



CIC Regulator raises dividend and interest caps on shares and debt finance

The Community Interest Company (CIC) Regulator has published its response to a consultation on the dividend and interest caps carried out last year.

The existing caps are as follows:

- 5% above Bank of England base rate for the dividend per share cap
- 4% above Bank of England base rate for the debt interest cap (usually performance related)
- An overall aggregate cap of 35% of total distributable profits (with this cap operating concurrently with the above dividend cap)

The consultation last year was launched amid concerns that the caps were too low and unduly restricting the incentive to invest in CICs. The results were mixed. Most respondents thought the aggregate 35% cap on total distributable profits did not unduly limit incentives for equity investment and that it struck the right balance in protecting the social objectives of CICs against the need to attract appropriate investment.

However, there was support for the view, both among investors, financiers and non-CIC social enterprises, that the caps were too restrictive to attract investors and played a factor in those opting for other models of social enterprise.

In responding to the feedback, the Regulator decided not to amend the aggregate 35% total distributable profit cap but has raised the dividend per share and debt interest caps as follows:

- 20% dividend cap on the paid up value of the share (therefore also dropping the link to the Bank of England base rate)
- 10% interest cap on the average amount of the CIC's debt or any debenture instrument (calculated over the 12 month period immediately before the date on which the interest becomes due)

Both changes will come into force on 6 April 2010, but the new caps will not apply to shares that were issued or debt agreements entered before this date for which the current rates will still apply (in particular the link to the Bank of England base rate to the existing 5% dividend per share cap. Of course, these are only maximum caps and CICs are free to set lower caps if they wish.

The Regulator will also continue to closely monitor the effect of these changes and will conduct another review within the next two to three years.

Potential impact of the changes

The raising of the caps should allow CICs to attract more investment, something which has been a problem since the original rates were set, whilst still maintaining a strong social ethos within their companies. It is also likely that investors will now consider CICs as reasonable sources to invest in social and ethical causes, whilst maintaining the prospect of a reasonable return.

Many found the interaction between this cap and the aggregate 35% cap too complex, but the removal of the Bank of England base rate will make the caps easier to understand.

The proportion of CICs limited by shares may also rise following the introduction of the increased caps – currently only 26% of CICs are limited by shares, whereas 74% are limited by guarantee.

The Regulator's full response to the consultation can be obtained at:
<http://www.cicregulator.gov.uk/consultationresponse.shtml>

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