Sheffield Hallam University

Model Rules for a FairShares Cooperative (v3.0f)

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FINANCIAL CONDUCT AUTHORITY

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The attached model rulebook sponsored by **Sheffield Hallam University** named:

Model Rules for a FairShares Cooperative (v3.0f)

is confirmed as acceptable for use, for the time being, as a model set of rules for use by a prospective co-operative society, or a registered society meeting the condition for registration that it is a bona fide co-operative society, wishing to register a new set of rules with the Financial Conduct Authority.

For the Financial Conduct Authority

Date: 15 October 2018

Registered as a Limited Company in England and Wales No. 1920623. Registered office as above.

N.B. These model rules should not be downloaded and adapted directly.
They must be generated using the Google Form created by the FairShares Institute for Cooperative Social Entrepreneurship at:

https://sites.google.com/view/fairsharesrules/cooperatives

__##Status of Rules##__ FairShares Cooperative

(FCA Accepted)

a new model for self-governing social enterprises who want to implement the FairShares Model under the

Co-operative and Community Benefit Societies Act 2014

Prepared By

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Members of

FairShares Association Ltd

The association for multi-stakeholder co-operation in member-owned social enterprises

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__##Status of Rules##__ Rules

Model Rules for an FCA Accepted FairShares Cooperative

Version 3.0f, 12th October 2018

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No warranty is provided that they are suitable for your situation. They are offered as FCA accepted co-operative rules to demonstrate the practical application of the FairShares Model to co-operative development, to stimulate and inform innovation in the co-operative and social enterprise movements, to inform practice, and to stimulate new thinking about the democratisation of management, ownership and governance in a socially enterprising economy.

As with all model rules, professional advice is recommended to help you adapt them to your specific needs and circumstances.

The FairShares Model documentation is available on the FairShares Wiki at:

www.fairshares.coop/wiki.

To become a supporter of the FairShares Model, subscribe capital to the FairShares Association at:

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FairShares Social Cooperative

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Cooperative Society Rules Registered Under

The Co-operative and Community Benefit Societies Act 2014

__##Status of Rules##__ Rules of

__##Cooperative Name##__

Clause	Article Text
	DEFINITIONS, NAME, OBJECTS AND INITIAL CAPITAL
1	Definitions. In these Articles:-
	"the Act" means the Co-operative and Community Benefit Societies Act 2014 and any amendments in force.
	"Cash" includes cheques, electronic fund transfers, IOUs, promissory notes and money orders.
	"Member" a holder of a __##Labour Shares##__, __##User Shares##__, __##Investor Shares##__ or __##Founder Shares##__ Share.
	"Labour Member" and "Labour Shareholder" refers to a member who holds one or more __##Labour Shares##__ Shares.
	"User Member" and "User Shareholder" refers to a member who holds one or more __##User Shares##__ Shares.
	"Founder Member" and "Founder Shareholder" refers to a member who holds one or more __##Founder Shares##__ Shares.
	"Investor Member" and "Investor Shareholder" refers to a member who holds one or more __##Investor Shares##__ Shares.
	"Beneficiary" a User member or other member holding only __##Investor Shares##__ Shares, or organisation listed in Clause 54 as a beneficiary of the community dividend.
	"User" a person who directly participates in the production and/or consumption of goods/services within the Cooperative, and who is a Founder Member, Labour Member and/or User Member.
	"Qualifying Contribution" means a commitment to trade with the Cooperative in a way that meets the criteria for membership. Qualifying contributions are set for __##Labour Shares##__ and __##User Shares##__ Shareholders only.
	"Quorum" a meeting in which a sufficient number of people are present to take decisions.
	"Ordinary Resolution" means a proposal accepted by a majority of votes cast by eligible members on a one-shareholder, one-vote basis, irrespective of shareholder class, subject to any adjustments provided for in Clause 23 and 24 of these rules.
	"Class Resolution" means a proposal accepted by a majority of votes cast by eligible members in one shareholder class on a one-shareholder, one-vote basis.
	"Special Resolution" means a proposal accepted by a two thirds (67%) or three-quarters (75%) majority of members (subject to the requirements of the Act).

"Eligible member" means a current or former co-operative user (i.e. a Founder, Labour or User Shareholder). Former Founder, Labour and User Shareholders who still have __##Investor Shares##__ shares may cast a vote. Members who have only held __##Investor Shares##__ shares are holders of 'non-user investor shares' under FCA guidance for the Act (Paragraph 6.31) and are not eligible to vote in General Meetings.

"Active Member Class" means a class of members where there are still members holding one or more shares in that class.

"Reserves" exclude the current year's profit and loss account.

"__##Labour Shares##__ Shares" are shares owned by a labour member who makes qualifying labour contributions in the Cooperative, entitling her or him to participate in Cooperative governance and receive a share of surplus. For the purposes of clarity, any person recognised as an 'employee' or 'worker' under the employment laws of the territory in which the member works will qualify for __##Labour Shares##__ Shares if they make a qualifying contribution.

"__##User Shares##__ Shares" are shares owned by a user member who makes a qualifying contribution through their trading or usage of the Cooperative's products / services, entitling her or him to participate in Cooperative governance and receive a share of surplus. For the purposes of clarity, any person recognised as a beneficiary or a customer of the organisation will qualify for __##User Shares##__ Shares if they make a qualifying contribution.

"__##Investor Shares##__ Shares" are shares owned by an investor member who invests unremunerated labour or equity capital entitling him or her to a share of the Cooperative's assets and surplus.

"__##Founder Shares##__ Shares" are shares owned by a founder member, entitling them to govern the Cooperative.

Member Shares is the name given to shares issued at par value that will be distributed to __##Labour Shares##__ and __##User Shares##__ Shareholders as __##Investor Shares##__ Shares to reflect increases in the value of the Cooperative (as determined by Clause 13). Member Shares are distributed as __##Investor Shares##__ Shares following the process outlined in Clause 15.

2 Regulations in The Companies Act do not apply unless they are referenced directly in these rules, or are required by the Act.

