

PARTNERSHIP	5
COMPANIES: INCORPORATION - REGULATION, LEGISLATIVE	15
AUTHORITY (CHAPTER 2: THE HISTORICAL INSTITUTIONAL AND SOCIAL CONTEXT OF CORPORATE LAW)	15
THE AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION	16
THE AUSTRALIAN SECURITIES EXCHANGE	17
THE OWNERSHIP AND CONTROL OF CORPORATE AUSTRALIA	18
CORPORATE GOALS AND SOCIAL RESPONSIBILITIES	20
THEORIES OF THE CORPORATION	21
GLOBAL DIMENSIONS OF CORPORATE ACTIVITY	22
SOME CONSEQUENCES OF CORPORATE PERSONALITY (CH 4)	23
THE CORPORATE LIFE CYCLE PP92-121	40
COMPANY LAW - CORPORATE GOVERNANCE, MEETINGS AND DIRECTORS	69
COMPANY LAW - LIABILITY, DUTIES OF DIRECTORS	87
THE DIRECTOR'S DUTY TO ACT BONA FIDE FOR THE BENEFIT OF THE COMPANY AS A WHOLE	87
DIRECTOR'S INTERESTS IN TRANSACTIONS WITH THEIR COMPANY	96
ASIC APPROVAL – IS PROVIDED UNDER S 195 (3) OR REFER TO (4).	98
SECRET PROFITS: THE APPROPRIATION OF CORPORATE PROPERTY, INFORMATION AND OPPORTUNITY	98
CONTROL & MANAGEMENT - DEALINGS WITH OTHERS	107
OSTENSIBLE AUTHORITY	110
INDOOR MANAGEMENT RULE	111
COMPANY LAW – SHAREHOLDERS, SHARES AND DIVIDENDS	116
COMPANY LAW – REMEDIES FOR SHAREHOLDERS AND OTHERS	142
THE PROTECTION OF MINORITY SHAREHOLDERS IN OVERVIEW	144
EQUITABLE LIMITATIONS UPON THE VOTING POWER OF THE MAJORITIES	145
THE STATUTORY DERIVATIVE ACTION	170
SHAREHOLDERS PERSONAL ACTION	173
COMPULSORY LIQUIDATION REMEDIES	175
THE STATUTORY REMEDY FOR OPPRESSION	178
LAW OF ASSOCIATIONS – CASES AND STATUTES	177
TOPIC 1: UNINCORPORATED NON-PROFIT ASSOCIATIONS	177
NON-LEGAL ENTITY STATUS	177
THE ROLE OF THE CONSTITUTION:	178
MEMBER LIABILITY:	178
GIFTS AND PROPERTY: BACON V PIANTA	178
INTERNAL MANAGEMENT & JUDICIAL INTERVENTION:	178
THE GENERAL RULE OF NON-INTERVENTION	178
EXCEPTIONS WHERE COURTS WILL INTERVENE	179
PROFESSIONAL AND SPORTING ASSOCIATIONS	179
CONTRACTS AND UNINCORPORATED NON-PROFIT ASSOCIATIONS	180
LIABILITY IN TORT	181
TOPIC 2: INCORPORATED NON-PROFIT ASSOCIATIONS AND SOME INCORPORATED BODIES	181
OBJECTS AND REGISTRATION	181
FEATURES AND MANAGEMENT	182
EXTERNAL ADMINISTRATION AND LIABILITY	182

