

FAMILY LAW COSTS where the husband failed to disclose liabilities where an offer of compromise was made where that offer was refused where the court is empowered to make such orders to costs as is in the circumstances just and appropriate s 117(2A) where the applicants seek an order that costs be paid on an indemnity basis where dishonesty and fraud create a special or unusual circumstance that is sufficient to warrant costs awarded on an indemnity basis where the respondents are to pay the applicants costs of the proceedings as agreed or, in default, as assessed, such costs to be assessed on an indemnity basis. Family Law Act 1975 (Cth) ss 117 (1), 117(2A) Family Law Rules 2004 (Cth) r 6.02, 19.08(2) Firth & Hale-Forbes (No. 2) [2013] FamCA 814 1ST APPLICANT: B Pty Limited 2ND APPLICANT: Mr Lane 1ST RESPONDENT: Ms Sykes 2ND RESPONDENT: Mr Sykes FILE NUMBER: SYC 1555 of 2012 DATE DELIVERED: 29 October 2014 PLACE DELIVERED: Sydney PLACE HEARD: Sydney JUDGMENT OF: Aldridge J HEARING DATE: 8 August 2014 REPRESENTATION COUNSEL FOR THE 1ST & 2ND APPLICANT: Mr Fernon SOLICITOR FOR THE 1ST & 2ND APPLICANT: Dixon Holmes du Pont Pty Limited SOLICITOR FOR THE 1ST RESPONDENT: Spinks Eagle SOLICITOR FOR THE 2ND RESPONDENT: Sydney Law Practice ORDERS (1) That the Respondents, jointly and severally, pay the Applicants costs of the proceedings SYC 1555 of 2012 as agreed or, in default of agreement, as assessed. Such costs to be assessed on an indemnity basis on and from 15 October 2012. IT IS NOTED that publication of this judgment by this Court under the pseudonym B Pty Limited and Anor & Sykes and Anor has been approved by the Chief Justice pursuant to s 121(9)(g) of the Family Law Act 1975 (Cth). FAMILY COURT OF AUSTRALIA AT SYDNEY FAMILY COURT OF AUSTRALIA AT SYDNEY FILE NUMBER: SYC 1555 of 2012 B Pty Limited 1st Applicant And Mr Lane 2nd Applicant And Ms Sykes 1st Respondent And Mr Sykes 2nd Respondent REASONS FOR JUDGMENT On 27 June 2014 I ordered, pursuant to s 79A of the Family Law Act 1975 (Cth) (the Act), that consent orders for property settlement made on 30 July 2008 in proceedings between the first respondent and the second respondent be set aside and that one half of the proceeds of sale of a property that would otherwise have been transferred to the first respondent be paid to the applicants. The applicants now seek an order for payment of their costs and that those costs

be assessed on an indemnity basis. The second applicant is the Trustee of the Bankrupt Estate (the trustee) of the second respondent who I shall refer to as the husband. The husband became a bankrupt on 20 April 2010. The first applicant is a company, unrelated to the husband, which entered into a commercial arrangement with the trustee. It paid the trustee \$140,000 and in return received an assignment of the trustee's rights against the husband and the wife under the Act and an assignment of the fruits of any such action. The proceedings were commenced by the first applicant only. For reasons given on 24 May 2013 I found that the trustee was an essential party and joined him as the second applicant in these proceedings. The trustee did not oppose that course but the husband and the first respondent did oppose his joinder and sought to have the proceedings summarily dismissed, asserting that the proceedings as commenced by the first applicant were incompetent. On 17 July 2008 the husband filed in this court an Application for Consent Orders. The orders were made by a Registrar on 30 July 2008. The effect of the orders was that the first respondent, who I shall refer to now as the wife, received almost the entirety of the assets of the husband and the wife. In obtaining the consent orders the husband failed to disclose to the court that he had been served with a Bankruptcy Notice by S Pty Limited on 3 April 2008 that had not been complied with. That Bankruptcy Notice relied upon a judgment in the sum of \$228,041.37 and interest. The husband also failed to disclose that, at the time the Application for the consent orders was filed, he was proposing to consent to a judgment against him in the sum of \$12,870,023.38. The husband also failed to disclose credit card liabilities in the sum of \$64,060.03, the correct value of his shareholding in K Pty Limited and some other matters. In my reasons given on 27 June 2014, I found that the husband's non-disclosure was deliberate and dishonest. As to the wife's knowledge of the husband's non-disclosures I said: [94] It would be surprising if the wife did not have some knowledge of the bankruptcy notice and the Supreme Court proceedings but this is possible. [95] The matters relied upon by the applicants, just noted, support a proposition that the wife should have been concerned about the genuineness of the Application for Consent Orders. They do not, however, justify the drawing of an inference that the wife was aware of the bankruptcy notice and the Supreme Court proceedings. Written submissions were received on behalf of the wife opposing the application

