CIVIL CODE OF THE REPUBLIC OF ARMENIA

Chapter 5. Legal Persons

§ 1. Basic Provisions

Article 50. Definition of a Legal Person

1. A legal person is an organization that has separate property under ownership and that is liable for its obligations with this property and that may, in its own name, obtain and exercise property and personal nonproperty rights, bear duties, and be a plaintiff and defendant in court.

A legal person must have an independent balance sheet.

2. In connection with participation in the formation of the property of a legal person, its founders (or participants) have or do not have rights under the law of obligations with respect to this legal person.

Legal persons with respect to which their founders (or participants) have rights under the law of obligations include: business partnerships and companies, and also cooperatives.

Legal persons with respect to which their founders do not have rights under the law of obligations include: societal amalgamations, funds, and unions of legal persons.

Article 51. Types of Legal Persons

1. Organizations seeking to make profit as the basic purpose of their activity (commercial organizations) or not having making profit as such a purpose and not distributing profit received among their participants (non-commercial organizations) may be legal persons.

2. Legal persons that are commercial organizations may be created in the form of business partnerships and companies.

3. Depending upon the nature of activity, cooperatives may be organizations pursuing the extraction of profit as the basic goal of their activity (commercial organizations) or not having extraction of profit as such a goal (non-commercial organizations).

4. Legal persons that are non-commercial organizations may be created in the form of societal amalgamations, funds, unions of legal persons, and also in other forms provided by a statute.

Non-commercial organizations may conduct entrepreneurial activity only to the extent that this serves the attainment of the purposes for which they are founded and corresponds to these purposes. For the conduction of entrepreneurial activity, non-commercial organizations have the right to create business companies or to participate in them.

Article 52. Legal Capacity of a Legal Person

1. A legal person may have civil law rights corresponding to the purposes of activity provided in its founding document and bear the duties connected with this activity.

Commercial organizations may have civil law rights and bear civil law duties necessary for conducting any types of activity not forbidden by a statute.

A legal person may engage in certain types of activity, a list of which is determined by a statute, only on the basis of special permission (or a license).

2. A legal person may be limited in rights only in cases and by the procedure provided by a statute. A decision on limitation of rights may be protested by the legal person to a court.

3. The legal capacity of a legal person shall arise at the time of its creation (Paragraph 3 of Article 56) and shall terminate at the time of completion of its liquidation (Paragraph 7 of Article 69).

The right of a legal person to conduct activity, to engage in which it is necessary to obtain special permission (or a license), shall arise from the time of receipt of such a license or at the time indicated in it and shall terminate on the expiration of the term of its effectiveness, unless otherwise established by a statute or other legal acts.

Article 53. Creation of a Legal Person

The founders of a legal person shall conclude a contract in which they determine the procedure for joint activity for the creation of the legal person, the conditions of transfer to it of their property and the conditions of their participation in its activity.

The charter of the legal person being created shall be drafted on the basis of the contract by the founders.

Article 54. Liability of the Founders of the Legal Person

The founders of the legal person bear joint and several liability for obligations connected with the foundation of the legal person that arose before the state registration of the legal person.

Article 55. Founding Document of a Legal Person

1. The founding document of a legal person in the charter approved by its founders.

A legal person created in accordance with the present Code by a single founder shall act on the basis of a charter approved by this founder.

2. The charter of a legal person must indicate the name of the legal person, its seat, and the procedure for managing the activity of the legal person and also must contain the other information required by a statute for legal persons of the respective type.

In the charter of a non-commercial organization the subject and purposes of its activity shall be established.

In the charter of a commercial organization, the subject and purposes of its activity may be established. The charter of noncommercial organizations and unitary enterprises and, in cases provided by a statute, also of other commercial organizations, must define the object and purposes of the activity of the legal person. The object and defined purposes of the activity of a commercial organization may be provided by the charter also in cases when this is not obligatory by a statute.

3. Changes in the charter shall take legal effect for third persons from the time of their state registration and, in cases established by a statute, from the time of notifying the agency conducting state registration of such changes. However, legal persons and their founders (or participants) do not have the right to cite the absence of the registration of such changes in relations with third parties who have acted taking these changes into account.

Article 56. State Registration of Legal Persons

1. A legal person is subject to state registration by the procedure established by statute. The data of state registration, including the firm name of commercial organizations, shall be included in a state register of legal persons open for public access.

2. Violation of the procedure established by a statute for the formation of a legal person or failure of its charter to correspond to a statute shall entail refusal of state registration of the legal person.

Refusal of registration on grounds of the inexperience of creating the legal person is not permitted.

A refusal of state registration and also avoidance of such registration may be protested to a court.

2. A legal person shall be considered created from the time of its state registration.

Article 57. Bodies of a Legal Person

1. A legal person obtains civil law rights and undertakes civil law duties through its bodies acting in accordance with a statute, other legal acts, and the charter.

The procedure for appointing or electing bodies of a legal person shall be determined by a statute and the charter.

2. In cases provided by a statute a legal person may obtain civil law rights and undertake civil law duties through its participants.

3. A person who, by virtue of a statute or the charter of a legal person, acts in its name must act in the interests of the legal person represented by him in good faith and reasonably. This person shall be obligated on demand of the founders (or participants) in the legal person, unless otherwise provided by a statute or contract, to compensate for the damages caused by him to the legal person.

Article 58. The Name of a Legal Person

1. A legal person shall have its own name, containing an indication of its organizational-legal form. The names of a non-commercial organizations must contain an indication of the nature of the activity of the legal person.

2. A legal person that is a commercial organization must have a firm name.

A legal person whose firm name has been registered by the procedure established by statute has the exclusive right to its use.

The procedure for registration and use of firm names shall be determined by a statute and other legal acts in accordance.

3. Obtaining rights and duties under the firm name of another legal person is not permitted.

A person who has unlawfully used another's registered firm name, on demand of the holder of the right to the firm name, shall be obligated to stop its use and compensate for the damages caused.

Article 59. Seat of a Legal Person

The seat of a legal person is the place of location of its permanently acting body.

Article 60. Liability of a Legal Person

1. A legal person shall be liable for their obligations with all property belonging to them.

2. The founder of (or a participant in) a legal person shall not be liable for the obligations of the legal person, and the legal person shall not be liable for the obligations of the founder (or participant), with the exception of cases provided by the present Code or by the charter of the legal person.

Article 61. Representative Offices and Branches

1. A representative office is a separate subdivision of a legal person located outside the place where the legal person is located which represents the interests of the legal person and conducts their protection.

2. A branch is a separate subdivision of a legal person located outside the place where the legal person is located and conducting all its functions or part of them, including the function of representation.

3. Representative offices and branches are not legal persons, and they act on the basis of regulations approved by the legal person.

The heads of representative offices and branches are appointed by the legal person and act on the basis of a power of attorney from it.

Representative offices and branches must be indicated in the charter of the legal person that has created them.

Article 62. Institution

1. An institution is an organization created as a legal person for the conduct of administrative, cultural and societal, or other functions of a non-commercial character and financed by it in whole or in part.

2. An institution is not a legal person and acts on the basis of a statute approved by a legal person.

3. An institution with respect to the property attached to it exercises the rights of possession, use, and disposition of its property within the limits established by statute, in accordance with the purposes of its activity, with from the legal person, and the designated purpose of the property

4. Liability for the obligations of an institution shall be borne by the legal person that founded the institution.

5. The peculiarities of the legal status of individual types of state and other institutions is determined by statute and other legal acts.

Article 63. Reorganization of a Legal Person

1. Reorganization of a legal person (merger, accession, division, spin-off, transformation) may be conducted by decision of its founders (or participants) or by the body of the legal person so authorized by the charter.

2. In cases established by a statute, reorganization of a legal person in the form of a division of it or a spin-off from it of one or several legal persons shall be done by decision of a court.

The court shall designate an outside manager for the legal person and delegate to him the conduct of the reorganization of this legal person. From the time of designation of an outside manager, the powers for managing the affairs of the legal person shall pass to him. The outside manager shall act in the name of the legal person in court, compile the division balance sheet and submit it for consideration by the court together with the charter of the legal persons arising as the result of the reorganization. Approval by the court of these documents shall be the basis for state registration of the newly arising legal persons.

3. A legal person shall be considered reorganized, with the exception of the case of reorganization in the form of accession, from the time of state registration of the newly arising legal persons.

In case of reorganization of a legal person in the form of accession of another legal person to it, the first of them shall be considered reorganized from the time of making in the single state register of legal persons of an entry on the termination of activity of the joining legal person.

Article 64. Legal Succession Upon the Reorganization of Legal Persons

1. In case of the merger of legal persons, the rights and duties of each of them shall pass to the newly arising legal person in accordance with the transfer document.

2. In case of accession of a legal person to another legal person, the rights and duties of the acceding legal person shall move to the latter in accordance with the transfer document.

3. In case of division of a legal person, its rights and duties shall pass to the newly formed legal persons in accordance with the division balance sheet.

4. In case of the spin-off from a legal person of one or several legal persons, the rights and duties of the reorganized legal person shall pass to each of them in accordance with the division balance sheet.

5. In case of transformation of a legal person of one type into a legal person of another type (a change of organizational-legal form), the rights and duties of the reorganized legal person shall pass to the newly arising legal person in accordance with the transfer document.

Article 65. The Transfer Document and the Division Balance Sheet

1. The transfer document and the division balance sheet must contain provisions on legal succession for all obligations of the reorganized legal person with respect to all its creditors and debtors, including also obligations contested by the parties.

2. The transfer document and the division balance sheet must be approved by the founders of (or participants in) the legal person or by the body of the legal person empowered thereto by the charter that has taken the decision to reorganize the legal person and must be presented together with the charter for state registration of the newly arising legal persons or for entering changes in the charters of existing legal persons.

Failure to present the corresponding transfer document or division balance together with the charter, and also the absence in them of provisions on legal succession to the obligations of the reorganized legal person shall entail a refusal of state registration for the newly arising legal person.

Article 66. Guaranties of Rights of Creditors of a Legal Person Upon Its Reorganization

1. The founders of (or participants in) the legal person or the body of the legal person thereto authorized by the charter that has adopted a decision to reorganize the legal person, and in the cases provided by Paragraph 2 of Article 63 of the present Code, the outside manager, are obligated to notify the creditors of the reorganized legal person of this in writing.

2. A creditor of the reorganized legal person shall have the right to demand termination or early performance of legal obligations for which the reorganized legal person is a debtor and compensation for damages.

3. If the division balance sheet does not provide the possibility of determining the legal successor of the reorganized legal person, the newly arisen legal persons bear joint and several liability for the obligations of the reorganized legal person to its creditors.

Article 67. Liquidation of a Legal Person

1. Liquidation of a legal person shall entail its termination without transfer of rights and duties by way of legal succession to other persons.

2. A legal person may be liquidated:

1) by a decision of its founders (or participants) or of the body of the legal person empowered thereto by the charter, including in connection with the expiration of the term for which the legal person was created, with the achievement of the purpose for which it was created;

2) in case of recognition by a court that the registration of a legal person is invalid in connection with violations of a statute or other legal acts committed at its founding;

3) by a decision of a court in case of conduct of activity without appropriate permission (or license) or of activity prohibited by a statute, or with other multiple or gross violations of a statute or other legal acts, or in case of systematic conduct by a societal organization or fund of activity contradicting its charter purposes, and also in other cases provided by the present Code.

3. A demand for the liquidation of a legal person on the bases indicated in Paragraph 2 of the present Article may be presented in court by a state agency or an agency of local self-government to whom the right for presenting such a demand has been granted by a statute.

A decision of a court for the liquidation of a legal person may impose obligations for the conduct of the liquidation of the legal person on its founders (or participants) or the body authorized for the liquidation of the legal person by its charter.

4. A legal person also may be liquidated in accordance as the result of bankruptcy.

5. If the value of the property of such a liquidated legal person is insufficient for satisfaction of the claims of creditors, it may be liquidated only as through bankruptcy.

Article 68. Duties of a Person Who has Taken a Decision to Liquidate a Legal Person

1. The founders of (or participants in) a legal person or the body of a legal person authorized thereto by the charter that has taken a decision to liquidate a legal person are obligated to immediately report about this in writing to the agency that conducts state registration of legal persons, which shall enter in the state register of legal persons information to the effect that the legal person is in the process of liquidation.

2. The founders of (or participants in) the legal person or the body of a legal person authorized thereto by the charter that has taken the decision to liquidate the legal person shall appoint a liquidation commission (or liquidator) and shall establish, in accordance with the present Code, the procedure and periods for liquidation.

3. From the time of appointment of a liquidation commission, the powers for the management of the affairs of the legal person shall pass to it. The liquidation commission may appear in court in the name of the legal person being liquidated.

Article 69. The Procedure for Liquidation of a Legal Person

1. The liquidation commission shall place, in the press media in which data on state registration of a legal person are published, a publication about its liquidation and about the procedure and period for the submission of claims by its creditors. This period may not be less than two months after the time of publication about the liquidation.

The liquidation commission shall take measures for the discovery of creditors and for the receipt of debtor indebtedness and also shall inform creditors about the liquidation of the legal person.

2. After the end of the period for the presentation of claims by creditors, the liquidation commission shall compile an intermediate liquidation balance sheet, which shall contain information on the composition of the property of the legal person undergoing liquidation, on a list of the claims presented by creditors, and also about the results of their consideration.

The intermediate liquidation balance sheet shall be confirmed by the founders of (or participants in) the legal person or by the body of the legal person authorized thereto by the charter that made the decision to liquidate the legal person.

3. If the monetary assets available to the legal person being liquidated are insufficient for the satisfaction of the claims of creditors, the liquidation commission shall conduct the sale of the property of the legal person at a public auction by the procedure established by the statute on public auctions.

4. Payment of monetary sums to creditors of the legal person being liquidated shall be made by the liquidation commission in the order of priority established by Article 70 of the present Code,

in accordance with the intermediate liquidation balance sheet, beginning from the day of its approval.

5. After settlement of accounts with creditors, the liquidation commission shall compile a liquidation balance sheet, which shall be approved by the founders of (or participants in) the legal person or by the body of the legal person authorized thereto by the charter that took the decision for the liquidation of the legal person. The liquidation commission shall, in an appropriate manner, send the approved liquidation balance to the agency conducting state registration of legal persons.

6. Property of the legal person remaining after the satisfaction of the claims of creditors shall be transferred to its founders (or participants), unless otherwise provided by a statute, other legal acts or the charter of the legal person.

7. The liquidation of the legal person shall be considered complete and the legal person shall be considered to have ceased its existence from the time of the entry of a notation to this effect in the single state register of legal persons.

Article 70. Satisfaction of the Claims of Creditors

1. In the liquidation of a legal person, the claims of its creditors shall be satisfied in the following order:

in the first priority, claims of creditors secured by pledge of property of the legal person being liquidated shall be satisfied;

in the second priority, claims of citizens to whom the entrepreneur is liable for causing of harm to life or health shall be satisfied by capitalization of the respective periodic payments;

in the third priority, settlements shall be made for the payment of severance allowances and payment for labor with persons working under a labor agreement and also for payment of compensation under publishing contracts;

in the fourth priority, indebtedness for obligatory payments to the fisc shall be covered;

in the fifth priority, accounts shall be settled shall be made with other creditors.

The claims of each priority shall be satisfied after the full satisfaction of the claims of the previous priority.

2. In case of refusal by the liquidation commission to satisfy the claims of a creditor or of declining to consider them, the creditor shall have the right, before the approval of the liquidation balance sheet, to bring a suit in court against the liquidation commission.

3. Claims of creditors presented after the period established by the liquidation commission for their presentation shall be satisfied from the property of the legal person undergoing liquidation that remains after the satisfaction of the claims of creditors presented on time.

4. Claims of creditors of the legal person undergoing liquidation that were not recognized by the liquidation commission and also claims for which the creditor has been refused satisfaction by a decision of a court shall be considered canceled.

Article 71. Bankruptcy

1. A legal person by decision of a court may be declared bankrupt if it is not in a position to satisfy the claims of creditors.

The grounds and procedure for a declaration by a court of a legal person bankrupt shall be established by the Civil Procedure Code of the Republic of

§ 2. Commercial Organizations

1. General Provisions on Business Partnerships and Companies

Article 72. Basic Provisions on Business Partnerships and Companies

1. Business partnerships and companies are commercial organizations with charter (or investment) capital broken down into the shares of the founders (or participants). Property created at the expense of the contributions of the founders (or participants) and also that produced or obtained by the business partnership or company in the process of its activity shall belong to it by right of ownership.

In cases provided by the present Code, a business company may be created by one person.

2. Business partnerships may be created in the form of a general partnership or a limited partnership.

3. Business companies may be created in the form of a company with limited or supplementary liability or a joint-stock company.

4. Only individual entrepreneurs and/or commercial organizations may be participants in general partnerships and the general partners in limited partnerships.

Citizens and legal persons may be participants in business companies and investors in limited partnerships.

State agencies and agencies of local self-government do not have the right to be participants in business partnerships and companies.

5. Business partnerships and companies may be founders of (or participants in) other business partnerships and companies with the exception of cases provided by the present Code and other statutes.

6. An investment in the property of a business partnership or company may be money, securities, commercial paper, other property or other rights having a monetary evaluation.

The monetary evaluation of the investment of a participant in a business company shall be made by agreement among the founders of (or participants in) the company and shall be subject to independent expert review (or audit).

Article 73. Rights and Duties of Participants in a Business Partnership or Company

1. Participants in a business partnership or company shall have the right:

1) to participate in the administration of the affairs of the partnership or company with the exception of the cases provided by Paragraph 2 of Article 92 of the present Code and the statute on joint-stock companies;

2) to receive information on the activity of the partnership or company and to be acquainted with its books and other documentation by the procedure established by the charter;

3) to take part in the distribution of profit;

4) to receive, in case of liquidation of the partnership or company, the part of the property left after settlements with creditors, or its value.

Participants in a partnership or company may also have other rights provided by the present Code, statutes on business companies, or the charter of the partnership or company.

2. Participants in a business partnership or company are obligated:

1) to make their investments by the procedure, in the amounts, by the means, and within the periods that are provided by the charter;

2) not to divulge confidential information about the activity of the partnership or company.

Participants in a business partnership or company may also bear other obligations provided by its charter.

Article 74. Transformation of Business Partnerships and Companies

1. Business partnerships and companies may be transformed into business partnerships and companies of another type by decision of the general meeting of members by the procedure established by the present Code.

2. In case of the transformation of a partnership into a company, each general partner that has become a participant (or stockholder) of the company shall bear for two years subsidiary liability with all his property for obligations that have passed to the company from the partnership. The alienation by the former partner of the shares (or stock) belonging to him shall not free him from such liability.

Article 75. Subsidiary Business Company

1. A business company is a subsidiary business company if another (or principal) business company or partnership by virtue of dominant participation in its charter capital or in accordance with a contract concluded between them has the possibility of determining decisions taken by such a company.

2. A subsidiary company is not liablefor the debts of the principal company (or partnership).

3. A principal company (or partnership) that has the right to give the subsidiary company instructions obligatory for it shall answer jointly with the subsidiary company for transactions concluded by the latter in the fulfillment of such instructions.

A principal company or partnership shall be considered to have the right to give a subsidiary company instructions obligatory for it only in the case when this right is provided in a contract with the subsidiary company.

4. The participants (or shareholders) of a subsidiary company shall have the right to compensation by the principal partnership or company for damages caused by its fault to the subsidiary company. Damages shall be considered caused by the fault of the principal partnership or company only in the case when they have occurred as the result of the execution by the subsidiary company of instructions obligatory for it of the principal partnership or company.

5. In case of bankruptcy of the subsidiary company due to the fault of the principal company partnership or company, the latter shall bear subsidiary liability for its debts. Bankruptcy of the subsidiary company shall be considered as having occurred due to the faulty of the principal partnership or company only in the case when it has occurred as the result of performance by the subsidiary company of instructions obligatory for it of the principal partnership or company.