3 The name of the Cooperative is __##Cooperative Name##__.

4 The registered office of the Cooperative is at __##Address##__ in Great Britain.

5 The Cooperative's objects are:

a. to meet the economic, social and cultural needs of the Cooperative's primary stakeholders (__##Founder Shares##__, __##Labour Shares##__ and __##User Shares##__ members) by engaging in commerce and social activities that spread wealth and power equitably amongst them;

b. to pursue trading activities that are economically, socially and environmentally sustainable, and which improve the well-being of the Cooperative's primary stakeholders;

c. to promote the development of cooperative social entrepreneurship;

d. to advance Cooperative Values and Principles that create social capital through participatory management and democratic governance processes;

e. to abide by the internationally recognised values and principles of cooperative identity as defined by the International Cooperative Alliance (ICA), in particular the values of self-help, self-responsibility, democracy, equality, equity and solidarity and the ethical values of honesty, openness, social responsibility and caring for others;

f. to abide by principles of equality of opportunity and oppose forms of discrimination on the grounds of social class, race, ethnic origin, gender, sexual preference, age, disability and religion;

g. __##Social Object##__.

6 The liability of members is limited in accordance with the Act.

7 The Cooperative has the power to do anything which is conducive to the furtherance of its objects subject to constraints specified in these rules.

8 The Cooperative's initial share capital is £ __##Total Initial Capital##__:

__##No. of Founder Shares##__ __##Founder Shares##__ Share(s) of nominal value £ __##Initial Share Value##__ each.

9 These rules may be altered only by Special Resolution of eligible members in all shareholder classes following the Act.

MEMBERSHIP, CAPITAL AND FAIRSHARES BRANDING

10 Membership and Share Capital: The Cooperative is open to applications for membership in the appropriate class without discrimination, subject to making a qualifying contribution agreed by members in General Meeting. A list of qualifying contributions will be made available to current and prospective members, and will specify: the conditions under which a __##Labour Shares##__ and/or __##User Shares##__ share will be issued; the transactions with the Cooperative that qualify an applicant for membership in each class:

- If there are qualifying contributions for both __##Labour Shares##__ and __##User Shares##__ Shares, the Cooperative may be branded as a FairShares Solidarity Cooperative.
- If there are qualifying contributions for __##User Shares##__ Shares, but no qualifying contributions for __##Labour Shares##__ Shares, the Cooperative may be branded as a FairShares User Cooperative.
- If there are qualifying contributions for __##Labour Shares##__ Shares, but no qualifying contributions for __##User Shares##__ Shares, the Cooperative may be branded as a FairShares Worker Cooperative.
- If there are no qualifying contributions for __##User Shares##__ and __##Labour Shares##__ Shares, the Cooperative is not a FairShares Cooperative / Solidarity Cooperative, and shall not be entitled to use FairShares Branding, or call itself a FairShares Cooperative.

a. The rights and conditions attaching to shares are:

i. __##Founder Shares##__ Shares: issued at a £ __##Initial Share Value##__ par value to the natural or legal persons who found the cooperative; non-transferable; non-withdrawable; one vote per shareholder at General Meetings (as defined in Clauses 23 and 24); forfeited on holder's death, bankruptcy or insolvency; cancelled without payment on winding up.

ii. __##Labour Shares##__ Shares: issued at a £ __##Initial Share Value##__ par value to natural or legal persons who make at least one qualifying contribution in respect of labour provided to the Cooperative; issued in proportion to their labour contribution; non-transferable; non-withdrawable; one vote per shareholder at General Meetings; forfeited on holder's death, bankruptcy or insolvency; cancelled upon cessation of contracts pertaining to their labour contribution; cancelled without payment on winding up.

iii. __##User Shares##__ Shares: issued at a £ __##Initial Share Value##__ par value to natural or legal persons who make a qualifying contribution in the use of the Cooperative's products and services; non-transferable; non-withdrawable; one vote per shareholder at General Meetings; forfeited on holder's death, bankruptcy or insolvency; cancelled upon the cessation of all trading relationships and service agreements; cancelled without payment on winding up.

iv. __##Investor Shares##__ Shares: issued to any natural or legal person (subject to the statutory maximum allowed by the Act at the time of issue); issued at a par value of £ __##Initial Share Value##__ to investors of equity capital upon payment; issued as 'Member Shares' to providers of labour in proportion to the Capital Gain created by their work; issued as 'Member Shares' to customers / service users in proportion to the Capital Gain created by their trading activity; transferrable (under the provisions of Clause 10(v) and Clause 15); withdrawable after 3 years or termination of membership or retirement or death; one vote per shareholder in General Meeting (subject to being an 'eligible member'); withdrawable after 3 years or termination of membership or retirement or death.

v __##Investor Shares##__ Shares may be transferred by an eligible member to any of the following, subject to the consent and registration by the board, and will become a member upon board approval. Ineligible members may not transfer shares except under the provision in Clause 15(b)(iii) and 15(b)(iv):

1. A FairShares Labour Association, employee benefit trust, cooperative or mutual society which has accepted these rules in writing, which was established or selected for the purpose of managing them for the benefit of the Cooperative's workforce;
2. An charitable association, trust or foundation which has accepted these rules in writing, which was established or selected for the purpose of managing them for public or environmental benefit;
3. A FairShares User Association, company, cooperative or partnership, or other community enterprise or cooperative society which has accepted these rules in writing, and which was established or selected for the purpose of managing them for community benefit;
4. A social investment fund which has accepted these rules in writing, which has been proposed by the __##Label for Directors##__s and approved by members in General Meeting as a suitable partner for making social investments.

vi. For the avoidance of doubt, upon death, a member's __##Founder Shares##__, __##User Shares##__ and __##Labour Shares##__ shares are cancelled without payment, and the member's __##Investor Shares##__ Shares will be redeemed at par value, then paid into the member's estate for the benefit of their next of kin. A member's next of kin may not inherit __##Investor Shares##__ Shares.

1. If the deceased member is bankrupt, proceeds from the sale of their shares shall be paid to the trustees of member's property and/or sequestered estates, or their nominees;

vii. For the avoidance of doubt, each member has only one vote at General Meetings, irrespective of the number of shares and number of share classes held.

b. Alteration of Share Capital. The Cooperative may issue only new __##Labour Shares##__, __##User Shares##__ or __##Investor Shares##__ Shares. No Share Certificates shall be issued to any members unless required by the Act.

