‘NEW LOOK’ SECTIONAL TITLE SCHEME MANAGEMENT

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1. **Introduction**

It has long been felt in the sectional title industry that it is necessary for government to deal exclusively, by way of separate legislation, with the issues that arise in the context of the close communal living of sectional titles and other community schemes (such as retirement villages, communities regulated by homeowners’ associations, and the like). The notes below deal specifically with changes to the sectional title scheme management arena.

While the rules pertaining to the practical, day-to-day management of sectional schemes and the resolution of disputes were previously included in the Sectional Titles Act (STA), they were there bunched together with the very technical aspects of land registration and opening of sectional title registers. Government therefore set up a task team to split the registration and management aspects of sectional title schemes, and in addition added legislation that should assist in conflict resolution in sectional title schemes.

The trio of legislation that are now in force are:

1. Sectional Titles Act 95 of 1986 (STA);
2. Sectional Titles Schemes Management Act 8 of 2011 (STSMA); and
3. Community Schemes Ombud Service Act 9 of 2011 (CSOS)

The new Acts (STSMA and CSOS) came into operation on 7 October this year. Note that there are some transitional provisions so that trustees and managing agents have time to make changes and these are listed later on in the article.

2. **Is the Sectional Titles Act repealed?**

A quick bird's eye view of the new landscape:

a. The STA is not repealed. A thinner and streamlined version of the STA now exists, as all the management provisions relating to sectional title schemes are removed from the STA, this Act now exclusively dealing with land title and conveyancing aspects of the registration of sectional title schemes.

b. The STSMA is operational: this Act deals with the establishment and function of bodies corporate, powers and duties of bodies corporate, insurance, rules and the like. The STSMA is made up largely of the provisions that were deleted from the STA, rewritten in a more
user-friendly form (specifically because the act aims to assist trustees and managing agents in the task of managing schemes) with innovations aimed at streamlining and modernising the management aspects of sectional schemes.

c. The CSOS: the purpose of CSOS is, on the one hand, to provide a legal structure to monitor and control the administration of private and common areas in all community schemes (including sectional title schemes) and, on the other hand, to deal with the disputes that arise in such schemes between owners/occupiers/interested parties and the management of the scheme (body corporate). It introduces an effective and affordable dispute resolution services in community schemes, including amongst others, sectional title schemes.

d. (Previously, where a dispute between owners and the body corporate would have been referred to Court, the Ombud will now have jurisdiction and offers (it is believed) a swifter and less costly resolution of disputes.)

3. **Inaugural meeting and Developer's duties at this meeting**

The STSMA places new obligations on the developer regarding the inaugural meeting of the body corporate. These are contained in section 2(8) and state:

a. The developer must convene a meeting of the members of the body corporate not more than 60 days after the establishment of the body corporate.

b. A comprehensive summary of the rights and obligations of the body corporate (PMR16);

c. At this meeting the developer must furnish the members with:
   i. a copy of the sectional plan;
   ii. a certificate from the local authority to the effect that all rates due by the developer up to the date of the establishment of the body corporate have been paid; and
   iii. proof of revenue and expenditure concerning the management of the scheme from the date of the first occupation of any unit until the date of the establishment of the body corporate.

A developer who fails to comply with this requirement is guilty of an offence and liable on conviction to a fine or to imprisonment for a period not exceeding two years or to both such fine and imprisonment.

d. The agenda for the meeting is as prescribed in the PMR. The agenda must the items listed in PMR 16, such as:
   i. A motion to confirm or vary the terms of the insurance policies that the developer/body corporate;
   ii. A motion to confirm or vary an itemised estimate of the body corporate’s anticipated income and expenditure for its first financial year;
   iii. A motion to approve, with or without amendment, the developer's —
**(1) evidence of revenue and expenditure concerning the management of the scheme from the date of the first occupation of any unit until the date of the establishment of the body corporate, and**

**(2) financial statements relating to the management and administration of the scheme from the date of establishment of the body corporate to the date of notice of the first general meeting;**

**(3) a motion to ratify or not to ratify the terms of any contract entered into by the developer on behalf of the body corporate;**

**(4) a motion confirming that the developer has — (1) furnished the meeting with copies of the prescribed documents; and (2) paid over any residue due to the body corporate;**

(iv) a motion appointing an auditor to audit the evidence and financial statements;

(v) motions determining the number of trustees and electing trustees;

(vi) a motion detailing any restrictions to be imposed or directions to be given to the trustees in exercising their duties, or confirming that there are no such restrictions or directions.

