

Guide to Federal Bylaws

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Writing bylaws is [an important step](#) in the process of creating your co-op. Bylaws are the rules and regulations that govern and define various aspects of a co-operative's business. Bylaws can vary widely across organizations and reflect both the business of the co-operative and values and interests of its members. They also outline the procedures the organization uses to carry out its business. Consider this your guide to federal bylaws.

Co-ops are legally required to have bylaws, but they are also an important tool for a co-op. Done properly, bylaws ensure all members are clear about the organization's purpose and processes. Also, good bylaws engage member shareholders in the business and keep it healthy.

A good set of bylaws are:

- the product of a group effort in which members have input.
- reflective of the values and interests of the co-op.
- thorough.
- compliant with [the Cooperatives Act](#).
- based on legal counsel.

This resource provides an overview of each part included in a standard set of bylaws, and offers insights and examples that may help groups write their own bylaws.

To help navigate the process, [try our sample set of bylaws as a starting point](#). You can (and should) customize these sample bylaws to fit the requirements of your unique situation. Also, do your best to keep these changes within what is allowed by the Act.

The process can be daunting. If you have any questions or would like feedback on your draft bylaws, we're happy to look them over for you. [Get in touch](#).

Below is an overview of each section included in a standard set of bylaws. This overview gives insights and examples that may be relevant for you. You can use this information in conjunction with our sample bylaws to create your own.

Interpretation

In this section, you include definitions of important words or phrases used throughout the document. Some commonly used terms you may want to define in your bylaws include:

- The Act
- Board/directors
- Member
- Officer
- Individual

- Ordinary resolution
- Special resolution
- Patronage return
- Bylaws

In our sample bylaws, we have examples of these standard definitions that you can use. There will likely be other terms that you'll need to use in the bylaws of your specific co-op, and it's important to define those as well.

Membership

Outline who and how to become a member of the co-op. The Cooperatives Act states that a co-op's bylaws set the requirements on membership qualifications, but section 36 of the Act requires membership to have an application process.

You should include requirements that members interested in joining the co-op must meet; common provisions include:

- a minimum age requirement
- submission of payment for the minimum number of membership shares required for membership or payment of membership fees
- submission of an application for membership approved by the co-op

Depending on the type of co-op, you may have other requirements that reflect its operations. For example, a co-op federation may require members to be a corporate entity. This section should outline whether joint memberships (a membership held by more than one person) are allowed.

You should outline any specific rights a member is entitled to as a member. This may include use of the co-op's services, right to vote at meetings, right to serve on the board or committees, and right to receive information concerning the co-op.

Your bylaws must identify the processes for members to end their membership in the co-operative. The provision for withdrawal of membership should outline that the member is required to submit notice of the intention to withdraw to the board indicating the date of withdrawal. Section 39 (3-4) of the Act require a co-op to redeem (buy-back) all shares or member loans held by the withdrawing member within one year unless doing so would adversely affect the financial well-being of the co-op. Directors may use their discretion when determining if the co-op can redeem a withdrawing member's shares.

You should also use this section to outline how a member can have their membership in the co-op terminated. Section 40(2) of the Act allows the directors, by special resolution, to terminate a membership. The affected member must be given notice within 10 days of the decision and the member, within thirty days of receiving the termination notice, may give notice of an appeal to the termination. Such an appeal will be brought to the next members' meeting and can be reversed by the membership by ordinary resolution. Section 42 of the Act also allows members to terminate a membership by special resolution. A terminate member must have their shares redeemed within one year of the termination. This can be a contentious process, but having clear procedures will alleviate some of the uncertainty.

Members' Meetings

In this section of federal bylaws you should outline the procedures that must be followed for members' meetings of the

co-operative. The co-op must hold an annual meeting each year to report to the members of the co-operative, elect directors, appoint an auditor, and transact any other business. Members' meetings are held in the trading area of the co-operative at the discretion of the directors. Because federally incorporated co-ops often have members across the country, the Act allows meetings to be held by electronic means.

Section 56(1) of the Act outlines what is considered special business, which amounts to anything not mentioned in the previous paragraph. Any special business that will occur at a members' meeting must be included in the notice of the meeting. The directors may call a special meeting at any time or, as provided in Section 69 of the Act, two or more persons that hold at least 5% of the voting rights may 'requisition' the directors to call a meeting; the purpose of such a meeting must be included in the requisition. Members may also submit any proposals (e.g. resolutions) to the co-operative for discussion at a members meeting. You should create bylaws that outline the manner and timeframe for members to submit proposals before a members' meeting.

Notice of the members' meeting must be distributed to all members of the co-op, within six months after the end of the preceding financial year, in a manner and timeframe that you provide for in the bylaws. Typically, a minimum of 21 days and maximum of 50 days' notice is given.

According to section 62(1) of the Act, quorum for a members' meeting is the majority of members, unless your bylaws provide otherwise. Setting quorum at a realistic figure is important to ensure the co-operative can transact business each year. Voting at a members meeting is typically done by a show of hands unless the meeting is hosted over telephone or other electronic means or otherwise provided for in the bylaws. For any decision, a member may demand that voting take place by secret ballot. The Act allows for members to designate proxies to vote on their behalf at members' meetings. Should you allow for proxy voting, the directors will be responsible for providing a form that should be completed by the member and their proxy.

