

Document "A"

The Southern Co-operative

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 Registered No. 1591R (Industrial and Provident Societies Acts) England

EXPLANATORY NOTE

In consultation with Co-operatives^{UK}, the Board of Directors of The Southern Co-operative are proposing a number of Rule amendments. Each Rule that it is proposed to amend is set out below, listed by its current Rule reference. New text is shown in red print. Text to be removed is struck through and coloured blue. The reason for each proposed Rule Amendment is provided in the right hand column.

The Board are proposing that a Complete Amendment of the Society's Rules be approved in order to negate the requirement for supplements to be appended to the Rules and to produce one clear Rule book.

These explanatory notes do not form part of the proposed Rule amendment, which is a definitive text, but aim to assist understanding of the proposed changes.

PROPOSED RULE AMENDMENTS	REASON FOR RULE CHANGE (Does not form part of proposed Rule Amendment)
<p>POLITICAL NEUTRALITY</p> <p>9. Political Neutrality - The Society shall not engage in party political activity nor give support or funding to a political party, candidate or politician.</p>	<p>Places the Board's decision on the Society adopting a position of neutrality into the Rules.</p>
<p>17. Change of Address and Posting of Notices - Any member changing his residence shall, within one calendar month thereafter, give notice thereof at the registered office of the Society, when the necessary alterations shall be made in the register of members. All notices required to be sent or given to members shall be deemed to be duly served if prominently posted by placard in the registered office, on the Society's website and in all retail places of business of the Society, or if given by a public notice advertised in the local newspapers circulating in the trading area of the Society.</p>	<p>Limits the locations at which a notice must be displayed in order for it to be validly served on members to the registered office, on the Society's website and in all retail places of business, or alternatively by notice in local newspapers.</p>
<p>24. Interest - Interest shall not be calculated on or for any fraction of £1, nor any fraction of a calendar month. Subject to the Rules, the Board may decide that members shall receive interest on the individual share capital which they hold. The Board decides the rate of interest within prudent limits. The rate may be zero and may be graduated according to the amount of individual share capital held by the member. Interest shall not be payable on any individual share capital of a nominal value of less than £1. Interest shall be calculated on a daily basis.</p>	<p>Updates the Rules in line with the modern practice of interest being calculated daily, whilst maintaining the Board's right to set interest rates.</p>

27. Cancellation and Forfeiture of Shares -

(a) Where ~~it appears to the board that~~ a member, **who** has not within the immediately preceding period of ~~three~~ **two** years ~~either:-~~

~~(i) Maintained a share account balance in excess of £100.00 throughout that period; or where a member, on applying for membership, agreed to pay the nominal value of the share or shares taken up by them by permitting the Society to deduct and retain the unpaid amount (or part of it) from any dividend or dividends declared in their favour under the Rules, and it appears to the Society that such a member has not, within two years after being admitted to membership of the Society, made qualifying purchases, in an amount so as to earn sufficient dividend to pay the nominal value of the share or shares taken up, and it appears to the board that such member has neither:~~

~~(ii) made purchases from or traded with the Society; or~~

~~(iii) subscribed to the share capital of or invested with the Society; or~~

~~(iv) taken part in the business of the Society by having attended a members' meeting;~~

then the Society may subject to Clauses (b) and ~~(cd)~~ of this Rule, cancel his shares and forfeit to the Society the amount standing to the credit of such member in the share ledgers of the Society together with any sum of money representing interest or dividend credited to the member in the books of the Society in respect of his shares.

(b) The Society shall not cancel or forfeit any sums under any clause of this Rule unless it has given at least 2 calendar months previous notice to the member stating that it is proposed to cancel his shares and specifying the sums to be forfeited to the Society, and unless the member shall fail within 2 calendar months to show cause to the satisfaction of the board why his shares should not be so cancelled and forfeited.

~~(c) If a member has not throughout the immediately preceding period of 12 calendar months maintained a balance in his share account of at least £1.00 then the Society may on at least 2 calendar months notice to the member cancel his shares and forfeit to the Society the amount standing to the credit of such member in the share ledgers of the Society together with any sum of money representing interest or dividend credited to the member in the books of the Society in respect of his shares.~~

Reduces the length of time of Member inactivity required before the forfeiture process may be operated, allowing more timely cleansing of the Membership Register.