**Note that the developer cannot vote on items in italics above.**

(e) In addition, before or at the first meeting the developer must furnish the body corporate with the approved building plans; any encroachment permit or other document issued by the municipality in respect of the building works; plans showing the locations of all pipes, wires, cables and ducts; names and addresses of all contractors and subcontractors with whom the developer contracted; all warranties, manuals, schematic drawings, operating instructions, service guides, documentation from manufacturers, guarantees and warranties; as well as all records that the body corporate is required to keep (such as the indexed rules, minutes of meetings, lists of sections shown on the sectional plan, exclusive use areas, details of future development rights, and so forth (PMR 16(4)(f) read with PMR 27).

4. Executive and ‘Non-Executive’ Managing Agent

a. PMR 28 creates the designation “executive managing Agent” and differentiates between that and a “non-executive” managing agent. It determines that the body corporate may, by special resolution, appoint an executive managing agent to perform the functions and exercise the powers of the trustees. Otherwise, members entitled to 25% of the total quotas of all sections may apply to the Community Scheme Ombud Service for the appointment of an executive managing agent.

b. From the provision it appears that the executive managing agent takes over all the duties and responsibilities and liabilities of the body corporate. It provides that the executive managing agent —
(i) is subject to all the duties and obligations of a trustee under the Act and the rules of the scheme;

(ii) is obliged to manage the scheme with the required professional level of skill and care;

(iii) is liable for any loss suffered by the body corporate as a result of not applying such skill and care;

(iv) has a fiduciary obligation to every member of the body corporate;

(v) must arrange for the inspection of the common property at least every six months; and

(vi) must report at least every four months to every member of the body corporate on the administration of the scheme.

c. The reports of an executive managing agent referred to above must include at least the following details —

   (i) proposed repairs to and maintenance of the common property and assets of the body corporate within the next four months;

   (ii) matters the executive managing agent considers relevant to the condition of the common property and the assets of the body corporate;

   (iii) the balance of each of the administrative and reserve funds of the body corporate on the date of the report and a reconciliation statement for each fund; and

   (iv) for the period since the appointment of the executive managing agent or from the date of the last report — (1) the expenses of the body corporate, including repair, maintenance and replacement costs; and (2) a brief description of the date and nature of all decisions made by the executive managing agent.

d. The body corporate may, if trustees so resolve, and must if required by — (1) a registered mortgagee of 25% in number of the primary sections; or (2) a resolution of members, appoint a managing agent to perform specified financial, secretarial, administrative or other management services under the supervision of the trustees.
A management agreement may not endure for a period longer than three years and may be cancelled, without liability or penalty, despite any provision of the management agreement or other agreement to the contrary—

(a) by the body corporate on two months notice, if the cancellation is first approved by a special resolution passed at a general meeting, or

(b) by the managing agent on two months notice.

The body corporate or trustees may by ordinary resolution cancel the management agreement in accordance with its terms or refuse to renew the management agreement when it expires.

5. Duties of the Body Corporate & Rules

a. The provisions dealing with the establishment of the body corporate has been moved to the STSMA. This is not a ‘registration matter’ because the body corporate it comes into existence automatically on registration of a unit into the name of a person other than the developer. (sec 2).

b. The STA (sec 36 as amended) now provides that when a unit is registered in the name of a person other than the developer, the Registrar must issue a certificate in the prescribed form and lodge a copy of the certificate with the Chief Ombud. The Ombud is in this way alerted that a new body corporate came into existence.

c. The body corporate must notify the Chief Ombud, in addition to the local authority and Registrar, of its domicilium citandi et executandi (sec 3(o) STSMA). This notification is important because:

i. the Ombud has been made the custodian of all sectional title scheme rules and needs to know the address where it must formally communicate with the body corporate; and

ii. because the Ombud service is partly financed by the collection of levies from community schemes (sec 59 CSOS), of which sectional title schemes will make out the bulk.

