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**PROGRAMME IN SOUTH AFRICAN INSOLVENCY LAW AND PRACTICE 2022**

**Practice Assessment: Paper 1 Date: 6 – 7 October 2022**

**Time limit: 24 hours (from 13:00 on 6 October to 13:00 on 7 October 2022)**

**EXAMINERS**

**Ms R Bekker Prof A Boraine Prof J C Calitz Prof H Coetzee Ms N Harduth**

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**MODERATORS**

**Dr D Burdette Mr Z Cassim**

**It is imperative that all candidates read and take cognisance of the examination instructions on the next page.**

**All candidates are expected to comply with ALL the instructions.**

**INTRUCTIONS**

1. This assessment paper will be made available at **13:00 (1 pm) SAST on Thursday 6 October 2022** and must be returned / submitted by **13:00 (1 pm) SAST on Friday 7 October 2022**. Please note that assessments returned late will not be accepted.

2. All assessments must be submitted electronically in Microsoft Word format, using a standard A4 size page and an 11-point Avenir Next font (if the Avenir Next font is not available on your PC, please select the Arial font). This document has been set up with these parameters – **please do not change the document settings in any way**. **DO NOT** submit your assessment in PDF format as it will be returned to you unmarked.

3. No limit has been set for the length of your answers to the questions. Please be guided by the mark allocation for each question. More often than not, one fact / statement will earn one mark (unless it is obvious from the question that this is not the case). Candidates who include very long answers in the hope it will cover the answer the examiners are looking for, will be appropriately penalised.

4. You must save this document using the following format: **studentID.Paper1Formative**. An example would be something along the following lines: 202122-336.Paper1Formative. **Please also include the filename as a footer to each page of the assessment** (this has been pre-populated for you, merely replace the words “studentID” with the student number allocated to you). Do not include your name or any other identifying words in your file name. **Assessments that do not comply with this instruction will be returned to candidates unmarked**.

5. The assessment can be downloaded from your student portal on the INSOL International website. The assessment must likewise be returned via your student portal as per the instructions in the Course Handbook for this course. If for any reason candidates are unable to access their student portal, the answer script must be returned by e-mail to [david.burdette@insol.org](mailto:david.burdette@insol.org).

6. Due to the high incidence of load shedding currently taking place across South Africa, candidates are required to determine whether any load shedding is scheduled during the examination period and, if so, to make alternative arrangements to write elsewhere if at all possible.

7. Enquiries during the time that the assessment is written must be directed to David Burdette at [david.burdette@insol.org](mailto:david.burdette@insol.org) or by WhatsApp on +44 7545 773890. Please note that enquiries will only be responded to during office hours.

8. While the assessments are open-book assessments, it is important to note that candidates **may not receive any assistance from any person** during the 24 hours that the assessment is written. **Answers must be written in the candidate’s own words; answers that are copied and pasted from the text of the course notes (or any other source) will be treated as plagiarism and persons who make themselves guilty of this will forfeit the assessment and disciplinary charges will follow**. When submitting their answers, candidates will be asked to confirm that the work is their own, that they have worked independently and that all external sources used have been properly cited.

9. Once a candidate’s assessment has been uploaded to their student portal (in line with the instructions in the Course Handbook), a confirmatory e-mail will be auto-generated confirming that the assessment has been uploaded. If the confirmatory e-mail is not received within five minutes after uploading the assessment, candidates are requested to first check their junk / spam folders before e-mailing the Course Leader to inform him that the auto-generated e-mail was not received.

10. If a candidate is unable to complete this practice assessment, please note that the practice assessments (mock examinations) are not compulsory and no further opportunity will be provided to complete it. The marking guide for the two practice assessments (Paper 1 and Paper 2) will be uploaded to the course pages after Paper 2 has been written and submitted.

11. You are required to answer this paper by typing the answers directly into the spaces provided (indicated by text that states [Type your answer here]). For multiple-choice questions, please highlight your answer in yellow, as per the instructions included under the first question.