Clarifies the situation when a member may not have maintained a balance of £1 in their share account and provides a mechanism for contacting such members and cleansing the Membership Register.

Places the emphasis on members having a trading or democratic relationship with the Society.

Removes this unnecessary clause.

<p>(d) — A notice under any provisions of this Rule may be sent to the member by pre-paid ordinary letter post at his registered or current address and shall include a statement to the effect that if the member objects to the cancellation and forfeiture of his shares he should within 2 calendar months show cause to the satisfaction of the board why his shares should not be so cancelled and forfeited. In the case of any member or members for whom no valid address information is held, notice may be given in accordance with the provisions of Rule 17.</p>	
<p>47. Notice Convening Meetings - The secretary shall at least twenty one eight clear days prior to the day of the meeting give notice of each meeting and publicise the details at the registered office and at such other places or through such other media including the use of electronic communication as the directors may determine. The notice shall specify the place, the time and the date of the meeting, whether the meeting is an ordinary or special meeting and the business to be transacted thereat.</p>	<p>Brings the notice period for Member Meetings in line with corporate governance best practice. In practice The Southern Co-operative is already giving 21 days notice to Members.</p>
<p>52. How Votes shall be Taken - At any meeting a resolution put to the vote shall be decided on a show of hands unless a ballot or referendum is demanded as hereinafter mentioned.</p> <p>A ballot may be demanded by the directors, or by twenty members present at the meeting and shall be taken at the meeting in such manner as the chairman of the meeting directs.</p> <p>A referendum shall, pursuant to a resolution of the Board, be taken upon any motion resolution submitted to a general meeting, in which event, after the same has been discussed or voted upon at such meeting, a special voting paper shall be sent to each member within twenty one fourteen days after holding such meeting. Such special voting paper shall set forth the nature of the motion resolution to be voted upon and also any amendments thereto.</p> <p>The special voting paper shall be returned to the Returning Officer at such time as the Returning Officer shall determine. The Returning Officer and a representative of the Auditors, appointed by and from the Auditors for the time being, shall count the votes and report to the Board which shall act upon the result of such voting, and report the same to the next ordinary general meeting.</p> <p>Subject to any special provision contained in these Rules or an Act of Parliament all resolutions shall be carried by a simple majority of votes. A motion to be passed by referendum shall only be passed if it is passed by the requisite majority required by the Rules or the Law; and the number of Members who voted in the referendum would have constituted a quorum at a general meeting considering such motion.</p>	<p>Amendment corrects the language of the Rule in terms that it is a motion that will be voted on.</p> <p>Twenty one days is considered to be necessary in order to print and despatch ballot papers to all members.</p> <p>The Amendment ensures that no motion would be passed by referendum which would not be passed had the number of members voting have attended a general meeting for that purpose.</p>

<p>55. Number and Appointment of Directors - Control of the Society shall be vested in a board of directors which shall consist of nine directors who shall be elected and serve as hereinafter provided:-</p> <p>(a) The term of office of each director shall be three years provided that any director who has served for more than nine consecutive years be subject to annual re-election by the members.</p> <p>The Directors in office at the date of the registration of this amendment of Rules shall be entitled to serve out the term of office for which they were elected in accordance with the provisions of the Rules registered on 9th December 1998 and as amended on 27th November 2002. The Board shall determine any transitional arrangements in order to achieve a three year election cycle.</p> <p>The elections for Directors shall normally take place immediately before the annual meeting in the year in which each director's term of office ends.</p>	<p>Provides a mechanism for the refreshment of the Board in line with Corporate Governance recommendations.</p> <p>All directors are now serving terms of office for three years therefore this transitional arrangement is no longer needed.</p>
<p>55. (b) The returning officer shall give notice of each election and publicise the details at the registered office and such other places or through such other media including the use of electronic communication as the directors may determine. The notice shall indicate the vacancies to be filled, the names of the retiring members who are eligible for re-election, and the last date upon which nominations can be received, and be publicised at least twenty one 14 days before the last date for receiving nominations.</p>	<p>Extends the nomination period by one week allowing candidates a more practical amount of time in which to obtain, complete and submit nomination forms.</p>
<p>55. (f) The results of the voting shall be published at the registered office of the Society as soon as practicable immediately after the completion of the counting and be reported to members at the following ordinary meeting, thereafter the results of voting shall be published on the Society's website for a reasonable period.</p>	<p>As voting may be administered by a reliable third party, eg Electoral Reform Services, publication of voting results may not be immediately on completion of counting. The Amendment also provides for communication to members via the Society's website.</p>