CORPORATIONS LEGISLATION (ss 95–97):	182
THE CORPORATIONS (ABORIGINAL AND TORRES STRAIT ISLANDER) ACT 2006 (CTH)	182
THE AUSTRALIAN CHARITIES AND NOT-FOR-PROFITS COMMISSION ACT 2012 (CTH)	183
3. INTERACTION BETWEEN THE ACTS	183
TOPIC 3: THE LAW OF PARTNERSHIP	183
STATUTORY DEFINITION	183
GENERAL LIMIT	184
FUNDAMENTAL ELEMENTS (SECTION 1)	184
KEY JUDICIAL AUTHORITIES ON EXISTENCE	184
FIDUCIARY OBLIGATIONS:	185
TESTING THE ELEMENTS	185
STATUTORY RULES (SECTION 2)	185
BUSINESS "IN COMMON" vs. PRELIMINARY ACTS	186
SUBSTANCE OVER FORM (OVERRULING INTENTION)	186
STATUTORY RULES (SECTION 2)	186
RELATIONSHIP OF PARTNERS TO OUTSIDERS	186
LIABILITY FOR DEBTS AND OBLIGATIONS (SECTION 9)	186
THE SCOPE OF AUTHORITY (SECTION 5 ELEMENTS)	187
KNOWLEDGE AND BELIEF OF THE THIRD PARTY	187
LIABILITY IN TORT (SECTIONS 10–13)	187
INCOMING AND OUTGOING PARTNERS (SECTIONS 17–18)	188
LIABILITY BY ESTOPPEL / "HOLDING OUT" (SECTION 14)	188
RELATIONSHIP OF PARTNERS TO EACH OTHER (SECTIONS 19–31)	188
FIDUCIARY PRINCIPLES:	188
STATUTORY DEFAULT RULES (s 24):	189
TOPIC 4: COMPANY LAW - A COMPANY AS A CORPORATE ENTITY AND ITS LIFE CYCLE	189
TYPES OF COMPANIES	189
THE SEPARATE LEGAL ENTITY DOCTRINE	189
EFFECT OF REGISTRATION (ss 124–125)	190
THE COMPANY AS AN EMPLOYER	190
THE COMPANY AS A PROPERTY OWNER	191
MITIGATING THE RIGOUR OF THE SEPARATE LEGAL ENTITY DOCTRINE	191
THE MODERN TEST: EVASION vs. CONCEALMENT	191
FRAUD, SHAM, AND "FAÇADE"	191
AGENCY AND CONTRACTUAL OBLIGATIONS	192
AGENCY AND THE "SIX TESTS"	192
GROUPS OF COMPANIES: SINGLE ECONOMIC ENTITY?	192
KEY DISTINCTION	193
DIRECT DUTY vs. VICARIOUS LIABILITY	193
IDENTIFYING INSOLVENCY: INDICATORS	194
JUDICIAL EVOLUTION OF DIRECTOR LIABILITY	194
EXPECTATION OF PAYMENT:	194
STATUTORY DEFENCES (s 588H)	194
MODERN DEVELOPMENTS: SAFE HARBOUR (s 588GA)	195
HOLDING COMPANY LIABILITY (s 588V)	195
TOPIC 5: HOW DO COMPANIES RAISE MONEY TO FUND THEIR OPERATIONS?	195
TYPES OF DEBT AND EQUITY	195
TOPIC 6: COMPANY LAW – THE LAW OF CORPORATE GOVERNANCE	196
SOURCES OF GOVERNANCE RULES	196
THE STATUTORY CONTRACT (s 140)	196
KEY LIMITATIONS OF THE CONTRACT:	196
MEMBERSHIP AND SPECIAL CONTRACTS	197
AMENDING THE CONSTITUTION (s 136)	197
LEGAL PRINCIPLES AND BOARD STRUCTURE	198
REASONABLE NOTICE OF MEETINGS:	198
KEY PROCEDURAL RULES	198

