

## Proposed Rules and Memorandum of Association FAQs

### 1. Why is the EEFC proposing an update to the Memorandum and Rules?

At our 2019 Annual General Meeting, a members' motion initiated the creation of an Expansion Committee to pursue a new, additional location for the Co-op to grow our impact. We have since secured grant funding to work with a consultant on financial and business planning for this project, and identified a prospective location.

Through this process we have identified the need to secure additional investment in the Co-op from a variety of sources. However, our current rules do not allow the investment that this project may require. The board therefore initiated a process to review our rules with an experienced co-op lawyer and the resulting changes have been recommended to enable investment and modernize the governance of the co-op to support expansion.

### 2. If enacted, what would these changes mean for us as members??

The most significant change included in the new proposed documents is that the board would be able to create investment shares. The intent of these shares is to support expansion to a new store. While these Rules would provide the board flexibility to create these shares, no shares would actually be created until investment can be secured.

For members, passing these Rule changes will significantly increase our ability to secure investment for a new, expanded store for the co-operative. If we are successful in securing that investment and expanding to a new location, we would be able to

Other proposed changes will provide improved clarity in a number of important governance areas that are not covered by our current documents, including director qualifications, director termination and liability, and the ability to conduct electronic meetings.

### 3. What are investment shares?

Issuing investment shares is one way for co-op businesses to raise a larger amount of capital. Investment shares can be sold at the formation of a co-op or while the co-op is operating, if it needs to raise capital for a special project. These shares usually cost much more than membership shares and will often include a return on their investment. Investors will normally enter into an agreement with the co-operative that outlines their investment's rate of return, payment schedule, and other stipulations. Once a co-operative is in a financial position to do so, it has the option to buy investment shares back from shareholders. Investment shares do not offer membership rights and investment shareholders need to purchase a membership share to be an owner and

gain things like the right to vote. Therefore, the issuance of investment shares does not impact the principle of 'one member, one vote'.

4. How does enabling and creating investment shares impact the governance of the co-operative and the power of members?

The co-operative structure is inherently designed to ensure that the concerns of members are at the core of the co-op's governance, regardless of whether or not investment shares are a part of the structure. Unlike corporate common shares, investment shareholders of a cooperative cannot outvote members. Investment shareholders are limited to, at most, 1/5 of the Board by the Act. Members will therefore retain governance control of the co-operative in alignment with the co-operative principle of 'one member, one vote'.

5. Is it common for co-operatives to enable and use investment shares to grow their business? Do you have any examples of co-ops doing so successfully?

Many cooperatives issue investment shares as a vehicle to finance growth or expansion. A grocery co-op in Seattle, Washington, issued investment shares as part of their financing to open a new store in Tacoma, Washington. Central Co-op raised \$1.6 million from their membership (for more details see: <https://www.centralcoop.coop/page.php?PID=1057>). In British Columbia, the Community Impact Investment Coalition is focused on promoting cooperative and community growth through the utilization of cooperative investment shares (for more details see: (<https://www.bcinvestmentcoop.com/resources>)).

6. Why are you referring to the East End Storefront Cooperative in the Rules?

Because the East End Storefront Cooperative is our legal name.

7. What lawyer did you choose to work on these changes and why?

We have been working with Elliot Bridgewater, a lawyer that was recommended to us by the BC Co-operative Association for this purpose. Elliot has done considerable work in co-operative development, including feasibility analysis, co-operative and employee ownership conversions and recapitalization, co-operative capital development, business model design and architecture formation, and succession planning. Elliot is also a fellow with the Sustainable Economies Law Center in Oakland, California.