for costs. No submissions were received on behalf of the husband. After the receipt of the written submissions the matter was relisted at the request of the parties. The applicants sought to vary the orders limiting the wife's use of her assets pending the delivery of this judgment. The wife sought to obtain further documents from the applicants and the opportunity to file further written submissions as to the applicants being excluded from the benefit of any costs order. On 19 September 2014 directions were made for the applicants to provide further documents to the wife and for the wife to file further written submissions. Those submissions were received on 16 October 2014. In those submissions the wife indicated that she no longer wished to agitate the exclusion of the applicants from the benefit of any costs leaving issues of their standing and whether or not they had instructed solicitors to the taxation of any costs order that might be made. In her first written submissions as to costs the wife asserted a number of matters which she said prevented the applicants from obtaining a costs order. The first was that no Application in a Case seeking a costs order had been filed or served. This is so. The application for costs was made in the initiating application which is permitted by rule 19.08(2) of the Family Law Rules 2004 which provides:

(2) An application for costs may be made: (a) at any stage during a case; or (b) by filing an Application in a Case within 28 days after the final order is made. The application for costs accordingly was properly brought. The wife submitted that she had not been informed of the applicants' costs. She was - details of the applicants' costs were annexed to an affidavit of the applicants' solicitor sworn on 20 August 2014. It was then submitted that the first applicant had no standing to initiate these proceedings, was not a person interested in the proceedings, was awarded nothing in the proceedings, had received a windfall gain by gambling on the proceedings and as a commercial venture made a return of around 400% on its investment of \$140,000.00 and that there was no evidence that the trustee had agreed to pay any legal costs. The first three submissions were rejected by me in the reasons given on 24 May 2013. Rule 6.02 of the Family Law Rules 2004 provides: (1) A person whose rights may be directly affected by an issue in a case, and whose participation as a party is necessary for the court to determine all issues in dispute in the case, must be included as a party to the case. I said: [38] For these reasons I am not satisfied that the Deed of

Assignment is legally effective to assign rights and standing to the Applicant such that would enable it to commence and continue the proceedings. [39] The Applicant, as was accepted by the parties, has the right to receive the benefit of whatever the property the Trustee in Bankruptcy may receive as a result of these proceedings if they continue and are successful. It thus found that both applicants were necessary and proper parties to the proceedings. The wife accepted, at that time, that the joinder of the trustee to the proceedings was necessary and appropriate for the proceedings to be properly constituted but the second respondent opposed his joinder. It is true that the first applicant made a commercial decision to take an assignment of the trustee's rights and has benefited from that decision. That is not the issue. The issue is whether, as a successful party, it is entitled to costs. The fact that its entitlements arose as a commercial decision undertaken by it is entirely irrelevant. The submission that the first applicant did not receive any financial benefit from the proceedings misapprehends the nature of assignments and the fact that both the assignor can, and often must both be, properly parties to an action concerning the subject matter of the assignment. That is what I determined on 24 May 2013. Thus both applicants are entitled to seek an order for costs. The evidence establishes that there is but one set of costs in any event. It was submitted that there was no evidence that the trustee had agreed to pay legal costs. The trustee instructed solicitors and counsel to act for him. If he did not, in fact, incur any liability for their services then that is a matter for taxation. It was submitted by the wife that pursuant to s 117(1) of the Act, subject to s(2), each party to proceedings under the Act is to bear his or her own costs. That, of course, is so. Section 117(2) provides that if the court is of the opinion that there are circumstances that justify to doing so the court may make such order as to costs as the court considers just. In exercising that power the court is given a wide discretion to do justice between the parties. In considering what order if any should be made under s 117(2) the court is to have regard to the matters set out in s 117(2A). There is no evidence as to the financial circumstances of any of the parties to the proceedings. The wife, in submissions, said: [i] The Respondent is in a precarious financial position noting that she has no employment and has now been left with 50% of the sale proceeds of the [D] property less amounts used for living expenses. The Applicant, [B Pty Limited], apparently owns an unencumbered property