BOARD VS. MEMBER AUTHORITY	198
○ STATUTORY VALIDATION OF IRREGULARITIES (SECTION 1322)	199
DOCTRINE OF UNANIMOUS ASSENT (DUOMATIC PRINCIPLE)	199
NATURE AND FUNCTION OF DUTIES	199
WHO IS SUBJECT TO THESE DUTIES?	200
TO WHOM ARE DUTIES OWED?	201
DUTY TO ACT IN GOOD FAITH AND THE COMPANY'S INTERESTS (S 181)	201
CORPORATE GROUPS	201
DUTY TO ACT FOR A PROPER PURPOSE	201
STATUTORY AND GENERAL LAW DUTIES OF CARE: S 180	202
THE MODERN STANDARD OF CARE	202
HIGH-STAKES DISCLOSURE AND "STEPPING STONES"	202
THE BUSINESS JUDGMENT RULE (S 180(2))	203
STATUTORY BUSINESS JUDGMENT RULE: S 180(2)	203
POWER TO DELEGATE (S 198D)	204
STATUTORY RELIANCE (S 189)	204
JUDICIAL PRINCIPLES: ASIC V ADLER [2002]	204
CONFLICTS OF INTEREST AND SPECIAL CASES	205
STATUTORY DISCLOSURE AND PARTICIPATION (SS 191-195)	205
IMPROPER USE OF POSITION OR INFORMATION (SS 182-183)	205
RELATED PARTY TRANSACTIONS (CHAPTER 2E)	206
RECENT JUDICIAL GUIDANCE	206
CIVIL REMEDIES FOR BREACH OF FIDUCIARY DUTY	206
WHO CAN APPLY? (SS 1317J & 1317P)	206
RELIEF FROM LIABILITY (SS 1317S & 1318)	207
TIME LIMITS (S 1317K)	207
LIMITATION PERIODS AND "NEW" CLAIMS	207
NOTE: LIABILITY OF THIRD PARTIES	207
THE TWO LIMBS OF BARNES V ADDY	207
DEFINING "KNOWLEDGE"	208
APPLICATION IN MAJOR CORPORATE COLLAPSES	208
STATUTORY ACCESSORIAL LIABILITY	208
CURING BREACHES OF DUTY – EXONERATION BY THE COURT - RELIEF FROM CONSEQUENCES OF BREACH	208
RELIEF FROM LIABILITY BY THE COURT (SS 1317S & 1318)	208
RATIFICATION BY MEMBERS	209
THE OPPRESSION REMEDY (PART 2F.1)	209
COURT ORDERS FOR OPPRESSION (S 233)	210
OPPRESSION AND EQUITABLE CONSTRAINTS	210
CLASS RIGHTS (PART 2F.2)	210
INSPECTION OF BOOKS (PART 2F.3)	210
STATUTORY INJUNCTIONS (S 1324)	210
JUST AND EQUITABLE WINDING UP (S 461)	211
SUMMARY OF REMEDIES	211
DERIVATIVE ACTIONS	211
THE STATUTORY REQUIREMENTS (S 237)	211
JUDICIAL INTERPRETATION OF THE CRITERIA	212
GOOD FAITH (S 237(2)(B)):	212
BEST INTERESTS OF THE COMPANY (S 237(2)(C)):	212
SERIOUS QUESTION TO BE TRIED (S 237(2)(D)):	212
COSTS AND FUNDING (S 242)	212
THE "GOOD FAITH" REQUIREMENT	213
OVERLAP WITH OPPRESSION	213
TOPIC 7: COMPANY LAW – THE LAW OF CORPORATE LIABILITY	214
CORPORATE CAPACITY AND "ACTING AS" THE COMPANY	214
AUTHORITY TO BIND THE COMPANY (PART 2B.2)	214
ACTUAL VS. APPARENT AUTHORITY	214
STATUTORY ASSUMPTIONS (SS 128-129)	215
THE INDOOR MANAGEMENT RULE AND THE CORPORATIONS ACT, SS 126, 127, 128-130	215
THE COMMON LAW: ROYAL BRITISH BANK V TURQUAND	215

THE STATUTORY REGIME (SS 128–130)	215
LIABILITY IN TORT: ATTRIBUTION AND PERSONAL LIABILITY	216
LIABILITY IN CRIMINAL LAW	217
THE COMMONWEALTH CRIMINAL CODE (PART 2.5)	217
CORPORATIONS ACT PENALTIES	217

