



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Richard Graham MP
House of Commons
London
SW1A 0AA

14 December 2022

Dear Richard,

Private Members' Bill for Co-operatives, Mutuals and Friendly Societies

Thank you for your support and engagement during committee stage of the Private Members' Bill for co-operatives, mutuals and friendly societies on 30 November. The Government is pleased to be working with the Honourable Member for Preston, who first introduced the Bill to the House on 15 June, to deliver this important reform for the sector. At committee, you and your fellow members of the Bill Committee made a number of important contributions and I committed to write to you with what I considered to be the best legal position on the points raised.

The Government recognises the value and diversity that mutuals bring to the UK economy, with their focus on delivering services their members and communities need. I appreciated the opportunity to learn more of the connections many members of the Bill Committee have with mutuals, including your own personal contribution to the sector, both in your previous professional capacity working for a mutual group and your advocacy on behalf of credit unions in your Gloucester constituency.

I very much welcome the fair and well-reasoned contributions you made concerning the impact of this Bill on the welfare of members and the long-term prospects for greater scalability in the mutuals sector. It may be helpful to set out the policy intent of the Bill introduced by the Honourable Member for Preston, and the way it has been drafted, which I believe addresses the points you have raised.

The scope of the Bill covers cooperatives, friendly societies and body corporates that carry on business of mutual insurance. The Bill aims to equip these mutual entities with a stronger option in law (the 'asset lock') to restrict the use of their surplus funds for its chosen purposes. The drafting of the Bill grants HM Treasury the power to bring forward the regulations that will ultimately give effect to the 'asset lock'. Surplus funds would be defined as the capital base that is left over

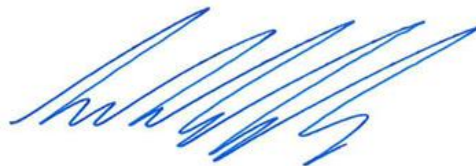
after deducting a mutual's total liabilities - this includes the repayment of members' capital contributions. In this way, the rights and needs of present members would be respected.

It is this surplus capital, in many cases built up over centuries by custodian members for future generations, which the Bill applies to. The Government is aware of the concerns held by the sector that demutualisation attempts can be motivated by a desire to capture these legacy assets as a capital windfall. By permitting a stronger lock in law, the Government aims to provide the sector with an additional effective deterrent against demutualisation. It is important that we balance the rights and needs of present members with that of the mutual entity in a way that does not undermine the intent of the Bill; to remove financial incentives for demutualisation. By engaging widely with key stakeholders, it is a balance we will seek to get right as we draft the regulations that work for the sector.

You also raised a point relating to whether the asset lock would interfere with the ability of mutuals to merge with each other to achieve greater scale in the sector. I can confirm that this is not the policy intent of the asset lock. Where mutuals choose to adopt these restrictions, the use of these assets would be limited to specific purposes in line with the objectives of that mutual society. It is reasonable that mutuals entities may choose to consolidate in order to more effectively undertake their business purpose to serve their members' needs. The Government will aim to ensure that the regulations make allowances for this outcome.

Thank you once again for your engagement on this agenda. It is important that we capture your input and expertise as we endeavour to ensure the Bill delivers the best outcome possible for the mutuals sector. I am copying this letter to the Chair and members of the Bill Committee. A copy of this letter will also be deposited in the Library.

Kind regards,

A handwritten signature in blue ink, appearing to read 'Andrew Griffith', written in a cursive style.

ANDREW GRIFFITH MP