Article 76. Dependent Business Company

1. A business company is dependent if another (the dominant or participant) company has more than twenty percent of the charter capital of a limited liability company or more than twenty percent of the voting shares of stock of a joint-stock company

2. A business company that has obtained more than twenty percent of the charter capital of a limited liability company or more than twenty percent of the voting shares of stock of a joint-stock company is obligated to immediately publish information on this by the procedure provided by the statutes on business companies.

2. Full Partnership

Article 77. Basic Provisions on a Full Partnership

1. A full partnership is one whose participants (general partners), in accordance with the charter are engaged in entrepreneurial activity in the name of the partnership and bear liability for its obligations with the property belonging to them.

2. A person may be a participant in only one full partnership.

3. The firm name of a full partnership must contain the names (or designations) of all its participants and the words “full partnership” or the name (or designation) of one or more participants with the addition of the words “and partners” and the words “full partnership.”

Article 78. The Charter of a Full Partnership

The charter of a full partnership must contain, in addition to the information indicated in Paragraph 2 of Article 55 of the present Code, terms on the amount and composition of the contributed capital of the partnership; on the amount of and procedure for change in the shares of each of the participants in the contributed capital; on the composition of and procedure for making their contributions, and on the liability of the participants for violating duties to make contributions.

Article 79. Management in a Full Partnership

1. Management of the activity of a full partnership shall be conducted by the general agreement of all the participants. The charter of the full partnership may provide cases when a decision may be taken by a majority of votes of the participants.

2. Each participant in a full partnership shall have one vote, unless the charter provides a different procedure for determining the number of votes of its participants.

3. Each participant in a partnership, regardless of whether he is authorized to conduct the affairs of the partnership, shall have the right to be acquainted with all documentation for the conduct of affairs. A waiver of this right or a limitation of it, including by agreement of the participants in the partnership, shall be void.

Article 80. Conduct of the Affairs of a Full Partnership

1. Each participant in a full partnership has the right to act in the name of the partnership unless the charter establishes that all its participants conduct affairs jointly or the conduct of affairs is delegated to individual participants.

In the joint conduct of the affairs of a partnership by its participants, the consent of all the participants in the partnership is required for the making of each transaction.

If the conduct of the affairs of a partnership has been delegated by its participants to one or more of them, then the remaining participants, to conduct affairs in the name of the partnership, must have a power of attorney from the participant (or participants) to whom the conduct of the affairs of the partnership is assigned.

In relations with third persons the partnership does not have the right to rely upon provisions of the charter limiting the authority of participants in the partnership with the exception of cases when the partnership shows that the third person at the time of making a transaction knew or obviously should have known of the absence for a participant in the partnership of the right to act in the name of the partnership.

2. Authorizations for the conduct of the affairs of a partnership granted to one or several participants may be terminated by a court on demand of one or several of the other participants in the partnership in case of serious grounds therefore, in particular as the consequence of a gross violation by the authorized person (or persons) of his obligations or of his revealed inability for the sensible management of affairs. On the basis of the judicial decision, the appropriate changes shall be made in the charter of the partnership.

Article 81. Duties of a Participant in a Full Partnership

1. A participant in a full partnership is obligated to participate in its activity in accordance with the terms of the charter.

2. A participant in a full partnership is obligated to contribute his contributions to the contributed capital of the partnership before its registration.

3. A participant in a full partnership does not have the right, without the consent of the remaining participants, to conduct in his own name in his own interests or in the interests of third persons transactions of the same type as those that constitute the subject of activity of the partnership.

In case of violation of this rule the partnership shall have the right at its choice to demand from such a participant compensation for the losses caused to the partnership or to transfer to the partnership of all benefits obtained from such transactions.

Article 82. Distribution of the Profit and Losses of a Full Partnership

1. The profit and losses of a full partnership shall be distributed among its participants in proportion to their shares in the contributed capital unless otherwise provided by the charter or by other agreement of the parties. An agreement for the elimination of a participant in the partnership from participation in the profit or in the losses is void.

2. If, as the result of losses incurred by the partnership, the value of its net assets becomes less than the amount of its contributed capital, profit received by the partnership shall not be distributed among the participants until the value of the net assets exceeds the amount of its contributed capital.

Article 83. Liability of the Participants in a Full Partnership for Its Obligations

1. The participants in a full partnership jointly and severally bear subsidiary liability with their property for the obligations of the partnership.

2. A participant in a full partnership who is not a founder shall bear liability equally with other participants for obligations that arose before his entry into the partnership.

A partner who has left a partnership shall be liable for obligations of the partnership that arose up to the time he left equally with the remaining participants for two years from the day of approval of the report on the activity of the partnership for the year in which he left the partnership.

3. An agreement of participants in a partnership for the limitation or elimination of the liability provided in the present Article is void.

Article 84. Change in the Membership of the Participants in a Full Partnership

1. In cases of the exit or death of one of the participants in a full partnership; of the declaration of one of them as missing, without dispositive capacity or with limited dispositive capacity, or insolvent (or bankrupt); of the commencement with respect to one of the participants of reorganization procedures by decision of a court; of the liquidation of a legal person participating in the partnership; or of the levying by a creditor of one of the participants of execution on part of the property constituting his share in the contributed capital, the partnership may continue its activity if this is provided by the charter of the partnership or by agreement of the remaining participants.

2. The participants in a full partnership have the right to demand by judicial procedure the exclusion of any of the participants from the partnership by unanimous decision of the remaining participants and in case of the existence of serious grounds therefore, in particular as the result of gross violation by this participant of his obligations or of his revealed inability for sensible management of affairs.

Article 85. Exit of a Participant from a Full Partnership

1. A participant in a full partnership has the right to exit from it, by stating his refusal to participate in the partnership.

A refusal to participate in a full partnership must be stated by the participant not less than six months before actual exit from the partnership.

2. An agreement among participants in the partnership to refuse the right to exit from the partnership is void.

Article 86. Consequences of Exit of a Participant from a Full Partnership

1. A participant who has exited from a full partnership shall be paid the value of the part of the property of the partnership corresponding to the share of this participant in the contributed capital, unless otherwise provided by the charter. By agreement of the exiting participant with the remaining participants, payment of the value of the property may be replaced by turning over property in kind.

The part of the property due the exiting participant or its value shall be determined according to the balance sheet compiled, with the exception of the situation provided in Article 88 of the present Code, at the time of his exit.

2. In case of the death of a participant in a full partnership, his heir may enter the full partnership only with the consent of the other participants, unless otherwise provided by the charter of the partnership.

A legal person that is the legal successor of a reorganized legal person that participated in a full partnership shall have the right to enter the partnership with the consent of its other participants unless otherwise provided by the charter of the partnership.

Settlement with an heir (or legal successor) who has not entered the partnership shall be made in accordance with Paragraph 1 of the present Article. The heir (or legal successor) of the participant in a full partnership shall bear liability for the obligations of the partnership to third persons for which in accordance with Paragraph 2 of Article 83 of the present Code a participant who exited would have been liable, within the limits of the property of the exited member of the partnership that passed to him.

3. If one of the participants has exited from the partnership, the shares of the remaining participants in the contributed capital of the partnership shall be correspondingly increased unless otherwise provided by the charter or by other agreement of the participants.

Article 87. Transfer of the Share of a Participant in the Contributed Capital of a Full Partnership

A participant in a full partnership has the right, with the consent of its remaining participants, to transfer his share in the contributed capital or part of it to another participant in the partnership or to a third person.

In case of transfer of a share (or part of a share) to another person, the rights belonging to the participant who transferred the share (or part of a share) pass to it in full or in corresponding part. The person to whom a share (or part of a share) passes shall bear liability for the obligations of the partnership by the procedure established by subparagraph 1 of Paragraph 2 of Article 83 of the present Code.

The transfer of a whole share to another person by a participant in the partnership terminates the participant's participation in the partnership and entails the consequences provided by Paragraph 2 of Article 83 of the present Code.

Article 88. Levy of Execution on a Participant's Share in the Contributed Capital of a Full Partnership

Levy of execution on a participant's share in the property of a full partnership for its debts not connected with participation in the partnership (personal debts) shall be permitted only in case

of insufficiency of his other property to cover the debts. Creditors of such a participant have the right to demand of the full partnership the separation of a part of the property of the partnership proportional to the share of the debtor in the contributed capital with the purpose of levying execution on this property. The part of the property of the partnership or its value subject to separation shall be determined according to a balance sheet compiled at the time of presentation by creditors of demands for separation.

The levying of execution on property corresponding to the share of a participant in the contributed capital of a full partnership shall terminate his participation in the partnership and shall entail the consequences provided by subparagraph 2 of Paragraph 2 of Article 83 of the present Code.

Article 89. Liquidation of a Full Partnership

A full partnership may be liquidated on the bases indicated in Article 67 of the present Code and also in the situation when a single participant remains in the partnership. Such a participant shall have the right for six months from the time when he became the sole participant in the partnership to transform such a partnership into a business company by the procedure established by the present Code.

A full partnership shall also be liquidated in the cases indicated in Paragraph 1 of Article 84 of the present Code if the charter of the partnership or an agreement of the remaining participants does not provide that the partnership shall continue its activity.

3. Limited Partnership

Article 90. Basic Provisions on Limited Partnership

1. A limited partnership is a partnership in which, along with participants conducting entrepreneurial activity in the name of the partnership and answering for the obligations of the partnership with their property (general partners), there are one or more investor-participants (limited partners), who bear the risk of losses connected with the activity of the partnership within the limits of the amounts of investments contributed by them and do not take part in the conduct by the partnership of entrepreneurial activity.

2. The status of general partners participating in a limited partnership and their liability for the obligations of the partnership shall be determined by the rules of the present Code on participants in a full partnership.

3. A person may be a general partner only in one limited partnership.

A participant in a full partnership may not be a general partner in a limited partnership.

A general partner in a limited partnership may not be a participant in a full partnership.

4. The firm name of a limited partnership must contain either the names (or designations) of all the general partners and the words “limited partnership” or “special partnership,” or the name (or designation) of not less than one general partner with the addition of the words “and partners” and the words “limited partnership.”

If the name of an investor is included in the firm name of a limited partnership, this investor shall become a general partner.

5. The rules of the present Code on a full partnership shall be applied to a limited partnership to the extent that this does not contradict the rules of the present Code on the limited partnership.

Article 91. The Charter of a Limited Partnership

The charter of a limited partnership must contain, in addition to the information indicated in Paragraph 2 of Article 55 of the present Code, terms on the size and composition of the contributed capital of the partnership; on the size of and procedure for change of the shares of each of the general partners in the contributed capital; on the composition of and procedure for their contributing their investments; on their liability for the violation of obligations for the contribution of investments; and on the total size of investments contributed by the investors.

Article 92. Management of a Limited Partnership and Conduct of Its Affairs

1. Management in a limited partnership shall be conducted by the general partners. The procedure for managing and conducting the affairs of such a partnership by its general partners is established by them in accordance with the rules of the present Code on a full partnership.

2. Limited partners do not have the right to participate in the management and conduct of affairs of a limited partnership nor to act in its name without a power of attorney. They do not have the right to contest the actions of general partners in the management and conduct of the affairs of the partnership.

Article 93. Rights and Duties of an Investor in a Limited Partnership

1. An investor in a limited partnership has the obligation to contribute its investment in the contributed capital. The contribution of the investment shall be certified by a certificate of participation issued to the investor by the partnership.

2. An investor in a limited partnership has the right:

1) to receive the part of profit of the partnership due for its share in the contributed capital by the procedure provided by the charter;

2) to be acquainted with the annual report and balance sheets of the partnership;

3) at the end of the fiscal year to leave the partnership and receive its investment by the procedure provided by the charter;

4) to transfer its share in the contributed capital or part of it to another investor or a third person. The investors shall enjoy a priority right before third persons for the purchase of a share (or parts of it) by analogy with the conditions and procedure provided by Paragraph 2 of Article 101 of the present Code. The transfer by an investor of the whole share to another person shall end his participation in the partnership.

The charter of a limited partnership may also provide other rights of an investor.

Article 94. Liquidation of a Limited Partnership

1. A limited partnership shall be liquidated upon the exit of all investors participating in it. However, the general partners shall have the right instead of liquidation to turn the limited partnership into a full partnership.

A limited partnership shall also be liquidated on the bases for liquidation of a full partnership (Article 89). However, a limited partnership shall be maintained if at least one general partner and one investor remains in it.

2. Upon liquidation of a limited partnership, including in case of bankruptcy, the investors shall have a priority right ahead of the general partners to receipt of their investments from the property of the partnership remaining after satisfaction of the claims of its creditors.

The property of the partnership remaining after this shall be distributed among the general partners in proportion to their shares in the contributed capital of the partnership unless another procedure is established by the charter or by agreement of the general partners.

4. Limited Liability Company

Article 95. Basic Provisions on the Limited Liability Company

1. A limited liability company is a company founded by one or several persons, the charter capital of which is divided into shares of amounts determined by the charter. The participants in a limited liability company are not liable for its obligations; they bear the risk of losses connected with the activity of the company within the limits of the value of the investments contributed by them.

2. The firm name of a limited liability company must contain the name of the company and the words "limited liability company."

3. The legal status of a limited liability company and also the rights and duties of its participants shall be determined by the present Code and the statute on limited liability companies.

Article 96. Participants in a Limited Liability Company

1. The number of participants in a limited liability company must not exceed the limit established by the statute on limited liability companies. Otherwise the company will be subject to transformation into a joint-stock company within a year and, upon expiration of this period, to liquidation by judicial procedure if the number of its participants is not reduced to the level established by the statute.

2. A limited liability company may not have as a sole participant another business company consisting of one person.

Article 97. Charter of a Limited Liability Company

The charter of a limited liability company must contain, in addition to the matters listed in Paragraph 2 of Article 55 of the present Code, conditions on the size of the charter capital of the company; on the size of shares of each of the participants; on the composition of and procedure for the contribution by them of investments; on the liability of participants for violation of the obligation to contribute investments; on the composition and competence of the agencies of administration of the company and the procedure for their making decisions, including on questions decisions on which are taken unanimously or by a qualified majority of votes; and also on other matters provided by the statute on limited liability companies.

Article 98. The Charter Capital of a Limited Liability Company

1. The charter capital of a limited liability company consists of the value of the investments of its participants.

The charter capital determines the minimum amount of the property of the company guarantying the interests of its creditors. The amount of charter capital cannot be less than the amount determined by the statute on limited liability companies.

2. The founders of a limited liability company are obligated before registration of the company to fully pay in the charter capital.

3. It is not permitted to free a participant in a limited liability company from liability for the obligation to contribute an investment to the charter capital of the company. This prohibition includes setoff of claims against the company.

4. If at the end of the second or each following financial year the value of the net assets of a limited liability company is less than the charter capital, the company is obligated to report the reduction of its charter capital and to register its reduction by the established procedure. If the value of these assets of the society is less than the minimum amount of charter capital set by a statute, the company is subject to liquidation.

5. A reduction of the charter capital of a limited liability company is permitted only after notification of all of its creditors. The latter have the right in this case to demand early performance or termination of the respective obligations and compensation for damages.

Article 99. Management of a Limited Liability Company

1. The highest body of a limited liability company is the general meeting of its participants.

In a limited liability company an executive body (collegial and/or one-individual) shall be created that conducts the current management of its activity and reports to the general meeting of its participants. A one-individual body of administration may also be elected from among non-participants.

2. The competence of the bodies of management of the company and also the procedure for their making decisions and acting in the name of the company shall be determined in accordance with the present Code by the statute on limited liability companies and the charter of the company.

3. The following are in the exclusive competence of the general meeting of participants in a limited liability company:

1) changing the charter of the company and the size of its charter capital;

2) forming executive bodies of the company and terminating their powers early;

3) approving annual reports and accounting balances of the company and distributing its profits and losses;

4) deciding on the reorganization or liquidation of the company;

5) electing the auditing commission (or the auditor) of the company.

The statute on limited liability companies may also assign the decision of other questions to the exclusive competence of the general meeting.

Questions assigned by statute to the exclusive competence of the general meeting of participants in the company may not be transferred by them for decision by the executive body of the company.

4. For review of the correctness of the annual financial report of a limited liability company, the company has the right to invite each year a professional auditor not connected by property interests with the company or its founders (an outside audit). Audit verification of the annual financial report of the company may also be conducted on demand of any of its participants.

In this case the audit review shall be made at the expense of the participant who has demanded such a review.

The procedure for conducting audit reviews of the activity of the company shall be determined by a statute and the charter of the company.

5. Publication by the company of information on the results of conducting its affairs (or a public report) is not required with the exception of cases provided by the statute on limited liability companies.

Article 100. Reorganization and Liquidation of a Limited Liability Company

1. A limited liability company may be voluntarily reorganized or liquidated by unanimous decision of its participants.

Other bases for reorganization and liquidation of the company and also the procedure for its reorganization and liquidation are determined by the present Code and other statutes.

2. A limited liability company has the right to transform itself into a joint-stock company.

Article 101. Transfer of a Share in the Charter Capital of a Limited Liability Company

1. A participant in a limited liability company has the right to sell or otherwise alienate its share in the charter capital of the company or part of it to one or several participants in the given company.

2. Alienation by a participant in the company of its share (or part of it) to third persons is permitted unless otherwise provided by the charter of the company.

The participants in the company enjoy a priority right of purchase of the share of a participant (or part of it) in proportion to the amounts of their shares, unless the charter of the company or an agreement of its participants has provided another procedure for exercising this right. In case the participants in the company do not use their priority right within one month from the day of notice or within another period provided by the charter of the company or agreement of its participants, the share of the participant may be alienated to a third person.

3. If, in accordance with the charter of a limited liability company, alienation of the share of a participant (or part of it) to third persons is impossible and the other participants in the company refuse to buy it, then the company is obligated to obtain the share of the participant.

4. In case a participant's share (or part of it) has been obtained by the limited liability company itself, the company is obligated to sell it to the other participants or third persons within the periods and by the procedure that are provided by the statute on limited liability companies and the charter of the company or to reduce its charter capital in accordance with Paragraphs 4 and 5 of Article 98 of the present Code.

5. Shares in the charter capital of a limited liability company pass to the heirs of citizens and to the legal successors of legal persons that are participants in the company, unless the charter documents of the company provide that such transfer is permitted only with the consent of the remaining members of the company. A refusal of consent to the transfer of the share shall entail the obligation of the company to pay the heirs (or legal successors) of the participants its actual value or to give them property in kind of such value by the procedure and on the conditions provided by the statute on limited liability companies and the charter of the company.

Article 102. Levy of Execution on the Share of a Participant in the Property of a Limited Liability Company

1. Levy of execution on the share of a participant in the property of a limited liability company for its personal debts is permitted only in case of insufficiency for this participant of other property to cover its debts. The creditors of such a participant have the right to demand from the limited liability company payment of the value of the part of the company corresponding to the share of the debtor in the charter capital or the separation of this property for the purpose of levying execution on it. The part of the property of the company subject to separation or its value shall be determined according to a balance sheet made at the time of presentation of claims by creditors.

2. Levying execution on the whole share of a participant in the property of a limited liability company shall terminate his participation in the company.

Article 103. Exit of a Participant in a Limited Liability Company from the Company

A participant in a limited liability company has the right at any time to exit from the company regardless of the consent of its other participants.

Article 104. Settlements Upon Exit of a Participant from a Limited Liability Company

1. A participant who has exited a limited liability company shall be paid the value of the part of the property corresponding to its share in the charter capital unless otherwise provided by the charter of the company.

By agreement of the exiting participant with the company, payment of the value of the property may be replace by issuance of property in kind.

The part of the property of the company due to the exiting participant or its value shall be determined according to a balance sheet compiled at the time of its departure.

2. If the right of use of property was contributed as a contribution to the charter capital of a limited liability company, the respective property shall be returned to the participant exiting from the company. Reduction in value of such property as the result of its normal wear shall not be compensated.

3. Settlements with an heir or legal successor of a participant that has not entered the company shall be made in accordance with the rules of the present Article.