PARTNERSHIP

UNINCORPORATED ASSOCIATIONS, SOLE TRADERS & PARTNERSHIP (Chapter 1: Partnership)

- Simplest form of business association ☑ most common
 - Requires no registration or other formality for its **conduct, formation or dissolution**.
- May be formed without parties being aware a partnership exists, (**no declaration**)

THE ORIGANS AND SOURCES OF PARTNERSHIP LAW

Modern forms lineal decents of 2 forms of business association:

- (1) Commenda: one party **supplies the capital for the venture but does not take an active role in its** management.
- (2) Societas: central form of English partnership law.
 - a. Common responsibilities and rights between partners, including **participation in profits, sharing losses and joining in the management of the business**.

Formed by court decision in middle ages, codification in *Partnership Act (UK)*.

- Focus on *Partnership Act 1892 (NSW)*

THE DEFINITION OF PARTNERSHIP

- **S1(1)**: “the relation which exists between **persons carrying on business in common with a view of profit**”
- **S4**: Persons who have entered into partnership are **collectively a “firm” for the purposes of the Act and the name under which their business is carried is called the “firm name”**- s4.

The Definition of Partnership

- (a) Partnership as a relationship founded upon a business carried on in common**
- i.** Relationship founded upon agreements of the parties, **express or implied**.
 - ii.** Parties either **natural or corporate persons**.
 - iii.** Parties must be carrying on business in common: **s 45**.
 - i.** “business” includes every trade, occupation, or profession.
- “excludes the cases of an association formed for doing one particular act which is never to be repeated” – *Smith v Anderson (1880)*.
 - In *Ballantyne v Raphael (1889)*, where a syndicate was formed for the purpose of buying a block of land and subdividing it, the Supreme Court of Vic held that there was “not such a series of acts contemplated being done by the syndicate as means a

carrying on of business”.

- **Necessary that** each partner has the conduct of transactions, or be active in the business
 - **There can be a sleeping partner.**

(b) The requirement of Profit

- i. There exists both **profitable and non profit club/ associations.**
 - i. **Distinguish** between non for profit, engaging in profit making or revenue earning activities devoted to the purposes of the club or association.
 1. There is no distribution of surplus to members unless perhaps upon the dissolution of the association.
 - ii. *United Dominions Corporation v Brian Pty Ltd (1985)*: ‘the important distinction between a partnership and a joint venture, is the distinction between an association of persons who engage in **common undertaking for profit and an association** of those who do so in order to generate a product to be **shared among the participants**.

(c) Rules and indicia for determining the existence of partnership

2 Rules for determining existence of partnership

(1) In determining whether a partnership does or does not exist, regard shall be had to the following rules:

Parties’ characterisation of their relationship

- a. *Wiltshire v Kuensil (1945)*: Roper J: argument that a partnership cannot be formed where the parties concur on saying that ‘there shall not be a partnership between them’:
- b. If the parties intended to do all the things which would constitute them parties, in law, no effect can be given to their declared intention not to become parties.
- c. So if their actions show otherwise – bad luck.

(1) Joint tenancy, tenancy in common, joint property, or part ownership does not of itself create a partnership as to anything so held or owned, whether the tenants or owners do or do not share any profits made by the use thereof.

(2) **The sharing of gross returns** does not of itself create a partnership, whether the persons sharing such returns have or have not a joint or common right or interest in any property from which or from the use of which the returns are derived.

