



Ecology Building Society

Annual General Meeting 28 April 2012

Proposed alterations to Rules

There is an item (number 5) on the agenda at this year's Annual General Meeting (**AGM**) to amend the Rules of the Society. The purpose of this note is to provide an explanation to members of the substance of the alterations.

The Society has not carried out a full review of the Rules since 1998. It is now doing so following the publication by the Building Societies Association (**BSA**) of a new edition of its Model Rules (on which the Society's Rules are based). This has been produced by the BSA to reflect changes in building society law and practice since the publication of the previous edition of the Model Rules in 1997.

The proposed alterations to the Society's Rules reflect very closely the wording of the BSA Model Rules. The Financial Services Authority (**FSA**) has been consulted in the development of this edition of the Model Rules and has indicated that it would regard its use by societies as helpful.

This note sets out the main areas of change and provides examples of specific changes in each area. If you would like a full copy of the existing Rules, with the alterations highlighted, the document setting out the proposed amendments and a copy of the Rules including all the proposed changes, these are available on the Society's website www.ecology.co.uk, or from the Secretary, Ecology Building Society, 7 Belton Road, Silsden, Keighley BD20 0EE.

It is intended that, if the alterations to the Rules are agreed at the AGM, they will take effect (subject to registration by FSA) on 1 August 2012.

The Board believes that these alterations will benefit the Society and its members and recommends that members vote FOR the alterations.

Main changes to the Society's existing Rules

Deferred Shares and Preferred Shares

Most building societies include in their Rules provisions enabling the Society to issue deferred shares and preferred shares. Deferred shares can only be repaid on the winding up of the Society if all creditors and other shareholders have been repaid in full. It may be possible to issue deferred shares which count towards the capital of the Society. It is proposed to include provisions in the Society's Rules enabling the Board to issue deferred shares and preferred shares as part of these proposed Rule changes.

Long-standing members may recall that the Society previously had deferred shares in accordance with the provisions of the Building Societies Act 1962, in the form of our Foundation shares, and was in fact the only Society to issue these. New deferred shareholders would play a role in the future development of the Society similar to that of the original Foundation shareholders.

Electronic Communications

There has been a substantial growth in electronic communications affecting building societies since the Society's Rules were last changed. This has covered the full range of communications, including matters relating to meetings. This is reflected in proposed alterations to the Rules, the main examples being:

General changes

A new **Rule 1(e)** – facilitating the use of electronic communications for sending notices or documents under the Rules.

Rule 32(5) to (8) – containing specific amendments to the Notice of Meetings rule to cover electronic communications.

Rule 46(2) – extending the existing provision regarding the service of notices to cover electronic communications.

A new **Rule 46(5)** – confirming the ability to serve notices and other documents electronically.

Particular application to meetings

Rule 37 – there are a number of proposed alterations designed primarily to facilitate the appointment (and revocation) of proxy appointments by electronic communication.

Rule 39 – this rule is being revised to cater for electronic ballots (i.e. where some of the voting is electronic).

Other related changes

Rule 1(a) – definitions of "Register" and "Registered Address": these have been amended, principally to cater for electronic addresses.

A new **Rule 1(d)** – this new provision is designed to give the Society greater flexibility in relation to the acceptance of signatures on documents in forms other than conventional manuscript.

A new **Rule 42(6)** – this provides for an electronic form of seal for the Society.

Meetings etc.

As well as the alterations affecting electronic communications, there are a number of other meetings related changes, the main examples being:

Rule 30(5)(g) and 33(1)(b) – the number of qualifying members who must join in requesting a resolution be put on the AGM agenda is being increased from 10 to 25.

Rule 34(1) – the provisions relating to the quorum (i.e. the numbers of members required to be present) at meetings have been simplified.

Rule 35(11) – a provision has been added confirming that the Chairman may declare the result of a poll (i.e. a formal vote not by show of hands), except on an adjournment, at a time determined by him/her e.g. later in the meeting, shortly after the meeting or subsequently on the Society's website.

Rule 36(6) – this has been amended to allow the holder of a power of attorney from a member to appoint a proxy.

Rule 37(4) – this change will allow proxies to speak at general meetings.

Rule 46(2) – the existing Rules deem notices etc. to be received 72 hours after posting. This will be altered to provide for a deemed period of 48 hours, which is now more common.

A new **Rule 46(4)** – this provision has been included to provide alternative communication arrangements for meetings in the case of postal disruption.

Directors/Board

The provisions regarding directors and the Board are also being updated, the main examples being:

Rule 12(4)(b) (and connected rules) – the minimum shareholding in the Society that must be held by a director is being increased from £250 to £500.

Rule 12(4)(g) – the existing provisions for delegation by directors are being supplemented by a provision allowing the Board to delegate by power of attorney for specific purposes; the provisions regarding delegation to committees are being amended by including a general power for the Board to decide regulations for committees based on the approach in the Model Articles for public companies.

Rule 13(1)(a) (and other connected rules) – this alteration is designed to reflect the fact that the "normal retirement age" provisions for directors under the Building Societies Act 1986 may well cease to apply in the future in the light of the Equality Act 2010, and will therefore only be relevant so long as they are binding on the Society.

Rule 13(1)(e) – the number of qualifying members who must join in nominating a member as a candidate for election as a director is being increased from 10 to 25.

Rule 16(3)/(4) – the provisions for convening meetings of directors have been simplified.

Rule 24 – this rule deals with the circumstances in which a director gives up office, and is being updated; it also now provides for an executive director to stand down where he/she relinquishes executive office and clarifies and amplifies the board's ability to remove a director who fails to maintain the required regulatory authorisation.

Rule 26(1)/(2) – under the Building Societies Act, in addition to any director who has been appointed to the Board and so needs to be elected by the members and any other director who is otherwise seeking election by the members, every director who has not been elected or re-elected at either of the last two AGMs must seek election or re-election. Rules 26(1) and (2) are being simplified to make this clear.

Terms and Conditions

Since the Rules were last fully reviewed in 1998, the Society has increasingly covered contractual terms and conditions for savings and mortgage products in product related literature. In view of this, a number of Rules have been shortened e.g. Rules 8(5), 11 and 12(5). Certain other 'terms and conditions' related provisions have been reviewed and amended in the light of regulatory and practice developments, the main examples being:

Rule 4(8) – this has been amended to confirm that the Society will not have an absolute discretion to refuse to accept further share account investments or lend further money on an existing member's account, though it may refuse to open a new account.

Rule 6(3) – this deals with termination of membership by account closure by the Society: as altered, it will provide that termination can be immediate if there is a valid reason e.g. abuse of staff, otherwise there must be

notice of one month, or longer if the account terms provide for the member to give longer notice of withdrawal; there is also provision for fixed term accounts.

Rule 8(4) – this deals with notification of changes to terms and conditions of a share account: it has been redrafted following implementation of the Payment Services Regulations and the Banking Conduct of Business Sourcebook to provide that notification of changes in account terms and conditions will be as provided in the account documentation, except where the account documentation makes no appropriate provision for this, when notification will be by not less than two months' personal notice.

Non-gender Specific Language

A slight departure from the Model Rules has been made in that the Society has taken the opportunity to remove any clauses that assume that the default gender of directors and management of the Society is male.