In this section you should outline the process for amending the bylaws of the co-op. The bylaws may be amended by special resolution of the members at a members' meeting or by the directors by special resolution at a board meeting. A bylaw amendment made by the board must be confirmed by the members, by special resolution, at a members' meeting. A bylaw may come into effect on the day it is approved by the members.

Directors

In this section you should outline the parameters and processes to be followed by the board of directors. Most importantly is the qualifications a member must meet to become a director. These can be determined in your bylaws, but the Act does outline 4 items that would make a person unable to become a director:

- is not an individual
- is less than 18 years old
- is incapable
- has the status of bankrupt

You may also outline the number of directors, which is determined in its articles of incorporation.

Your bylaws must provide for the nomination and election of directors. Nominations often take place through two forums: the board creates a nominations committee to find candidates or members can nominate themselves or others. In all cases, the co-op should maintain a form for candidates that ensures they are eligible to become a director.

Elections take place at the annual members meeting and is conducted by secret ballot. In the event of a tie, Section 83(10) of the Act states that the directors already elected to the board may break the tie.

Many co-operatives do not elect all of their directors at the same time. You can create provisions for staggered terms which would allow a portion of the board to come up for re-election each year. To provide for staggered terms draft bylaws that provide for a director's term of office (usually 1-3 years) and a procedure for assigning different terms at the first election. For example, a bylaw might state that at the first annual meeting, the directors with the most votes will serve a 3 year term, the directors with the second most votes will serve a 2 year term, and the directors with the fewest votes will serve a one year term. At all future meetings, directors will be elected to a 3 year term.

Your federal bylaws should outline the offices of the co-operative. You can create any office you've deemed necessary, but the four most commonly used offices are president, vice-president, secretary, and treasurer. The bylaws can include the duties, responsibilities, and remuneration of officers, or you can leave this to the board to determine.

An important section of your bylaw should focus on a director vacating their office. This can happen by three scenarios: the director dies or resigns, no longer qualifies as per the requirements included in the bylaws, or is removed. Section 88(1) of the Act allows the members of the co-op to remove a director by ordinary resolution. It's important that you include provisions outlining how a director can be replaced. If a director is removed by the members at a members' meeting, they can be replaced at the same meeting. You can include provisions that allow directors to appoint a new director in the event of a vacancy, but if the vacancy(s) result in an inability to meet quorum, the remaining directors must call a special meeting to elect new directors.

You might want to create bylaws that place parameters on the powers of directors. This can be done in the co-operative's articles of incorporation, but can be expanded upon in the bylaws. Some examples of restrictions you might consider include limiting the amount of debt the board can take on without consulting the membership or requiring the board to invest in specific kinds of investments (social impact investments) if it engages in investment activity.

Liability of Directors and officers

Although provided for in Section 113 of the Act, you can include provisions in the bylaws stating that the co-op will indemnify its directors. This means that should the directors be named in a lawsuit, the co-operative will cover any damages that must be paid and any associated legal costs. For this reason we strongly recommended that all co-operatives purchase directors' liability insurance.

Sections 101 and 102 of the Act outline some of the reasons a director may be found to be personally liable for the expenses of the co-op. We suggest expanding the wording included in any provisions dealing with indemnity to include errors in judgement, issues arising from market conditions, and any other extenuating circumstances.

Conflicts of Interest

In this section of federal bylaws you should identify what constitutes a conflict of interest and the process that should be followed should a director find themselves in a conflict of interest. Section 103 of the Act outlines 3 situations that would constitute a conflict of interest:

- A director will benefit from a contract or transaction that is being decided by the board
- A director is a director or officer of a party that will benefit from a contract or transaction being decided by the board

- A director has a relationship with a party that will benefit from a contract or transaction being decided by the board.

Standard procedure for addressing a conflict of interest involves requiring directors to disclose whether a conflict of interest exists and the board using its discretion to determine whether the affected director can participating in the discussion or vote on the decision.

Meetings of Directors

In this section of federal bylaws you must create provisions governing board meetings. The Act offers some guidance on several items including the amount of notice that must be provided (at least 5 days), quorum (a majority of the directors), place and time (as determined by the board), and voting (one directors, one vote). In the event of a tie of votes on a resolution, the chair may cast a deciding vote.

Auditor

The office of auditor within a your co-op will be filled at each annual members' meeting by ordinary resolution of the members. Typically, the board will recommend a firm or individual to be appointed to this office and the auditor will hold office until the close of the following years' annual meeting. The board typically sets the remuneration for the auditor and can exercise discretion should the auditor need to be dismissed/replaced.

Execution of Documents

In this section of federal bylaws you must identify how the board, or co-op more generally, will sign off on documents. It is standard to require 1-2 directors to be designated as having signing authority. Signing authority can be designated in the bylaws (e.g. to specific officers) or determined by resolution at a board meeting. Should the co-operative have a corporate seal (stamp), you should specify how it is designed, where it is stored, and if the seal must be accompanied by signatures.

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