in [Suburb L] and now has in excess of \$600,000.00 in cash from these proceedings. This will be addressed further with the nature of the costs claim and the claimant is known. [footnotes omitted]

The D property was the matrimonial home of the husband and the wife and was jointly owned by them. Pursuant to the consent order the husband transferred his interest in that property to the wife. Subsequently, and with the agreement of the applicants, the wife sold the property. By agreement the wife received one half of the net proceeds of sale (representing her half share held prior to the transfer) and the remaining 50 per cent was paid into a controlled monies account pending the outcome of the proceedings. At the conclusion of the hearing I ordered that sum be paid to the applicants. Thus it may be inferred that the wife had, at some time, funds available to her. No doubt she has also expended considerable sum on legal expenses for the hearing and, if she is unemployed, no doubt living expenses. In the absence of evidence, however, the court cannot speculate as to what her financial position might be. It cannot be inferred that she is impecunious. It is well established that impecuniosity is, of itself, not a bar to a costs order if it is, in all of the circumstances, otherwise appropriate. So far as I am aware none of the parties was in receipt of Legal Aid. It is necessary to have regard to the conduct of the parties in the proceedings. Both the husband and the wife filed and served affidavits which they indicated they would be relying on at the final hearing. On the first day of the hearing both the husband and the wife indicated that they would not be calling any evidence. Thus the applicants were put to the expense of preparing to deal with evidence which was ultimately not relied upon. Applications for a freezing order were made on 8 August 2013 and an application made to discharge that order was made on 1 November 2013. The freezing order was properly made and there was no proper basis upon which the order should be discharged. Although the husband and the wife succeeded in establishing that the second applicant was a necessary party for the proceedings to be properly constituted the proceedings were regularly constituted by his joinder. Thus the husband and the wife were not successful in their summary judgment application. The husband and wife were unsuccessful on all the interlocutory applications. They were wholly unsuccessful in the substantial proceedings. It is necessary to consider the relevant offers in writing to the other party to settle the proceedings and the terms of

any such offer. On 23 September 2011, that is before the proceedings were commenced, the wife became aware that the trustee was considering a proposal to assign his rights of action under the Act for the sum of \$140,000. Previously, on 20 November 2010, the wife had offered to pay the trustee \$150,000 on a number of terms which were not disclosed to the court but including a term that the sum be paid on the settlement of the sale of the D property. By letter of 23 September 2011 the wife increased the offer to \$200,000 on the same terms as previously proposed. That offer was not accepted by the Trustee and the creditors. That offer is not an offer within the meaning of s 117(2A) because it was not an offer to settle the proceedings. This may, however, be a relevant matter under s 117(2A)(g). Not all of the terms of the offer are before the court. There is insufficient material therefore to judge whether it was a commercially appropriate offer. In those circumstances it is difficult to give it significant weight. It must also be recalled that, although the trustee received the sum of \$140,000 from the first applicant, he was entirely successful in having the orders set aside. On 22 March 2013, well prior to the hearing in which the wife sought to have the proceedings summarily dismissed because the trustee was not a party to the proceedings, the first applicant proposed that the trustee be joined as an applicant. On 26 March 2013 the lawyer for the wife wrote to the lawyer for the applicants stating: Noting that you refuse to advise me whether or not the Trustee consents to being a party my client does not consent to any orders joining the Trustee as a Plaintiff in the proceedings. My client reserves its right to oppose any application to join the Trustee even in the event. Despite being advised later that day that the trustee did in fact consent, the wife did not change her position. On 10 April 2013 I fixed the issue of competency of the proceedings, to be determined as a preliminary question, for hearing on 19 April 2013. It was only in the course of that hearing that the wife consented to the joinder of the trustee. Had that occurred in response to the applicants proposal on 22 March 2013, that hearing would not have been necessary. In relation to the substantive proceedings, on 15 October 2012 the applicant provided the following written offer of settlement: The Respondent [Ms Sykes] pays the applicant \$500,000.00 out of the proceeds of the sale of the property [C Street, Suburb D]. Proceedings be dismissed with no order as to cost. That offer was repeated on 22 March 2013 and 4 June 2013. The amount held in the bank account