5. Company With Supplementary Liability

Article 105. Basic Provisions on Companies With Supplementary Liability

1. A company with supplementary liability is a company founded by one or several persons whose charter capital is divided into shares of sizes determined by the charter. The participants in such a company jointly and severally bear subsidiary liability for its obligations with their property in a multiple of the value of their contributions, which multiple is identical for all of them and is determined by the charter of the company. In case of bankruptcy of one of the participants, its liability for the obligations of the company shall be distributed among the remaining participants in proportion to their investments, unless another procedure for distributing liability is provided by the charter of the company.

2. The firm name of a company with supplementary liability must contain the name of the company and the words "company with supplementary liability."

3. The rules of a the present Code on the limited liability company shall be applied to a company with supplementary liability, unless the present Article does not provide otherwise.

6. Joint-Stock Company

Article 106. Basic Provisions on Joint-Stock Companies

1. A joint-stock company is a company whose charter capital is divided into defined number of shares of stock.

2. Only joint stock companies have the right to issue shares of stock.

3. The participants in a joint-stock company (the stockholders) are not liable for its obligations and bear the risk of losses connected with the activity of the company within the limits of the value of the shares of stock belonging to them.

4. A joint-stock company may be founded by one person or may consist of one person in case of obtaining by one person of all the shares of stock of the company. Information on this

should be contained in the charter of the company, be registered, and be published for general notice.

A joint-stock company may not have as a sole participant another business company consisting of one person.

5. The firm name of a joint-stock company must contain its name and also the words “open joint-stock company” or “closed joint-stock company.”

6. The legal status of a joint-stock company and the rights and duties of the stockholders shall be determined in accordance with the present Code and the statute on joint-stock companies.

7. The peculiarities of creation of joint-stock companies by the privatization of state enterprises are determined by statutes and other legal acts on the privatization of these enterprises.

Article 107. Open Joint-Stock Companies

1. A joint-stock company whose participants can alienate the shares of stock belonging to them without the consent of the other stockholders is an open joint-stock company. Such a joint-stock company has the right to conduct open subscription to shares of stock issued by it and to their free sale on the conditions established by a statute and other legal acts.

2. An open joint-stock company must each year publish for general information an annual report and a balance sheet.

Article 108. Closed Joint Stock Company

1. A joint-stock company whose shares of stock are distributed only among its founders or other previously determined group of persons is a closed joint-stock company. Such a company does not have the right to conduct an open subscription to shares of stock issued by it nor otherwise to propose them for acquisition to an unlimited group of persons.

2. The number of participants in a closed joint-stock company must not exceed the number established by the statute on joint-stock companies; otherwise the company will be subject to transformation into an open joint-stock company within a year, and on the expiration of this period, to liquidation by judicial procedure, if their number is not reduced to the limit established by the statute.

3. In cases provided by the statute on joint-stock companies, a closed joint-stock company may be obligated to publish for general information the documents indicated in Article 107 of the Present Code.

Article 109. Transfer of Shares of a Closed Joint-Stock Company

1. Shareholders of a closed joint stock company have a preferential right to obtain stock, soled by other shareholders of this company.

If none of these shareholders uses his preferential right in the period provided by the charter of the company, the joint stock company has the right to itself obtain these shares at a price agreed with their owner. In case the joint-stock company refuses to obtain the shares or there is a failure to achieve an agreement on their price, the shares may be sold to any third party.

2. case of pledge of the shares of a closed joint stock company and the subsequent levy of execution on them, the rules of Paragraph 1 of the present Article are applied to the pledgee.

3. Shares of a closed joint-stock company pass to the heirs of a citizen or the legal successor of a legal person that was a shareholder unless the charter of the company provides otherwise.

In case of refusal of the company to consent to transfer of shares to heirs of a citizen or two the legal successor of a legal person that was a shareholder, the rules of Paragraph 1 of the present Article are applied.

Article 110. Charter of a Joint-Stock Company

The charter of a joint-stock company, in addition to the matters indicated in Part 2 of Article 55 of the present Code, must contain conditions on the categories of shares of stock issued by the company, their par value and number; on the size of the charter capital of the company; on the rights of stockholders; on the composition and competence of the bodies of management of the company and on the procedure for their making decisions, including on questions, decisions on which are taken unanimously or by a qualified majority of votes. The charter of a joint-stock company also must contain other matters provided by the statute on joint-stock companies.

Article 111. Charter Capital of a Joint Stock Company

1. The charter capital of a joint-stock company consists of the par value of the shares of stock of the company obtained by the shareholders.

2. The charter capital of the company determines the minimal size of the property of the company guarantying the interests of its creditors. It may not be less than the size provided by the statute on joint-stock companies.

3. The founders of a joint-stock company are obligated before registration of the company to fully pay in the charter capital. At the founding of a joint stock company all its shares of stock must be distributed among the founders.

4. It is not permitted to free a shareholder from the obligation to pay for shares of a company including by way of setoff of claims against the company.

5. If upon the ending of the second and each subsequent fiscal year, the value of the free assets of the company is less than the charter capital, the company is obligated to declare and register by the established procedure a reduction of its charter capital. If the value of these assets becomes less than the minimum amount of charter capital determined by statute (Paragraph 1 of the present Article), the company is subject to liquidation.

6. A statute or the charter of the company may establish limitations on the number, the total par value of shares or the maximum number of votes that one shareholder can have.

Article 112. Increase in the Charter Capital of a Joint-Stock Company

1. A joint-stock company has the right, by decision of the general meeting of stockholders, to increase the charter capital by increasing the par value of shares of stock or by issuing additional shares of stock.

2. In cases provided by the statute on joint-stock companies, the charter of a company may establish a preferential right of stockholders possessing simple (or common) or other voting shares of stock to purchase additional shares of stock issued by the company.

Article 113. Reduction of the Charter Capital of a Joint-Stock Company

1. A joint-stock company has the right, by decision of the general meeting of stockholders, to reduce the charter capital by reducing the par value of shares of stock or by purchasing part of the shares of stock for the purposes of reducing their general number.

2. The reduction of the charter capital of a company is permitted after notification to all of its creditors by the procedure determined by the statute on joint-stock companies. In such a case the creditors of the company have the right to demand early performance or termination of the respective obligations and compensation for their losses.

3. A reduction of the charter capital of a joint-stock company by purchase and cancellation of part of the shares of stock is permitted if such a possibility is provided in the charter of the company.

4. Reduction by the stockholders of the company of charter capital below the minimum amount set by statute (Paragraph 1 of Article 111 of the present Code) shall entail liquidation of the company.

Article 114. Limitations on the Issuance of Securities and Payment of Dividends of a Joint-Stock Company

1. A joint stock company has the right to issue preferred shares of stock that guaranty their holders the receipt of dividends, as a rule, in fixed percentages of the par value of a share of stock regardless of the results of commercial activity of the joint-stock company and also giving them a priority right before other shareholders to receipt of part of the property left after liquidation of the joint-stock company and other rights provided by the conditions of the issuance of such shares. Preferred shares of stock do not give their holders the right to participate in the management of the affairs of the joint-stock company unless otherwise provided by its charter.

The proportion of preferred shares in the overall amount of the charter capital of the joint-stock company may not exceed twenty-five percent.

2. A joint stock company has the right to issue bonds in an amount not exceeding the amount of the charter capital or the volume of security provided to the company for these purposes by third parties.

3. A joint stock company does not have the right to declare and pay dividends if the value of the clear assets of the joint-stock company is less than its charter capital or would become less as the result of the payment dividends.

Article 115. Management in a Joint-Stock Company

1. The body of management of a joint-stock company is the general meeting of its stockholders.

The following are in the exclusive competence of the general meeting of stockholders:

1) a change in the charter of the company and the amount of its charter capital;

2) election of members of the board of directors (or of the supervisory board) and the auditing commission (or the auditor) of the company and the early termination of their powers;

3) formation of the executive bodies of the company and the early termination of their powers, unless the charter of the company has assigned the decision of these questions to the competence of the board of directors (or supervisory board);

4) approval of the annual reports, accounting balance sheets, statements of profits and losses of the company and distribution of its profit and losses;

5) a decision on the reorganization or liquidation of the company.

The statute on joint-stock companies may also assign the decision of other questions to the exclusive competence of the general meeting of stockholders.

Questions assigned by a statute to the exclusive competence of the general meeting of stockholders may not be transferred by them to the decision of the executive bodies of the company.

2. In a company with over fifty stockholders a board of directors (or supervisory board) shall be created.

In case of the creation of a board of directors (or supervisory board), the charter of the company, in accordance with the statute on joint-stock companies, must determine its exclusive competence. Questions assigned by the charter to the exclusive competence of the board of directors (or the supervisory board), may not be transferred by them to the decision of executive bodies of the company.

3. An executive body of the company may be collegial (a board or directorate) and/or one-individual (director or general director). It shall conduct the current leadership of the activity of the

company and report to the board of directors (or supervisory board) and the general meeting of stockholders.

The competence of the executive body includes the decision of all matters not constituting the exclusive competence determined by a statute or the charter of the company of the other bodies of administration of the company.

By decision of the general meeting of stockholders, the powers of the executive body of the company may be given by contract to another commercial organization or an individual entrepreneur (or manager).

4. The competence of the bodies of administration of a joint-stock company and also the procedure for their adopting decisions and acting in the name of the company shall be determined in accordance with the present Code by the statute on joint-stock companies and the charter of the company.

5. In the publication of the documents indicated in Article 107 of the present Code. a joint-stock company must, for verification and confirmation of the correctness of the annual financial report, each year involve a professional auditor not connected by property interests with the company or its participants.

An audit review of the activity of a joint-stock company must be conducted at any time upon the demand of stockholders whose total share in the charter capital constitutes ten or more percent.

The procedure for conducting audit reviews of the activity of a joint-stock company is determined by a statute and the charter of the company.

Article 116. Reorganization and Liquidation of a Joint-Stock Company

1. A joint-stock company may be voluntarily reorganized or liquidated by decision of the general meeting of stockholders.

Other bases and the procedure for reorganization and liquidation of a joint-stock company shall be determined by the present Code and other statutes.

2. A joint-stock company has the right to transform itself into a limited liability company.

§3. Cooperatives.

Article 117. Basic Provisions on Cooperatives

1. A cooperative is a voluntary amalgamation of citizens and legal persons on the basis of membership with the purpose of satisfying the material and other needs of the participants, an amalgamation formed by the combining of property share contributions by its members.

2. The charter of a cooperative must contain, in addition to the information indicated in Paragraph 2 of Article 55 of the present Code, terms on the size of share contributions of members of the cooperative; on the procedure for making share contributions and on the liability of members of the cooperative for violating obligations to make share contributions; the composition and competence of bodies of administration of the cooperative and the procedure for their taking decisions, including on questions decisions for which are taken unanimously or by a qualified majority of votes; on the procedure for covering by members of cooperatives of losses incurred by it.

3. The name of a cooperative must contain an indication of the basic purpose of its activity and also the word “cooperative.”

4. The peculiarities and legal status of individual types of cooperatives, in particular of consumer cooperatives and condominiums, and the rights and duties of their members shall be established by the present Code and other statutes.

Article 118. Property of a Cooperative

1. Property that is in the ownership of a cooperative is divided into the shares of its members in accordance with the charter of the cooperative.

2. A member of the cooperative is obligated to pay in his share contribution in full before registration of the cooperative unless otherwise provided by the charter of the cooperative.

3. The charter of a cooperative may establish that a certain part of the property belonging to the cooperative constitutes indivisible funds used for purposes defined by the charter.

A decision on the formation of indivisible funds shall be taken by the members of the cooperative unanimously, unless otherwise provided by the charter of the cooperative.

4. Members of a cooperative are obligated within two months after the approval of the annual balance sheet to cover losses that have occurred by additional contributions. In case of failure to fulfill this obligation the cooperative may be liquidated by judicial procedure upon demand of creditors.

The members of a cooperative jointly and severally bear subsidiary liability for its obligations within the limits of the uncontributed part of the supplementary contribution of each of the members of the cooperative.

Article 119. Management in the Cooperative

1. The highest body of management of a cooperative is the general meeting of its members.

In a cooperative with more than fifty members, a supervisory board may be formed, which shall exercise supervision of the activity of the executive bodies of the cooperative. Members of the supervisory board do not have the right to act in the name of the cooperative.

The executive bodies of the cooperative are the board and/or its chairman. They shall conduct the current administration of the activity of the cooperative and report to the supervisory board and the general meeting of members of the cooperative.

Only members of the cooperative may be members of the supervision board, of the administration of the cooperative, or chairman of the cooperative. A member of the cooperative may not simultaneously be a member of the supervisory board and a member of the administration or chairman of the cooperative.

2. The competence of the bodies of administration of the cooperative and the procedure for their adopting decisions is determined by a statute and the charter of the cooperative.

3. The following are in the exclusive competence of the general meeting of members of the cooperative:

1) changing the charter of the cooperative;

2) forming a supervisory board and terminating the powers of its members and also forming executive bodies of the cooperative and terminating their powers, unless this right has been transferred by the charter to supervisory board;

3) accepting and excluding members of the cooperative;

4) approving annual reports and accounting balance sheets of the cooperative and distributing its profits and losses;

5) deciding on the reorganization and liquidation of the cooperative.

Statutes on cooperatives and the charter of a cooperative also may assign the decision of other questions to the exclusive competence of the general meeting.

Questions assigned to the exclusive competence of the general meeting or the supervisory council of the cooperative may not be transferred by them for decision by the executive bodies of the cooperative.

4. A member of the cooperative has one vote in the adoption of a decision by the general meeting.

Article 120. Termination of Membership in a Cooperative and Transfer of a Share

1. A member of a cooperative has the right to leave the cooperative. In this case he must be paid the value of his share or given property corresponding to his share and also other payments must be made that are provided by the charter of the cooperative.

Payment of the value of a share or giving of other property to an exiting member of the cooperative shall be made at the end of the fiscal year and upon the approval of the accounting balance of the cooperative, unless otherwise provided by the charter of the cooperative.

2. A member of the cooperative may be excluded from the cooperative by decision of the general meeting in case of nonfulfillment or improper fulfillment of the obligations placed upon it by the charter of the cooperative, and also in other cases provided by a statute or the charter of the cooperative.

A member of a supervisory board or executive body may not be a member of an analogous cooperative.

A member of a cooperative who is excluded from it has the right to receive his share and the other payments provided by the charter of the cooperative in accordance with Paragraph 1 of the present Article.

3. A member of a cooperative has the right to transfer his share or part of it to another member of the cooperative, unless otherwise provided by a statute and by the charter of the cooperative.

The transfer of a share (or part of it) to a citizen who is not a member of the cooperative is permitted only with the consent of the cooperative. In this case other members of the cooperative enjoy a priority right of purchase of such a share (or part of it). If a member of the cooperative does not use his priority right during the period provided by the charter of the cooperative, the share may be alienated to a third party.

4. In case of the death of a member of the cooperative, his heirs may be accepted as members of the cooperative unless otherwise provided by the charter of the cooperative. In the contrary case the cooperative shall pay the heirs the value of the share of the deceased member of the cooperative.

5. The levy of execution on a share of a member of a cooperative for the personal debts of the member of the cooperative is permitted only in case of insufficiency of his other property to cover such debts by the procedure provided by a statute and the charter of the cooperative. Execution for the debts of a member of a cooperative may not be levied on the indivisible funds of the cooperative.

Article 121. Reorganization and Liquidation of Cooperatives

A cooperative may be voluntarily reorganized or liquidated by decision of the general meeting of its members.

Other grounds for and the procedure for reorganization and liquidation of a cooperative are established by the present Code and other statutes.

§4. Noncommercial Organizations

1. Societal Amalgamations

Article 122. Basic Provisions on Societal Amalgamations

1. Societal amalgamations are voluntary amalgamations of citizens who have joined in the manner provided by a statute on the basis of communality of their interests to satisfy spiritual or other non-material needs.

2. Property transferred to a societal amalgamation by its founders (or participants) is the property of the societal amalgamation. A societal amalgamation shall use this property for the purposes defined in its charter.

3. Participants in (or members of) societal amalgamations do not retain the right to property transferred by them to these organizations in ownership, nor to membership contributions. They are not liable for the obligations of societal amalgamations in which they participate as members and these amalgamations are not liable for the obligations of their members.

4. In case of liquidation of a societal amalgamation, its property shall be put to the purposes indicated in the charter of the societal amalgamation and if this is impossible, to the state fisc.

5. The peculiarities and legal status of individual types of societal amalgamations are established by the present Code and other statutes.

2. Funds

Article 123. Basic Provisions on Funds

1. A fund is a non-commercial organization not having membership, founded by citizens and/or legal persons on the basis of voluntary property contributions, pursuing social, charitable, cultural, educational, and other socially-useful purposes.

2. Property transferred to the fund by its founders (or founder) is in the ownership of the fund. A fund shall use property for the purposes defined in its charter.

3. A fund is obligated to publish reports annually on the use of its property.

4. The founders are not responsible for the obligations of a fund created by them and the fund is not responsible for the obligations of its founders.

5. The procedure for managing a fund and the procedure for forming its executive bodies are determined by its charter approved by the founders.

6. The charter of a fund, in addition to the matters indicated in Paragraph 2 of Article 55 of the present Code, must contain: the name of the fund, including the word "fund," information on the purposes of the fund; indication of the executive bodies of the fund, including the trusteeship board exercising supervision over the activity of the fund, on the procedure for appointing official persons of the fund and discharging them, on the procedure for disposition of the property of the fund in case of its liquidation.

7. The peculiarities and legal status of individual types of funds, in particular of charitable organizations are established by the present Code and other statutes.

Article 124. Amendment of the Charter and Liquidation of the Fund

1. The charter of the fund may be changed by the executive bodies of the fund, if the charter provides the possibility of changing it by such a procedure.

If the preservation of the charter in unchanged form entails consequences that would have been impossible to foresee at the founding of the fund, and the possibility of changing the charter is not provided in it, or the charter is not changed by the authorized persons, the right of making changes shall belong to a court upon request of executive bodies of the fund or of the body authorized by the charter of the fund to exercise supervision of its activity.

2. A decision on the liquidation of a fund may be taken only by a court upon request of interested persons.

A fund may be liquidated:

1) if the property of the fund is insufficient for conducting its purposes and an expectation of receiving the necessary funds is unrealistic;

2) if the purposes of the fund may not be attained, and the necessary changes of purposes of the fund may not be made;

3) in case of deviation of the fund in its activities from the purposes provided in the charter;

4) in other cases provided by a statute.

3. In case of liquidation of the fund, its property shall be put to the purposes indicated in the charter of the fund and, if this is impossible, to the state fisc.

3. Unions of Legal Persons

Article 125. Basic Provisions on Unions of Legal Persons

1. Commercial organizations for the purpose of coordination of their entrepreneurial activity and also the representation and protection of common property interests may create unions.

If by decision of the participants, the implementation of entrepreneurial activity is assigned to a union, the union shall be transformed into a business partnership or company by the procedure provided by the present Code or it may create a business company for the conduct of the entrepreneurial activity or participate in such a company.

2. Non-commercial organizations, for the purpose of coordination of their activity and also for representation and protection of their common interests, may create unions.

An association (or union) of non-commercial organizations is a non-commercial organization.

3. Members of an a union retain their independence and the rights of a legal person.

4. Property transferred to a union by its founders (or participants) is in the ownership of the union. The union shall use this property for the purposes indicated in the charter.

5. A union is not liable for the obligations of its members. Members of a union bear subsidiary liability for its obligations in the amount and by the procedure provided by the charter.

6. The name of a union must contain an indication of the basic object of activity of its members and also the word “union.”

7. In case of liquidation of a union, its property shall be put to the purposes indicated in the charter of the union and, if this is impossible, to the state fisc.

8. The peculiarities and legal status of individual types of unions are established by the present Code and other statutes.

Article 126. Charter of a Union

The charter of a union must contain, in addition to the information indicated in Paragraph 2 of Article 55 of the present Code, terms on the size, makeup, and procedure for making contributions by participants in the union and their liability for violation of the obligation for making contributions, on the composition and competence of the bodies of administration of the union and the procedure for their making decisions, including on questions decision on which must be adopted unanimously or by a qualified majority of votes by members of the or union, and on the procedure for distribution of property remaining after the liquidation of a union.