<p>57. Qualifications of Directors - The following qualifications and disqualifications shall apply to all candidates for the office of director:-</p> <p>(b) No member shall be eligible who has attained the age of sixty eight years at the date of election or who neglects or refuses at the request of the returning officer to produce a birth certificate or if they are unable to produce a birth certificate such other evidence of their age as the returning officer accepts. Any director who attains such age whilst in office may, with the Board's consent, continue to serve for such period not exceeding six months. The Board shall determine how any vacancy arising from a director's retirement under this Rule shall be filled. Such vacancy may be filled as a casual vacancy in accordance with Rule 598 or at the next election of the Society in accordance with Rule 565. A candidate who will have served on the Board of the Society for nine consecutive years or more as at the date of the Annual General Meeting in the year of their nomination is eligible to stand for election in that year, subject to that person being subject to annual re-election during any term of office for which they are elected.</p>	<p>Replaces the current method for ensuring that the Board is refreshed (ie maximum age qualification for directors) with an alternative method requiring directors who have served for 9 consecutive years to be subject to annual re-election by the members.</p>
<p>57. (e) With effect from the date of nomination in 2012, a candidate must have spent at least £250 on purchases or services acquired from businesses operated by the Society or its subsidiary companies (or a Society which has transferred engagements to this Society). The above rate of purchases must be maintained during service on the Board. Directors in office as at the date of registration of these Rules will be required to evidence the above rate of annual purchases for the previous year commencing from 1st March 2012. Purchases shall be evidenced by use of the members' Southern Co-operative Share of the Profits card or by production of receipts obtained at the time of purchase.</p> <p>Note: Sub-clauses (f)–(m) will require re-numbering as a result of this sub-clause being inserted.</p>	<p>This new Rule sub-clause, requires existing directors and candidates in Elections for the Board of Directors to make purchases from the Society's group of companies, thus demonstrating commitment to the Society.</p>
<p>57. (fg) Not more than one third of the places on the Board shall be held by members of the Society who are employees of the Society. Such members shall have the same qualifications and shall be elected in the same manner as other directors. In the event that the number of candidates elected who are employees, would cause the number of employees on the Board to exceed the maximum allowed under the Rules, the candidates polling the greatest proportion of votes cast shall fill the vacancies up to the limit. Any remaining vacancies shall be filled by other candidates.</p>	<p>Sets out within the Rules the process that applies in elections to ensure that the limits set out within the Rules are maintained.</p>

<p>57. (gh) Not more than one half of the places on the Board, in aggregate, shall be held by members of the Society who are:</p> <ul style="list-style-type: none"> (i) employees of the Society; or (ii) recently retired superannuated employees of the Society; or (iii) spouses or partners of either of the above. <p>In the event that the number of candidates elected who are employees, recently retired superannuated employees, or spouses or partners of the former, would cause the number of such on the Board to exceed the maximum allowed under the Rules, the candidates polling the greatest proportion of votes cast shall fill the vacancies up to the limit. Any remaining vacancies shall be filled by other candidates.</p> <p>A director shall retire from the board if the director having been elected to the board later becomes an employee with the result that the limit on the number of employees set out in Rules 57(f) or 57(g) is exceeded.</p>	<p>Sets out within the Rules the process that applies in elections to ensure that the limits set out within the Rules are maintained.</p>
<p>57. (jk) Any person who:</p> <ul style="list-style-type: none"> (i) is, or becomes an undischarged bankrupt, or has been declared bankrupt in the last five years; (ii) is a member of a partnership or a director, company secretary or controller of a company, that has gone into administration, gone into voluntary or compulsory liquidation, been the subject of a winding up order or gone into administrative receivership in the last ten years, save that former members of a partnership or a director, company secretary or controller of a company which has ceased by way of a voluntary striking off and dissolution shall be excluded from sub-clause 58(k)(ii); (iii) or against whom any disqualification order has been made is disqualified under the Company Directors Disqualification Act 1986; (iv) has been disciplined by, or refused membership of, a professional organisation or trade association, or is a member of a partnership, or director, secretary or controller of a company, that has been disciplined by or refused membership of a professional organisation or trade association; (v) has had a county court judgment made against them in the last five years, or has been a member of a partnership, or director, secretary or controller of a company, that has had a county court judgement made against it in the last five years, unless such county court judgement has been satisfied within a period of six months from the date of judgement, 	<p>Strengthens the disqualifications in respect of members serving on the Board, to reflect the high calibre of member required for this important position.</p>