d. When a new scheme is opened in the deeds office, a certificate by the Ombud must be filed together with the application confirming that the Ombud’s office found the rules to be in order (STA 11(3)(e)). If the scheme adopts the (new) Prescribed Management and Conduct Rules, a certificate from the Ombud is not required and the conveyancer will certify to this effect.

e. The STSMA further requires the rules to be reasonable and apply equally to all owners. (Previously, a certificate by a conveyancer was lodged confirming and identifying the rules that would apply to the scheme.) In conjunction herewith, note that the Ombud has the final say (when rules are incorporated for the first time, or subsequently amended or repealed) on
whether the rule/amendment/repeal of the rule is just and equitable on all owners. If the Ombud decides that it is not, then the rule is not valid!

f. Whenever a rule is changed or amended or repealed it must first be submitted to the Ombud for approval, the Ombud will not approve it if he is not satisfied that the change, amendment, repeal is “reasonable” and “appropriate to the scheme” (sec 10(5)(b)STSMA).

g. There are prescribed form in the regulations for such notification to the Ombud, see Form B.

6. What about rules currently in operation?

a. STSMA sec 10(12) provides that rules made under the STA are deemed to have been made under the STSMA - and thus appears to have been retained. (However rules will not be able to be contrary to the provisions of the new Prescribed Management and Conduct Rules and it is probably advisable to conduct an overview of your rules and do the necessary amendment/alignment to bring it within the scope of the new legislation.)

b. And, as indicated before:
   i. current rules will have to be filed with the Ombud for its record-keeping; and
   ii. any amendment/repeal of an existing rule, will have to be approved by the Ombud before it will be valid.

7. Our list of important changes affecting management of schemes

A - MEETINGS AND RESOLUTIONS

1. Special and unanimous resolutions
The definitions of special and unanimous resolutions were removed from the STA and are now, in a 'cleaned up' and simpler format contained in the STSMA, with one interesting change.

   a. In essence, a special resolution is (still) a resolution (a) passed by at least 75% calculated both in number and value of the members of the body corporate who are present or represented at a general meeting; or (b) agreed to in writing by members of a BC holding at least 75% of all the votes calculated both in value and number.

   b. A unanimous resolution is (still) a resolution (a) passed unanimously by all the members of the BC at a meeting at which at least 80%, calculated both in value and in number, of votes of all the members of the body corporate are present or represented, and “all the members who cast
their votes” do so in favour of the resolution; or (b) agreed to in writing by all the members of
the body corporate.

c. The fact that "all the members who cast their vote" must have voted in favour of the resolution
means that the votes of persons who abstained from voting no longer counts as votes in favour
of a unanimous resolution. The reasoning is that the right to abstain from voting is seen as an
additional choice which cannot be taken away from owners. Previously, the voter that abstained
was deemed to have voted in favour of the relevant resolution.

d. Sec 6(8) further provides that where the unanimous resolution would have an unfairly adverse
effect on any member, the resolution is not effective unless that member consents in writing
within 7 days from the date of the resolution. This appears somewhat nonsensical as it may
undermine the passing of many attempted resolutions. On the other hand, it is not clear what
“would have an unfairly adverse effect” means, argues some academic writers and hence, some
of these resolutions could ‘slip through’ without the required consent from the affected owner
having been obtained. Sec 6(9) STSMA does provide that where an owner or body corporate is
unable to obtain a special or unanimous resolution, the Ombud can be approached “for relief”.

e. See below the discussion regarding proxies and counting of votes which also affects the issue of
voting on resolutions.

Proxies:

a. Proxies are allowed for resolutions, as was the position before, except that now a person
may not hold proxies for more than two other persons (sec 6(5) STSMA).

b. Before there was no limitation on how many proxies one body corporate member may have
for the scheme’s annual general meeting and special general meeting. (Some in the industry
reckoned that this aspect was often abused, because it enabled one or two motivated
members to dominate decisions on matters about which they felt strongly.)

