



Abacus
Australian Mutuals

Association of Building Societies and Credit Unions

21 September 2006

The Hon Chris Pearce MP
Parliamentary Secretary to the Treasurer
Parliament House
CANBERRA ACT 2600

Dear Mr Pearce,

Corporations Amendment Bill (No.1) 2006 - 100 member rule

Thank you for your recent letter advising me that the above Bill, which includes an amendment to remove the '100 member rule', was rejected by the State and Territory Attorneys-General at the 27 July 2006 meeting of the Ministerial Council for Corporations.

Abacus – Australian Mutuals, which represents credit unions and mutual building societies, is disappointed to learn of this development as it further delays reform in this important area of the law.

Abacus continues to support the view of the Government that the 100 member rule should be abolished, and that the 5 per cent voting rights threshold be retained. These measures are necessary in view of the potential for the existing 100 member rule to allow small member groups to requisition a general meeting and expose companies to unnecessary cost and waste of resources.

Abacus agrees that if a proponent of a meeting cannot secure the support of members with 5 per cent of voting rights, it is highly unlikely they will secure majority support for any resolution to be put to the meeting. The 5 per cent voting rights threshold strikes a reasonable balance between protecting member rights and ensuring business efficiency.

In the case of mutual organisations like credit unions and mutual building societies, the 100 member rule is particularly discriminatory and inequitable in that it potentially gives disproportionate influence to minority members. A proponent would be more inclined to requisition a meeting of members of a mutual given that there is no prospect of a resolution being defeated by large shareholders, as is likely to happen in the case of a listed (non-mutual) company. Because one member has only one vote in a mutual (as opposed to one vote per share in a listed company), resolutions put by a very small minority, but which may have significant implications for the mutual, could be easily passed without proper consideration by the majority of members who may not attend an unscheduled general meeting.

An increase in the number of members required to requisition a meeting would at least mean that there was more substantial support for the resolution to be put to the general meeting. Members are much more likely to attend and vote at meetings if their support to requisition a meeting was sought in the first place. We see this as a prudent and positive outcome.

Abacus does not support the alternative put forward by the State and Territory Attorneys-General that the 100 member rule be replaced by one where the square root of the number of members is able to requisition a meeting of members.

Abacus agrees that the square root rule produces a very low threshold for an exercise that imposes significant costs on a mutual. For example, under the square root rule, less than 100 members will be empowered to requisition a meeting in the case of 64 credit unions and building societies (that is, 47% of the sector). This would discriminate unfairly and disproportionately against smaller mutuals as they will be faced with an even lower threshold than the existing 100 member rule. The 5 per cent threshold rule, on the other hand, would have this effect only in relation to 16 credit unions.

Thank you for the opportunity to comment further on this important policy matter. For more information on *Abacus*' view or any issues raised in this letter, please contact Raj Venga on (02) 8299 9115 or at rvenga@abacus.org.au.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Louise Petschler', with a long horizontal flourish extending to the right.

LOUISE PETSCHLER
Head of Public Affairs