12. Unless otherwise indicated, all references to sections are references to sections of the Insolvency Act 1936.

13. Prior to being populated with your answers, this assessment consists of **15 pages**.

**ANSWER ALL THE QUESTIONS**

**QUESTION 1**

Questions 1.1 – 1.20 are multiple-choice questions designed to assess your ability to think critically about the subject. Please read each question carefully before reading the answer options. Be aware that some questions may seem to have more than one right answer, but you are to look for the one that makes the most sense and is the most correct. When you have a clear idea of the question, find your answer and mark your selection on the answer sheet by highlighting the relevant paragraph **in yellow**. Select only **ONE** answer. Candidates who select more than one answer will receive no mark for that specific question.

**Question 1.1**

In terms of the Insolvency Act, “property” of an insolvent estate includes:

1. Immovable property situated in the Republic of South Africa.
2. Movable property situated in the Republic of South Africa.
3. Immovable property situated outside the Republic of South Africa.
4. Movable property situated outside the Republic of South Africa.
5. The contingent right of a fideicommissary heir or legatee.

**Select the correct answer**:

1. (1) and (2) are correct.
2. (1), (2), (3), (4) and (5) are correct.
3. (1), (3) and (4) are correct.
4. (1), (2), (3) and (4) are correct.

**Question 1.2**

**Select the correct answer**:

The effect of the sequestration of the estate of a natural person debtor is that:

1. the debtor remains owner of his or her property and only the control of his or her estate passes to the Master and then to the trustee.
2. the debtor is divested of his or her estate, which estate vests in the Master until a trustee has been appointed, whereupon the estate will vest in the trustee.
3. the debtor is divested of his estate which estate will vest in the Master until the final liquidation and distribution account has been approved.
4. The debtor is divested of his estate which estate will vest in the division of the High Court that granted the sequestration order.

**Question 1.3**

**Select the correct answer**:

Section 12 of the Trust Property Control Act 1988 provides that trust property –

1. forms part of the trustee’s insolvent estate.
2. does not form part of the trustee’s personal estate.
3. does not form part of the trustee’s personal estate, save as far as the trustee is also a trust beneficiary.
4. vests in the Master and, after their appointment, in the trustee of the insolvent estate.

**Question 1.4**

The following assets **will** form part of the insolvent estate of a natural person debtor:

1. The family home.
2. Clothing and bedding of the insolvent.
3. Household furniture.
4. Antique furniture.
5. Property of third parties.
6. Tools and other means of subsistence as the creditors or the Master determine.

**Select the correct answer**:

1. (1), (2), (3), (4) and (6) are correct.
2. (2), (3), (5) and (6) are correct.
3. (1), and (4) are correct.
4. (1), (4) and (5) are correct.

**Question 1.5**

Indicate which of the following estates **cannot** be sequestrated:

1. The insolvent estate of a deceased person.
2. The estate of an individual incapable of handling their own affairs;
3. A partnership.
4. A company.

**Question 1.6**

Which of the following courts **has jurisdiction** to issue a sequestration order?

1. A Magistrate’s Court.
2. A Small Claims Court.
3. A High Court.
4. A Criminal Court.

**Question 1.7**

Indicate the **incorrect** statement:

1. A provisional sequestration order may not be appealed.
2. A provisional sequestration order may not be rescinded.
3. An order refusing acceptance of a voluntary surrender of an estate may not be appealed.
4. There is no provision for the suspension of a provisional sequestration order by the court.

**Question 1.8**

Indicate the **correct** statement:

1. The grounds for setting aside a sequestration order or a winding-up order are found in the common law.
2. A sequestration order may be set aside based on the common law, but a final winding-up order may be set aside only on statutory grounds contained in the Companies Act 2008.
3. A sequestration order may be set aside on the grounds contained in the Insolvency Act but the grounds for setting aside a final liquidation order are found in the common law.
4. The grounds for setting aside a sequestration order or a winding-up order are contained in the Insolvency Act and the Companies Act 1973, respectively.

**Question 1.9**

Select the **correct** answer:

Claims submitted for proof against an insolvent estate must-

1. Be liquid.
2. Be proved before the estate can be finally distributed.
3. Be secured claims
4. Only be proved at the first meeting of creditors.
5. Both (a) and (b) are correct.
6. Both (c) and (d) are correct.