11. Withdrawal of __##Investor Shares##__ Shares.

a. Providing a member is not in debt to the Cooperative, their __##Investor Shares##__ Shares may be withdrawn under the following terms using capital in the Cooperative's Redemption Fund. The Redemption Fund is limited to one half of the Cooperative's Reserves at the start of the accounting period.

i. __##Investor Shares##__ Shares transferred to another organisation under Clause 10(a)(v) cannot be withdrawn.

ii. If the Redemption Fund contains no funds, members' __##Investor Shares##__ Shares may not be withdrawn except to settle a claim by a member's next of kin following the member's death.

iii. Subject to the availability of monies in the Redemption Fund, __##Investor Shares##__ Shares can be withdrawn after 3 years, on termination of membership or retirement or death or insolvency.

iv. If the Redemption Fund contains insufficient funds to satisfy all withdrawal requests, the members holding __##Investor Shares##__ Shares longest will be settled first.

b. The 5 members who have transferred the most __##Investor Shares##__ Shares over the last 5 years should be listed, together with their contact details, at the start of the register of members.

c. Nothing in these articles requires title to securities to be evidenced or transferred by a written instrument if the Act permits otherwise.

12. Equity Capital Stakes.

The number of __##Investor Shares##__ Shares (equity) that can be bought or allocated to a member may be capped by the Act. Subject to any statutory cap, the following rules apply:

a. Every natural and legal person (__##Label for Directors##__, employee, supplier or self-employed contractor) who makes a qualifying labour contribution will be offered __##Labour Shares##__ Shares proportionate to their qualifying contributions at the conclusion of any probationary period agreed by the Cooperative. They will also be offered a chance to purchase __##Investor Shares##__ Shares to the value of __##Initial Share Purchase##__ of their initial labour contract (i.e. a person's annual salary, or projected annual value of a contract for services) after 366 days (1 year + 1 day) of continuous service;

b. Every natural and legal person (user, customer) who makes a qualifying user contribution will be offered __##User Shares##__ Shares in proportion to their qualifying contributions. They will also be offered a chance to purchase __##Investor Shares##__ Shares to the value of __##Initial Share Purchase##__ of their product and service purchases from the Cooperative over the previous 12 months;

c. The Cooperative may organise a third-party loan or grant of money for an existing member for the purpose of establishing their __##Investor Shares##__ Shareholding;

d. Subject to Special Resolution, the provisions in clauses 12 (a) to (c) can be applied to other legal entities (companies, cooperatives, associations, foundations, charities etc.) who support the work of the Cooperative.

e. The __##Label for Directors##__s shall not be entitled to withhold share offers or prevent share transfers, or reject applications for membership, on the grounds of social class, age, politics, race, creed, religion, culture, ethnic origin, sex or sexual orientation, marital status or disability.

13. Valuation.

a. Pre-emption rights are excluded.

b. The Cooperative is valued at the start of every financial year, and this is the "Reference Value".

c. At incorporation, the Reference Value of the Cooperative is £0.

d. Thereafter, the Reference Value shall be calculated as the book value of fixed assets plus the __##Investor Shares##__ Share for the previous accounting period (see Clause 44) * [Dividend Multiplier]. The [Dividend Multiplier] is (7 * (1 / __##Investor Share Fraction##__)).

e. A Class Resolution can require revaluation of the Cooperative or any of its assets.

14 Share Issues.

a. The Cooperative may only issue new Labour, User or Investor Shares at par value.

15 Capital Gains and Member Shares.

a. The "Capital Gain Fraction" is 0.5, and may be changed only by Special Resolution.

b. If the Cooperative's value at the end of an accounting period (the "New Value") is greater than its Reference Value, then Capital Gain = (New Value – Reference Value) x [Capital Gain Fraction] and:

the "Workers' Gain" is Capital Gain / 2;

the "Users' Gain" is Capital Gain / 2;

Member Shares equals 1 share for each £1 of Capital Gain;

This number of Member Shares shall be issued as __##Investor Shares##__ Shares to __##Labour Shares##__ and __##User Shares##__ Shareholders by any of the following means:

i. By issuing __##Investor Shares##__ Shares to the value of Workers' Gain credited as fully paid to those holding __##Labour Shares##__ Shares in proportion to the number of __##Labour Shares##__ Shares held at the commencement of the accounting period;

ii. By issuing __##Investor Shares##__ Shares to the value of Users' Gain credited as fully paid to those holding __##User Shares##__ Shares in proportion to the number of __##User Shares##__ Shares held at the commencement of the accounting period;

iii. Subject to the consent of the __##Label for Board##__, by transferring the ownership of __##Investor Shares##__ Shares (with compensation at par value) from existing __##Investor Shares##__ Shareholders who wish to sell to __##Labour Shares##__ Shareholders in proportion to the number of __##Labour Shares##__ Shares held at the commencement of the accounting period, capped at the Workers' Gain;

iv. Subject to the consent of the __##Label for Board##__, by transferring the ownership of __##Investor Shares##__ Shares (with compensation at par value) from existing __##Investor Shares##__ Shareholders who wish to sell to __##User Shares##__ Shareholders in proportion to the number of __##User Shares##__ Shares held at the commencement of the accounting period, capped at the Users' Gain;

v. Any combination of 15 i) to iv) that has the effect of acquiring for __##Labour Shares##__ and __##User Shares##__ Shareholders the number of 'Member Shares' to which they are entitled.

16 Borrowing and Investment.

a. Borrowing: the __##Label for Board##__ may exercise all the powers of the Cooperative to borrow money at commercial rates, and to mortgage or charge its undertaking, property and assets (present or future) and to issue debentures provided that:

i. No borrowing is authorised that exceeds the value of the Reserves unless:

1. the lender does not take a charge over the assets of the Cooperative;

2. the loan amount or credit agreement is unsecured (i.e. does not require the Cooperative to offer security);

3. the borrowing secures for the Cooperative an asset or contract with a value greater than the amount borrowed.

ii. The borrowing is authorised by an Ordinary Resolution.

b. Commercial Investments: the __##Label for Board##__ may exercise all the powers of the Cooperative to make commercial investments, provided that the sum invested does not exceed one half of Reserves.

i. The balance of Reserves must be held in current or deposit accounts, low-risk stocks, bonds or accessible savings accounts.

c. Social investments may be made each year in accordance with Clause 10(iv) providing they total no more than one half of the opening balance of the Redemption Fund for that year.

