

## Credit Union News: Common Bond Update

### Common Bond Test

August 2006

#### Background

The Business Law Reform Bill ("Bill") was introduced into Parliament on 27 June 2006. Part 4 of the Bill proposes several changes to the Friendly Societies and Credit Unions Act 1982 ("Act").

The purpose of these changes (as set out in the Bill's introduction) is to give credit unions a greater ability to grow their business, without introducing "unmanageable risks" to their members.

#### Registrar's determination changed to objective test

The most significant change is in respect of the "common bond". The Bill removes the requirement for a credit union's common bond to be approved by the Registrar of Friendly Societies and Credit Unions.

A common bond still includes:

- following a particular occupation;
- residing in a particular locality;
- being employed in a particular locality; or
- being employed by a particular employer.

The Bill adds an additional potential common bond, being "any other qualification that can be objectively determined".

Some tests are placed around what constitutes a qualification able to be objectively determined. The qualification:

- must include every person who fulfils the qualification;

- ***Change to common bond test***
- ***Registrar's discretion removed***
- ***Any qualification that can be objectively determined can constitute a common bond***

- must be able to be determined by a person who is not a member of the credit union; and
- must not depend on any person's subjective judgement.

While it can be argued that these qualifications are somewhat circular, the possibility of having a common bond on other than occupation, employment or location criteria, without the need for prior Registrar's approval, is important.

Other proposed amendments worth noting are:

#### Membership

Charitable entities and incorporated societies may become members of credit unions, although they cannot be officers of credit unions.

#### Fees

The rules of a credit union may set out either the amount of fees or charges payable by members, or the mechanism for charging those fees or charges. Currently, a credit union's rules must specify the amount of the fees and charges.

### **Minimum Shares**

The Act currently provides that a credit union's rules shall not require a person to hold more than \$10 in fully paid up shares as a condition of membership. The change to the Bill is designed to allow a credit union greater flexibility in that its rules may allow for a minimum deposit of more or less than \$10.

### **Submissions on the Bill**

The closing date for the Select Committee to receive submissions on the Bill is 25 August 2006. The legislation will proceed thereafter. We will keep you informed of progress.

### **Contact Us**

The information in this newsletter is necessarily general.

Please feel free to contact us for more information about any of the matters raised in this newsletter or about any other matter relating to your Credit Union or the Business Law Reform Bill.

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