



What is an asset lock?

Basic info

An “asset lock” is a way of ensuring that the assets of a company or society can never be cashed in by or transferred to private individuals or other companies for their own advantage. An asset lock means that:

- While the company or society is still trading it must use its assets for a specific community benefit and may not transfer them to any person or organisation that will use them differently
- If the company or society is dissolved, any cash or other assets remaining after creditors have been paid may not be transferred to the members
- Instead the assets must be transferred to another company or society that has a similar asset lock

Whether or not a company or society adopts an asset lock depends on exactly what kind of company or society it is, but the following bodies typically do have an asset lock.

Community Interest Companies

A Community Interest Company must lock its assets: see sections 30 to 32 of the Companies (Audit, Investigations and Community Enterprise) Act 2004. The government produces model Articles of Association for a CIC which include a properly drafted asset lock.

Company Limited by Guarantee

The model Articles of Association for a company limited by guarantee do not contain an asset lock but many not-for-profit bodies incorporated as a company limited by guarantee have chosen to adopt bespoke Articles that do include an asset lock.

Registered Society

A Community Benefit Society may choose to adopt an asset lock, known as a “restriction on use” of the society’s assets. The terms of the restriction on use are set out in Schedule 1 to the Community Benefit Societies (Restriction on Use of Assets) Regulations 2006. The restriction prevents the society from transferring its assets to any other person or company apart from one with a similar asset lock.

Must a company or society have an asset lock in order to be regarded as a not-for-profit body for Housing Benefit purposes?

Not everyone agrees that an asset lock is a necessary requirement in order for a company or society to have not-for-profit status: what might or might not happen to the organisation’s assets in the future arguably has no bearing on whether it is currently trading for profit and is less important than how the organisation operates from day to day.