8. Counting of votes at general meeting

Sec 6(7) provides that, when votes are calculated in value, each member has one vote only. This
is a change from the previous position (PMR 62) which allowed an owner one vote for each
section that he or she owns.
9. Setting up a meeting for passing special or unanimous resolutions

a. The process for the setting up meetings for the body corporate has been streamlined. Generally, the meetings must take place “at a time and in the form as may be determined by the body corporate” (STSMA 6(1).) (Maree: “What does ‘in such form’ mean? Could it be intended to refer to meetings conducted electronically such as by Skype? And the provision diverts entirely from the norm that such practical items should be contained in and governed by the rules and accordingly affects the current management Rules.”)

b. Where a meeting is arranged for the passing of a special or unanimous resolution, at least 30 days notification must be given to all members of the meeting, unless the rules provide for shorter period.

c. Importantly, note that for purposes of a meeting for the passing of a unanimous or special resolution, the notice must be delivered by hand, pre-paid post or by fax or e-mail (sec 6(4) STSMA). This concession to modern facilities apparently applies only to meetings which propose the adoption of special and unanimous resolutions — on a reading of section 6 STSMA - and the same provision was unfortunately not made in respect of general meetings for the passing of ordinary resolutions. For the latter meetings, the position seems to be that notice must still be given by prepaid post to the domicilium address, as per the current requirements.

d. Relief if the body corporate cannot get a unanimous resolution: Section 6(9) STSMA provides that the body corporate or owner who is unable to obtain a unanimous or special resolution may approach the Chief Ombud for relief on the basis that the opposition to the resolution was unreasonable under the circumstances.

10. When must a special resolution be obtained by body corporate?

There are new instances where a body corporate must obtain a special resolution (sec 38 STA re-enacted in sec 4 of the STSMA). These are:

a. If the body corporate seeks to purchase, acquire, take transfer of, mortgage, sell, give transfer of, or hire or let units — and if it is essential for the proper fulfilment of its duties - a special resolution is required and such transaction must be essential for the proper fulfilment of its duties. (Comments Prof CG van Der Merwe: This requirement may be sensible in the case of the acquisition and sale of units, but not in the case of letting units once acquired, and hiring of units from owners. The body corporate may want to acquire units with the intention of letting it out to tenants as apartments or as a restaurant on the ground floor of a mixed-use scheme thus increasing the capital in the administrative fund
and contributing to a decrease in monthly levies. "In my opinion, the fact that this power may only be exercised 'when essential for the proper fulfilment of its duties' is sufficient to prevent bodies corporate from abusing this power especially in the case of letting and hiring units.")

b. Where the body corporate borrows money (STSMA 4(e)) required for the performance of its functions or the exercise of its duties. The reason for this provision is apparently to prevent the trustees from accumulating huge debts on behalf of the body corporate. (Comments Prof CG Van Der Merwe: "This sledge-hammer approach may however prevent trustees from acquiring small loans to bridge temporary cash flow problems. A better solution may have been to require a special resolution only for larger loans amounting to say, more than 10% of the annual budget. The trustees obviously have the choice to handle the situation by raising a special contribution from the owners.")

c. Where the body corporate intends to let a portion of the common property to an owner or occupier of the property on a short term lease – STSMA sec 4(h). This additional hurdle was probably intended to prevent the free use of the common property if not acceptable to a substantial majority of the owners.

11. Administrative and Reserve fund now obligatory

a. Before the coming into operation of the STSMA, many sectional title schemes had established reserve funds built up over the years. Setting up such a reserve fund was, however, not mandatory under the STA. It is noteworthy, therefore, that the STSMA now makes it obligatory to establish and maintain both an administrative fund and a reserve fund. The reserve fund must be maintained to have funds that are "reasonably sufficient to cover the cost of future maintenance and repair of common property".

b. The formula to calculate how much money should be in the reserve fund, uses as reference point the end of a financial year and the total contributions collected in that year by a body corporate. The formula then stipulates:

   i. If, at the end of the financial year, the money in the reserve fund is less than 25% of the total contributions to the administrative fund for that year, then, in the next financial year the minimum allocation to the reserve must be 15% of the contributions to the administrative fund.

   ii. If, at the end of the financial year, the money in the reserve fund is equal to or more than 100% of the total contributions to the administrative fund for that year, the body corporate does not have to top up its reserve fund.
iii. If, at the end of the financial year, the money in the reserve fund is more than 25%, but less than 100%, of the total contributions to the administrative fund for that year, the contribution to the reserve fund must at least equal the amount the body corporate budgets to spend from the administrative fund on repairs and maintenance in the coming year.

c. New schemes do not have to use the formula when they present a budget at their first annual general meeting (AGM).