GOVERNANCE

17 The __##Label for Directors##__s may call General Meetings and, on the requisition of members holding a tenth or more of the shares in any class, must convene a General Meeting for a date not later than 4 weeks after receipt of the

requisition. General Meetings can take place through an online collaborative decision-making platform using technology agreed by members. General Meetings may be held in public, broadcast live, recorded and the records of such meetings can be made available to the public.

18 In each financial year, a minimum of one General Meeting will be held in addition to the Annual General Meeting (AGM).

a. No business shall be transacted at a General Meeting unless a quorum of members is present. Unless and until otherwise decided by General Meeting, __##Quorum Level Default##__ of the membership shall be the quorum, subject to the number of members being more than 10 and less than 50.

b. In the event of the membership exceeding 50 the quorum shall be __##Quorum Over 50##__.

c. In the event of the membership being less than 10, the quorum shall be one-half subject to a minimum of __##Quorum Under 10##__.

d. An invitation to all members to join an online collaborative decision-making platform before a General Meeting shall be sufficient to satisfy the rules regarding a quorum providing all resolutions on which a vote is required are posted to the online collaborative decision-making platform before the meeting.

e. No business shall be transacted at an off-line General Meeting until the meeting has agreed a chairperson. Online General Meetings do not require a chairperson. Whenever a President is in post, the President will chair an off-line General Meeting. If a President is not in post, or the President is not present, the meeting will elect one of the __##Label for Directors##__s to chair the meeting. If no __##Label for Directors##__s are present, the meeting may elect a chairperson from those present.

19. Eligible members can vote at General Meetings to set corporate policy, approve/reject social enterprise plans, take decisions about acquisition and disposal of property, and to enter into partnership arrangements with other organisations.

a. A proposal to amalgamate with another society (Section 109) or company (Section 112) must be taken by Special Resolution following the provisions of the Act.

b. A proposal to transfer the engagements of another society (Section 110) or a company (Section 112) must be put as a Special Resolution following the provisions of the Act.

c. A proposal to convert to another legal form must be put as a Special Resolution.

d. A proposal to wind up or dissolve the Cooperative must be put as a Special Resolution.

20 Corporate policy and social enterprise plans are implemented by a Chief Executive Officer or Executive Team appointed by the governing body. The __##Label for Board##__ will stipulate their authority whenever appointed.

a. When no Chief Executive Officer or Executive Team is in post, the __##Label for Board##__ member with the most __##Labour Shares##__ Shares will assume the responsibilities of the Chief Executive Officer until a new Chief Executive Officer or Executive Team can be appointed.

b. If the situation in 20(a) arises, and two or more __##Label for Directors##__s have the same number of __##Labour Shares##__ Shares, the longest serving member will assume the responsibilities of the Chief Executive Officer until a new Chief Executive Officer or Executive Team is appointed.

c. The Chief Executive Officer or Executive Team is responsible to the General Meeting and __##Label for Board##__ for the organisation and management of the Cooperative and the implementation of the Cooperative's social enterprise plans.

21. Every __##Founder Shares##__, __##Labour Shares##__, __##User Shares##__ and eligible __##Investor Shares##__ shareholder can attend, speak and propose resolutions at a General Meeting, can stand (subject to clauses 30 and 31) for election as a governing body member and can cast one vote at General Meetings (as provided for in clauses 23 and 24).

22. Any person can act as a proxy for a member at General Meeting. An instrument appointing a proxy must be written in a usual form, or a form approved by the __##Label for Board##__.

a. A proxy may act for a maximum of __##Proxy Rights##__ other member(s) at General Meetings (i.e. can cast a maximum of __##Proxy Rights##__ vote(s) in addition to their own).

23. Decisions at off-line General Meetings are made by eligible members passing resolutions with a show of hands, unless a poll is demanded by at least __##Quorum Under 10##__ eligible members. At online General Meetings, decisions are made by approving a member proposal using the collaborative decision-making tools adopted by members.

a. For Ordinary Resolutions taken by a show of hands (or online vote), __##Founder Shares##__, __##Labour Shares##__, __##User Shares##__ and __##Investor Shares##__ shareholders have one vote each,

irrespective of the number of shares held and irrespective of the class(s) of share held.

b. For Ordinary Resolutions involving a poll each eligible member votes once, irrespective of the number of memberships held. Their vote counts toward the lowest numbered member class in which they hold membership (from the following list of member classes):

1 - __##Founder Shares##__ members

2 - __##Labour Shares##__ members

3 - __##User Shares##__ members

4 - __##Investor Shares##__ members

(For example, if a person is both a __##Founder Shares##__ and __##Labour Shares##__ member, their vote would only be counted once in the __##Founder Shares##__ member class.)

c. If a poll is requested by at least __##Quorum Under 10##__ members, the chairperson must offer each shareholder class a chance to propose a special resolution in accordance with the provisions of Clause 25 before proceeding with the poll.

24. On a show of hands, online vote, or poll, every eligible member who is present in person or by proxy, has one vote.

a. In the event of a poll the total number of __##Founder Shares##__, __##Labour Shares##__, __##User Shares##__ and __##Investor Shares##__ votes for and against the resolution will be recalculated using the following formulae (see clause 44 for [__##Investor Shares##__ Share Fraction]; see clause 40 for [__##Founder Shares##__ Share Fraction], [__##Labour Shares##__ Share Fraction] and [__##User Shares##__ Share Fraction]:

i. [__##Investor Shares##__ Votes For] / [__##Investor Shares##__ Votes Cast] * [__##Investor Shares##__ Share Fraction]

ii. [__##Investor Shares##__ Votes Against] / [__##Investor Shares##__ Votes Cast] * [__##Investor Shares##__ Share Fraction]

iii. [__##Labour Shares##__ Votes For] / [__##Labour Shares##__ Votes Cast] * [__##Labour Shares##__ Share Fraction]

iv. [__##Labour Shares##__ Votes Against] / [__##Labour Shares##__ Votes Cast] * [__##Labour Shares##__ Share Fraction]

v. [__##User Shares##__ Votes For] / [__##User Shares##__ Votes Cast] * [__##User Shares##__ Share Fraction]

vi. [__##User Shares##__ Votes Against] / [__##User Shares##__ Votes Cast] * [__##User Shares##__ Share Fraction]

vii. [__##Founder Shares##__ Votes For] / [__##Founder Shares##__ Votes Cast] * [__##Founder Shares##__ Share Fraction]

viii. [__##Founder Shares##__ Votes Against] / [__##Founder Shares##__ Votes Cast] * [__##Founder Shares##__ Share Fraction]

b. The total vote for the resolution is the aggregate of i), iii), v) and vii)

c. The total vote against the resolution is the aggregate of ii), iv), vi) and viii)

d. For an ordinary resolution to pass, the aggregate of i), iii), v) and vii) must be greater than 0.5, otherwise the resolution is not passed.

e. For a special resolution to pass, two-thirds (67%) of members (when operating under Sections 109-111, and 120-121 of the Act) or three-quarters (75%) of members (under the provisions of Section 43-44 of the Act or as triggered by other rules in this constitution) must vote in favour, otherwise the resolution is not passed.