was \$634,503.95. The wife has consequently suffered a significantly worse outcome in the proceedings that she would have suffered had she accepted the offer. Thus taking into account the three offers discussed the overall balance supports the making of a costs order in favour of the applicants. The court is also to take into account any other matter as the court considers relevant. I have already dealt with and discussed the offer made prior to the commencement of the proceedings. In my reasons for Judgment given on 27 June 2014 I said: [133] In circumstances where the court has been used as an instrument to defeat creditors, particularly having regard to the scale of the creditors in these proceedings, and as an instrument of fraud it must almost invariably follow that the orders should be set aside. The court should not continue to add its imprimatur to orders that it knows have been obtained for an improper purpose or as a result of dishonest disclosure. If the same orders are likely to be made upon a proper consideration of the matter upon full and frank disclosure so be it - they can be made after that disclosure and consideration. I had found that the husband's non-disclosure was deliberate and dishonest and was a fraud upon the court. These are powerful factors that support an order for costs being made against the husband. Although I did not find that the wife did not act dishonestly in approaching the court for consent orders I found that aspects of that application that should have given rise for concern on her part. However, and much more importantly, the dishonesty of the husband was patent at the time the matter came on for final hearing. Nonetheless the wife continued to oppose the application and to assert that no miscarriage of justice had occurred by reason of the husband's conduct. She thus sought to embrace and take the benefit of the husband's dishonest and fraudulent conduct which was, by then obvious, or should have been obvious, to all. This factor strongly supports an order for costs against the wife. Taking all these matters into account I am of the view that the husband and the wife should pay the costs of the applicants. Save for the financial position of the parties, which is unknown, all the above considerations indicate such an order. SHOULD THOSE COSTS BE ON AN INDEMNITY BASIS? In *Firth & Hale-Forbes (No. 2)* [2013] FamCA 814, Rees J helpfully summarised the authorities in relation to indemnity costs as follows at [77] [86]: 77. The Full Court has most recently considered the law in relation to indemnity costs in *Prantage & Prantage* [2013] FamCAFC

105. The majority set out the principles to be applied, holding that the principles enunciated by Sheppard J in *Colgate-Palmolive Co v Cussons Pty Limited* [1993] FCA 536; (1993) 118 ALR 248 should continue to be applied in the Family Court of Australia. The principles were summarised as follows: 82. ... 1. Section 43 of the FCA confers an absolute and unfettered discretion on the Court to make orders as to costs but the discretion must be exercised judicially. 2. In order to exercise the discretion judicially the following principles have been accepted by the Court as applicable: (a) the Court ought not to depart from the rule that costs be ordered on a party and party basis unless the circumstances of the case warrant the Court in departing from the usual course; (b) the circumstances which may warrant departure from the usual course arise as and when the justice of the case so requires or where there may be some special or unusual feature in the case to justify the Court in departing from the usual course; (c) whilst the circumstances in cases in which indemnity costs have been ordered offer a guide, the question must always be whether the particular facts and circumstances of the case in question warrant the making of an order for costs other than on a party and party basis. 78. In *Hand & Bodilly* [2013] FamCAFC 98 the Full Court considered the appropriateness of an order for indemnity costs, where party and party costs or solicitor/client costs could be ordered. Rule 19.18 of the Family Law Rules 2004 (Cth) (the Rules) provides: (1) That the court may order that a party is entitled to costs: (a) of a specific amount; (b) as assessed on a particular basis (eg lawyer and client, party/party or indemnity); ... 79. In *Hand & Bodilly*, the difference between party/party costs and solicitor/client costs was accepted to be: 91. ... that on a taxation between parties on a solicitor and client basis, the unsuccessful party has to pay all the costs incurred by his opponent excepting in respect of (1) costs and expenses incurred prior to the institution of the action; (2) journeys and expenses of which the party liable could have had no knowledge, and which would not ordinarily be performed or incurred; (3) the employment of more counsel, or the payment to them of larger fees than the circumstances of the case warrant, including the giving of special retainers. 80. Their Honours went on to compare solicitor/client costs with indemnity costs in the following manner: ... Sometimes that discussion equates solicitor and client costs with indemnity costs but as Santow J said in *Bouras v Grandelis* [2005] NSWCA 463; (2005) 65 NSWLR 214:

The weight of authority is that solicitor and client costs and indemnity costs are distinct, though the difference between them has been eroded by practice and by inconsistent amendments to the various legislative instruments that make up the costs assessment regime. An order for solicitor and client costs will allow all reasonable costs or all costs as fair justice to the other party will allow. The onus of proving that the costs are reasonable falls on the receiving party. Historically, solicitor and client costs were somewhat more generous than party/party costs.... 81. It follows that the distinction between indemnity costs and solicitor/client costs, is that the former order provides a complete indemnity for costs actually incurred, with no enquiry as to the reasonableness of the costs incurred. Whereas an order for solicitor/client costs requires an enquiry as to the reasonableness of the costs. 82. It is open to the court to make a costs order on the basis of party/party costs, solicitor/client costs or indemnity costs. 83. When considering whether an order for party/party costs would be appropriate, it is instructive to revisit the decision of Sheppard J in *Colgate-Palmolive Co & Cussons Pty Limited* at 257 where His Honour reviewed the authorities and said: 4. ...The tests have been variously put. The Court of Appeal in *Andrews v Barnes* (39 Ch D at 141) said the court had a general and discretionary power to award costs as between solicitor and client as and when the justice of the case might so require. Woodward J in *Fountain Selected Meats* appears to have adopted what was said by Brandon LJ (as he was) in *Preston v Preston* ([1982] 1 All ER at 58) namely, there should be some special or unusual feature in the case to justify the court in departing from the ordinary practice. Most judges dealing with the problem have resolved the particular case before them by dealing with the circumstances of that case and finding in it the presence or absence of factors which would be capable, if they existed, of warranting a departure from the usual rule. But as French J said (at 8) in *Tetijo*: the categories in which the discretion may be exercised are not closed. Davies J expressed (at 6) similar views in *Ragata*. 5. Notwithstanding the fact that that is so, it is useful to note some of the circumstances which have been thought to warrant the exercise of the discretion. I instance the making of allegations of fraud knowing them to be false and the making of irrelevant allegations of fraud (both referred to by Woodward J in *Fountain* and also by Gummow J in *Thors v Weekes* (1989) 92 ALR 131 at 152 evidence of particular misconduct that causes loss of

time to the court and to other parties (French J in *Tetijo*); the fact that the proceedings were commenced or continued for some ulterior motive (Davies J in *Ragata*) or in wilful disregard of known facts or clearly established law (Woodward J in *Fountain* and French J in *J-Corp*); the making of allegations which ought never to have been made or the undue prolongation of a case by groundless contentions (Davies J in *Ragata*); an imprudent refusal of an offer to compromise (eg *Messiter v Hutchinson* (1987) 10 NSWLR 525; *Maitland Hospital v Fisher* (No 2) (1992) 27 NSWLR 721 [at] 724 (Court of Appeal); *Crisp v Kent* (SC(NSW)(CA), 27 Sept 1993, unreported) and an award of costs on an indemnity basis against a contemnor (eg Megarry V-C in *EMI Records*). Other categories of cases are to be found in the reports. Yet others to arise in the future will have different features about them which may justify an order for costs on the indemnity basis. The question must always be whether the particular facts and circumstances of the case in question warrant the making of an order for payment of costs other than on a party and party basis. 6. It remains to say that the existence of particular facts and circumstances capable of warranting the making of an order for payment of costs, for instance, on the indemnity basis, does not mean that judges are necessarily obliged to exercise their discretion to make such an order. The costs are always in the discretion of the trial judge. Provided that discretion is exercised having regard to the applicable principles and the particular circumstances of the instant case its exercise will not be found to have miscarried unless it appears that the order which has been made involves a manifest error or injustice. 84. In *Australian Transport Insurance Pty Ltd v Graeme Phillips Road Transport Insurance Pty Ltd* [1986] FCA 85; (1986) 71 ALR 287 at 288, with respect to the courts' discretion in the award of costs, Woodward J said: That discretion is absolute and unfettered, but must be exercised judicially (*Trade Practices Commission v Nicholas Enterprises* (1979) 28 ALR 201 at 207). Courts in both the United Kingdom and Australia have long accepted that solicitor and client costs can properly be awarded in appropriate cases where there is some special or unusual feature in the case to justify the court exercising its discretion in that way (*Preston v Preston* [1982] 1 All ER 41 at 58). It is sometimes said that such costs can be awarded where charges of fraud have been made and not sustained; but, in all the cases I have considered, there has been some further factor which has influenced the exercise