Article 127. Rights and Duties of Members in a Union

1. Members of a union have the right to use its services free of charge unless otherwise provided by its charter.

2. A member of a union has the right at its discretion to exit from the association (or union) at the end of the financial year. In this case, it bears subsidiary liability for obligations of the union proportional to its contribution for one year from the time of exit, unless a different period is provided by the charter of the union.

A member of a union may be excluded from it by decision of the remaining participants in the cases and by the procedure established by the charter of the union. The rules applicable to exit from a union shall be applied with respect to the liability of an excluded member of the union.

3. With the consent of members of the union, a new participant can enter the union. Entry into a union of a new member may be conditioned on its subsidiary liability for the obligations of the union that arose before its entry.

Chapter 8. Commercial Paper and Securities

Article 146. Commercial Paper and Securities

1. Commercial paper and securities are documents certifying, with the observation of the established form and obligatory requisites, property rights, the exercise or transfer of which are possible only upon their presentation.

With the transfer of commercial paper or securities all rights certified by it pass.

2. In the cases and by the procedure provided by a statute, for exercise or transfer of the rights certified by commercial paper or securities, proof of their confirmation in a special register (ordinary or computerized) is sufficient.

Article 147. Requirements for Commercial Paper and Securities

1. The types of rights that are certified by commercial paper and securities, the obligatory requisites for commercial papers and securities, the requirements for the form of commercial paper and securities, and other necessary requirements shall be determined by the statute on commercial paper and securities or by a procedure established by it.

2. The absence of the obligatory requisites of a commercial paper or security or the failure of a commercial paper or security to correspond to the form established for it shall entail its invalidity.

Article 148. Subjects of the Rights Certified by Commercial Paper and Securities

1. The rights evidenced by a commercial paper or security may belong:

1) to the bearer of the commercial paper or security (a bearer commercial paper or security);

2) to a person named in the commercial paper or security (named commercial paper or security);

3) to a person named in the commercial paper or security who may itself exercise these rights or may designate by his instruction (or order) another authorized person (an order commercial paper or security).

2. A statute may exclude the possibility of the issuance of commercial paper or securities of a specific type as bearer, named, or order..

Article 149. Transfer of Rights Under Commercial Paper and Securities

1. For the transfer to another person of the rights certified by bearer commercial paper or securities, handing the commercial paper or securities to this person is sufficient.

2. The rights certified by named commercial paper or securities may be transferred by the procedure established for assignment of claims (cession). In accordance with Article 405 of the present Code, the person who has transferred a right under the commercial paper or securities bears liability for the invalidity of the respective claim, but not for its performance.

3. Rights under order commercial paper or securities may be transferred by making upon this paper or security a transfer notation (an indorsement). A person transferring rights under an order

commercial paper or securities (an indorser) bears liability not only for the existence of the right but for its exercise.

An indorsement made on commercial paper or a security transfers all rights certified by the commercial paper or security to the person to whom or to whose order the rights on the commercial paper or the security are transferred (the indorsee). An indorsement may be blank (without an indication of the person to whom performance should be made) or order (with an indication of the person to whom or to the order of whom performance should be made).

An indorsement may be limited only to an authorization to exercise the rights certified by the commercial paper or security without the transfer of these rights to the indorsee (an authorization indorsement). In this case the indorsee shall act as a representative.

An indorsement made on a commercial paper and securities transfers all rights evidenced by the commercial paper and securities to the person or to whose order the rights under the commercial paper and securities are transferred (the indorsee). An indorsement may be blank (without an indication of the person for whom performance must be made) or order (with an indication of the person for whom or at whose order, performance must be made).

An indorsement may be limited only to an authorization to exercise the rights evidenced by the commercial paper and securities without transfer of these rights to the indorsee (an agency indorsement). In this case the indorsee acts as representative.

Article 150. Performance on Commercial Paper and Securities

1. A person who has made a commercial paper or security and all persons who have indorsed it are liable jointly and severally to its lawful holder. In case of satisfaction of a claim of the lawful holder of the commercial paper or security by it by one or several persons from among those who were obligated on the commercial paper or security, they obtain the right of claim back (subrogation) against the remaining persons who are obligated under the commercial paper or security.

2. A refusal to perform an obligation certified by a commercial paper or security with reliance on the absence of a basis of the obligation or its invalidity is not permitted.

A holder of commercial paper or security who has discovered a counterfeiting or forgery of the commercial paper or security shall have the right to make, to the person who transferred the paper or security to it, a demand for proper performance of the obligation certified by the commercial paper or security and for compensation for losses.

Article 151. Reinstatement of a Commercial Paper or a Security

Reinstatement of rights under lost commercial paper and securities shall be made by a court in the manner provided by the Civil Procedure Code of the Republic of Armenia.

Article 152. Undocumented Commercial Paper and Securities

1. In cases provided by a statute or by a procedure established by a statute, a person who has received a special license may make a fixation of the rights confirmed by a named or order commercial paper or security, including in undocumented form (with the aid of means of computer technology, etc.). The rules established for commercial paper and securities shall be applied to such a form of fixation of rights unless otherwise follows from the peculiarities of fixation.

A person who has conducted the fixation of a right in an undocumented form is obligated upon demand of the holder of the right to issue to it a document evidencing the protected right.

The rights certified by means of such fixation, the procedure for official fixation of rights and of rightholders, the procedure for documentary confirmation of records and the procedure for

making operations with undocumented commercial paper and securities shall be determined by a statute or by a procedure established by a statute.

2. Operations with undocumented commercial paper and securities may be made only by application to the person who makes recordings of rights. Transfer, granting, and limitation of rights must be fixed officially by this person, who shall bear liability for the safekeeping of official records, ensuring their confidentiality, providing correct data on such records, and making of official records of operations conducted.

§2. Types of Commercial Paper and Securities

Article 153. General Provisions

1. Commercial paper and securities includes: a bond, check, simple bill of exchange, transfer bill of exchange, stock, bill of landing, bank record (bank book or bank certificate of deposit), double warehouse receipt, simple warehouse receipt, and other documents that the statutes on commercial paper and securities have classified as security papers.

2. A bond and a share of stock are investment securities.

3. A check, a simple bill of exchange, and a transferable bill of exchange are payment commercial papers.

4. A bill of lading, a double warehouse receipt, and a single warehouse receipt are title commercial paper.

Article 154. Bond

A bond is a security evidencing the right of its holder to receive from the person who has issued the obligation at the time provided in it the face value of the obligation or other property equivalent. A bond grants its holder in addition the right to receive interest on the face value of the bond or other property rights.

Bonds may be bearer or named.

Article 155. Check

A check is a commercial paper or security containing an unconditional written instruction of the check drawer to the bank to pay the holder of the check the amount indicated in it.

Article 156. Bill of Exchange

A bill of exchange is a commercial paper evidencing the unconditional obligation of the bill of exchange maker (a simple bill of exchange) or other payor indicated in the bill of exchange (a transfer bill of exchange) to pay upon the expiration of the time indicated by the bill of exchange an amount to the holder of the bill of exchange (the bill of exchange holder).

Article 159. Stock

1. Stock is a security evidencing the right of its possessor (shareholder) to receipt of part of the profit of a joint-stock company in the form of dividends, to participation in the management of the business of the joint-stock company, and to part of the property remaining on its liquidation.

Stock may be bearer or named, freely circulating or with a limited range of circulation and common or preferred.

Article 158. Bill of Lading

A bill of lading is document for disposition of goods, evidencing the right of its holder to dispose of the freight listed in the bill of lading and to receive the freight after the completion of transport.

A bill of lading may be bearer, order, or named.

Article 159. Bank Record

A bank record (bank book or bank certificate) is a commercial paper evidencing the amount of a deposit and the right of the depositor to receipt on the expiration of a period the amount of the deposit and interest on at the bank or in any branch of this bank.

A bank record may be bearer or named.

Article 160. Double Warehouse Receipt

A double warehouse receipt is an order commercial paper evidencing acceptance by a goods warehouse for storage.

A double warehouse receipt consists of two parts--a warehouse receipt and a pledge certificate (warrant), each of which are commercial papers.

Article 161. Simple Warehouse Receipt

A simple warehouse receipt is a bearer commercial paper evidencing acceptance of goods for storage.

Chapter 15. Right of Pledge

§1. General Provisions on Pledge

Article 226. Definition of the Right of Pledge

1. The right of pledge (hereinafter--“pledge”) is a property right of a pledgee with respect to property of the pledgor, which simultaneously is a means of ensuring the performance of a monetary or other obligation of the debtor to the pledgee.

2. A pledge is a supplementary (accessory) obligation of ensuing the performance of a basic obligation of the pledgor (or debtor) to the pledgee (or creditor).

3. A creditor under an obligation secured by a pledge (a pledgee) has the right in case of nonperformace by a debtor of this obligation to obtain satisfaction from the value of the pledged property preferentially before other creditors of the person to whom this property belongs (the pledgor).

4. The pledgee has the right on the basis of the principle established by Paragraph 3 of the present article to receive satisfaction from insurance compensation for the loss of or harm to the pledged property regardless of for whose benefit it is insured, provided only that the loss or harm did not happen for reasons for which the pledgee answers.

5. The general rules on pledge contained in the present Section shall be applied to mortgage in those cases when other rules have not been established by the Section on mortgage of the present Chapter.

Article 227. Bases for Arising of a Pledge

1. A pledge arises by virtue of a contract. A pledge also may arise on the basis of a statute in case of the occurrence of the circumstances indicated in it if the statute provides what property is recognized as being in pledge and for securing the performance of what obligation.

2. The rules of the present Code on pledge that has arisen by virtue of a contract shall be applied respectively to a pledge that has arisen on the basis of a statute, unless the statute provides otherwise.

Article 228. The Pledgor

1. The pledgor of property may be only its owner.

2. The pledgor may be the debtor itself or a third person.

3. The pledgor of a right may be a person to whom the pledged right belongs.

Article 229. The Pledgee

The pledgee is the person who, on the bases indicated by statute or contract, has the property right (right of pledge) with respect to the property of the pledgor for securing the performance of a monetary or other obligation of the debtor to it.

Article 230. Subject of a Pledge

1. The subject of a pledge may be any property, including a property rights (or claim) with the exception of property excluded from commerce, of claims inseparably connected with the personality of the creditor, in particular claims for support payments, for compensation for harm caused to life or health and other rights whose alienation to another person is prohibited by a statute.

2. Pledge of property which may not be divided without changing its purpose (indivisible property) may not be given in pledge in parts.

3. Pledge of a right of lease is not allowed without the consent of the owner of the property.

4. Pledge of individual types of property, in particular of property of citizens on which levy of execution is not allowed, may be prohibited or limited by a statute.

Article 231. Pledge of Property that is in Common Ownership

1. Property that is in common ownership may be given in pledge only with the written consent of all the owners.

2. A participant in common share ownership may pledge his share in the right to common ownership without the consent of the other owners.

In case of levy of execution on demand of the pledgee against this share, for its sale the rules established by Article 195 of the present Code on preferential right of buyout shall be applied.

Article 232. Property to Which the Rights of the Pledgee Extend

1. The rights of the pledgee (the right of pledge) to the property that is the subject of a pledge shall extend to its accessories unless otherwise provided by the contract.

The right of pledge extends in cases provided by the contract to fruits, products, and incomes received as the result of the use of the pledged property.

2. A contract of pledge, and with respect to a pledge that has arisen on the basis of a statute, the statute may provide for a pledge of property and property rights that the pledgor will obtain in the future.

Article 233. The Claim Secured by a Pledge

Unless otherwise provided by a contract or statute, a pledge secures a claim of the pledgee in the amount that it has at the time of actual satisfaction in particular, interest, penalty, compensation for the damages caused by delay of performance, and also compensation for necessary expenses of the pledgee for the maintenance and preservation of the pledged property and expenses for execution.

Article 234. The Contract of Pledge and Its Form

1. A contract of pledge must be concluded in written form.

2. A contract of pledge must indicate the name (or designation) and place of residence (or place of location) of the parties, the subject of the pledge, the nature, amount, and period for performance of the obligation protected by the pledge.

3. In the cases provided by the present Code, a contract of pledge is subject to notarial certification and a right of pledge to state registration.

4. Nonobservance of the rules of the present Article shall entail the invalidity of the contract of pledge. Such a contract is considered void.

Article 235. Arising of the Right of Pledge

1. The right of pledge arises from the time of conclusion of the contract of pledge, and in cases when the right of pledge is subject to state registration, from the time of its registration.

2. If the subject of the pledge in accordance with law or contract must be with the pledgee, the right of pledge arises form the time of transfer to him of the subject of the pledge and if such transfer was made before the conclusion of the contract from the time of its conclusion.

Article 236. Subsequent Pledge

Property that is under pledge may become the subject of another pledge (a subsequent pledge).

2. A subsequent pledge is allowed if it is not forbidden by prior contracts of pledge.

3. In case of a subsequent pledge, the claims of the subsequent pledgee shall be satisfied from the value of the subject of pledge after the satisfaction of the claims of the prior pledgee.

Article 237. Maintenance and Preservation of the Pledged Property

1. The pledgor or pledgee, depending upon which of them has the pledged property is obligated, unless otherwise provided by a statute or contract:

1) to insure the pledged property for its full value from the risks of loss and harm, and if the full value of property exceeds the amount of the claim secured by the pledge, for an amount not less than the amount of the claim;

2) to take the measures necessary for ensuring the preservation of the pledged property, including the protection of it from encroachments and claims on the part of third persons;

3) to immediately inform the other party of the arising of a threat of loss of or harm to the pledged property.

2. The pledgee and pledgor have the right to verify by the documents and in fact the presence, quantity, status, and conditions of storage of pledged property that the other party has.

3. In case of gross violation by the pledgee of the obligations indicated in Paragraph 1 of the present Article creating a threat of loss of or harm to the pledged property, the pledgor has the right to demand the early termination of the pledge.

Article 238. Use and Disposition of the Subject of Pledge

1. A pledgor has the right, unless otherwise provided by the contract, to use the subject of the pledge in accordance with its designation, including obtaining from it fruits and income.

2. Unless otherwise provided by a statute or contract, the pledgor has the right to alienate the subject of the pledge, to transfer it by lease or use without compensation to another person or in another manner to dispose of it only with the consent of the pledgee.

An agreement limiting the right of the pledgor to leave the pledged property by will is void.

3. A pledgee has the right to use a subject of pledge transferred to it only in cases provided by a contract, providing on demand of the pledgor a report on use. Under a contract, the obligation to obtain fruits and income from the subject of pledge may be placed upon the pledgee for the purpose of paying off the basic obligation or in the interest of the pledgor.

Article 244. Consequences of Destruction of, Loss of, or Harm to the Pledged Property

1. The pledgor bears the risk of accidental destruction of, loss of, or accidental harm to the pledged property, unless otherwise provided by the contract of pledge.

2. The pledgee is liable for the total or partial destruction of, loss of, or harm to a subject of pledge transferred to it, unless it shows that it may be freed from liability in accordance with Article 417 of the present Code.

3. The pledgor is liable for loss of the subject of the pledge in the amount of its actual value and for its harm in the amount of the sum by which this value has been reduced regardless of the sum at which the subject of pledge was valued upon transfer of it to the pledgee.

If as a result of harm the subject of the pledge has changed to the extent that it cannot be used for its direct purpose, the pledgor has the right to refuse it and to demand compensation for its loss.

A contract may provide for an obligation of the pledgee to compensate the pledgor also for other damages caused by loss of or harm to the subject of the pledge.

A pledgor who is a debtor under an obligation secured by a pledge has the right to count a claim against the pledgee for compensation for the damages caused by the loss of or harm to the subject of a pledge in payment of an obligation secured by the pledge.

Article 240. Replacement and Reinstatement of the Subject of the Pledge

1. Replacement of the subject of the pledge is allowed with the consent of the pledgee, unless a statute or a contract provides otherwise.

2. If the subject of a pledge has perished or has been harmed or the right of ownership to it or the right of economic management has been terminated on grounds established by a statute, the pledgor is obligated within a reasonable time to restore the subject of pledge or to replace it with other property of equal value unless a contract provides otherwise.

Article 241. Protection by the Pledgee of Its Rights to the Subject of the Pledge

1. A pledgee that had or should have had the pledged property has the right to reclaim it from another's unlawful possession, including from the possession of the pledgor (Articles 274, 275, 278).

2. In cases when, under the terms of the contract, the pledgee is granted the right to use the subject of the pledge transferred to it, it may demand from other persons, including from the pledgor, the elimination of all violations of its right, although these violations were not connected with deprivation of possession (Articles 277, 278).

Article 242. Preservation of a Pledge in Case of Transfer of the Right of Ownership to Pledged Property to Another Person

1. In case of transfer of the right of ownership to pledged property or the right of economic management of it from the pledgor to another person as the result of compensated or uncompensated alienation of this property or by way of universal legal succession, the right of pledge shall remain in force.

The legal successor of the pledgor shall take the place of the pledgor and shall bear all the obligations of the pledgor unless an agreement with the pledgee provides otherwise.

2. If the property of the pledgor that is the subject of the pledge has passed by way of legal succession to several persons, each of the legal successors (or purchasers of the property) shall bear the consequences following from the pledge of nonperformance of the obligation secured by the pledge in proportion to the part of this property that has passed to it. However, if the subject of the pledge is indivisible or on other bases remains in the common ownership of the legal successors, they shall be considered joint and several pledgors.

Article 243. Consequences of Compulsory Taking of Pledged Property

1. In cases when the right of ownership of the pledgor to the property that is the subject of the pledge is terminated on the grounds and by the procedure established by law as a result of a taking (or buyout) for state needs or needs of a commune, requisition or nationalization, and the pledgor is granted other property and/or corresponding compensation, the right of pledge shall extend to the property granted as a substitute or respectively, the pledgee shall obtain the right of preferential satisfaction from the amount of compensation due to the pledgor.

2. In the case when the property that is the subject of the pledge is taken from the pledgor in the procedure established by statute as a sanction for the commission of a crime, the pledgee shall obtain the right of preferential satisfaction of his claim from the value of this property

3. In the case when the property that is the subject of the pledge is taken from the pledgor by the procedure established by law on the ground that in fact the owner of this property is another person, the pledge with respect to this property shall be terminated.

4. In the cases provided by the present Article, the pledgee has the right to demand early performance of the obligation secured by the pledge.

Article 244. Assignment of Rights Under the Contract of Pledge

1. The pledgee has the right to transfer its rights under the contract of pledge to another person with the observance of the rights on the transfer of the rights of a creditor by the assignment of a claim (Articles 397-405.)

2. The assignment by a pledgor of its rights under a contract of pledge to another person is valid if the rights of claim against the debtor on the principal obligation secured by the pledge are assigned to the same person.

Article 245. Transfer of the Debt on an Obligation Secured by a Pledge

With the transfer to another person of the debt under an obligation secured by a pledge, the pledge is terminated, unless the pledgor gave the creditor consent to answer for the new debtor.

Article 246. Early Performance of an Obligation Secured by a Pledge and Levy of Execution on the Pledged Property

1. The pledgee shall have the right to demand early performance of the obligation secured by the pledge in cases:

1) if the subject of the pledge left the possession of the pledgor with whom it was left, not in accordance with the terms of the contract on pledge;

2) violation by the pledgor of the rules on replacement of the subject of the pledge (Article 240);

3) loss of the subject of the pledge due to circumstances for which the pledgee does not answer, if the pledgor has not used the right provided by Paragraph 2 of Article 240 of the present Code.

2. The pledgee shall have the right to demand early performance of the obligation secured by the pledge and if its demand is not satisfied to levy execution on the subject of the pledge in cases of:

1) violation by the pledgor of the rules on subsequent pledge (Article 236);

2) nonperformance by the pledgor of the duties provided by subparagraphs 1 and 2 of Paragraph 1 and Paragraph 2 of Article 237 of the present Code;

3) a violation by the pledgor of the rules on the use and disposition of pledged property (Paragraphs 1 and 2 of Article 238).