25. Special resolutions may only be proposed by the __##Label for Board##__ or by Class Resolution. The text of special resolutions must be approved by an audit committee (see Clause 47) before it is voted upon by members.

a. If an audit committee has not been formed, a temporary committee will be formed as follows: each active member class will nominate (elect) up to two of their members to represent the views of their member class. The temporary audit committee will meet until the special resolution vote is complete, or the resolution is withdrawn.

26. Unless a poll is demanded or required by the Act, a declaration by the chairperson at the meeting that an Ordinary resolution has, on a show of hands, been carried or lost and an entry to that effect in the book containing the minutes of the proceedings (or equivalent record in an online collaborative decision-making forum) shall be conclusive evidence of the fact without proof of the number or proportions of the votes recorded in favour or against the Ordinary Resolution.

27. A written resolution signed by all members, or approved using designated technology, is valid as if properly passed at a General Meeting.

28. The proceedings of a meeting are not invalidated by the accidental omission to give notice of the meeting to, or the non-receipt of notice of the meeting by, a person entitled to receive notice. Notice shall be deemed to have been given if sent to the email address, user account or other technological place of transmission, nominated or accepted by the party entitled to receive such notice.

29. __##Label for Directors##__s. The Cooperative shall have a __##Label for Board##__ of between three and __##Directors##__ __##Label for Directors##__s except in the following circumstances:

    a. The Cooperative is in receipt of grant or loan funding from a public authority, charitable body or other asset-locked organisation (e.g. a credit union, community-owned cooperative or company), in which case the minimum number of __##Label for Directors##__s shall be three (3) representing at least two shareholder classes, with at least one financial specialist.

    b. The Cooperative has __##Election Threshold##__ or more members, in which case the minimum number of __##Label for Directors##__s shall be five with at least one representing each shareholder class with active members and at least one financial specialist.

30. If the Cooperative has fewer than __##Election Threshold##__ members, __##Label for Board##__ members will be proposed by __##Founder Shares##__ members or existing __##Label for Directors##__s and approved by Ordinary Resolution.

    a. __##Label for Directors##__s may freely negotiate contracts of any value until the Cooperative files its first set of accounts. Thereafter, __##Label for Directors##__s may freely negotiate contracts to the value of __##Contract Value (Startup)##__ of the Cooperative's annual turnover (as reported in the previous year's filed accounts). Contracts in excess of this amount require General Meeting approval.

    b. A governing body member may be removed at General Meeting by an Ordinary Resolution, or after a vote of no-confidence at a meeting of the __##Label for Directors##__s.

31. If the Cooperative has __##Election Threshold##__ or more members, __##Label for Directors##__s and a President will be elected annually as follows.

    a. __##Labour Shares##__ Shareholders will elect a maximum of __##Elected Labour Directors##__ __##Label for Directors##__(s) (one will be subject to re-election by rotation every two-years), following the Act.

    b. __##User Shares##__ Shareholders will elect a maximum of __##Elected User Directors##__ __##Label for Directors##__(s) (one will be subject to re-election by rotation every two-years), following the Act.

    c. __##Investor Shares##__ Shareholders (if applicable) will elect a maximum of __##Elected Investor Directors##__ __##Label for Directors##__(s) (one will be subject to re-election by rotation every two-years), following the Act.

    d. __##Founder Shares##__ Shareholders will elect a maximum of __##Elected Founder Directors##__ __##Label for Directors##__(s), who may be removed only by the provisions set out in 31(f).

    e. A maximum of __##Appointed Directors##__ __##Label for Directors##__(s) may be appointed (co-opted) by the other __##Label for Directors##__s for their specialist financial, environmental and cooperative management skills.

    f. A __##Label for Directors##__ may be removed from office at any General Meeting by a Class Resolution of a shareholder class that elected him or her, or by Ordinary Resolution.

    g. A Cooperative President will be elected from the __##Label for Directors##__s on a poll of all shareholders (one vote per shareholder) at the Annual General Meeting. The President has a non-executive role in the running of the Cooperative, and is responsible for overseeing meetings of the __##Label for Board##__, maintaining the public image of the Cooperative, and facilitating good communications between __##Label for Directors##__s and cooperative members. The President has a casting vote at the __##Label for Board##__ and General Meetings, but is not required to use it.

    h. In the absence of a President, or if a President is not elected, the holder(s) of __##Founder Shares##__ Shares will fulfil this role (as set out in 31(g)).

        i. A __##Label for Directors##__ cannot be removed by other __##Label for Directors##__s except at General Meeting (as set out in 31 (f)).

        ii. Cooperative __##Label for Directors##__s may freely negotiate contracts to the value of __##Contract Value (Established)##__ of the Cooperative's annual turnover (as reported in the previous year's filed accounts). Contracts in excess of this amount require General Meeting approval.

32. __##Label for Directors##__s' meetings may be held between General Meetings by any means defined within the Act, and through an online collaborative decision-making platform.

    a. All acts done by any meeting of the __##Label for Directors##__s or by any person acting as a member of the __##Label for Board##__ shall, even if it be afterwards discovered that there was some defect in the appointment of any __##Label for Board##__ member or person acting as such, or that they or any of them were disqualified, be as valid as if every such person had been duly appointed and was qualified to be a governing body member.

EXPENSES, BENEFITS AND PAY

33. Providers of labour (__##Label for Directors##__s, members, employees, self-employed contractors) shall be paid reasonable expenses wholly incurred in relation to furthering the business of the Cooperative.

    a. A schedule of acceptable benefits and expenses may be agreed by Ordinary Resolution. Any expenses paid, or benefits provided, outside the scope of an agreed schedule must be itemised in the annual accounts.

    b. Benefits and expenses must be itemised and recorded in such a way that they can be inspected by any member during normal office hours.