**Question 1.10**

Indicate whether the following statement is **true or false**:

Section 44(7) of the Insolvency Act provides for the examination of a claim before it is proved.

1. True
2. False

**Question 1.11**

Indicate whether the following statement is **true or false**:

Only the Master of the High Court may preside at a section 417 (of the Companies Act 1973) enquiry.

1. True
2. False

**Question 1.12**

A common requirement for all the prescribed statutory voidable dispositions is that a disposition of his or her property by a debtor will become voidable where one creditor is preferred above others.

Select the **correct** answer:

* + 1. The statement is correct, since sections 26 to 31 of the insolvency Act prescribe this requirement in all instances.
    2. The statement is correct since the requirement is limited to only one preferred creditor.
    3. The statement is not correct since the preference of one creditor above others is not prescribed in the case of dispositions for value, as dealt with in section 26 of the Insolvency Act.
    4. The statement is correct since this requirement is also prescribed for the common law *actio Pauliana* and was taken up as such in the Insolvency Act.

**Question 1.13**

Where the court orders the setting aside of a statutory voidable disposition, such as a disposition without value or a voidable preference, the court will order restitution of the disposed property and, where it is no longer available in the hands of the recipient, the court may order the recipient to return the value of such property as it was on the date of the disposition by the debtor.

Select the **correct** statement:

* + 1. The statement is correct since section 32 of the Insolvency Act provides for the return of the value of the property at the date of the dispositions, as mentioned in the statement above.
    2. The statement is not correct since the court may only order the return of the disposed property.
    3. The statement is not correct since section 32 of the Insolvency Act provides for the return of the value of the property at the date of the court order setting aside the disposition.
    4. The statement is not correct since section 32 of the insolvency Act requires that the court must declare that the trustee is entitled to recover the property itself, or the value thereof at the date of disposition, or at the date on which the disposition was set aside, whichever is the greater.

**Question 1.14**

Where the trustee or liquidator of an insolvent estate decides not to continue with an unexecuted / uncompleted contract entered into by the insolvent party prior to commencement of sequestration of liquidation, the solvent party may, in terms of the general rule applicable to this situation, claim specific performance against the insolvent estate.

Select the **correct** statement:

* 1. The statement is not correct since in terms of the general rule specific performance cannot be claimed in such an instance, even though the trustee or liquidator’s repudiation of the contract amounts to breach of contract.
  2. The statement is correct since specific performance is always available to the solvent party in a case of breach of contract by the trustee or liquidator.
  3. The statement is correct since case law has confirmed that the solvent party may claim specific performance in these circumstances.
  4. The statement is correct since the election of the trustee or liquidator in fact amounts to cancellation of the contract.

**Question 1.15**

X purchases a car from W on 10 May 2022 in terms of an ordinary credit sale agreement. Although the last instalment is only due to be paid on 10 November 2022, by agreement ownership in the car had already passed on delivery. The estate of X is sequestrated on 7 July 2022.

Select the **correct** answer:

* 1. W may reclaim the car if he has not been paid in full.
  2. W has lost ownership of the car since it is a credit sale in terms of the common law.

* 1. W enjoys a tacit hypothec that secures the balance of this claim.
  2. W enjoys a preferential claim against the estate of X regarding any damages that he may have suffered.

**Question 1.16**

Alpha Limited has recently been placed under business rescue in terms of an order of court as contemplated in section 131 of the Companies Act 2008. Mr Thobejane is an employee of Alpha Limited (in business rescue). He is concerned that his employment with Alpha Limited is about to come to an end by virtue of the commencement of business rescue proceedings. He approaches you for advice.

Which of the following statements **correctly** describes the position of employees during business rescue proceedings?

1. During a company's business rescue proceedings, employees of the company immediately before the beginning of those proceedings continue to be so employed on the same terms and conditions, except to the extent that changes occur in the ordinary course of attrition, or the employees and the company agree on different terms and conditions of employment, in accordance with applicable labour laws
2. During a company's business rescue proceedings, the business rescue practitioner can unilaterally vary the employment terms and conditions of the employees of the company immediately before the beginning of those proceedings, subject to the approval of the company's creditors at the first meeting of creditors
3. During a company's business rescue proceedings, all employment contracts that existed immediately before the beginning of those proceedings are automatically suspended
4. All of the above

**Question 1.17**

Which of the following statements is / are **correct** in relation to compromises between a company and its creditors in terms of section 155 of the Companies Act 2008?

