FAQs

Safeguarding our mutual – Coastline Credit Union

Mutual Capital Instruments explained

How did this new legislation come about?

The Federal Government passed legislation allowing mutuals which includes Credit Unions like Coastline to issue Mutual Capital Instruments (MCIs) for the purpose of raising capital.

Parliament concluded that mutuals should have theright to raise permanent capital, and proposed the development of MCIs—a specialised financial instrument exclusive to eligible mutual organisations.

The legislation also introduced a definition of 'mutual entity' into the Corporations act for the first time.

What is an MCI?

An MCI is a type of financial instrument that has been created exclusively for mutual organisations. Like other financial instruments MCIs will generally offer a rate of return and may be able to be bought and sold.

MCIs may, for example, look like bonds, which would provide a fixed return to investors. One important difference is that MCIs are classed as permanent capital on our balance sheet, where as bonds are categorised as debt.

Why does Coastline need the ability to issue MCIs?

Currently, Coastline can only access capital by raising debt, or using the retained profits we've built up over the past 55 years. While we've undoubtedly achieved a great deal to date, it's a restrictive model that's constrains our ability to fully realise our potential.

MCIs will give us another way to raise funds, strengthening our financial standing and enabling us to bring greater value to our members.

What is a mutual?

A mutual is a company that is collectively owned by its members—typically its customers rather than by shareholders. Coastline fits under this model.

Under the new legislation, a mutual has been defined as an organisation where each member is entitled to no more than one vote. This means that everyone has the same voting power, regardless of how many products or services they have with Coastline.

How does this new legislation strengthen our mutual status?

We value our mutual status, and we see this new legislation as an opportunity to further safeguard it.

The new legislation means, for the first time, we can issue permanent capital without having to demutualise. It's a positive step forward for Coastline.

Is the introduction of MCIs in response to a particular financial need?

No. Coastline is in a sound financial position, and the introduction of MCIs is not in response to financial performance or a specific financial need. Instead, this is about strengthening our mutual structure for the medium and long-term, and bringing us into line with where the rest of the market is likely to head.

Does this change Coastline's structure, purpose or values?

No. The Parliamentary changes recognise mutuals as a specific corporate form for the first time. This is an important development that means we can raise permanent capital without making any changes to our structure, our purpose or our values.

How does this new legislation help us build on our purpose?

For 55 years, Coastline has been driven by a singular goal: to help members with their financial wellbeing. By unlocking new capital – additional funds on top of our existing funds – we can make an even bigger impact.

The new funds, derived from issuing permanentcapital, will allow us to improve our existing services and further invest in our communities.

It will mean we are not just reliant on the profitability of our existing services (although that remains important). And it will better protect our organisation for the long-term as we realise our potential in a sustainable and efficient way.

The MCI is referred to in the legislation as a 'share'. How is it different from ordinary corporate shares?

MCIs have been classified under the Corporations Act as a type of share, but they are quite different from the ordinary shares that public companies issue on the stockexchange.

Firstly, Coastline remains member owned,regardless of how many MCIs are issued.

Secondly, each member has access to only one vote each, regardless of how many MCIs they hold. With normal public companies, shareholders generally have one vote for every share they hold.

Finally, the changes we're proposing to the Constitution prevent MCI holders from voting on demutualisation's and wind-ups. These significant safeguards will further protect our existing corporate structure and ensure that we continue to enjoy the benefits of being mutual.

How will MCIs be issued?

There are several different ways that we could issue an MCI, and it will depend on changing investor appetite. That's why the proposed changes will allow the Board to issue MCIs on different terms.

One option will be to issue an MCI that offers a fixed rate of return, subject to profit or capacity to pay. These MCIs would be permanent and give no right of redemption.

What additions need to be made to the Constitution?

We'll need to make some specific additions to the Constitution to match the requirements of the Corporations Act. You can read the full amendments in the Notice of Meeting, but in summary we need to:

- make it clear that the Board has the power to issue MCIs
- set out the rights and obligations of MCI holders

Where can I find out more?

If you'd like more information about MCIs or you have a specific question you can get in touch with us at info@coastline.com.au