(3) **The receipt by a person of a share of the profits** of a business is prima facie

evidence that the person is a partner in the business, but the receipt of such a share, or of a payment contingent on, or varying with the profits of a business does not of itself make the person a partner in the business; and in particular:

- *Common rule settled in Cox v Hickman (1860):*
 - “it is often said that the test, or one of the tests, whether a person is not ostensibly a partner, is nevertheless, in contemplation of law, a partner, is, **whether he is entitled to participate in the profits**. This, no, doubt is, in general, a sufficiently accurate test; *for a right to participate in profits affords cogent, often conclusive evidence, that the trade in which the profits have been made, was carried on in part for or on behalf of the person setting up such a claim.*”
- s 2(1)(3): lists specific instances where the receipt of a share of profits does not make itself the recipient of a partner:
 - Payment of a debt paid out of accruing profits of the partnership;
 - Remuneration of servants or agents by a share of the profits of the business;
 - Annuities to the widow or children of a deceased former partner paid from partnership profits;
 - The advance of money by way of loan to a person carrying on a business with interest varying with the profits or by a share of profits of the business provided that the contract is in writing and signed by the parties; and
 - Receipt of a portion of profits in consideration of the sale of goodwill of a business.

(a) **The receipt by a person of a debt or other liquidated demand by instalments or otherwise** out of the accruing profits of a business does not of itself make the person a partner in the business or liable as such:

(b) **A contract for the remuneration of a servant or agent of a person engaged in a business by a share of the profits of the business** does not of itself make the servant or agent a partner in the business or liable as such:

(c) A person being the widow, widower or child of a deceased partner, and receiving by way of annuity a portion of the profits made in the business in which the deceased person was a partner, is not by reason only of such receipt a partner in the business or liable as such:

(d) **The advance of money by way of loan to a person engaged or about to engage in any business on a contract with that person, that the lender shall receive a rate of interest varying with the profits, or shall receive a share of the profits arising from carrying on the business,** does not of itself make the lender a partner with the person or persons carrying on the business or liable as such: Provided that the contract is in writing

and signed by or on behalf of all the parties thereto:

(e) **A person receiving by way of annuity or otherwise a portion of the profits of a business in consideration of the sale by the person of the goodwill of the business** is not by reason only of such receipt a partner in the business or liable as such.

(2) This section does not apply to or in respect of an incorporated limited partnership.

- **S 2(1)** has specific rules to what determines an existence of partnership.
- **Sharing net profits:**
 - Prima facie evidence of partnership: **s 2(1)(3):**
 - The receipt by a person of a share of the profits is prima facie evidence that he is a partner in the business but ‘does not of itself’ make him or her a partner in the business.
 - There are other factors which cannot be ignored!
 - **s (2)(2):** the sharing of **gross returns does not itself characterise a partnership**, whether there is joint/common interest in property (from which returns are derived).
- **Sharing of losses:**
 - **S 24(1)(1):** sharing of losses/profits characteristic of partnership.
 - **Equal contribution**
- **Status of Principal:**
 - Those acting in the partnership do **so as agents of all the partners, who are the principals, even if ‘dormant or ‘sleeping’:**
 - “this principle applies not only to persons acting openly and avowedly as partners, **but to others who, though not so acting, are by secret or private agreement, partners with those who appear ostensibly to the world as the persons carrying on the business”**
 - **S 14:** Provides for the liability of persons who allowed themselves to be **held out as partners** of a firm even though **they are not partners**.
- **Management Participation:**
 - Influential in indicating existence of a partnership:
 - Treated in the internal management of the business
 - Participate in its control or management decision
 - Are held out by others to be significant.
 - Participation is not essential ☐ there may be dormant or sleeping partners who **remain as principals in relation to external dealings, but they** take no part in the management of the partnership.
- **Mutual Trust and Confidence:**
 - Important feature between partners
 - ‘life blood of the concern’: *Bitchnell Case (1929)*
 - Fiduciary obligation flows from it, in the partnership agreement
 - Not strictly required for finding of partnership.
- **Contribution to capital:**
 - Not strictly essential
 - Common to find no capital contribution by a partner, only an **agreement.**
 - **S 2(1): joint or part ownership of property does not itself create a partnership, as to anything so owned whether profits made by its use are shared or**

Re Megevand; Ex parte Delhasse (1878) – Court of Appeal, England and Wales

(Where it is stated that there is no partnership, this is irrelevant as it is necessary to look at the facts to determine whether a partnership exists)

Facts:

- Delhasse (D) agreed to advance a sum to M and S who were partners by a written agreement which referred to the then equivalent of s2(1)(3)(d) and stated that it was by way of loan and was not to make D a partner. Under the agreement, D was to share profits, and have the right to inspect partnership accounts and the option of dissolving the partnership in certain circumstances; the sum D advanced was not to be repayable until after dissolution. The advance was the only 'capital' of the partnership.