1. A proposal for a compromise in terms of section 155 is adopted by the creditors of the company, or a class of creditors, if it is supported by a majority in number representing at least 75% in value of the creditors or class present and voting in person or by proxy.
2. Section 155 does not apply where a company is under business rescue proceedings.
3. A liquidator, where a company is being wound up, may propose an arrangement or a compromise of the company's financial obligations.
4. All of the above statements are correct.

**Question 1.18**

Select the **correct** answer:

What are the aims or goals of the business rescue process as set out in Chapter 6 of the Companies Act 2008?

1. The development and implementation of a business rescue plan to rescue the financially distressed company, which plan has the aim of allowing the company to continue in existence on a solvent basis.
2. To provide a better return for the financially distressed company's creditors or shareholders than would result from the immediate liquidation of the company.
3. Both statements (a) and (b) are correct.
4. None of the above statements are correct.

**Question 1.19**

**Select the correct answer**:

1. Only the provisions of the Companies Act 2008 apply to the liquidation of solvent companies.
2. Only the provisions of the Companies Act 2008 and the Companies Act 1973 apply to the liquidation of solvent companies.
3. Some provisions of the Insolvency Act also apply to the liquidation of solvent companies.

**Question 1.20**

**Select the correct answer:**

1. A voluntary winding-up by the company is possible only if the company has no unpaid debts.
2. In a solvent voluntary winding-up by the company, the shareholders have the right to appoint the liquidator.
3. From the moment of commencement of a solvent voluntary winding-up by the company, the company stops being a juristic person.
4. A company can be put into insolvent liquidation even if its assets exceed its liabilities.

**QUESTION 2**

What is the legal position after sequestration regarding debts that were due to an insolvent debtor before their sequestration? **(3)**

According to Section 22 of the Insolvency Act, debts that were due are payable to the trustee. Unless the debtor can prove he was *bona fide* and had no knowledge of the sequestration, the payment is made to the insolvent and the obligations are not terminated.

**QUESTION 3**

Explain the difference between the “advantage for creditors” requirement in voluntary surrender and compulsory sequestration. **(2)**

The burden of proof differs in compulsory sequestration applications. In compulsory sequestration there is only a slight chance that sequestration will be to the advantage of creditors, however, positive proof of advantage is required when applying for voluntary surrender.

**QUESTION 4**

Write a short note on the different manners in which a witness to an insolvency enquiry may be subpoenaed. **(5)**

A witness to an insolvency enquiry may be subpoenaed if;

* They have the right to equality (section 9)
* They have the right to freedom and security (section 12)
* They have the right to privacy (section 14)
* They have the right to just administrative action (section 33)
* They have the right to a fair trial (section 35(3))

**QUESTION 5**

List the three steps that must be taken to determine whether a specific provision of the Insolvency Act applies to the liquidation of a company. **(3)**

* Can the section apply to a winding-up?
* Is the matter specially provided for by the Companies Act?
* Does the provision apply to the mode of liquidation in question?

**QUESTION 6**

What is the effect of the sequestration of a partnership estate on the individual partners in their personal capacities? **(2)**

The partnership itself will be terminated. The partnership assets are divided amongst the partners in terms of their agreement.

The partnership assets due to the insolvent partner vests in the trustee of the insolvents partner’s estate.

**QUESTION 7**

Briefly explain the effects of the publication of a notice of surrender (in the voluntary surrender of a debtor’s estate).

**(3)**

* Stay of sales in execution – all sales in execution is stayed.
* Appointment of a curator bonis – the master appoints a curator bonis who is temporarily in control of the estate.

