ALL-PARTY PARLIAMENTARY GROUP FOR MUTUALS

BRIEFING NOTE

Co-operative and Mutual Capital

Co-operatives and mutuals across the world raise their funding in a variety of different ways. The way that this capital is raised – principally through retained earnings and borrowings, presents particular challenges to their ability to operate as flexibly as their listed competitors.

Co-ops and mutuals are typically at a disadvantage because they cannot issue new shares to investors without risking losing member control. As a result, they have less access to investment funding for growth and innovation in their businesses.

However, in some countries, the growth of co-operatives and mutuals has been encouraged by forward-thinking changes to share capital arrangements. New shares are now available for co-ops and mutuals to issue that carry limited voting rights, backed up by legislative certainty to maintain mutual ownership.

Some of these types of capital exhibit equity-like features and are available to institutional investors, whilst others are raised directly from members.

The UK introduced the concept of Core Capital Deferred Shares (CCDS) for building societies, enabling them to access capital markets without impairing their mutual nature.

- Nationwide Building Society has raised over £1 billion of CCDS via the wholesale market, Coventry £400million, whilst Cambridge raised £15 million and Ecology £3 million.

- In the Netherlands, Rabobank has issued 'members certificates' to members and external investors which qualify as Common Equity Tier 1, currently approximately €8 billion of capital is on issue

- Desjardins in Canada has raised capital through Federation Shares' sold to its members, typically in amounts of $CA2,000. More than C$4 billion has been raised in this way

- In Australia, a new market for 'Mutual Capital Instruments' has been established following landmark legislation, with the first $120 million of new capital issued in 2020.

In each of these examples, the businesses that benefit from these innovations can raise funds to aid competition and choice in the market-place, thus benefitting consumers and strengthening economies.

In the UK, there is more work to do so that all types of co-operatives and mutuals can benefit from such mechanisms. Two immediate opportunities arise:

- The Mutuals Deferred Shares Act 2015 (for mutual insurers and friendly societies) needs to be fully enacted so that these businesses can take advantage of the legislation that Parliament passed.

- The Co-operatives and Community Benefit Societies Act should be amended to create new permanent shares with limited voting rights so that new funding for growth is available.

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