

## **An Overview of Co-operatives**

The following overview of co-operatives has been taken from the Regulatory Impact Statement for the introduction of the new Co-operatives Regulation 2005, issued by the Policy & Strategy Division of the Office of Fair Trading, NSW Department of Commerce.

### Overview of Co-operatives

Co-operatives are corporate entities that bear some similarities to companies, however, they are differentiated by the key requirement that members are entitled to one vote only, regardless of the number of shares that they hold. In addition to the 'one member-one vote requirement' members are obligated under the rules of a co-operative to contribute to or utilise an activity of the co-operative.

The essence of a co-operative is set out in the six co-operative principles which are set out in the Co-operatives Act and which, in turn, are derived from the principles laid down by the International Co-operatives Alliance.

Co-operatives may participate in any aspect of economic or social activity and may do so as a profit oriented entity or as a not for profit entity. Profit oriented co-operatives are called 'trading co-operatives' and must have a share capital. Not for profit co-operatives are called 'non-trading co-operatives' and may be incorporated with or without a share capital.

The share capital in a co-operative has a fixed or 'par' value as determined by the rules of the co-operative. Shares do not change in value according to market forces in the way that shares in a company do: they are transferable, but cannot be traded on an exchange. Shares in a co-operative do not carry a vote, however, membership of a co-operative with share capital can only be achieved usually through the acquisition of a minimum share subscription as dictated by the rules. Once a person is admitted to membership, they are entitled to one vote. Membership of a co-operative without a share capital is usually determined by reference to member qualifications set out in the rules of the co-operative.

The purpose of forming a co-operative is to provide a corporate vehicle for a group of persons or other entities with a similar purpose. The co-operative can provide services or goods to its members on a shared basis or the co-operative may provide a marketing point for members' product. In return members are required to support the co-operative by acquiring the goods or services of the co-operative or by supplying their product to the co-operative. The level of support is determined by the rules in the form of an 'active membership' requirement.

A co-operative is governed and organised in a similar fashion to a company under modern corporate law with a board of directors, and has similar systems of accountability.

Co-operatives are able to raise funds either from their members or from the public, although these funds are not traditional equity funds through share issues. Debt and hybrid funding securities may be issued under a similar disclosure regime to that under corporate law.

Regulation and monitoring of co-operatives is largely achieved through the requirements for co-operatives to lodge annual financial returns in the same way that public companies are required to report annually. Similarly, co-operatives are required to have their financial accounts audited by a registered company auditor unless exempted.