**QUESTION 8**

Mrs A was an employee of the Vaal University. On 1 September 2022 her estate was sequestrated. A month later she took early retirement and became entitled to an amount of R2 million as pension in return for the services she provided to the University. **Advise** Mrs A, who approaches you for legal advice. She wants to know whether the pension she became entitled to will fall into her insolvent estate. **(2)**

In terms of section 3 of General Pensions Act 1979, the pension Mrs A became entitled to will not fall into her insolvent account.

**QUESTION 9**

Section 63 of the Long-Term Insurance Act 1998 affords protection of policy benefits under life insurance policies where the protected person’s estate is sequestrated. **Write an essay** in which you analyse the relevant provision. Also refer to relevant case law. **(10)**

Benefits under some long-term insurance contracts are protected for policyholders by Section 63 of the Long-Term Insurance Act of 1998.

Up to February 28, 2014, when the Financial Services General Amendment Act of 2013 went into effect, the protection provided by section 63 was only good for a total of R50,000. The limit was removed by the modified section 63, which now safeguards the entire value of the policy benefit. The policy benefits offered are under one or more of the following:

1. in relation to a registered injurer, assistance, life, disability, or health policies; or
2. in the case of an authorized insurer, policies issued under the risk, fund risk, credit life, funeral, life annuities, individual investment, or income drawdown class of life insurance business as specified in Table 1 of Schedule 2 of the Insurance Act.

Which, other than for the payment of a debt guaranteed by the policy, has been in existence for at least three years and in which that person or that person's spouse is the life insured, shall be protected in accordance with section 63 as follows.

1. During that person's lifetime, the aforementioned policy benefits will not be a part of their insolvent estate;
2. after their death, if they are survived by a spouse, child, stepchild, or parent, they will not be used to settle their debts;

For a period of five years following the date the insurance benefits were granted, the aforementioned protection is applicable to assets acquired entirely with policy benefits as well as policy benefits, provided that: In accordance with section 63(1), the policy benefits are only safeguarded if they pass to the surviving spouse, child, stepchild, or parent of the individual mentioned in Section 63(1) in the case of that person's demise. In addition, the person seeking protection under section 63(1) must be able to demonstrate on the balance of probabilities that the protection is provided to them under this provision.

If it can be demonstrated that the insurance in question was obtained with the intent to deceive creditors, the benefits of the policy will not be protected as stated above.

**QUESTION 10**

With reference to the relevant provisions of the Insolvency Act, **write an essay** in which you discuss the effect of sequestration on the execution of judgments and other civil proceedings. **(6)**

In accordance with section 63(1), the policy benefits are only safeguarded if they pass to the surviving spouse, child, stepchild, or parent of the individual mentioned in Section 63(1) in the case of that person's demise. In addition, the person seeking protection under section 63(1) must be able to demonstrate on the balance of probabilities that the protection is provided to them under this provision.

If it can be demonstrated that the insurance in question was obtained with the intent to deceive creditors, the benefits of the policy will not be protected as stated above.

The execution of a judgment is postponed as soon as the involved sheriff learns of the sequestration, according to Section 20(1)c) of the Insolvency Act, unless the court orders otherwise.

However, if it is necessary, the court may order that execution be prolonged and essential, most creditors won't be harmed, but the proceeds the Master or the Trustee must receive payment.

**QUESTION 11**

**Write an essay** on the remuneration of business rescue practitioners, making specific reference to the issue of remuneration agreements (sometimes referred to as “success fee” or “contingency fee” agreements) concluded between business rescue practitioners and third parties, and provide insight, with reference to case law, as to whether such agreements are prohibited or contrary to public policy. **(10)**

The company may be charged by the business rescue practitioner for the practitioner's compensation and expenses in line with the tariff established under section 143. (6). Additionally, in accordance with section 143(2), the practitioner may suggest a contract with the business that calls for additional compensation above and beyond that provided for in section 143(1), to be determined in accordance with a contingency linked to –

(a) the adoption of a business rescue plan, whether at all, within a specific timeframe, or with the inclusion of a specific topic; or

(b) the achievement of any specific result or group of results pertaining to the company rescue proceedings.

A subsequent remuneration agreement must specifically be agreed "at a meeting held for the purpose of examining the proposed agreement," according to Section 143(3). Such a fee is void absent approval at a meeting called specifically to ratify the arrangement.

