



# CORPORATE & COMMERCIAL ALERT

## IN THIS ISSUE

### LET'S GET PERSONAL: THE TRANSFERABILITY OF SHAREHOLDER RIGHTS UNDER A COMPANY'S CONSTITUTIONAL DOCUMENTS.

It's a long-standing and well acknowledged principle in South African common law that parties to an agreement are generally free to cede and assign their contractual rights as they wish, except where there is a clause specifically prohibiting the transfer of those rights. As a result, where a contract is silent as to whether the rights of a party may be transferred to third parties, that party is generally free to cede and assign its rights freely, without the consent of the other parties.

# LET'S GET PERSONAL: THE TRANSFERABILITY OF SHAREHOLDER RIGHTS UNDER A COMPANY'S CONSTITUTIONAL DOCUMENTS.

*Rights of a personal nature may not, without a specific empowering contractual provision, be transferred to third parties.*

*Shareholders are often granted rights or entitlements specifically by name.*



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As is most often the case, however, there are a few exceptions to this principle. One such exception, which recently rose its head again in the SCA judgment of *Propell Specialised Finance v Attorneys Insurance Indemnity Fund NPC*, is where the rights of a party are of a personal nature and not intended by the parties to be freely assignable to outsiders. Rights of a personal nature (or "*delectus personae*", as they're more formally known) may not, without a specific empowering contractual provision, be transferred to third parties.

The *Propell* case confirmed the established common law position. Propell Specialised Finance had attempted to enforce certain rights allegedly ceded to it by a law firm, BSL, under an insurance policy between BSL and the Attorneys Insurance Indemnity Fund. The SCA held that the nature of the rights that were purportedly ceded to Propell were of a personal nature to BSL (being a law firm which can benefit under the Attorneys Insurance Indemnity Fund). If the rights were ceded to Propell it would create a claim against the Attorneys Insurance Indemnity Fund in favour of a person who was never intended to benefit under the insurance policy. In short, these were rights that were personal in nature to

BSL which could not be freely ceded even in the absence of a clause in the insurance policy expressly prohibiting the cession.

What if certain contractual rights bestowed upon a shareholder in a shareholders' agreement or a memorandum of incorporation are of such a nature that makes them personal to the particular shareholder?

Shareholders are often granted rights or entitlements specifically by name. For example, shareholders are often singled out and granted special rights to transfer their shares, appoint directors, approve or veto certain matters, to be offered corporate opportunities, be present at meetings to constitute a quorum and to exit the shareholding structure, to name a few. Since the Companies Act, No 71 of 2008 came into force in 2011, convention has preferred that, where confidentiality is not a concern, these rights be entrenched in a memorandum of incorporation to ensure that they prevail where there is a conflict with a shareholders' agreement.

Most shareholders' agreements feature "boilerplate" clauses regulating cession and assignment and rights and obligations (most often allowing it with counterparty consent).

# LET'S GET PERSONAL: THE TRANSFERABILITY OF SHAREHOLDER RIGHTS UNDER A COMPANY'S CONSTITUTIONAL DOCUMENTS.

CONTINUED

*In the absence of a particular contractual regime relating to the cession of rights, can a shareholder transfer its rights to a third party purchaser?*



The same is not true of MOIs, which are generally silent as to the cession and assignment of rights. This leaves the door open to the Propell question: in the absence of a particular contractual regime relating to the cession of rights, can a shareholder transfer its rights to a third party purchaser?

The answer: yes it can. But only to the extent that such rights are not intended to be personal or unique to it. It may be argued by the remaining shareholders that certain rights cannot be transferred to a third party purchaser without their consent.

Consider the following scenarios:

(i) an investment fund with a mandate to realise its investment after a certain period of time has negotiated an "exit event" clause in a company's MOI. An "exit event" is customarily included in a company's constitutional documents to allow a particular shareholder to dispose of its investment in a company or group. This is often achieved through an initial public offering of shares or some other corporate transaction whereby the shareholder is permitted to divest;

- (ii) a strategic shareholder who contributes specific know-how to a company in a particular industry has an entrenched right to be offered specific corporate opportunities in that field of expertise; or
- (iii) a founder of a company who holds shares alongside an institutional investor where the former contributes his/her intellectual property to the company and the latter contributes loan funding to the company, thereby exempting the founder from contributing cash loans.

In each circumstance, the rights in favour of the first shareholder may be considered personal to it. It is not a given that a third party purchaser of its shares will automatically inherit these rights. Shareholders should be careful not to open the door to this question. Instead, if they wish for personal rights to be transferable along with their shares they should expressly cater for this in the MOI or the shareholders' agreement.

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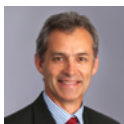
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