Article 247. Termination of a Pledge

1. A pledge shall be terminated:

1) with the termination of the obligation secured by the pledge;

2) on demand of the pledgor if the grounds provided by Paragraph 3 of Article 237 of the present Code are present.

3) in case of loss of the pledged item or termination of the pledged right unless the pledgor has used the right provided by Paragraph 2 of Article 240 of the present Code;

4) in case of sale at public auction of the pledged property.

2. In case of termination of a pledge as the result of performance of the obligation secured by the pledge or upon demand of the pledgor (Paragraph 3 of Article 237), a pledgee who has the pledged property shall be obligated to return it immediately to the pledgor.

Article 248. Grounds for Levy of Execution on the Pledged Property

Execution on the pledged property for the satisfaction of the claims of the pledgee (the creditor) may be levied in case of nonperformance or improper performance by the debtor of the obligations secured by the pledge due to circumstances for which it answers.

Article 249. Procedure for Levy of Execution on the Pledged Property

1. Satisfaction of a claim of the pledgee at the expense of pledged property without resort to a court is allowed on the basis of a notarially authenticated agreement of the pledgee with the pledgor. Such an agreement, on the bases established by Section 2 of Chapter 18 of the present Code, may be declared invalid by a court on suit by a person whose rights are violated by the agreement.

In the absence of such an agreement, satisfaction of the claim of the pledgee (the creditor) from the value of the pledged immovable property shall be made by a decision of a court.

2. Execution may be levied on a subject of a pledge only by decision of a court in cases when:

1) the agreement or permission of another person was required for concluding the contract of pledge;

2) the subject of the pledge is property having a significant historical, artistic, or other cultural value for society;

Article 250. Realization (Sale) of Pledged Property

1. The realization (sale) of pledged property shall be made by specialized organizations having a license, only by sale at public auction by the procedure established by the law on public auctions.

Article 251. Distribution of the Amount Received from the Sale of the Pledged Property

1. The claims of the pledgee shall be satisfied from the amount received as the result of sale of the pledged property, after the deduction from it of the amounts necessary to cover the expenditures for levying execution on the property and for its sale, and the remaining amount is transferred to the pledgor.

2. if the amount realized on the sale of the pledged property is insufficient to cover the claim of the pledgor, he has the right, in the absence of a contrary indication in the contract, to receive the short amount from other property of the debtor, unless otherwise provided by the contract. In this case the pledgee does not enjoy the preference based on the pledge.

Article 252. Termination of Levy of Execution on Pledge Property and of Its Sale

1. The debtor and a pledgor who is a third person have the right at any time until the sale of the subject of the pledge to terminate the levying of execution on it and its sale, by performing the obligation secured by the pledge or that part of it the performance of which was late.

An agreement limiting this right is void.

2. The person demanding the termination of the levying of execution on the pledged property or of its sale is obligated to compensate the pledgee for expenditures borne in connection with the levy of execution on the property and its sale.

Article 253. Types of Pledge

A pledge may take the form:
1) of a deposit
2) of a pledge of goods in a pawnshop;
3) of a pledge of rights;
4) of a pledge of monetary assets;
5) of a firm pledge;
6) of a pledge of goods in commerce;
7) of a mortgage;

Article 254. Deposit

Deposit is a pledge the object of which is transferred to the possession of the pledgee.

Article 255. Pledge of Property in a Pawnshop

1. Acceptance from citizens in pledge of movable property meant for personal use, to secure short term credit may be conducted as entrepreneurial activity by specialized organizations--pawnshops--that have a license for this.

2. A contract of pledge of property in a pawnshop is formalized by the issuance by the pawnshop of a pledge ticket.

3. Pledged items are transferred to the pawnshop.

The pawnshop is obligated to insure at its own expense, for the use of the pledgor, property taken in pledge for the full amount of their valuation established in accordance with the market price for property of such type at the time of their acceptance for pledge.

4. A pawnshop does not have the right to use or dispose of pledged items.

5. The pawnshop bears liability for loss of or harm to the pledged property, unless it shows that the loss or harm occurred as the result of force majeure.

6. In case of failure to return in the established period the amount of the credit secured by the pledge of property in the pawnshop, the pawnshop shall have the right to realize (sell) this property at public auction. After this the demand of the pawnshop against the pledgor (debtor) is extinguished, even if the amount received on the disposition of the pledged property is insufficient for their full satisfaction.

7. The rules of granting of credit to citizens by pawnshops under pledge of property belonging to citizens shall be established by a statute.

8. Terms of a contract on the pledge of property in a pawnshop that limit the rights of the pledgor in comparison with the rights granted to it by the present Code and other statutes are void.

Article 256. Pledge of a Right

1. In case of pledge of a right the subject of the pledge is a right that may be alienated, in particular a lease right to a land parcel, building, structure, dwelling house (or apartment), a right to a share in the property of a business partnership or company, or a debt claim.

2. A right for a term may be a subject of a pledge only until the expiration of the term of its effectiveness.

3. The debtor of a pledged right must be informed of the pledge.

4. The pledge of a right subject to state registration is effective from the time of registration at the state agency conducting its registration.

5. In case of pledge of a property right evidenced by a security or commercial paper, it is given to the pledgee or to deposit in a bank or notarial office unless the contract provides otherwise.

Article 257. Pledge of Monetary Assets

Monetary assets that are the subject of a pledge are kept in a deposit account in a bank or at a notarial office. Interest calculated on this about belongs to the pledgor unless the contract provides otherwise.

Article 258. Firm Pledge

A firm pledge is a pledge whose subject remains with under lock of the pledgee. The subject of the pledge may be left in the possession of the pledgor with the addition of symbols evidencing the pledge.

Article 259. Pledge of Goods in Commerce

1. A pledge of goods in commerce is a pledge of goods with their being left with the pledgor and with the grant to the pledgor of the right to change the composition and natural form of the pledged property (stocks of goods, raw material, supplies, semifabricates, ready products, etc.) on the condition that their overall value does not become less than indicated in the contract of pledge.

Reduction of the value of the pledged goods in commerce is allowed in proportion to the performed part of the obligation secured by the pledge, unless otherwise provided by the contract.

2. Goods in commerce alienated by the pledgor cease to be the subject of a pledge from the time of their transfer to the ownership, economic management, or operative administration of the purchaser and goods obtained by the pledgor indicated in the contract of pledge become the subject of a pledge from the time of arising of a right of ownership or economic management to them for the pledgor.

3. Unless other conditions of supervision of the activity of the pledgor are provided by contract, the pledgor of goods in commerce is obligated to keep a book for recording pledges in which entries shall be made of the conditions of the pledge of goods and on all other operations entailing a change of the composition or the natural form of the pledged goods, including their processing, on the day of the latter operation.

4. In case of violation by the pledgor of the conditions of pledge of goods in commerce, the pledgee has the right, by placing its signs on the pledged goods to stop operations with them until the elimination of the violation.

§ 2. MORTGAGE

1. General Provisions on Mortgage

Article 260. Definition of Mortgage

A mortgage is a pledge the subject of which, regardless of whether it is immovable or movable property, remains in the possession and use of the pledgor or of a third party.

Article 261. Contract of Mortgage

Under the contract of mortgage one party--the pledgee, who is a creditor under a credit contract or other obligation secured by the mortgage (the basic obligation), has a right to receive satisfaction of his monetary claims against the debtor under this obligation from the value of the pledged property of the other party--the pledgor, preferentially before other creditors of the pledgor.

Article 262. Content of the Contract of Mortgage

1. In a contract of mortgage their must be indicated the name (or designation) and place of residence (or place of location) of the parties, the subject of the mortgage, the nature, size, and term of fulfillment of the obligation secured by the mortgage.

2. The subject of the mortgage is determined in the contract by an indication of its designation, place of its location, and a description sufficient for the identification of this subject.

If the subject of a mortgage is a right of lease belonging to the pledgor, then the leased property must be defined in the property just as if it itself were the subject of the mortgage.

4. In the contract of mortgage there must be indicated the obligation secured by the mortgage, must be named in the contract of mortgage, its amount, the basis of its origin and the term for its performance. In those cases when this obligation is based upon a contract, the parties, date, and place of conclusion of the contract must be indicated. If the amount of the obligation secured by the mortgage is subject to definition in the future, the procedure and other necessary conditions for defining it must be indicated in the contract of mortgage.

5. If the obligation secured by the mortgage is subject to performance in parts, in the contract of mortgage there must be indicated the terms or periodicity of the respective payments and their amounts or conditions allowing the determination of such payments.

Article 263. Form of the Contract of Mortgage

1. The contract of mortgage must be concluded in written form, by the compilation of a single document signed by the pledgor and pledgee, and also by the debtor if the pledgor is not the debtor (property surety).
A contract of mortgage is subject to notarial authentication.

Article 264. State Registration of the Right of Pledge Under a Contract of Mortgage

1. The right of pledge under a contract of mortgage of immovable property is subject to state registration.
2. The right of pledge under a contract of mortgage of movable property is subject to state registration in the cases when a statute provides for state registration of rights to movable property (Paragraph 2 of Article 135).
3. The procedure for state registration of the right of pledge under a contract of mortgage shall be established by the statute on state registration of rights to property.

2. Mortgage of Parcels of Land

Article 265. Parcels of Land that may be the Subject of Mortgage

1. By contract of mortgage only parcel of land that are in the ownership of citizens and legal persons may be pledged.
2. In case of common ownership of a parcel of land, a mortgage may be established only on a land parcel belonging to a citizen or legal person physically separated from the land parcel.

Article 266. Mortgage of a Land Parcel on which there is a Building or Structure of the Pledgor

1. In case of mortgage of a land parcel the right of mortgage does not extend to existing or already erected buildings and structures of the pledgor including housing structures belonging to him unless a different condition is provided in the contract on mortgage.
In the absence in the contract of such a condition, the pledgor in case of levy of execution on the land parcel retains the right to such building or structure and obtains the right of limited use (a servitude) of that part of the parcel that is necessary for the use of the building or structure in accordance with its purpose. The conditions of use of this part of the parcel shall be determined by agreement of the pledgor with the pledgee and in case of dispute, by a court.
2. The pledgor of a land parcel has the right without the consent of the pledgee to dispose off his buildings and structures on this parcel to which, in accordance with Paragraph 1 of the present Article the right of pledge does not extend.
In case of alienation of such a building or structure to another person and the absence of an agreement with the pledgee to the contrary, the rights that this person may obtain to the pledged land parcel are limited by the conditions provided in the second subparagraph of Paragraph 1 of the present Article.
3. If a building or structure of the pledgor of land parcel that is on or erected on the same parcel is pledged to the same pledgee, the pledgor has the right to dispose of this building or structure only with the agreement of the pledgee.

Article 267. Erection by the Pledgor of Buildings and Structures on the Pledged Land Parcel

The pledgor has the right, without the consent of the pledgee to erect buildings and structures by the established procedure on the land parcel pledged under the contract of mortgage. The right of pledge does not extend to these parcels and the pledgor may dispose of them as provided by Paragraph 2 of Article 266 of the present Code.

However if the erection by the pledgor on the pledged land parcel entails or may entail a worsening of the security provided to the pledgee by the mortgage of this parcel, the pledgee has the right to demand amendment of the contract of mortgage (Paragraph 2 of Article 466) of the present Code, including if necessary, by extending the mortgage to the erected building or structure.

Article 268. Mortgage of a Land Parcel on which there are Buildings and Structures of Third Persons

If a mortgage is established on a land parcel on which there is a building or structure belonging not to the pledgor but to another person, then upon levy by the pledgor of execution on this parcel and its sale, the rights and duties that the pledgor as possessor of the parcel had with respect to this person pass to the acquirer of the parcel.

3. Mortgage of Dwelling Houses (or Apartments), Buildings, and Structures

Article 269. General Provision on the Mortgage of Dwelling Houses (or Apartments), Buildings, and Structures

1. The mortgage of multi-apartment buildings and individual houses and apartments that are under state ownership or ownership by a commune is not allowed.

2. Hotels, dormitories, rest homes, dachas, garden houses, and other buildings and structures not meant for permanent residence may be the subject of mortgage on the regular bases.

Article 270. The Mortgage of Apartments in Multi-Apartment Buildings that are in Common Share Ownership

In case of mortgage of an apartment in a multi-apartment building, part of which (the foundation, roof, stairwells) is in common share ownership, the corresponding share in the right of common ownership of the building is considered mortgaged along with the apartment.

Article 271. Mortgage of Dwelling Houses, Buildings, and Structures Under Construction

Upon granting of credit for the construction of a dwelling house, building, or structure, a mortgage contract may provide for the securing of an obligation by incomplete construction and materials and equipment prepared for construction belonging to the pledgor.

Article 272. Levy of Execution on a Mortgaged Dwelling House or Apartment

1. Levy of execution on a mortgaged dwelling house or apartment and sale of this property is not a basis for the eviction of persons having the right of use of the dwelling premises, with the exception of the cases provided in Paragraph 2 of the present Article.

2. After levy of execution on a mortgaged dwelling house or apartment and sale of this property, the pledgor and persons having the right of use of the housing premises are obligated on demand of the owner of the house (or apartment) not later than in the course of a month to free the living premises on the condition that:

1) the house (or apartment) was pledged under a contract of mortgage to secure the return of credit provided for the acquisition or construction of this home (or apartment);

2) the persons having the right of use of the housing premises gave before the conclusion of the contract of mortgage, a notarially certified agreement to waive this right.

3. Persons living in pledged dwelling houses or apartments on conditions of a contract of lease of housing premises before the making of the contract of mortgage are not subject to eviction on sale of the pledged house or apartment unless otherwise provided by the contract.

DIVISION 6. GENERAL PROVISIONS ON OBLIGATIONS

Chapter 22. Definition of and Parties to an Obligation

Article 345. Definition of an Obligation and Bases for Its Origin

1. By force of an obligation one person (the debtor) is obligated to take for the use of another person (the creditor) a defined action, such as: to pay money, to transfer property, to perform work, etc., or refrain from a defined action, and the creditor has the right to demand from the debtor the performance of its obligation.

2. Obligations arise from contract, from the causing of harm, and from other bases indicated in the present Code.

Article 346. Parties to an Obligation

1. One or simultaneously several persons may participate in an obligation as either of the parties--creditor or debtor.

The invalidity of claims of a creditor against one of the persons participating in an obligation on the side of the debtor and likewise the expiration of the period of limitation of actions with respect to such a person, in and of itself does not affect its claims against the remaining persons.

2. If each of the parties to a contract bears an obligation for the use of the other party, it is considered a debtor of the other party as to what it is obligated to do for its use and simultaneously its creditor for what it has the right to demand from it.

3. An obligation does not create duties for persons who are not participants in it as parties (for third persons).

In cases provided by a statute, other legal acts, or by agreement of the parties, an obligation may create rights for third persons with respect to one or both of the parties to an obligation.

Chapter 23. Performance of Obligations

Article 347. General Provisions

Obligations must be performed in a proper manner in accordance with the terms of the obligation and the requirements of a statute, other legal acts, and in the absence of such terms and requirements—in accordance with the customs of trade or other usually made requirements.

Article 348. Impermissibility of Unilateral Refusal to Perform an Obligation

Unilateral refusal to perform an obligation and unilateral change in its terms is not allowed with the exception of cases provided by a statute. Unilateral refusal to perform an obligation connected with the conduct by its parties of entrepreneurial activity and unilateral change in the terms of such an obligation is allowed also in cases provided by contract unless otherwise follows from a statute or the nature of the obligation.

Article 349. Performance of an Obligation in Parts

A creditor has the right not to accept performance of an obligation in parts, unless otherwise provided by a statute, other legal acts, or terms of the obligation or follows from customs of trade or the nature of the obligation.

Article 350. Performance of an Obligation to the Proper Person

Unless otherwise provided by agreement of the parties or follows from the customs of trade or the nature of an obligation, a debtor has the right in performance of an obligation to demand proof that performance is being accepted by the creditor itself or by a person authorized by it and bears the risk of the consequences of the nonpresentation of such a demand.

Article 351. Performance of an Obligation by a Third Person

1. Performance of an obligation may be placed by the debtor on a third person, unless a duty of the debtor to perform the obligation personally follows from a statute, other legal acts, the terms of the obligation, or its nature. In this case, the creditor is obligated to accept the performance tendered for the debtor by the third person.

2. A third person who is under the risk of losing its right to the property of the debtor (right of lease, etc.) as the result of the levying by a creditor of execution on this property may with the consent of the debtor satisfy at its own expense claim of a creditor and obtain the right of a creditor under the obligation in accordance with Articles 397-405 of the present Code.

Article 352. Period for Performance of the Obligation

1. If an obligation provides or allows the determination of the day for its performance or the period of time in the course of which it must be performed, the obligation is subject to performance at this day or at any time within the limits of such period.

2. In cases when an obligation does not provide a period for its performance and does not contain terms allowing the determination of this period, it must be performed in a reasonable time after the origin of the obligation.

A debtor must perform an obligation not performed in a reasonable time and also an obligation the period for performance of which is determined as the time of demand within a seven-day period from the day of making by the creditor of a demand for its performance unless an obligation for performance within another period follows from a statute, other legal acts, the terms of the obligation, the customs of trade or the nature of the obligation.

Article 353. Early Performance of an Obligation

A debtor has the right to perform an obligation early unless otherwise provided by a statute, other legal acts or the terms of the obligation or follows from its nature. Early performance of obligations connected with the conduct by its parties of entrepreneurial activity is allowed only in cases when the possibility of performing the obligation early is provided by a statute, other legal acts or the terms of the obligation or follows from the customs of trade or the nature of the obligation.

Article 354. Information on the Course of Performance of an Obligation

A statute, other legal acts, or the terms of an obligation may provide an obligation for the debtor to inform a creditor or a person indicated by him of the course of performance of an obligation.

Article 355. The Place of Performance of an Obligation

1. An obligation must be performed at the place that is determined by statute, other legal acts, or contract or follows from the customs of trade or the nature of the obligation.

2. If a place of performance is not designated, performance must be made:

1) on an obligation to transfer a land parcel, building, structure, or other immovable property—at the place of location of the property;

2) on an obligation to transfer goods or other property envisioning its carriage--at the place of submission of the property to the first carrier for its physical delivery to the creditor;

3) on other obligations of an entrepreneur to transfer goods or other property--at the place of manufacture or storage of the property if this place was known to the creditor at the time the obligation arose;

4) on a monetary obligation--at the place of residence of a creditor at the time the obligation arises and if the creditor is a legal person--at its seat at the time the obligation arises. If the creditor by the time of performance of the obligation changed its place of residence or seat and notified the debtor of this--at the new place of residence or seat of the creditor with the creditor bearing the expenses connected with the transfer of the place of performance;

5) on all other obligations--at the place of residence of the debtor and if the debtor is a legal person--at its seat.

Article 356. Currency for Monetary Obligations

1. Monetary obligations must be expressed in drams (Article 142).

2. In a monetary obligation it may be provided that it is subject to payment in drams in an amount equivalent to a defined sum in foreign currency or in artificial monetary units. In this case the amount subject to payment in drams shall be determined at the official rate of exchange of the respective currency or artificial monetary units on the day of payment, unless another rate of exchange or another date for determining it is established by a statute or agreement of the parties.

3. In long term contracts indexation of payments may be specified on terms agreed by the parties.

4. The use of foreign currency and also of payment documents in foreign currency in the making of payments on the territory of the Republic of Armenia for obligations is allowed in the cases and by the procedure provided by statute.

Article 357. Increase of the Amount Paid for Support of a Citizen

The amount paid under a monetary obligation directly for the support of a citizen: in compensation for harm caused to life or health, on a contract of lifetime support, and in other cases shall be increased proportionally with the increase of the minimum monthly wage established by a statute.

Article 358. Order of Satisfaction of Demands Under a Monetary Obligation

An amount of a payment made insufficient for performance of a monetary obligation in full, in absence of another agreement, pays first of all the costs of the creditor for obtaining performance, then interest, and in the remaining part, the principal amount of the debt.

Article 359. Performance of an Alternative Obligation

A debtor who is obligated to transfer to a creditor one or another property or to take one of two or several actions has the right of choice unless it follows otherwise from a statute, other legal acts, or terms of the obligation.