For the purposes of section 143, the Minister may issue rules establishing a tariff of fees and expenditures (1). The practitioner fee schedule is outlined in Regulation 128. It has been argued that charging the firm for compensation as a business rescue practitioner would not be appropriate as the person performing the business rescue was only nominally in charge but was not actually in charge of the company's affairs. The Supreme Court of Appeal was tasked with deciding whether compensation agreements, or so-called "success fee" agreements, concluded between business rescue practitioners and third parties (including creditors) outside the ambit of section 143, were prohibited, void for illegality, or otherwise contrary to public policy in the case of Caratco (Fry) Ltd v. Independent Advisory (Pty) Ltd. The Supreme Court of Appeal ruled that section 143 solely deals with fee agreements reached between practitioners and third parties and does not apply to the compensation of business rescue practitioners by the company under business rescue.

**QUESTION 12**

**Write a brief note** on what happens to the solvent partners’ estates and the partnership estate where the estate of a partner is sequestrated? **(4)**

If a mutual debt set-off has occurred and the estate of the insolvent party is sequestrated within six months, the trustee may follow or disobey the set-off if it was not carried out in the regular course of business but with the master’s agreement. By ignoring the set-off, the trustee can recover the sum that the solvent party would have been responsible for paying. The court further ruled that nothing in section 143 implies that an agreement that does not fall under its purview is null and void. The court further pointed out that the Companies Act of 2008 contains no language that would allow a court to conclude that the legislature intended to invalidate such fee arrangements, and it does not penalize the negotiation of remuneration agreements with third parties. The Supreme Court of Appeal decided that compensation agreements, often known as success fee or special fee agreements, made between business rescue practitioners and outside parties (including creditors) and not covered by section 143 are neither forbidden by law nor against the public interest.

**QUESTION 13**

In 2010, Mr X and Mr Y entered into a civil partnership in terms of the Civil Union Act 2006. On 1 March 2011, Mr X donated certain immovable property to Mr Y. Soon thereafter, the property was registered in Mr Y’s name in the Deeds Office. On 1 February 2022, Mr X’s estate was finally sequestrated. Two months before his sequestration, Mr X donated his Land Rover Defender to Mr Y. Mr Y approaches you for advice.

Answer the questions below.

**Question 13.1**

What is the legal position in regard to the immovable property and the Land Rover Defender? Will the assets fall into X’s insolvent estate? Refer to the relevant provisions of the Insolvency Act and other relevant legislation in your answer. **(10)**

[Type your answer here]

**Question 13.2**

Advise Mr Y regarding the question as to whether he will be regarded as a “spouse” in terms of the Insolvency Act. **(4)**

[Type your answer here]

**QUESTION 14**

Generators Africa (Pty) Ltd, a company that manufactures generators for the lucrative South African market, is placed in liquidation by an order of the High Court on 3 May 2022. One of the company’s employees, Thabo Kekana, approaches you for advice on the effect that the liquidation of the company will have on his contract of employment. Thabo has not been paid since the end of January 2022, his salary being an amount of R10,000 per month. In addition, he has R3,500 leave pay owing to him for the preceding year.

Advise Thabo Kekana regarding the questions below.

**Question 14.1**

What effect will the liquidation of the company have on Thabo’s contract of employment? **(5)**

[Type your answer here]

**Question 14.2**

What possible claims does Thabo have against the insolvent company? Thabo also wants you to explain to him what the nature of these claims will be. **(3)**

[Type your answer here]

**QUESTION 15**

Joe Bond made a loan of R50,000 to his friend, John Jack. As security, John put up his generator (worth approximately R70,000) as a pledge. The generator was delivered to Joe who kept it on his premises. A few months later, John repaid the remaining balance of the loan (being R45,000) and Joe handed back the generator, the loan now having been settled. However, John’s estate was sequestrated 20 days after he settled the loan with Joe. The trustee appointed in John’s estate now claims the payment of R45,000 back from Joe as a voidable disposition.

Indicate whether the trustee will succeed with his claim against Joe. **(8)**

[Type your answer here]

**TOTAL MARKS: [100]**

**\*\*\* End of assessment \*\*\***