d. **Penalty:** In the event of insufficient provision for maintenance in the budget for the administrative or reserve fund, any owner may approach the Ombud service for an order declaring that the contribution levied on owners was "incorrectly determined" and an order for the "adjustment of the contribution" to a correct or reasonable amount (CSOS 39(1)(c)).

e. *(In this regard, Prof CG Van Der Merwe notes that: "It is suggested that the levying of 'special contributions' will become more infrequent once the new specifications of the amounts to be contributed to the administrative fund and especially the reserve fund, are fully implemented in practice.")*

**12. Change of ownership and levy liability**

a. Similarly to the previous provision in the STA, any special contribution becomes due on the passing of a resolution in this regard by the trustees of the body corporate levying such a contribution.

b. The recovery of such a contribution is facilitated in the STSMA by allowing an application by the body corporate to the Ombud to recover the amounts owing from the persons who were owners of units at the time when the resolution was passed.

c. This recovery is made subject to the proviso (sec 3(2) STSMA) that upon the change of ownership of a unit, the successor in title becomes liable for the pro rata payment of such contributions from the date of change of such ownership. This proviso means that the new owner will become automatically liable for the portion of the special levy that was not yet paid on the transfer date. This will therefore apply in cases where the special levy was made payable in instalments and not where it was made payable in one lump sum.

**13. Collecting arrear levies enforcement – in Court or in Ombud’s office?**

a. Sec 37(2) of the STA permitted a body corporate to recover arrear levies from an owner by instituting legal proceedings in a Court having jurisdiction. This section is repealed and replaced in the STSMA (sec 3(2)) which provides that levies "may be recovered by the body corporate by
an application to an Ombud from the persons who were owners of units at the time when such resolution was passed”.

b. In other words, the body corporate has a discretion – it can go the route of referring the dispute to the Ombud or it may use its common law right to refer the issue with the defaulting owner to a Court. Each instance will individually determine the route that the body corporate will take.

c. However, there is a small snag: the CSOS is structured to deal with a 'dispute' between an owner(s) and the body corporate. As such, if there is a 'dispute' in existence (relating to, for example, an allegation that the levy was incorrectly calculated, was unreasonably levied, etc) the body corporate will in all likelihood address recovery of the outstanding amount in the Ombud's office. However, if the default relates to an owner who is simply not paying up (maybe because he is in financial distress or for whatever other reason) then there is no 'dispute' regarding the levy, as meant in the CSOS. The body corporate will then refer the matter to the Court and not the Ombud.

d. Interestingly, CSOS determines that if an owner is in arrears with his levies but the unit is rented out, the body corporate can approach the Ombud for an order that the tenant must pay the rental over to the body corporate to bring the levies up to date. This is currently not possible.

14. Rules of the Scheme –some important aspects

Aspects dealing with the rules of schemes are now contained in sec 10 of the STSMA. Some major changes (although mentioned before in the notes) are the following:

a. Rules substituting, adding to amending or repealing prescribed management or conduct rules by the developer or by unanimous or special resolution of the body corporate, must first be approved by the Ombud. The registration of the sectional title plan and the opening of the sectional title register will have to be synchronised with the approval of the rules by the Ombud and developers and their practitioners will have to concentrate on drafting proper rules so as not to delay registration of the scheme as a result of the Ombud rejecting the rules.

b. All later amendments of the management of conduct rules must be approved by the Ombud. This involves:
   i. Notification of an intended amendment to the Ombud;
   ii. Assessment by the Ombud of the reasonableness and suitability of the intended amendments;
   iii. Issue of a certificate of approval by the Ombud;
   iv. Filing of the amended rules in the office of the Ombud.

c. Amended rules come into operation on date of approval or on date of opening of the register, whichever is the later.

d. The body corporate is obliged (in terms of sec 10 CSOS) to keep copies of all rules, have the rules available for inspection at meetings of the trustees and owners; deliver copies of rules to
each person who becomes an owner or occupier of a unit; deliver to all owners a copy of any rules substituted, added to or amended and details of any rules repealed; and on request by any owner or any person authorised in writing by an owner, deliver a copy of all the rules to such a person.