<p>(vi) has been convicted of any offence which is not spent under the Rehabilitation of Offenders Act, or is a member of a partnership, or director, secretary or controller of a company, which has been convicted of any offence in the last ten years. For the purpose of this Rule driving offences which do not result in a court appearance and are dealt with by way of points applied to a person's driving licence and/or a fine shall not be considered offences so as to disqualify a member from the office of director,</p> <p>(vii) holds any recognised political office,</p> <p>shall be disqualified from being a director and if a sitting member of the board shall thereupon vacate his office.</p>	
<p>58. Extraordinary Vacancies - A casual vacancy in the number of directors may be filled by the board, or if it arises at any meeting of the Society, by that meeting. Any person appointed to fill any casual vacancy shall retire from office at the time when the director through whose vacation of office the vacancy occurred would have retired.</p> <p>When, at any election there are ordinary and extraordinary vacancies, the candidates with the highest votes shall fill the ordinary vacancies provided that where a director is subject to the annual re-election of members and is re-elected he shall continue the 3 year term for which he was originally elected, subject always to further annual re-election as required by these Rules.</p>	
<p>59. Meetings and Quorum of the Directors -The directors shall meet and regulate their meetings as they may determine, but shall not proceed to business unless a quorum is present. A quorum at any meeting of the board of directors shall consist of at least five half the number of the directors in office at the date of such meeting, provided that no such meeting may proceed to business if less than three directors are present.</p> <p>Directors may be counted in the quorum, participate in and vote at meetings of the Board by telephone, video or other electronic means.</p> <p>At any meeting of the Board at which employee members comprise more than 50% of the members present, no resolution shall be passed which would not have been passed had all the said employee members present abstained from voting thereon.</p>	<p>Amends the number of Directors required to be present to five in order for a Board meeting to be quorate.</p> <p>Provides for directors to participate in meetings by utilising modern communication methods if they are unable to attend a meeting.</p>

65. Code of Conduct and Training Requirement of Directors - The Board will prepare and approve a code of conduct for Directors ~~that shall include a duty for each director to ensure that he receives training commensurate with his duties and individual experience throughout his term of office, in order that the Board is competent to fulfil its role.~~ All Directors will be required to sign an acceptance of, and abide by, the code of conduct for Directors.

Each director shall ensure that he receives training commensurate with his duties and individual experience throughout his term of office, including completing the minimum twelve hours of training per year, in order that the Board is competent to fulfil its role. Failure to do so without good reason may be a cause for suspension or removal from office under the provisions of Rule 57.

Places the requirement for training of directors directly into the Rules and strengthens the requirement to ensure that the Board is competent to fulfil its role.

68. Responsibilities and Powers of the Board

The Board has the following responsibilities:

- (a) to ensure that the Society's affairs are conducted in accordance with these Rules, the best interests of the Society and its members and in accordance with the Co-operative Values and Principles;
- (b) to determine the strategy and policy of the Society in consultation with the Chief Executive; and
- (c) to oversee its implementation.

Subject to what the Industrial and Provident Societies Acts and these Rules say, the directors shall have full power to conduct the business of the Society and to exercise on behalf of the Society all the powers of the Society not specifically required by these Rules or otherwise to be exercised by the Society in meeting.

The Board may from time to time:

- (a) appoint, remove and fix the remuneration and terms of employment of the Chief Executive and of the Secretary, such appointments not to be held by the same individual at the same time;
- (b) determine from time to time those matters, not reserved to the members, that require the approval of the Board;
- (c) approve the use of the Society's seal and determine the transactions and documentation that require multiple board signatures.