James LJ:

- **Element: right to control the property, the rights to receive profits, and liability to share in losses.**
- But it is said that there are other provision in the contract which prevent it having this operation, and which **show clearly that the parties meant the relation of lender and borrower, and not the relation of partners, to subsist between them.**
 - Can those words really control the rest of the agreement? Do they really show that the intention was not in truth that which it appears to be by all the other stipulations. To my mind it is quite clear that they do not.
- **The use of the word "lend"** and the references to the Act, are in my opinion, mere sham a mere contrivance to evade the law of partnership.

Partnership not recognised:

- The firm and its members collectively **are not endowed** with a distinct entity status: with any capacity of acquiring rights or obligations independent of those of the individual partners.
 - Individual members may be personally liable in acts done.
- **Absence of a separate legal status for the firm has legal consequences:**
 - As partner, a principal of firm, cannot **also be employed of that firm.**
 - **Duration determined by s 26, 32-34:** which are subject to any special agreement made by the partners
 - A partnership **cannot own property:** see s 20.

Partnerships bear unlimited liability incurred by the partnership:

- Each partner has unlimited liability to the creditors of the partnership expressed in some older cases as 'last shilling and acre'
 - Rule not affected by **any agreement between the partners**, even though there is different proportions or may even indemnify some partners against personal liability.

Agency authority to bind fellow partners:

- **The common law scope** of the liability of **partners for debts and obligations** of those who conduct the partnership business was noted in the House of Lords decision in

Cox v Hickman (1860).

- **Agency authority stated in s 5** and complemented by provisions relating to firms contracts and instruments, (ss6-9, 14-18), civil wrongs (ss 10-12) and the improper use of trust property for partnership purposes: s13.
 - **S 5: power of a partner to bind the firm, and consequent scope of partner liability for firm debts.**
 - The common law of agency distinguishes between **two main grounds of liability** of principal **with respect to the dealings by an agent with an outsider.**
- Where the agent has **actual authority from the principal:**
 - involves an agency created by a consensual agreement between principal and agent, the scope of which includes any proper implications from the words used, usages of the trade or the course of dealings between the principal and agent.
 - Actual authority is either:
 - **Express:** Express authority may be stated explicitly, orally or in writing.
 - **Implied:** Implied actual authority may be inferred from the usual or customary authority involved in the relationship between principal and agent, or as incidental to express authority, but it may also arise from the special features of the relationship, or from an actual course of dealing between the parties which establishes an actual authority outside what is usual.
- S5(1) of the Partnership Act 1892 (NSW) restates the scope of actual authority of a partner when it says that every partner is an agent of the firm. This section imposes no liability on partners for acts done by a partner who is acting, and is dealt with as acting, on their own behalf only, and not on behalf of the firm.
- Where the agent has **ostensible (apparent) authority.**

Limited partnerships allow for limitation of the liability of some partners:

- Creation of 2 classes partner:
 - General ☐ have an **unfettered control over the conduct of the partnership business.**
 - Limited ☐ contribute to capital and share profit, but **have no right to participate in the management of the partnership.**
 - If they do engage in management of the business, they assume liability under s 67.
 - **Registration is required and is a condition of the limitation on liability.**
 - A statement setting out details of the limited partnership is required including the firm's name, address, the identity of the individual partners, their character as either general or limited partners, whether the firm is a limited partnership, and the limit of the liability of each limited partner to contribute to the firm's debts and obligations: s54.
 - The register of limited partnerships is **available for public inspection** :s57.