Article 360. Performance of an Obligation in Which Several Creditors or Several Debtors Participate

In the case when several creditors or several debtors participate in an obligation, then each of the creditors has the right to demand performance and each of the debtors is obligated to perform the obligation in an equal share with the others if it does not follow otherwise from a statute, other legal acts, or the terms of the obligation.

Article 361. Joint and Several Obligations

1. A joint and several obligation (or liability) or a joint and several claim arises if the joint and several nature of the duty or claim is provided by contract or established by a statute, in particular in case of indivisibility of the subject of the obligation.

2. The duties of several debtors under an obligation connected with entrepreneurial activity likewise as the claims of several creditors under the same obligation are joint and several unless a statute, other legal acts, or the terms of the obligation provide otherwise.

Article 362. The Rights of a Creditor Under a Joint and Several Obligation

1. In case of a joint and several obligation of the debtors, the creditor has the right to demand performance both from all the debtors jointly and from any one of them separately, and for all or for part of the debt.

2. A creditor who has not received full satisfaction from one of the joint and several debtors has the right to demand from the remaining joint and several debtors what was not received.

Joint and several debtors are obligated until the time when the obligation is performed in full.

Article 363. Defences Against Claims of a Creditor in Case of a Joint and Several Obligation

In case of a joint and several obligation, the debtor does not have the right to raise against the claims of the creditor defences based on relations of other debtors with the creditor in which the given debtor does not participate.

Article 364. Performance of a Joint and Several Obligation by One of the Debtors

1. Performance of a joint and several obligation in full by one of the debtors frees the remaining debtors from performance to the creditor.

2. Unless it follows otherwise from relations among the joint and several debtors:

1) a debtor who has performed a joint and several obligation has the right of a subrogation claim against the remaining debtors in equal shares less its own share;

2) what is unpaid by one of the joint and several debtors to the debtor who performed the joint and several obligation falls in equal share on this debtor and on the remaining debtors.

3. The rules of the present Article shall be applied correspondingly in case of termination of a joint and several obligation by subtraction of a counterclaim by one of the debtors.

Article 365. Joint and Several Claims

1. If a claim is joint and several, any of the joint and several creditors may present the claim to the debtor in full.

Before the making of a claim by one of the joint and several creditors, the debtor has the right to perform the obligation to any of them at its discretion.

2. A debtor does not have the right to raise against the claim of one of the joint and several creditors defences based on relations of the debtor with another joint and several creditor in which the given creditor is not participating.

3. Performance of an obligation in full to one of the joint and several creditors frees the debtor from performance to the remaining creditors.

4. A joint and several creditor who has obtained performance from the debtor is obligated to compensate what is due to the other creditors in equal shares unless otherwise follows from the relations among them.

Article 366. Performance of Obligations by the Placing of a Debt on Deposit

1. A debtor has the right to place money or commercial paper or securities due from it on deposit with a notary and, in cases provided by a statute, on deposit with a court, if an obligation cannot be performed by the debtor as the result of:

1) absence of a creditor or person authorized by it to receive performance at the place where the obligation was to be performed;

2) lack of dispositive capacity of the creditor and absence of a representative for it;

3) clear absence of clarity with respect to who is creditor under the obligation, in particular in connection with a dispute on this among the creditor and other persons;

4) refusal of the creditor to accept performance or other delay on its part.

2. Placing of a monetary sum or commercial paper or securities on deposit with a notary or a court is considered performance of the obligation.

3. The notary or court, in deposit with whom the money or commercial paper or securities has been placed shall notify the creditor of this.

Article 367. Reciprocal Performance of Obligations

1. Performance of an obligation of one of the parties is reciprocal if, in accordance with the contract, it depends upon performance of its obligations by the other party.

2. In case of failure of the obligated party to make the performance of the obligation provided by the contract or the presence of other circumstances obviously indicating that such performance will not be made at the established time, the party upon whom the reciprocal performance lies has the right to suspend performance of its obligation or to refuse to perform this obligation and to demand compensation for damages.

If the performance provided by the contract for an obligation is not made in full, the party upon whom the reciprocal performance lies has the right to suspend performance of its obligation or to refuse performance in the part corresponding to the performance not made.

3. In case reciprocal performance of the obligation is made despite the failure of the other party to make the performance of its own obligation provided by the contract, this party is obligated to provide such a performance.

4. The rules provided by Paragraphs 2 and 3 of the present Article shall be applied unless a contract or a statute provides otherwise.

Chapter 24. Security for Performance of Obligations

§ 1. General Provisions

Article 368. Means of Security for Performance of Obligations

1. The performance of obligations may be secured by a pledge (Chapter 15), penalty, withholding of property of the debtor, surety, guaranty, earnest money, and other means provided by a statute or contract.

2. The invalidity of an agreement on security does not entail the invalidity of the obligation (of the principal obligation).

3. The invalidity of the principal obligation shall entail the invalidity of the obligation securing it unless otherwise provided by a statute.

§ 2. Penalty

Article 369. Definition of a Penalty

1. A penalty (or forfeiture or fine) is a monetary sum determined by a statute or contract that a debtor must pay to the creditor in case of non-performance or improper performance of an obligation, in particular in case of a delay in performance. In demanding payment of a penalty, the creditor is not obligated to prove that damage was caused to it.

2. A penalty secures only a valid claim.

3. The creditor does not have the right to demand payment of a penalty if the debtor does not bear liability for the nonperformance or improper performance of the obligation.

Article 370. Form of Agreement on a Penalty

An agreement on a penalty must be made in written form regardless of the form of the basic obligation.

Nonobservance of the written form shall entail the invalidity of the agreement on the penalty.

Article 371. Statutory Penalty

1. The creditor has the right to demand payment of a penalty defined by a statute (a statutory penalty) regardless of whether or not the obligation to pay it is provided by an agreement of the parties.

2. The amount of a statutory penalty may be increased by agreement of the parties unless a statute forbids this.

Article 372. Reduction of a Penalty

If a penalty subject to payment is clearly disproportionate to the consequences of violation of an obligation, a court has the right to reduce the penalty.

§ 3. Withholding

Article 373. Grounds for Withholding

1. A creditor who has property subject to transfer to a debtor or other person indicated by a debtor shall have the right in case of nonperformance by the debtor on time of the obligation to pay

for this property or to compensate the creditor for the costs and other damages connected with it to withhold it until the time when the corresponding obligation is performed.

2. The withholding of property may serve as security for claims, even those not connected with payment for the property or compensation of costs for it and other damages, but which arose from an obligation whose parties acted as entrepreneurs.

3. A creditor may withhold property that he has despite the fact that after this property came into the possession of the creditor the rights to it were obtained by a third person.

4. The rules of the present Article shall be applied unless a contract provides otherwise.

Article 374. Satisfaction of Claims at the Expense of the Withheld Property

Claims of a creditor who has withheld a property shall be satisfied from its value in the amount and by the procedure provided for satisfaction of claims secured by a pledge.

§ 4. Surety

Article 375. The Contract of Suretyship

Under the contract of suretyship, the surety is obligated to the creditor of another person to answer for the performance by the latter of its obligation in full or in part.

A contract of suretyship may also be concluded to secure an obligation that will arise in the future.

Article 376. Form of the Contract of Suretyship

The contract of suretyship must be made in written form. Nonobservance of written form entails the invalidity of the contract of suretyship.

Article 377. Liability of the Surety

1. In case of nonperformance or improper performance by the debtor of obligations secured by a surety, the surety and debtor shall be liable jointly and severally to the creditor unless a statute or the contract of suretyship provides for the subsidiary liability of the surety.

2. The surety shall answer to the creditor in the same amount as the debtor including payment of interest, compensation for judicial costs for recovery of the debt and other damages of the creditor caused by the nonperformance or improper performance of the obligation by the debtor, unless otherwise provided by the contract of suretyship.

3. Persons who have jointly given a surety shall answer to the creditor jointly and severally, unless otherwise provided by the contract of suretyship.

Article 378. Compensation for the Services of the Surety

The surety has the right to compensation for services rendered by it to the debtor unless otherwise provided by the contract.

Article 379. Right of the Surety to Defend Against a Claim of the Creditor

1. The surety shall have the right to raise the defences against the claim of a creditor that the debtor could present unless otherwise follows from the contract of suretyship. The surety does not lose the right to these defenses even in the case when the debtor gave them up or recognized its debt.

2. The surety is obligated before satisfying the claim of a creditor to warn the debtor of this and if a suit is brought against the debtor, to involve the debtor in participation in the case.

3. If a surety has not fulfilled the obligation indicated in Paragraph 2 of the present article, the debtor has the right to raise against a subrogation claim of the surety the defenses that he had against the creditor.

Article 380. Rights of a Surety Who Has Performed an Obligation

1. To a surety who has performed an obligation shall pass the rights of the creditor under this obligation and the rights belonging to the creditor as a pledgee in the amount in which the surety satisfied the claim of the creditor. The surety also shall have the right to demand from the debtor payment of interest on the amount paid to the creditor and compensation for other losses borne in connection with liability for the debtor.

2. Upon performance by the surety of an obligation, the creditor shall be obligated to give the surety documents evidencing the claim against the debtor and to transfer rights securing this claim.

3. The rules established by the present Article shall be applied unless otherwise provided by a statute, other legal acts, or the contract of suretyship with the debtor or otherwise follows from the relations between them.

Article 381. Notification of the Surety on Performance of the Obligation by the Debtor

A debtor who has performed an obligation secured by a surety is obligated to immediately notify the surety of this. In the contrary case, a surety that has in its turn performed the obligation has the right to recover from the creditor what was obtained with no grounds or to bring a subrogation claim against the debtor.

Article 382. Termination of a Surety

1. A surety shall be terminated:

1) with the termination of the obligation secured by it and also in case of a change without permission of the surety in this obligation entailing an increase in liability or other unfavorable consequences for it.

2) with a transfer to another person of a debt under an obligation secured by the surety if the surety did not give the creditor consent to answer for the new debtor;

3) if the creditor has refused to accept proper performance offered by the debtor or the surety;

4) at the expiration of the term for which it was given indicated in the contract. If such a term was not established, the surety shall be terminated unless the creditor brings suit against the surety within a year from the day of occurrence of the time for performance of the obligation secured by the surety. When the term for performance of the basic obligation is not indicated and cannot be determined or is determined by the time of demand, the surety shall be terminated unless the creditor brings a suit against the surety within two years from the day of conclusion of the contract of suretyship.

§ 5. Guaranty

Article 383. Definition of Guaranty

By virtue of a guaranty the guarantor (a bank, other credit institution, or an insurance organization) gives at the request of another person (the principal) a written obligation to pay a

monetary amount to a creditor of the principal (the beneficiary) in accordance with the terms of an obligation given by the guarantor, upon presentation by the beneficiary of a written demand for its payment.

Article 384. Securing an Obligation of a Principal by a Guaranty

1. A guaranty secures the proper performance by the principal of its obligations to the beneficiary (the basic obligation).
2. The principal shall pay the guarantor the compensation for the issuance of a guaranty.

Article 385. Independence of a Guaranty from the Basic Obligation

The obligation of the guarantor to the beneficiary provided by a guaranty does not depend in relations between them upon the basic obligation in security for which it was issued, even if there is a reference to this obligation in the guaranty.

Article 386. Irrevocability of a Guaranty

A guaranty may not be revoked by the guarantor unless otherwise provided in it.

Article 387. Nontransferability of Rights Under a Guaranty

The right of claim against the guarantor that belongs to the beneficiary under a guaranty may not be transferred to another person unless otherwise provided in the guaranty.

Article 388. Entry of a Guaranty into Force

A guaranty shall enter into force from the date of its issuance unless otherwise provided in the guaranty.

Article 389. Making a Demand Under a Guaranty

1. A demand of a beneficiary for the payment of a monetary amount under a guaranty must be provided to the guarantor in written form with the attachment of the documents indicated in the guaranty. In the demand or in an attachment to it, the beneficiary must indicate what is the violation by the principal of the basic obligation to secure which the guaranty was issued.
2. A demand of a beneficiary must be provided to the guarantor before the end of the term defined in the guaranty, for which the guaranty was issued.

Article 390. Obligations of the Guarantor in Considering Demands of the Beneficiary

1. Upon receipt of a demand by a beneficiary, the guarantor must without delay inform the principal of this and transfer to it copies of the demand with all the documents relating to it.
2. The guarantor must consider the demand of the beneficiary with the documents attached to it within the time indicated in the guaranty and, in its absence, in a reasonable time and exercise reasonable care to establish if this demand and the documents attached to it correspond to the terms of the guaranty.

Article 391. Refusal of the Guarantor to Satisfy the Demand of a Beneficiary

1. A guarantor shall refuse a beneficiary in the satisfaction of his demand if this demand or the documents attached to it do not correspond to the terms of the guaranty or are presented to the guarantor after the end of the term defined in the guaranty.

A guarantor must immediately inform the beneficiary of a refusal to satisfy its demand.

2. If it became known to the guarantor before satisfying a demand by a beneficiary that the basic obligation secured by the guaranty has already been performed in whole or in a corresponding part, has been terminated on other grounds or is invalid it must immediately notify the beneficiary and the principal of this.

A repeated demand of the beneficiary received by the guarantor after such notice shall be subject to satisfaction by the guarantor.

Article 392. Limits of the Obligation of the Guarantor

1. The obligation provided by a guaranty of the guarantor to the beneficiary is limited to payment of the amount for which the guaranty was issued.

2. The liability of the guarantor to the beneficiary for nonperformance or improper performance by the guarantor of the obligation under the guaranty is not limited to the amount for which the guaranty is issued, unless otherwise provided in the guaranty.

Article 393. Termination of a Guaranty

1. The obligation of the guarantor to the beneficiary under the guaranty shall be terminated:

1) by payment to the beneficiary of the amount for which the guaranty is issued;

2) by the ending of the term defined in the guaranty for which it was issued;

3) as the result of relinquishment by the beneficiary of its rights under the guaranty and the return of it to the guarantor;

4) as the result of relinquishment by the beneficiary of its rights under the guaranty by written declaration on freeing the guarantor from its obligations.

Termination of the obligation of the guarantor on the grounds indicated in subparagraphs 1, 2, and 4 of the present Paragraph does not depend upon whether or not the guaranty was returned to him.

2. A guarantor who has learned of the termination of a guaranty must without delay inform the principal of this.

Article 394. Subrogation Claims of the Guarantor Against the Principal

1. The right of the guarantor to demand from the principal by way of subrogation the compensation for amounts paid to the beneficiary under a guaranty shall be determined by the agreement of the guarantor with the principal, in fulfillment of which the guaranty was issued.

2. The guarantor shall not have the right to demand compensation from the principal for amounts paid to the beneficiary not in accordance with the terms of the guaranty or for violation of the obligation of the guarantor to the beneficiary unless an agreement of the guarantor with the principal provides otherwise.

§ 6. Earnest Money

Article 395. Definition of Earnest Money. Form of an Agreement on Earnest Money

1. Earnest money is a monetary amount given by one of the contracting parties toward payments due from it under the contract to the other party, as evidence of conclusion of the contract and to secure its performance.

2. An agreement on earnest money, regardless of the amount of the earnest money, must be made in written form.

3. In case of doubt with respect to whether the amount paid toward the payments due from the party under the contract is earnest money, in particular as the result of nonobservance of the rule established by Paragraph 2 of the present Article, this amount shall be considered paid as an advance, unless proven otherwise.

Article 396. Consequences of Termination and Nonperformance of an Obligation Secured by Earnest Money

1. In case of termination of an obligation before the start of its performance by agreement of the parties or as the result of impossibility of performance (Article 432) the earnest money must be returned.

2. If the party who gave the earnest money is liable for nonperformance of the contract, the earnest money remains with the other party. If the party who received the earnest money is liable for nonperformance of the contract, it is obligated to pay the other party twice the amount of the earnest money.

In addition, the party liable for nonperformance of the contract is obligated to compensate the other party for damages less the amount of the earnest money, unless otherwise provided by the contract.

Chapter 25. Changing Persons in an Obligation

§ 1. Transfer of the Rights of a Creditor to Another Person

Article 397. Grounds and Procedure for Transfer of the Rights of a Creditor to Another Person

1. A right (or claim), belonging to a creditor on the basis of an obligation, may be transferred by it to another person by a transaction (assignment of a claim) or may pass to another person on the basis of a statute.

The rules on transfer of rights of a creditor to another person shall not be applied to subrogation claims.

2. The consent of the debtor is not required for transfer to another person of the rights of the creditor, unless otherwise provided by a statute or contract.

3. If a debtor was not notified in writing of a completed transfer of rights of a creditor to another person, the new creditor bears the risk of unfavorable consequences caused for it by this. In this case the performance of an obligation to the initial creditor shall be treated as performance to the proper creditor.

Article 398. Rights That May Not Be Transferred to Other Persons

The transfer to another person of rights inseparably connected with the personality of the creditor, in particular of claims for support and for compensation for harm caused to life or health, is not allowed.

Article 399. Scope of the Rights of a Creditor Passing to Another Person

Unless otherwise provided by a statute or contract, the right of the initial creditor shall pass to the new creditor in the same volume and on the same conditions that existed at the time of transfer of the right. In particular, the rights securing performance of the obligation and also other rights connected with the claim, including the right to unpaid interest, shall pass to the new creditor.

Article 400. Proof of the Rights of the New Creditor

1. The debtor has the right not to perform an obligation to the new creditor before the presentation to it of proof of the transfer of the claim to this person.

2. A creditor who has assigned a claim to another person is obligated to transfer to it documents evidencing the right of claim and to report information having significance for the realization of the claim.

Article 401. Defenses of the Debtor Against a Claim of the New Creditor

The debtor has the right to raise against a claim of the new creditor defenses that it had against the original creditor at the time of receipt of notice of the transfer of rights under the obligation to the new creditor.

Article 402. Transfer of the Rights of a Creditor to Another Person on the Basis of a Statute

The rights of a creditor under an obligation pass to another person on the basis of a statute and of the occurrence of the circumstances indicated in it:

1) as the result of universal legal succession to the rights of the creditor;

2) by decision of a court on transfer of the rights of a creditor to another person, when the possibility of such a transfer is provided by a statute;

3) as the result of performance of the obligation of a debtor by its surety or pledgor who is not the debtor under this obligation;

4) in case of subrogation to an insurer of the rights of a creditor against a debtor liable for the occurrence of the insured event;

5) in other cases provided by a statute.

Article 403. Conditions of Assignment of a Claim

1. An assignment of a claim by a creditor to another person is allowed if the assignment does not contradict a statute, other legal acts, or a contract.

2. An assignment of a claim under an obligation in which the personality of the creditor has a substantial significance for the debtor is not allowed without the consent of the debtor.

Article 404. Form of Assignment of Claim

1. An assignment of a claim based upon a transaction made in simple written or notarial form must be made in the corresponding written form.

2. An assignment of a claim under a transaction rights under which are subject to state registration must be registered by the procedure established for registration of these rights, unless otherwise provided by a statute.

3. An assignment of a claim under an order commercial paper shall be made by indorsement on this commercial paper (Paragraph 3 of Article 149).

Article 405. Liability of a Creditor Who Has Assigned a Claim

The initial creditor who has assigned a claim is liable to the new creditor for the invalidity of a claim transferred to it but is not liable for the nonperformance of this claim by the debtor except in the case when the initial creditor undertook a surety for the debtor to the new creditor.

§ 2. Transfer of a Debt

Article 406. Conditions and Form of Transfer of a Debt

1. The transfer by a debtor of its debt to another person is allowed only with the consent of the creditor.

2. The rules contained in Paragraphs 1 and 2 of Article 404 of the present Code shall be applied analogously to the form of transfer of a debt.

Article 407 Defenses of the New Debtor Against Claims of the Creditor

The new debtor has the right to raise against claims of the creditor defenses based on relations between the creditor and the initial debtor.

Chapter 26. Liability for Violation of Obligations

Article 408. Definition of Violation of an Obligation

Violation of an obligation means its nonperformance or performance in an improper manner (untimely, with defects of goods, work, and services or with violations of other conditions determined by the content of the obligation).

