay dividends to members; community benefit societies are not allowed to distribute profit in this way.

Enterprise Investment Scheme:
A form of tax relief available to investors buying shares in high risk start-up companies. Only certain types of trade activity qualify for this relief, administered by HM Revenue and Customs.

Financial Conduct Authority (FCA):
One of the two bodies that replaced the Financial Services Authority. The FCA registers new co-operative and community benefit societies and collects annual returns from existing societies. The FCA also regulates the financial services industry along with the Bank of England Prudential Regulation Authority. This regulation includes the promotion of investment opportunities to members of the public. Societies offering withdrawable share capital are normally exempt from these regulations.

Financial Ombudsman Service:
The official independent expert service in settling disputes between consumers and businesses providing financial services.

Financial Services Act 2012:
The legislation that created the 'Financial Conduct Authority' and the 'Bank of England Prudential Regulation Authority' , two new bodies that are independent from the Treasury and the Bank of England, and established a new regulatory environment for the financial services sector. These two bodies replace the Financial Services Authority.

Financial Services Compensation Scheme:
A fund of last resort for customers of FCA-authorised financial services firms. If a firm becomes insolvent or ceases trading, the scheme may compensate for losses up to £50,000 for people with deposit accounts, investments or home finance. People buying community shares are not eligible for this scheme, unless they have purchased them through an authorised firm.

Industrial and Provident Societies Acts:
The old name for the Co-operative and Community Benefit Societies and Credit Unions Acts, which was removed by Parliament in March 2010. Industrial and provident society legislation dates back to the nineteenth century, and whilst this legislation has been updated, it was felt that the old name was not well understood.

Interest:
Interest is the term normally used to describe the money paid to members based on the amount of share capital they have invested. The interest rate payable by societies is subject to limitations; the FCA says that interest rates should be no more than what is “sufficient to attract and retain the investment”. Interest payments are not to be confused with ‘dividends’, which have a different and specific meaning within co-operative societies.

Loan Stock:
Usually refers to an ‘unsecured loan’ carrying a fixed interest rate.

Member:
A shareholder in a society or company. Members are part-owners of the enterprise and have rights over all its assets, subject to an ‘asset lock’. Members also have voting rights.

Membership offer:
A type of share offer where the aim is to recruit members, rather than raise money. Shares have a fixed and limited value, usually £1 or £10, and you may also be required to pay an annual ‘subscription’ to maintain your membership. The rules of some organisations say that if you stop being a member, you forfeit your share.

Money Laundering Regulations:
Laws requiring businesses that handle deposits and investments to make identity checks to prevent money laundering. Co-operative or community benefit societies offering withdrawable share capital are exempt from these regulations, although some societies may still carry out identity checks, especially if they are accepting overseas or on-line investments.

Nominations:

A practice found in some share offer documents where investors are invited to nominate a person who will inherit their shares in the event of their death. This is a voluntary arrangement, although every society is legally obliged to keep a record of all members' nominations.

Nominee accounts:
An arrangement where investors purchase shares through a third party, or nominee, who holds the shares and may vote on their behalf. This type of arrangement is used by investment funds who are managing their clients' funds.

Offer document:
A term used to distinguish community shares marketing materials from an approved 'prospectus' that companies must produce under the Prospectus Regulations 2005.

Open offer:
A type of share offer that should only be made by organisations that have been trading for at least three years. Unlike a 'time-bound offer' there is no target amount or timescale. However, you should be told about the investment policies of the organisation and why they want you to invest. In particular, you should be offered copies of their annual reports for the previous three years, so that you can study their past social performance and financial performance.

Pioneer offer:
A high-risk type of share offer which should only be made to existing members or known supporters of the venture. The aim of this type of offer is to raise cash to cover the research and development costs entailed in getting the organisation investment-ready.

Reinvestment:
Instead of sending out annual interest or dividend payments to members, some societies add this money to the members' share accounts, effectively reinvesting the money in the business.

Rules:
The name given to the governing document of a co-operative or community benefit society, equivalent to the Memorandum and Articles of Association (Mem & Arts) of a company, setting out the purpose of the society and how it will be governed. Rule changes must be approved by members.

Secured loan:
Similar to a 'debenture', where the borrower has provided a guarantee or title to an asset in the event of their default on the loan.

Social return:
The benefit received by members in return for their investment in the society. Social returns usually encompass community, social and environmental benefits. Offer

documents should say what social returns the society aims to deliver and their annual reports should outline what social returns have been achieved.

Statutory Asset Lock:
An asset lock which is backed by legislation (statute); once in place it cannot be removed even with the consent of members. It is possible to include an asset lock rule in any type of society, although only a statutory asset lock in a ‘community benefit society’ is absolutely watertight. Charities and ‘community interest companies’ also have statutory asset locks.

Subscription:
This term can have two distinct meanings: some societies charge members an annual membership fee, which they call a subscription; or it can refer to the practice of members buying shares in installments over a period of time.

Time-bound offer:
This refers to an offer that seeks to raise a target amount of money by a target date, in order to finance a major investment project. A time-bound offer might be made by an organisation that needs start-up funding, or an established organisation with plans to grow. If the fundraising targets are not met, the organisation should offer to refund your money, and not use it for other purposes. You should also be offered access to their business plan and their legal constitution.

Transferable shares:
Transferable shares cannot normally be withdrawn from a society; instead, the member must find a willing buyer, at a price acceptable to both parties. Some societies issue shares that are both transferable and withdrawable, subject to terms and conditions, which should be clearly stated by the society issuing the shares.

Unsecured loan:
Usually refers to a debt agreement where the borrower has not offered any assets or guarantees in the event of them defaulting on the loan.

Withdrawable shares:
A type of share capital unique to co-operative and community benefit societies, where members are allowed to withdraw their share capital, subject to terms and conditions set out in the society’s rules. This will usually include a minimum period of notice of withdrawal, and provision for the directors to prevent withdrawal if, in their judgement, it would jeopardise the finances of the society. Withdrawable shares cannot go up in value, and some societies have rules that enable societies to reduce the value of their shares if the enterprise is performing poorly.