<p>If one or more directors wish to seek independent professional advice on an issue the director(s) should first discuss the matter with the Chairman and/or Secretary and document the case for presentation to the Board. If upon consideration more than one third of the full Board is in favour of the proposal, the Secretary will arrange for such advice to be obtained at the Society's reasonable expense. If the Secretary is involved in the matter in question and cannot be regarded as independent for the purposes of obtaining advice, the Chairman or Chief Executive Officer shall act in place of the Secretary.</p> <p>The directors may delegate to the Chief Executive and to the Secretary any of the powers given to them so far as such powers appertain to the management of the Society's business, provided that thereby the directors do not relinquish their responsibility of control and direction of policy.</p>	<p>Places the current policy in respect of the Board's ability to seek independent professional advice into the Rules.</p>
<p>77. Publication of Accounts and Balance Sheets – Where necessary in law, or where the membership requires, The directors shall not cause to be published any balance sheet unless it has previously been audited by the auditor and it incorporates a report by the auditor that it gives a true and fair view of the income and expenditure, or the state of the affairs of the Society, as the case may be. Every revenue account and balance sheet published shall be signed by the secretary and by two directors acting on behalf of the board of directors.</p>	<p>Provides flexibility, should legislation change to allow publication of half yearly revenue accounts and balance sheets in the future without the requirement for them to be audited.</p>
<p>85. (f) in paying, while the Society continues to be a member of the Co-operative Party, such subscriptions to the funds of the Party as the Rules and orders of the Party may from time to time determine and additionally an annual grant, as the directors may determine, to the local Society Co-operative Party for administrative and ancillary costs thereof, subject to—</p> <p>(i) the constitution of the Society Co-operative Party being determined by agreement between the Society and the Co-operative Party members concerned and being registered with the National Executive Committee of the Party.</p> <p>(ii) the Society Co-operative Party making available to every annual meeting of the Society a report on their work and activities during the preceding year.</p> <p>Note: Sub-clauses (g)–(h) will require re-numbering as a result of this sub-clause being removed.</p>	<p>Rule sub-clause is not currently required in view of the Board's decision for the Society to be political neutral.</p>

<p>87. Custody and Use of Seal - The Society shall have its name engraven in legible characters upon a seal, which shall be kept in the custody of the Secretary and shall be used only under the authority of a resolution of the directors. The directors may determine who shall sign any instrument to which the seal is affixed and unless otherwise so determined it shall be signed by two directors, or by one director and the Secretary. The directors shall be empowered to appoint a deputy to sign and apply the seal for the Secretary, in his absence. In accordance with the law, the directors may determine that documents may be signed as a Deed, by two directors, or by one director and the Secretary, in lieu of use of the seal.</p>	<p>Brings the Rules in line with current legal practice for the signing of documents as a Deed without the use of the seal.</p>
<p>88. Determination of Disputes - Every unresolved dispute which arises out of these Rules between the Society and:</p> <ul style="list-style-type: none"> (a) a member; or (b) any person aggrieved who has ceased to be a member within six months prior to the date of the dispute; or (c) any person claiming through such member or person aggrieved; or (d) any person bringing a claim under the Rules of the Society; or (e) an office-holder of the Society <p>is to be submitted to an arbitrator agreed by the parties or in the absence of agreement to be nominated by the Chief Executive Secretary General of Co-operatives^{UK} Limited. The arbitrator's decision will be binding and conclusive on all parties.</p>	<p>Corrects the change in role title for the Secretary General of Co-operatives^{UK} Limited.</p>
<p>94. Registration of Alterations - No amendment of the Rules and no new Rule is valid until registered. When submitting Rule amendments to the Registration Authority for registration the Secretary may, at the Secretary's sole discretion, accept any alterations required or suggested by the Registration Authority without reference back to a further Special General Meeting of the Society.</p>	<p>It is regular practice for this to be provided for at each Rule amendment considered by the members. This Amendment places the provision into the Rules.</p>
<p>Note: Due to the insertion of a new Rule 9, existing Rules 9 through 96 will require re-numbering and any cross-references, within the Rules in their entirety, will need to be revised.</p>	