Article 409. Compensation for Damages Caused by Violation of an Obligation

1. A debtor is obligated to compensate the creditor for the damages caused.

2. Damages shall be determined in accordance with the rules provided by Article 17 of the present Code.

3. Unless otherwise provided by a statute, other legal acts, or the contract, in determining damages, the prices shall be taken into account that existed at the place where the obligation was to be performed on the day of voluntary satisfaction by the debtor of the claim of the creditor or if the claim was not satisfied, of the making by the court a decision.

4. In determination of lost profit, the measures taken by the creditor to receive it and the preparations made for this purpose shall be considered.

Article 410. Damages and Penalty

1. If a penalty is provided for nonperformance or improper performance of an obligation, then damages shall be compensated in the part not covered by the penalty.

A statute or contract may provide cases:

1) when recovery only of a penalty but not of damages is allowed;

2) when damages may be recovered in full amount above a penalty;

3) when at the choice of the creditor either damages or a penalty may be recovered.

2. In cases when limited liability is established (Article 416) for nonperformance or improper performance of an obligation, damages subject to compensation for the part not covered by the penalty or in addition to it or instead of it may be recovered up to the maxima established by such limitation.

Article 411. Liability for Nonperformance of a Monetary Obligation

1. For the use of another's monetary assets as the result of their unlawful retention, refusing to return them, or delay in their payment, or unjustified receipt or saving at the expense of another person, interest is subject to payment on the amount of these funds. The rate of interest shall be determined by the accounting rate of bank interest existing on the day of performance of the monetary obligation or the corresponding part of it. In case of recovery of a debt by judicial proceedings a court may satisfy a claim of a creditor, proceeding from the accounting rate of bank interest on the day of making a decision.

2. The accounting rate of bank interest shall be established by the Central Bank of the Republic of Armenia

3. If the damages caused to a creditor by the unlawful use of its monetary assets exceed the amount of interest due to it on the basis of Paragraph 1 of the present Article, he shall have the right to demand from the debtor compensation for damages in the part exceeding this amount.

4. Interest for the use of another's assets shall be recovered through the day of payment of the amount of these assets to the creditor unless the contract has established a shorter period for the computation of interest.

Article 412. Liability and Performance of an Obligation in Kind

1. Payment of a penalty and compensation for damages in case of improper performance of an obligation shall not free the debtor from the performance of the obligation in kind unless otherwise provided by a statute or contract.

2. Compensation for damages in case of nonperformance of an obligation and payment of a penalty for its nonperformance shall free a debtor from performance of the obligation in kind, unless otherwise provided by a statute or contract.

3. Refusal by a creditor to accept performance that as the result of delay has become uninteresting for it (Paragraph 2 of Article 421) and also payment of a penalty established as a cancellation penalty (Article 425) shall free the debtor from performance of the obligation in kind.

Article 413. Performance of an Obligation at the Expense of the Debtor

In case of nonperformance by the debtor of an obligation to prepare and transfer property in ownership or to transfer property for the use of the creditor or to perform defined work for it or to render a service to it, the creditor shall have the right, in a reasonable time, to entrust the performance of the obligation to third persons for a reasonable price or to perform it within its own efforts unless otherwise follows from a statute, other legal acts, contract, or the nature of the obligation, and to demand form the debtor compensation for the necessary expenditures and other damages suffered.

Article 414. Consequences of Nonperformance of an Obligation to Transfer an Individually-Defined Property

In case of nonperformance of an obligation to transfer an individually-defined property to ownership or to compensated use to a creditor, the latter has the right to demand the taking of this property from the debtor and transfer to it on the conditions provided by the obligation. This right lapses if the property has already been transferred to a third person having the right of ownership, economic management, or operative administration. If the property has not yet been transferred, priority belongs to the one of the creditors for whose benefit an obligation arose earlier, or if this is impossible to establish, the one who earlier filed suit.

Instead of a demand to transfer to itself the property that is the subject of an obligation, the creditor has the right to demand compensation for damages.

Article 415. Subsidiary Liability

1. Before the presentation of claims against a person who, in accordance with a statute, other legal acts, or the terms of an obligation bears liability supplementary to the liability of another person who is the principal debtor (subsidiary liability), the creditor must make a claim against the principal debtor.

If the principal debtor has refused to satisfy a claim of the creditor or the creditor has not received from it in a reasonable time an answer to a claim presented, this claim may be presented to the person bearing subsidiary liability.

2. The creditor does not have the right to demand the satisfaction of its claim against the principal debtor from the person bearing subsidiary liability if this claim can be satisfied by way of setoff of a counterclaim against the principal debtor.

3. The person bearing subsidiary liability must, before satisfying a claim made against it by a creditor, warn the principal debtor of this and if a suit is made against such a person, involve the principal debtor in participation in the case. In the contrary case the principal debtor has the right to raise against the subrogation claim of the person who answers subsidiarily, the defenses that he had against the claims creditor.

Article 416. Limitation of the Amount of Liability Under Obligations

1. Under individual types of obligations and for obligations connected with a defined type of activity a statute may limit the right to full compensation for damages (limited liability).

2. An agreement on limiting the amount of liability of a debtor under a contract of adhesion or other contract in which the creditor is a citizen acting as a consumer is void if the amount of liability for such a type of obligations or for such a violation is determined by a statute and if the agreement is concluded before the occurrence of the circumstances entailing liability for nonperformance or improper performance of the obligation.

Article 417. Grounds of Liability for the Violation of an Obligation

1. A debtor answers for the nonperformance and/or improper performance of an obligation in the presence of fault, unless otherwise provided by a statute or contract.

A debtor is considered not to be at fault, if it show that it took all measures depending upon it for the proper performance of the obligation.

2. Absence of fault must be shown by the person who has violated an obligation.

3. Unless otherwise provided by a statute or contract, a person who has not performed an obligation or has performed an obligation in an improper manner in the conduct of entrepreneurial activity shall bear liability unless it shows that proper performance became impossible as the result of force majeure, i.e., extraordinary circumstances unavoidable in the given situation. Such circumstances do not include, in particular, violation of obligations by contract partners of the debtor, absence of goods necessary for performance, nor the debtor's lack of the necessary monetary assets.

4. An agreement concluded in advance for eliminating or limiting liability for the intentional violation of an obligation is void.

Article 418. Liability of a Debtor for the Actions of its Employees

Actions of employees of the debtor in performance of its obligation shall be considered to be actions of the debtor. The debtor shall be liable for these actions if they have entailed the nonperformance or improper performance of the obligation.

Article 419. Liability of the Debtor for Actions of Third Persons

A debtor shall be liable for nonperformance or improper performance of an obligation by third persons to whom performance was entrusted, unless a statute establishes that liability is borne by the third person who is the direct performer.

Article 420. Consequences of Violation of an Obligation by Fault of both Parties

1. If nonperformance or improper performance of an obligation occurred due to the fault of both parties, the court shall accordingly reduce the amount of liability of the debtor. The court also shall have the right to reduce the amount of liability of the debtor if the creditor intentionally or by negligence facilitated an increase in the amount of damages caused by the nonperformance or improper performance, or did not take reasonable measures to reduce it.

2. The rules of Paragraph 1 of the present Article shall be applied accordingly also in cases when the debtor by force of a statute or contract bears liability for nonperformance or improper performance of an obligation regardless of its fault.

Article 421. Delay by the Debtor

1. A debtor who has delayed performance shall be liable to the creditor for the damages caused by the delay and for the consequences of an impossibility of performance accidentally occurring during the delay.

2. If, as the result of delay by the debtor, performance is no longer of interest for the creditor, the creditor may refuse to accept performance and demand compensation for damages.

3. A debtor is not considered to have delayed so long as an obligation cannot be performed as the result of delay by the creditor.

Article 422. Delay by the Creditor

1. A creditor shall be considered to have delayed if it has refused to accept proper performance offered by the debtor or has not taken actions provided by a statute, other legal acts, or contract or deriving from the customs of trade or from the nature of the obligation until the taking of which the debtor cannot perform its obligation.

A creditor also shall be considered to have delayed in the cases indicated in Paragraph 2 of Article 424 of the present Code.

2. Delay by a creditor shall give the debtor the right to compensation for the damages caused by the delay, unless the creditor shows that the delay occurred due to circumstances for which neither it itself nor the persons upon whom by force of a statute, other legal acts, or authorization of the creditor the acceptance of performance was placed, answer.

3. Under a monetary obligation, the debtor is not obligated to pay interest for the time of delay by the creditor.

Chapter 27. Termination of Obligations

Article 423. Grounds for Termination of Obligations

1. An obligation shall be terminated in full or in part on the grounds provided by a statute, other legal acts, or contract.

2. Termination of an obligation on demand of one of the parties is allowed only in cases provided by a statute or contract.

Article 424. Termination of an Obligation by Performance

1. Proper performance terminates an obligation.

2. A creditor accepting performance is obligated upon demand of the debtor to issue it a written receipt for having obtained performance in full or in the respective part.

If the debtor has issued a creditor a document of indebtedness in confirmation of an obligation, then a creditor accepting performance must return this document and, if it is impossible to return it, must so indicate in a written receipt issued by it. The receipt may be replaced by a notation on the returned document of indebtedness. The fact that the debtor has the document of indebtedness confirms, until proven otherwise, the termination of the obligation.

In case of refusal of the creditor to give a written receipt, to return the document of indebtedness or to note in the written receipt the impossibility of its return, the debtor has the right to withhold performance. In such cases the creditor is considered to have delayed.

Article 425. Cancellation Compensation

By agreement of the parties an obligation may be terminated by the presentation, instead of performance, of cancellation compensation (payment of money, transfer of property, etc.). The amount of the cancellation compensation, and also the times and procedure for presentation of it shall be established by the parties.

Article 426. Termination of an Obligation by Setoff

An obligation is terminated in full or in part by setoff of an identical counterclaim whose time has matured or whose time is not indicated or is defined as the time of demand. For setoff, the declaration of one party is sufficient.

Article 427. Cases of Impermissibility of Setoff

Setoff of claims is not allowed:

1) if, on declaration of one party, the period of limitation of actions is applicable to a claim and this period has expired;

2) for compensation for harm caused to life or health;

3) for recovery of support;

Setoff of claims is not allowed also other cases provided by a statute or contract.

Article 428. Setoff in Case of Assignment of a Claim

1. In case of assignment of a claim, the debtor has the right to setoff against the claim of the new creditor its counterclaim against the original creditor.

2. The setoff is made if the claim arose on grounds existing at the time of receipt by the debtor of notice of assignment of the claim and the time for making a claim occurred before receiving it or this time was not indicated or was defined as the time of demand.

Article 429. Termination of an Obligation by the Coinciding of the Debtor and the Creditor in One Person

An obligation is terminated by the coinciding of the debtor and the creditor in one person.

Article 430. Termination of an Obligation by a Substitution

1. An obligation is terminated by an agreement of the parties on the replacement of the initial obligation existing between them by another obligation between the same persons providing for another subject or another means of performance (a substitution).

2. A substitution is not allowed with respect to obligations for compensation for harm caused to life or health or for payment of support.

3. A substitution terminates supplementary obligations connected with the initial obligation, unless otherwise provided by agreement of the parties.

Article 431. Forgiving of a Debt

An obligation is terminated by freeing by the creditor of the debtor of the obligation resting upon it, unless this violates the rights of other persons with respect to the property of the creditor.

Article 432. Termination of an Obligation by Impossibility of Performance

1. An obligation is terminated by impossibility of performance if the impossibility was caused by a circumstance for which none of the parties answers. In this case the creditor does not have the right to demand performance of the obligation from the debtor.

2. In case of impossibility of performance by a debtor of an obligation caused by actions for which the creditor was at fault, the latter does not have the right to demand return of what was performed under the obligation.

Article 433. Termination of an Obligation on the Basis of an Act of a State Agency

1. If as the result of the issuance of an act of a state agency or agency of local self government the performance of an obligation becomes impossible in whole or in part, the obligation is terminated as a whole or for the respective part. Parties who have suffered damages as the result of this have the right to claim compensation for them in accordance with Articles 15 and 18 of the present Code.

2. In case the act of the state agency or of the agency of local self-government on the basis of which the obligation was terminated is declared invalid by the established procedure, the obligation shall be reinstated unless otherwise follows from the agreement of the parties or the nature of the obligation and the creditor has not lost interest in the obligation.

Article 434. Termination of an Obligation by the Death of a Citizen

1. An obligation shall be terminated by the death of the debtor, if performance may not be made without the personal participation of the debtor or the obligation in another manner is inseparably connected with the personality of the debtor.

2. An obligation shall be terminated by the death of the creditor, if performance is meant personally for the creditor or the obligation in another manner is inseparably connected with the personality of the creditor.

Article 435. Termination of an Obligation by the Liquidation of a Legal Person

An obligation shall be terminated by liquidation of a legal person (debtor or creditor).

DIVISION 7. OBLIGATIONS ARISING FROM CONTRACTS

SUBDIVISION 1. GENERAL PROVISIONS ON CONTRACT

Chapter 28. Definition and Terms of a Contract

Article 436. Definition of a Contract

1. A contract is an agreement of two or several persons on establishing, changing, or terminating civil law rights and duties.

2. The rules on bilateral and multilateral transactions provided by Chapter 18 of the present Code shall be applied to contracts.

3. The general provisions on obligations shall be applied to obligations arising from contract, unless otherwise provided by the rules of the present chapter or the rules on individual types of contracts contained in the present Code.

4. The general provisions on contract shall be applied to contracts concluded by more than two parties unless this contradicts the multilateral nature of these contracts.

Article 437. Freedom of Contract

1. Citizens and legal persons are free in the conclusion of a contract.

Compulsion to conclusion of a contract is not allowed with the exception of cases when the obligation to conclude a contract is provided by the present Code, a statute, or a voluntarily accepted obligation.

2. The parties may conclude a contract provided for or not provided for by a statute or other legal acts.

3. The parties may conclude a contract that contains elements of various contracts provided for by a statute or other legal acts (a mixed contract). The rules on contracts whose elements are contained in the mixed contract shall be applied to the relations of parties under the mixed contract unless otherwise follows from an agreement of the parties or the nature of the mixed contract.

4. The terms of the contract shall be determined by agreement of the parties except for cases when the content of the respective term is prescribed by a statute or other legal acts (Article 438).

In cases when a term of a contract is provided by a norm that is applied unless an agreement of the parties has established otherwise (a dispositive norm), the parties may by their agreement exclude its application or establish a term different from that provided in it. In the absence of such an agreement the term of the contract shall be determined by the dispositive norm.

5. If a term of a contract is not determined by the parties or a dispositive norm, the respective terms shall be determined by the customs of trade applicable to the relations of the parties.

Article 438. Contract and Statute

1. A contract must comply with rules obligatory for the parties established by a statute and other legal acts (imperative norms) in effect at the time of its conclusion.

2. If after the conclusion of a contract a statute is adopted establishing rules obligatory for the parties other than those that were in effect upon conclusion of the contract, the terms of the concluded contract shall remain in force except in cases when it was established in the statute that its effect extends to relations arising from previously concluded contracts.

Article 439. Compensated and Uncompensated Contracts

1. A contract under which a party must receive payment or other counterperformance in return for the performance of its obligations is a compensated contract.

2. A contract is uncompensated under which one party is obligated to provide something to the other party without receiving payment or anything else in return.

3. A contract is presumed to be compensated unless it follows otherwise from a statute, other legal acts, the content or the nature of the contract.

Article 440. Price

1. Performance of a contract is paid for at a price established by agreement of the parties.

In cases provided by a statute, prices (tariffs, valuations, rates, etc.) are applied that are established or regulated by state agencies authorized for this.

2. Change of price after conclusion of a contract is allowed in cases and on conditions provided by contract or statute.

3. In cases when in a compensated contract a price is not provided and may not be determined proceeding from the terms of the contract, performance of the contract must be paid for at the price that, under comparable conditions, usually is taken for analogous goods, work, or services.

Article 441. Effect of the Contract

1. A contract shall enter into force and become obligatory for the parties from the time of its conclusion.

2. The parties have the right to establish that the terms of a contract concluded by them shall be applied to their relations that arose before the conclusion of the contract.

3. A statute or contract may provide that the ending of the term of effectiveness of the contract shall entail the termination of the obligations of the parties under the contract.

A contract in which such a term is absent is recognized as in effect until the time defined in it of the termination of performance of the obligation by the parties.

4. Ending of the term of effectiveness of a contract shall not free the parties from liability for a violation of it that occurred before the expiration of this term.

Article 442. Public Contract

1. A public contract is a contract concluded by a commercial organization and establishing its obligations for the sale of goods, performance of work, or rendering of services that this organization by the nature of its activity must exercise with respect to everyone who applies to it (retail trade, carriage by transport for common use, communications services, energy supply, medicine, hotel service, etc.).

A commercial organization does not have the right to provide a preference to one person before another with respect to conclusion of a public contract.

2. The price of goods, work, and services, and also other terms of a public contract shall be established equally for all consumers.

3. A refusal of a commercial organization to conclude a public contract if there is the possibility of providing the consumer with the respective goods or services, or to perform for it respective work, is not allowed.

In case of an unjustified refusal by a commercial organization to conclude a public contract, the provisions provided by Paragraph 4 of Article 461 of the present Code shall be applied.

4. In cases provided by a statute, the Government of the Republic of Armenia may issue rules obligatory for parties in the conclusion and performance of public contracts (model contracts, provisions, etc.).

5. Terms of a public contract not meeting the requirements established by Paragraphs 2 and 4 of the present Article are void.

Article 443. Model Terms of a Contract

1. It may be provided in a contract that its individual terms are determined by model terms developed for contracts of the respective type and published in the press.

2. In cases when there is no reference to model terms in a contract, such model terms shall be applied to the relations of the parties as customs of trade if they meet the demands established by Article 7 and Paragraph 5 of Article 437 of the present Code.

3. Model terms may be stated in the form of a model contract or of another document containing these terms.

Article 444. Contract of Adhesion

1. A contract of adhesion is a contract whose terms are determined by one of the parties in printed forms or other standard forms and that may be adopted by the other party not otherwise than by adhering to the proposed contract as a whole.

2. The party adhering to the contract has the right to demand the rescission or change of the contract if the contract of adhesion, although does not contradict a statute or other legal acts, deprives this party of rights usually granted under contracts of such type, excludes or limits the liability of the other party for the violation of obligations or contains other terms clearly burdensome for the adhering party, that it, on the basis of its reasonably understood interests, would not have accepted if it had the possibility of participating in the determination of the terms of the contract.

3. In the presence of the circumstances provided by Paragraph 2 of the present Article a demand for the rescission or change of the contract made by the party that adhered to the contract in connection with the exercise of its entrepreneurial activity is not subject to satisfaction if the adhering party knew or should have known on what terms it was concluding the contract.

Article 445. Preliminary Contract

1. Under a preliminary contract, the parties are obligated to conclude in the future a contract on the transfer of property, the performance of work, or the rendering of services (the basic contract) on the terms provided by the preliminary contract.

2. A preliminary contract shall be concluded in the form established for the basic contract and if the form of the basic contract is not established, then in written form. Nonobservance of the rules on the form of a preliminary contract shall entail its invalidity.

3. A preliminary contract must contain terms allowing the establishment of a subject and also other substantial terms of the basic contract.

4. In the preliminary contract the period shall be indicated in which the parties are obligated to conclude the basic contract.

If such a period is not defined in the preliminary contract, the basic contract is subject to conclusion in the course of a year from the time of conclusion of the preliminary contract.

5. In cases when a party that has concluded a preliminary contract refuses to conclude the basic contract, the provisions provided by Article 461 of the present Code shall be applied.

6. The obligations provided by the preliminary contract shall be terminated if by the end of the period in which the parties must conclude the basic contract it is not concluded or one of the parties does not send the other party a proposal to conclude this contract.

Article 446. Contract for the Use of a Third Person

1. A contract for the use of a third person is a contract in which the parties have established that the debtor is obligated to make performance not to the creditor but to a third person indicated or not indicated in the contract, having the right to demand performance of the obligation in its favor from the debtor.