15. **Exclusive use areas granted by body corporate or the developer**

a. The provisions relating to the granting by the body corporate or developer of exclusive use rights (EUAs) to owners (sec 27A STA) were removed from the STA in totality and replaced in the STSMA (as this is a body corporate function and not related to land title registration).

b. In the STSMA the provision is tweaked to explicitly state that the body corporate may establish exclusive use areas by either unanimous or a special resolution – ie, in terms of either management or conduct rules.

c. The EUAs to which client receives registered title, the 'formal' exclusive use areas, are still dealt with in the same way as in the STA. (Sec 27A STA now at STSMA sec 10(7))

16. **Insurance by owners and the body corporate**

A few important changes were effected to the repealed sec 45. These include:

a. Sec 14(1) STSMA provides that notwithstanding the fact that the body corporate had entered into a valid insurance policy for the building and to keep it insured to the replacement value thereof against fire and other risks, an owner may obtain an insurance policy in respect of any damage arising from risks **not covered by the policy of the body corporate**.

(This, according to Prof CG Van Der Merwe, seems to prevent an owner from insuring for damage to his/her section where an owner reckons that his section is underinsured under the BC’s policy. "This could well be the case where a particular section was later equipped with a Jacuzzi and a modern kitchen. This shortcoming is not rectified by section 14(2) that the rights of an owner to insure against risks other than damage to his/her section are not limited. Note the fact that an owner is no longer entitled to procure additional insurance for damage to his section, notwithstanding an existing policy of the BC, led to the repeal of section 44(2) of the STA which regulated double insurance.")

b. It is a function of the body corporate to pay for insurance premiums – sec 3(1)(a)(iii) STSMA

c. In addition, in the new Prescribed Management Rules it is obligatory to have property re-evaluated every three years for insurance purposes. The replacement valuation must be presented to the annual general meeting.

d. In fact, the rule requires the body corporate to prepare for each annual general meeting schedules showing estimates of the replacement value of the buildings and improvements, the
replacement value of each unit (excluding the member’s interest in the land) and the total thereof must equal the sum the scheme is insured for.

e. There are, in the Prescribes Rules, quite a few provisions dealing with insurance and it is necessary to relook current insurance policies to make sure they are sufficient. (Rule 23). Importantly, application of any “average” clause must be restricted to individual units and exclusive use areas and may not apply to the buildings as a whole. (PMR 23(1)(c)).

17 Summary of Liability of Body Corporate before Ombud

a. We have seen throughout the aforesaid that the Ombud Service can be approached where there is a dispute between an owner/occupant/interested person and the body corporate. A few examples were furnished as we went along.

b. In essence the CSOS creates a dispute resolution forum where a dispute that has been referred and accepted by the Ombud, will ultimately be adjudicated upon. As such, as part of the Ombud's powers of investigation, the body corporate may be requested to make available all its book of accounting, minutes of meetings and resolutions passed. The failure to comply with such a request from the Ombud constitutes an offence and attracts a penalty (CSOS, sec 34).

c. Either an owner, occupier, person with a material interest in the scheme or the body corporate itself can refer a matter to the Ombud. Anything to do with the management of the scheme can be referred to the Ombud. For example, a refusal by the body corporate to allow an owner to use his or her section for another purpose than intended – if it is unfairly prejudicial, unjust or inequitable – may be referred to the Ombud Service for determination.

17. Important time lines for scheme administrators

a. Register the scheme with the CSOS. This has to be done within 30 days after 7 October.

b. Lodge the scheme’s rules with the CSOS within 90 days.

c. File the community scheme’s annual return and financial statements with the CSOS, which also needs to be done within 90 days. The form needed to do so is CS2, and is attached to the Regulations.

d. Establish what the CSOS levy is according to the table of costs provided by the CSOS, and start paying the quarterly levy. This must be done within 90 days and is detailed in Regulation 11.

e. Insure against the risk of loss in the case of any fraud or dishonesty in the handling of the scheme’s funds. This needs to be done as soon as possible.
f. Notify the CSOS, the local municipality and local Registrar of Deeds what the scheme’s *domicilium* is. The required form A is attached to the Regulations.

g. Establish a reserve fund. A separate bank account should be opened for this and a separate budget compiled together with separate financial statements. This is immediately effective and should be tackled with urgency. Section 3 (1)(b) of the STSMA details how this should be done as well as Prescribed Management Rule 24 and various other new PMR.

h. Prepare a written maintenance plan. This is also immediately effective and is detailed in PMR 22.