34. Remuneration has three components: Basic Wages ("Pay"), __##Labour Shares##__ Share dividends and __##Investor Shares##__ Share dividends.

    a. Each provider of labour is subject to one or more contracts (employment contract, contract for services or cooperative membership) which controls the manner in which they are remunerated for their labour. These articles, including subsequent modifications, are part of any contract between the Cooperative and those providing labour (__##Label for Directors##__, members, employees, self-employed contractors). All members of the Cooperative shall be provided with a copy of these rules upon agreement or variation of a contract to supply labour.

    b. Labour may be recognised solely through Cooperative membership and remunerated solely through __##Labour Shares##__ Share dividends. A formal contract of employment will be issued if, in the view of the __##Label for Directors##__s, 'employee status' tests used in employment tribunals have been, or are expected to be, satisfied (i.e. a person works regular hours, receives regular pay, has agreed holiday entitlements and is subject to regular supervision etc.).

    c. If the Cooperative issues contracts of employment to members of staff, the maximum ratio between the hourly rate of the highest and lowest paid member of staff shall be __##Wage Solidarity Ratio##__ This ratio can only be amended by a Class Resolution in a meeting of __##Labour Shares##__ Shareholders. This ratio may not be amended by Ordinary Resolution or Special Resolution.

    d. At the start of each accounting period, if the Cooperative has any employees, an amount equal to (Basic Wages · Current Inflation Rate) will be set aside for increases in Basic Wages. The application of any remuneration system to employees and self-employed contractors is at the discretion of the CEO or Executive Team (unless overridden by the procedure set out in clause 49). If the budget for increases in remuneration is not distributed within an accounting period, any unused part must be distributed as __##Investor Shares##__ Shares in proportion to __##Labour Shares##__ Shareholdings or as cash bonuses.

    e. An increase in the budget set in 34(d) can only be passed by Special Resolution.

    f. __##Label for Directors##__s' pay and conditions follow the same principles as other Cooperative members and employees.

35. a. "Total Revenue" means sales plus earnings from services provided plus any other income, but excludes proceeds of new issues of securities or loans obtained

    b. "Profit" is equal to Total Revenue less the cost of materials and services, less depreciation, less rents, less interest.

36. "Associated Costs" means the costs directly associated with a given amount of Pay, including employee's and employer's contributions to insurance schemes, superannuation, healthcare plan, childcare, staff club and any other benefits deducted from pay, together with sickness, maternity, paternity or other statutory pay, and Pay-As-You-Earn income tax.

37. "Surplus" is equal to Profit, less Pay including their Associated Costs, less Corporation Tax.

    a. The first £__##Reserves Allocation##__ of Surplus or 30% of Profits (whichever is greater) will be allocated to Reserves as working capital. This amount will be deducted from Surplus before calculating __##Founder Shares##__ Share Dividends, __##User Shares##__ Share Dividends, __##Labour Shares##__ Share Dividends and __##Investor Shares##__ Share interest.

b. Half of the Surplus transferred to reserves will be held in a "Redemption Fund" to satisfy member requests to withdraw __##Investor Shares##__ Shares as set out in Clause 11.

38. Additional Capital Expenditure, Extraordinary and Research and Development Costs in excess of £__##Capital Expenditure##__ not financed by a fundraising campaign must either:

a. be deducted from Surplus in exchange for new __##Investor Shares##__ Shares credited as fully-paid or;

b. be paid for from Reserves,

or as determined by special resolution or a qualified accountant. Any member may ask a qualified accountant to determine if an item comes under these categories.

Guidance note on Founder, Labour, User and Investor Share Fractions and Share Dividends:

The FairShares Rules Generator provides for the following ranges in the allocations of voting power and dividend rights. No amendment to these rules will be approved by either the sponsor or the regulator if the fractions are amended beyond the following ranges:

Founder Share Fraction: From 0 – 15%
Labour Share Fraction: From 30 – 45%
Users Share Fraction: From 30 – 45%
Investor Share Fraction: Maximum 25%

The combinations permitted must preserve the following principles:

- No member class may form a majority on its own.
- Labour members and User members always have combined voting power greater than 50%
- Founder members and Investor members can never achieve voting power over 50% except in collaboration with existing Labour or User members.

39. "__##Founder Shares##__ Share", "__##Labour Shares##__ Share" and "__##User Shares##__ Share". The __##Founder Shares##__, __##Labour Shares##__ and __##User Shares##__ Share of Surplus, distributed in dividends, is calculated by multiplying [Surplus] (if greater than zero) for the relevant period by the [__##Founder Shares##__ Share Fraction], [__##Labour Shares##__ Share Fraction] and [__##User Shares##__ Share Fraction]. If [Surplus] is less than or equal to zero, no __##Founder Shares##__ Share or __##Labour Shares##__ Share or __##User Shares##__ Share dividends are paid.

a. In the event that there are no __##Labour Shares##__ Shareholders to pay dividends, the Cooperative shall establish or increase a restricted fund to the value of the __##Labour Shares##__ Share. The __##Label for Board##__ may exercise discretion on how to allocate the restricted fund to projects that improve the well-being of the Cooperative's workforce.

b. In the event that there are no __##User Shares##__ Shareholders to pay dividends, the Cooperative shall establish or increase a restricted fund to the value of the __##User Shares##__ Share. The __##Label for Board##__ may exercise discretion on how to allocate the restricted fund to projects that improve the well-being of the Cooperative's users and/or customers.

40. "__##Founder Shares##__ Share Fraction", "__##Labour Shares##__ Share Fraction" and "__##User Shares##__ Share Fraction"

a. The __##Labour Shares##__ Share Fraction is __##Labour Share Fraction##__ and __##User Shares##__ Share Fraction is __##User Share Fraction##__ and __##Founder Shares##__ Share Fraction is __##Founder Share Fraction##__. These may be changed only by Special Resolution.

b. No __##Labour Shares##__ or __##User Shares##__ Shareholder may receive a dividend of more than [Surplus] x [__##Labour Shares##__ Share Fraction].