of the court's discretion for example, the allegations of fraud have been made knowing them to be false, or they have been irrelevant to the issues between the parties: see *Andrews v Barnes* (1888) 39 Ch D 133; *Forester v Read* (1870) 6 LR Ch App 40; *Christie v Christie* (1873) 8 LR Ch App 499; *Degmam Pty Ltd (in liq) v Wright (No 2)* [1983] 2 NSWLR 354. Another case cited in argument was *Australian Guarantee Corporation Ltd v DeJager* [1984] VicRp 40; [1984] VR 483 where (at 502) Tadgell J allowed solicitor and client costs because he found the pursuit of the action to have been a high-handed presumption. 85. In *Fountain Selected Meats (Sales) Pty Ltd v International Produce Merchants Ltd & Ors* (1988) 81 ALR 397 at 401 Woodward J, with respect to the award of costs, referred to what he said in *Australian Transport Insurance Pty Ltd v Graeme Phillips Road Transport Insurance Pty Ltd* and stated: No doubt the expression high-handed presumption was appropriate in the case *Tadgell J [Australian Guarantee Corp Ltd v De Jager [1984] VicRp 40; [1984] VR 483]* had to decide, and he needed to go no further; but in order to establish a convenient principle in such cases it is necessary to be a little more prosaic. I believe that it is appropriate to consider awarding solicitor and client or indemnity costs, whenever it appears that an action has been commenced or continued in circumstances where the applicant, properly advised, should have known that he had no chance of success. In such cases the action must be presumed to have been commenced or continued for some ulterior motive, or because of some wilful disregard of the known facts or the clearly established law. Such cases are, fortunately, rare. But when they occur, the court will need to consider how it should exercise its unfettered discretion. 86. The Court needs to be satisfied whether there are exceptional circumstances in this case which would enliven the discretion to award an order for costs on a solicitor/ client or indemnity basis. I consider that the dishonest conduct of the husband and his attempt to retain, at least for the wife, the benefit of that conduct by opposing the application, demands that he should bear the costs of the applicants on an indemnity basis. The dishonesty and the fraud create a special or unusual circumstance that is sufficient to require, as a matter of justice, payment of the costs on an indemnity basis. His defence of the proceedings was entirely doomed to fail at all times. His defence was thus in wilful regard of the facts and the law. Whilst I did not find the wife to have acted dishonestly at the time the consent

orders were made, she sought to defend and justify the dishonesty of her husband in the proceedings. She did so in wilful disregard of the facts of the case. The offers of settlement made by the applicants on 15 October 2012, 22 March 2013 and 4 June 2013 must be taken into account. Having regard to the strength of the applicants case, the refusal to accept those offers was imprudent. Accordingly I am satisfied, taking into account the offers of settlement and the defence of the proceedings in wilful disregard of the husband's conduct, that this matter falls into the exceptional class of matters where indemnity costs are warranted and that the wife should pay the applicants costs on an indemnity basis from 15 October 2012. For ease of taxation that order will be made against both respondents. I do not consider that any significant injustice will be done to the applicants thereby. I certify that the preceding sixty-one (61) paragraphs are a true copy of the reasons for judgment of the Honourable Justice Aldridge delivered on 29 October 2014. Associate:
Date: 29 October 2014 AustLII: Copyright Policy | Disclaimers | Privacy Policy | Feedback URL:
<http://www.austlii.edu.au/au/cases/cth/FamCA/2014/929.html>