41. "__##Founder Shares##__ Share Dividends", "__##Labour Shares##__ Share Dividends" and "__##User Shares##__ Share Dividends"

At the end of an accounting period, the __##Founder Shares##__, __##Labour Shares##__ and __##User Shares##__ Share are distributed as dividends to each __##Founder Shares##__, __##Labour Shares##__ and __##User Shares##__ shareholder using the following formulae:

[__##Founder Shares##__ Share] x (Member's __##Founder Shares##__ Shareholding / All Issued __##Founder Shares##__ Shares)

+

[__##Labour Shares##__ Share] x (Member's __##Labour Shares##__ Shareholding / All Issued __##Labour Shares##__ Shares).

+

[__##User Shares##__ Share] x (Member's __##User Shares##__ Shareholding / All Issued __##User Shares##__ Shares)

42. At the discretion of the __##Label for Board##__, all members and employees may be advanced a proportion of their projected __##Labour Shares##__ Share dividends on a regular basis in addition to monthly Pay. Advances must be listed in the Annual Accounts and deducted from the __##Labour Shares##__ Share before calculating __##Labour Shares##__ Share Dividends.

43. Providers of labour (__##Label for Board##__ members, employees, self-employed contractors) may, subject to mutual consent, be part-paid in __##Investor Shares##__ Shares, credited as fully paid.

44. __##Investor Shares##__ interest is paid after __##Founder Shares##__, __##Labour Shares##__ and __##User Shares##__ Share dividends.

a. The "__##Investor Shares##__ Share Fraction" is __##Investor Share Fraction##__ and the "__##Investor Shares##__ Share" is [Surplus] x [__##Investor Shares##__ Share Fraction]. This may be changed only by Special Resolution.

b. No dividends are paid on __##Investor Shares##__ Shares. Interest is payable subject to a cap which is calculated as follows:

[Surplus] x [__##Investor Shares##__ Share Fraction] x (1 - [Capital Gain Fraction]);

Members' will receive 0 - 10% interest on capital based on the level of surplus available.

c. Interest is divided *pro rata* between all __##Investor Shares##__ Shareholders based on the number of __##Investor Shares##__ Shares held by each member *before* Member Shares are allocated for the same accounting period.

d. The interest must be paid within __##Payment Period##__ calendar months of the end of the accounting period. Interest at the Cooperative's bank overdraft rate is to accumulate on unpaid amounts after this time.

45. Cash instead of __##Investor Shares##__ Shares. The __##Label for Board##__ can offer all __##Labour Shares##__ and __##User Shares##__ Shareholders a chance to receive cash payments instead of taking their Member Shares as new __##Investor Shares##__ Shares, subject to having sufficient cash reserves.

46. No additional sum may be transferred from the profit and loss account to Reserves unless it represents new __##Investor Shares##__ Shares credited as fully-paid, or is approved by special resolution, or is required by law.

ACCOUNTING AND AUDITING

47. Financial and social accounts will be prepared for the __##Label for Board##__ and General Meetings by a person with appropriate bookkeeping and accounting skills / qualifications. They will use accounting conventions agreed by the __##Label for Board##__, or as required by the Act. Any member or person authorised in writing by a member may inspect the accounting records during normal working hours.

a. If the Cooperative has fewer than __##Election Threshold##__ members, the __##Label for Board##__ may put an ordinary resolution to the General meeting to approve one of the following:

i. Either: the appointment of a person eligible for appointment as a statutory auditor under Part 42 of the Companies Act 2006 to undertake financial audits;

ii. Or: an application for exemption or disapplication from audit under the provisions of the Act;

b. If the Cooperative has __##Election Threshold##__ or more members:

i. The __##Label for Board##__ shall recommend a choice of financial and social auditors for approval in General Meeting.

ii. The selected financial auditor shall be a person eligible for appointment as a statutory auditor under Part 42 of the Companies Act 2006 and will audit the company's financial accounts prior to their approval in General Meeting for filing with the relevant regulatory authority.

iii. The selected social auditor shall assist with audit of the internal democracy and decision-making of the Cooperative, the wages, health and safety, skill sharing and educational opportunities of its members and employees, or other matters concerning the overall personal or job satisfaction of members and employees; an assessment of the Cooperative's activities externally, including effects on people, the environment and other organisations.

iv. An audit committee of up to four people (comprising no more than one __##Label for Board##__ member from at least two shareholder classes) will be elected at each AGM to assist appointed auditors as follows:.

1. In the event of a special resolution being proposed, the audit committee will add up to two further members appointed by each active member class to scrutinise and approve the text of all proposed special resolutions (see 47 (b)(v)(1));
2. The audit committee has a specific power to deny approval of special resolution text that proposes the removal of a member class, or changes to member classes' voting power or share fractions unless proposed changes have been pre-approved by a class resolution of the affected member classes.
3. The additional members appointed in 47(b)(iv)(1) will serve until the vote on special resolutions is complete or all special resolution are withdrawn.

v. The purpose of the audit committee is:

1. To approve or withhold approval of the text of resolutions proposed by members or the __##Label for Board##__. Approval may be withheld until the audit committee is satisfied that adequate consultations on the matters to be resolved have taken place with and within member classes;
2. to assist and check the preparation of financial records presented to General Meetings so that they are accurate, authentic and meet the needs of members;
3. to assist and check the preparation of the information needed for a social audit;
4. to organise elections in accordance with Clause 31;
5. to record, check and authenticate that the procedures in clauses 17 to 27 are being followed when voting takes place in a General Meeting.

48. Accountants and Qualified Auditors. These must be chosen by ordinary resolution.

a. The financial auditor (if appointed) shall be from a Recognised Qualifying Body (RQB).

b. Accountants, Auditors and Independent Experts shall require the accounts to record Members Capital and Cooperative Capital separately.

i. "Members' Capital" is defined as the sum of the value of members' __##Investor Shares##__ Shareholdings.

ii. "Cooperative Capital" is defined as the sum of grants and donations received from public authorities, charitable bodies and other asset-locked social enterprises (e.g. community benefit societies or community companies), plus any capital that members' are required by the Act to convert, or have voluntarily converted, to Cooperative Capital.

DISPUTE RESOLUTION AND INTELLECTUAL PROPERTY

49. Labour Contract Revaluations. In the event of a dispute, the escalation procedure is:

a. Valuation by a recruitment agency or recruitment consultant agreeable to all parties.

b. Appeal (with resolution) subject to a vote at General Meeting;

c. __##Mediation Service (Labour)##__

In the event that a labour contract revaluation leads to a breach of the ratio between the highest and lowest paid member of staff (as set in clause 34(c)) the revaluation will only be applied if __##Labour Shares##__ Shareholders pass a Class Resolution adjusting the ratio to permit the new level of pay. Until such time as a Class Resolution is passed, the maximum pay permissible is capped in accordance with the current ratio (e.g. if the ratio is 3:1, the maximum pay is 3x the lowest paid).

50. Relationship Disputes. In the event of a dispute between two or more members, the escalation procedure is:

a. Mediation by the President, or a __##Label for Directors##__, a management consultant, trade union official, Social Enterprise Europe Director; FairShares Association Founder, Regional Social Enterprise Network official or other third-party agreeable to all parties;

b. Appeal (with resolution) subject to a vote at General Meeting;

c. __##Mediation Service (Members)##__

51. Except in the case of resignation or voluntary termination by both parties, a member's employment, supplier contract (or company membership) may be terminated only after an Ordinary Resolution proposing the termination of the contract has been passed in General Meeting.

    a. Termination is subject to the satisfaction of all lawful terms contained in the member's employment and/or trading contract(s). A resolution to terminate an employment or supplier contract, or company membership, cannot be modified by Class Resolution to become a Special Resolution (clause 25 does not apply).

52. The Cooperative may pay for __##Label for Directors##__s' and officers' indemnity insurance against liabilities related to the Cooperative's business, excluding negligence and/or fraud.

53. Intellectual Property (IP). With the exception of trademarks, the Cooperative shall record which members have created and contributed intellectual property (IP) to further its objects, and ensure that ownership of all IP remains vested in its creator(s). For the avoidance of doubt, the Cooperative shall not own IP created by members before, during or after their period of membership unless ownership is freely and voluntarily transferred by those members to the Cooperative, or is modified by the provisions below.

    a. All IP created by members while working for the Cooperative will be vested in them individually and/or collectively.

    b. As a condition of membership and/or employment, all IP created by members during their work for the Cooperative shall be licensed to the Cooperative under a Creative Commons Licence for both noncommercial and commercial trading, with permission to adapt, share and re-use the IP in product and service development. Any product or service offered will use the same Creative Commons licence unless a variation of this is negotiated with the creator(s) of the IP.

        i. Where a member creates (or members create) IP for the Cooperative during their period of membership, the Cooperative shall have an exclusive right to use and commercialise the IP while they remain a member. If the member leaves the Cooperative, upon termination of their membership, the Cooperative shall be granted joint copyright in IP it contracted the member to create and retain a non-exclusive right to continue using and adapting that IP in both non-commercial and commercial ventures, including a unilateral right to enforce applicable Creative Commons licences.

        ii. Members who leave the Cooperative retain a non-exclusive right to use IP they created for the Cooperative in both non-commercial and commercial ventures, including a unilateral right to enforce applicable Creative Commons licences.

    c. IP transferred to the Cooperative by members, and IP bought by the Cooperative from third parties, shall be owned collectively by all members and made freely available to them for non-commercial use and private study.

    d. The Cooperative shall use its best endeavours to manage IP as if it were an 'intellectual commons' for the benefit of Cooperative members.

    e. Members may wish to offer the Cooperative joint copyright in IP they have created before or during their period of membership so that the Cooperative can take legal proceedings on their behalf to enforce the terms of the applicable Creative Commons Licence.

DISSOLUTION

54. Upon dissolution, a qualified accountant or auditor will calculate the value of "residual assets" ([shareholder funds] + [accumulated profit and loss account] + [assets – liabilities]). After satisfaction of all creditors, residual assets will be distributed to __##Investor Shares##__ Shareholders in proportion to their shareholding after satisfying the following requirement:

    a. If the Cooperative has received grant funding from a public authority, charitable body or other asset-locked social enterprise (e.g. a community benefit society or community interest company), a qualified accountant or auditor will verify the amount of Cooperative Capital, and calculate a "community dividend fraction" and "community dividend". The community dividend fraction will be calculated using the formula shown in 54 (a) (i). The community dividend will be calculated using the formula shown in 54 (a) (ii):

        i. [Cooperative Capital] / ([Cooperative Capital] + [Members' Capital])

        ii. ([Members' Capital] + [profit and loss account] + [other assets]) * [community dividend fraction].

    See Worked Example – Calculating the Community Dividend

    b. If the total value of residual assets is greater than £__##Reserves Allocation##__, not less than [community dividend] will be divided equally between the following bodies:

1. Organisation Name: (or as decided in General Meeting)
   FairShares Company No:
   or Charity / Foundation / Association No:
   or Cooperative Registration Number:
2. Organisation Name: (or as decided in General Meeting)
   FairShares Company No:
   or Charity / Foundation / Association No:
   for Cooperative Registration Number:

b. Any remaining assets will be divided between __##Investor Shares##__ Shareholders in proportion to the number of __##Investor Shares##__ Shares reported at the end of the previous year's trading. For the avoidance of doubt, changes in balances since the previous year end will be ignored for the purposes of calculating the share of residual assets paid out when the Cooperative is dissolved.

c. In finalising the dissolution of the cooperative, and subject to the requirements of Insolvency Law, debts and payments to creditors and shareholders will be satisfied in the following order:

   i. Outstanding debts to employees, workers and contractors (e.g. wages/fees)

   ii. Outstanding debts to other priority creditors (e.g. VAT and taxes)

   iii. Outstanding debts to suppliers (e.g. unpaid supplier invoices)

   iv. Outstanding debts to other creditors (e.g. loan balances)

   v. Payment of the community dividend

   vi. Division of remaining residual assets to __##Investor Shares##__ Shareholders.

d. In the event of a failure to distribute residual assets within 6 months of dissolution, or in the event that the organisations in Clause 54(b) have all closed, the [community dividend] will be donated to FairShares Association Ltd (Company Number 9692324) to be reinvested in other FairShares associations, cooperatives, companies and partnerships.

Rules Accepted by (Minimum 3 Members)

Founder Member 1:

Founder Member 2:

Founder Member 3:

Founder Member 4:

Founder Member 5:

Founder Member 6:

Founder Member 7:

Founder Member 8:

Secretary: Dated:

(Secretary must sign again, even if they have signed as a Founder Member above)