2. Unless otherwise provided by a statute, other legal acts, or contract, from the time of expression by the third person to the debtor of an intent to use its right under the contract, the parties may not rescind or change the contract concluded by them without the consent of the third person.

3. The debtor in the contract has the right to raise against claims of the third person the defenses that he could raise against the creditor.

4. In the case when the third person has refused the right provided to it by the contract, the creditor may enjoy this right if this does not contradict a statute, other legal acts, or the contract.

Article 447. Interpretation of a Contract

In the interpretation of the terms of a contract a court shall take into account the literal meaning of the words and expressions contained in it. The literal meaning of a term of a contract, in case the term is not clear, shall be established by comparison with the other terms and the sense of the contract as a whole.

If the rules contained in the first part of the present Article do not allow the determination of the content of the contract, the real common will of the parties must be ascertained, taking into account the purpose of the contract. In such a case all surrounding circumstances shall be taken into account including negotiations and correspondence preceding the contract, the practice established in the mutual relations of the parties, the customs of trade, and the subsequent conduct of the parties.

Chapter 29. Conclusion of a Contract

Article 448. Basic Provisions on the Conclusion of a Contract

1. A contract shall be considered concluded if an agreement has been reached on all the essential terms of the contract among the parties in the required form.

The essential terms are those on the subject of the contract, terms that are named in a statute or other legal acts as essential or necessary for contracts of the given type, and also all those terms with respect to which by declaration of one of the parties an agreement must be reached.

2. A contract may be concluded by the sending of an offer (a proposal to conclude a contract) by one of the parties and its acceptance (adoption of the proposal) by the other party.

Article 449. Time of Conclusion of the Contract

1. A contract shall be considered concluded from the time of receipt by the person who has sent an offer of its acceptance.

2. If, in accordance with a statute, the transfer of property is also necessary for the conclusion of a contract, the contract shall be considered concluded from the time of transfer of the respective property (Article 177).

3. A contract rights under which are subject to state registration shall be considered concluded from the time of the registration of these rights.

Article 450. Form of a Contract

1. A contract may be concluded in any form provided for the making of transactions unless a defined form for a contract of the given type has been established by a statute.

If the parties have agreed to conclude a contract in a defined form, it shall be considered concluded after giving it the agreed form although this form was not required by a statute for a contract of the given type.

2. A contract in written form may be concluded by the compilation of a single document signed by the parties and also by the exchange of documents by mail, telegraph, teletype, telephone, electronic or other communications that allow the reliable establishment that the document proceeds from a party to the contract.

3. The written form of a contract shall be considered observed if a written proposal to conclude a contract has been accepted in the manner provided by Paragraph 3 of Article 454 of the present Code.

Article 451. Offer

1. An offer is a proposal addressed to one or several concrete persons that is definite and expresses the intent of the person who has made the proposal to consider itself having concluded a contract with the addressee by whom the proposal will be accepted.

The offer must contain the essential terms of the contract.

2. The offer shall bind the person who sent it from the time of its receipt by the addressee.

If a notice on the revocation of the offer has arrived earlier than or simultaneously with the offer, the offer shall be considered not to have been received.

Article 452. Irrevocability of an Offer

An offer received by an addressee cannot be revoked during the period established for its acceptance unless otherwise provided in the offer itself or follows from the nature of the proposal or the situation in which it was made.

Article 453. Invitation to Make Offers. Public Offer

1. Advertising and other proposals addressed to an indeterminate group of persons are considered as an invitation to make offers unless otherwise directly indicated in the proposal.

2. A proposal containing all essential terms of the contract from which the will of the person who made the proposal appears to conclude a contract on the terms indicated in the proposal with anyone who responds shall be considered a public offer.

Article 454. Acceptance

1. An acceptance is the response of a person to whom an offer is addressed on its acceptance.

An acceptance must be full and unconditional.

2. Silence is not acceptance, unless otherwise follows from a statute, custom of trade, or from prior business relations of the parties.

3. The taking by a person who has received an offer, within the period established for its acceptance, of actions in the performance of the terms of a contract indicated in it (shipment of goods, provision of services, performance of work, payment of the appropriate amount, etc.) shall be considered an acceptance unless otherwise provided by a statute, other legal acts, or indicated in the offer.

Article 455. Revocation of an Acceptance

If a notice on the revocation of an acceptance has reached the person who has made the offer earlier than the acceptance or simultaneous with it, the acceptance shall be considered not to have been received.

Article 456. Conclusion of a Contract on the Basis of an Offer Defining a Period for Acceptance

When a period for acceptance is defined in an offer, the contract is considered concluded if the acceptance is received by the person who has sent the offer within the limits of the period indicated in it.

Article 457. Conclusion of a Contract on the Basis of an Offer Not Defining a Period for Acceptance

1. When a period for acceptance is not defined in a written offer, the contract is considered concluded if the acceptance is received by the person who has sent the offer before the end of the period established by a statute or other legal acts, or if such a period has not been established—in the course of time necessary for this.

2. When an offer has been made orally without an indication of the period for acceptance, the contract is considered concluded if the other party has promptly declared its acceptance.

Article 458. An Acceptance Received Late

In cases when a timely dispatched notification of acceptance has been received late, the acceptance shall not be considered late unless the party who has sent the offer has promptly informed the other party of the late receipt of the acceptance.

If the party who has sent the offer promptly notifies the other party of the receipt of its acceptance received late, the contract is considered concluded.

Article 459. Acceptance on Other Terms

An answer on consent to conclude a contract on terms other than proposed in the offer is not considered an acceptance.

Such an answer is considered a refusal to accept and at the same time a new offer.

Article 460. Place of Conclusion of the Contract

If the place of conclusion of a contract is not indicated in it the contract shall be considered concluded in the place of residence of the citizen or the seat of the legal person who sent the offer.

Article 461. Refusal of a Party to Conclude a Contract

If a party for whom in accordance with the a statute the conclusion of a contract is obligatory has refused to conclude it, the other party shall have the right to go to a court with a demand for compulsion to conclude a contract.

A party who has unjustifiably refused to conclude a contract must compensate the other party for the damages caused by this.

Article 462. Precontract Disputes

In cases of bringing of disagreements that have arisen in the conclusion of a contract for consideration by a court on the basis of Article 461 of the present Code or by agreement of the parties, the terms of the contract on which there were disagreements among the parties shall be defined in accordance with a decision of the court.

Article 463. Conclusion of a Contract at an Auction

1. A contract, unless otherwise follows from its nature, may be concluded by the conduct of an auction. The contract is concluded with the person who has won the auction.

2. The organizer of the auction may be the owner of property or the possessor of a property right or a specialized organization. A specialized organization shall act on the basis of a contract with the owner of the property or the possessor of a property right and shall act in their name or in its own name.

3. In the cases indicated in the present Code or other statute contracts on the sale of property or of a property right may be concluded only by the conduct of an auction.

4. An auction shall be made in the form of an auction by bidding or a competition.

The winner of an auction conducted as an auction by bidding is the person who has proposed the highest price and in a competition, the person who, in the conclusion of a competition commission previously appointed by the organizer of the auction, has proposed the best condition.

The form of an auction shall be determined by the owner of the item sold or the holder of the property right being sold, unless otherwise provided by a statute.

Article 464. Organization of and Procedure for Conduct of Auctions

1. Auctions by bidding and competitions may be open or closed.

Any person may participate in an open auction by bidding or in an open competition. Only persons invited for this purpose may participate in a closed auction by bidding or a closed competition.

2. Unless otherwise provided by a statute, a notice on the conduct of an auction shall be made by the organizers not less than thirty days before conducting it. The notice must contain information on the time, place and form of the auction, its subject, and procedure for conducting it, including for formalization of participation in the auction, determination of the person who has won the auction and also information on the starting price.

In the case the subject of the auction is the right to conclude a contract, in the notification on the planned auction the period provided for this must be indicated.

3. Unless otherwise provided in a statute or in the notice on the conduct of the auction the organizer of an open auction who has made a notification has the right to cancel the conduct of the auction by bidding at any time but not later than three days before the start of the day on which it is to be held, and for a competition not later than thirty days before the holding of the competition.

In cases when the organizer of an open auction cancels the holding of the auction in violation of the above periods, it shall be obligated to compensate the participants for the actual damages suffered by them.

The organizer of a closed auction by bidding or of a closed competition is obligated to compensate the participants invited by it for their actual damages regardless of how long after the sending of the notice the cancellation of the auction occurred.

4. The participants in an auction shall pay earnest money in the amount, within the periods, and by the procedure that are indicated in the notice on the conduct of the auction. If the auction does not take place, the earnest money shall be subject to return. Earnest money shall also be returned to persons who participated in the auction but did not win it.

Upon conclusion of a contract with a person who has won an auction, the amount of earnest money contributed by it shall be counted toward performance of obligations for the contract concluded.

5. A person who has won an auction and the organizer of the auction shall sign, on the day of the conduct of the auction by bidding or of the competition, a memorandum of the results of the auction, which shall have the force of a contract. The person who has won an auction, in case of refusal to sign the memorandum, shall lose the earnest money contributed by it. An organizer of an

auction who refused to sign the memorandum shall be obligated to return the earnest money in double amount and also to compensate the person who has won the auction for the damages caused by participation in the auction.

If the subject of an auction was only the right to conclusion of a contract, such a contract must be signed by the parties not later than twenty days, or other period indicated in the notice, after the completion of the auction and the formalization of the memorandum. In case of refusal of one of them to conclude the contract, the other party has the right to go to a court with a demand for compulsion to conclude the contract and also for compensation for the damages caused by refusal to conclude it.

Article 465. Consequences of Violation of the Rules for the Conduct of Auctions

1. An auction conducted in violation of the rules established by a statute may be declared invalid by a court upon suit by an interested person.

2. Declaration of an auction as invalid shall entail the invalidity of the contract concluded with the person who has won the auction.

Chapter 30. Change and Rescission of a Contract

Article 466. Bases for Change and Rescission of a Contract

1. Change and rescission of a contract are possible by agreement of the parties, unless otherwise a statute or contract.

2. Upon demand of one of the parties a contract may be changed or rescinded by decision of a court only in case of a substantial breach of the contract by the other party or in other cases a statute or contract.

A violation of a contract by one party shall be considered substantial if it entails for another party such damage that it to a significant degree is deprived of that which it had the right to expect at the conclusion of the contract.

3. In case of unilateral refusal to perform a contract in whole or in part, when such a refusal is allowed by a statute or agreement of the parties, the contract shall be considered respectively canceled or changed.

Article 467. Change and Rescission of a Contract in Connection With a Substantial Change of Circumstances

1. A substantial change of circumstances from which the parties proceeded in the conclusion of the contract is a basis for its change or rescission unless otherwise provided by the contract or follows from its nature.

A change of circumstances shall be considered substantial when they have changed to the extent that, if the parties could have reasonably foreseen this, the contract would have been concluded on significantly different terms or would not have been concluded by them at all.

2. If the parties have not attained agreement on bringing a contract in accordance with substantially changed circumstances or on its rescission, the contract may be rescinded or, upon the bases provided by Paragraph 4 of the present Article, changed by a court on demand of an interested party if the following conditions are present simultaneously:

1) at the time of the conclusion of the contract the parties proceeded on the basis that such a change of circumstances would not occur;

2) the change of circumstances was brought about by causes that the interested party could not overcome after they arose with the degree of care and caution that was demanded of it by the nature of the contract and the conditions of trade;

3) performance of a contract without change of its terms would so violate the contract-related property interests of the parties and would entail such harm for the interested party that it to a significant degree would be deprived of that which it had the right to expect upon conclusion of the contract;

4) it does not follow from the customs of trade or the nature of the contract that the risk of change of circumstances is borne by the interested party.

3. In case of rescission of a contract as the result of substantially changed circumstances, a court, on demand of one of the parties, shall determine the consequences of rescission of the contract proceeding from the necessity of just distribution among the parties of the expenditures borne by them in connection with the performance of this contract.

4. A change in the contract in connection with a substantial change in circumstances shall be allowed by decision of a court in exceptional cases when the rescission of the contract would contradict societal interests or cause harm to the parties significantly exceeding the expenditures necessary for performance of the contract on the terms changed by the court.

Article 468. Procedure for Changing and Rescinding a Contract

1. An agreement to change or rescind a contract shall be made in the same form as the contract unless it follows otherwise from a statute, other legal acts, contract, or customs of trade.

2. A demand for change or rescission of a contract may be made by a party to the court only after receipt of a refusal of the other party to a proposal to change or rescind the contract or the failure to receive an answer within the period indicated in the proposal or, in its absence, in a thirty-day period.

Article 469. Consequences of Change and Rescission of a Contract

1. In case of change of a contract, the obligations of the parties shall be maintained in the changed form.

2. In case of rescission of a contract, the obligations of the parties shall be terminated.

3. In case of change or rescission of a contract, the obligations shall be considered changed or terminated from the time of conclusion of an agreement of the parties to change or rescind the contract, unless otherwise follows from the agreement or the nature of the change of the contract, and in case of change or rescission of the contract by judicial procedure—from the time of entry into legal force of a decision of the court on changing or rescinding the contract.

4. The parties do not have the right to demand the return of what was performed by them under an obligation before the time of change or rescission of a contract, unless otherwise provided by a statute or agreement of the parties.

5. If a substantial breach of the contract by one of the parties was the basis for change or rescission of the contract, the other party has the right to demand compensation for the damages caused by the change or rescission of the contract.

§ 6. Finance Lease (Leasing)

Article 677. The Contract of Finance Lease

1. Under the contract of finance lease (the contract of leasing), the lessor is obligated to obtain in ownership property indicated by the lessee from a seller designated by it and to provide the lessee with this property for payment in temporary possession and use for entrepreneurial purposes. The lessor in this case does not bear liability for selection of the object of the lease nor for selection of the seller.

2. The contract of finance lease may provide that selection of the seller and of the property to be obtained shall be done by the lessor.

3. The contract of finance lease may provide that the leased property moves to the ownership of the lessee upon the expiration of the term of its lease or before its expiration on the condition of the payment by the lessee of the buyout price provided by the contract.

4. The peculiarities of individual types of finance lease shall be established by the statute on the finance lease (leasing).

Article 678. Form of the Contract of Finance Lease

1. The contract of finance leasing shall be concluded in written form by the compilation of a single document signed by the parties (Paragraph 2 of Article 450).

2. The contract of finance lease of immovable property shall be subject to notarial authentication.

Article 679. State Registration of Rights Arising from the Contract of Finance Lease of Immovable Property

The rights arising from a contract of finance lease of immovable property are subject to state registration.

Article 680. Object of the Contract of Finance Lease

The object of the contract of finance lease may be any nonconsumable property used for entrepreneurial activity.

Article 681. Notification of the Seller on Granting the Property by Lease

The lessor, in obtaining the property for the lessee, must inform the seller of the fact that the property is meant for transfer of it by lease to a defined person.

Article 682. Transfer to the Lessee of the Object of the Contract of Finance Lease

1. Unless otherwise provided by the contract of finance lease, the object of this contract shall be transferred by the seller directly to the lessee at the place of location of the latter.

2. In the case when the object of the contract of finance lease is not transferred to the lessee at the time indicated in this contract or, if such a time is not indicated in the contract, within a reasonable time, the lessee shall have the right, if the delay is caused by circumstances for which the lessor answers, to demand the rescission of the contract and compensation for damages.

Article 683. Transfer to the Lessee of the Risk of Accidental Loss of or Accidental Damage to the Property

The risk of accidental loss of or accidental damage to the leased property shall pass to the lessee at the time of transfer to it of the leased property unless otherwise provided by the contract of finance lease.

Article 684. Liability of the Seller

1. The lessee shall have the right to present directly to the seller of the property that is the object of the contract of finance lease claims arising from the contract of purchase and sale made between the seller and the lessor, in particular with respect to the quality and completeness of the property, the times for its supply, and in other cases of improper performance of the contract by the seller. In such a case the lessee shall have the rights and bear the responsibilities provided by the present Code for the buyer, except the right to rescind the contract of purchase and sale with the seller without the consent of the lessor and the obligation to pay for the goods obtained.

In relations with the seller, the lessee and lessor shall act as joint and several creditors (Article 365).

2. Unless otherwise provided by the contract of finance lease, the lessor shall not be liable to the lessee for the performance by the seller of claims deriving from the contract of purchase and sale

except for cases when liability for the selection of the seller is upon the lessor. In the latter case the lessee shall have the right at its choice to present claims deriving from the contract of purchase and sale either directly to the seller of property or to the lessor who shall bear joint and several liability.

CHAPTER 40. DELEGATION

Article 782. The Contract of Delegation

1. Under the contract of delegation, one party (the delegate) is obligated to take specific legal actions in the name of and at the expense of the other party (the delegant). Under a transaction made by the delegate, rights and duties arise directly for the delegant.

2. The contract of delegation may be made with an indication of the term during which the delegate shall have the right to act in the name of the delegant or without such an indication.

3. The contract of delegation shall be made in written form.

Article 783. Compensation of the Delegate

1. The delegant is obligated to pay the delegate compensation if this is provided by a statute, other legal acts, or the contract of delegation.

In cases when the contract of delegation is connected with the engaging by both parties or by one of them in entrepreneurial activity, the delegant is obligated to pay compensation to the delegate, unless the contract provides otherwise.

2. In case of the absence in a compensated contract of delegation of a term on the amount of compensation or the manner of its payment, compensation shall be paid after the performance of the delegated task in an amount determined in accordance with Paragraph 3 of Article 440 of the present Code.

3. A delegate acting as a commercial representative (Paragraph 1 of Article 320) shall have the right in accordance with Article 373 of the present Code to withhold property in its possession that are subject to transfer to the delegant as security for its claims under the contract of delegation.

Article 784. Performance of the Delegated Task in Accordance With the Instructions of the Delegant

1. The delegate is obligated to perform the task delegated to it in accordance with the instructions of the delegant. The instructions of the delegant must be lawful, realizable, and concrete.

2. The delegate shall have the right to depart from the instructions of the delegant if, under the circumstances of the case, this is necessary in the interests of the delegant and the delegate could not ask the delegant in advance or has not received within a reasonable time an answer to its question. The delegate is obligated to inform the delegant of the departures that have been made as soon as notification becomes possible.

3. The delegate acting as a commercial representative (Paragraph 1 of Article 320) may be granted by the delegant the right to deviate in the interests of the delegant from its instructions without prior inquiry on this. In such a case the commercial representative must within a reasonable time inform the delegant of the deviations made unless otherwise provided by the contract of delegation.

Article 785. Obligations of the Delegate

The delegate is obligated:

1) personally to perform the task delegated to it, with the exception of the cases indicated in Article 787 of the present Code;

2) to report to the delegant on its demand all information on the course of performance of the delegated task;

3) to transfer to the delegant without delay every property obtained under transactions made in performance of the delegation;

4) upon performing the delegated task or upon termination of the contract of delegation prior to its performance to return without delay to the delegant a power of attorney whose term of effectiveness has not expired and to present a report with an attachment of documents, if this is required by the terms of the contract or the nature of the delegated task.

Article 786. Obligations of the Delegant

1. The delegant is obligated to issue to the delegate a power of attorney (or powers of attorney) for the taking of legal actions provided by the contract of delegation with the exception of cases provided by subparagraph 2 of Paragraph 1 of Article 318 of the present Code.

2. The delegant is obligated, unless otherwise provided by the contract:

1) to reimburse the delegate for costs incurred;

2) to provide the delegate with the funds necessary for the performance of the delegated task.

3. The delegant is obligated without delay to accept from the delegate every property performed by it in accordance with the contract of delegation.

4. The delegant is obligated to pay the delegate compensation if, in accordance with Article 783 of the present Code, the contract of delegation is compensated.

Article 787. Redelegation of the Performance of the Delegated Task

1. The delegate shall have the right to delegate the performance of the delegated task to another person (or substitute) only in the cases and on the conditions provided by Article 323 of the present Code.

2. The delegant shall have the right to discharge a substitute selected by the delegate.

3. If a possible substitute for the delegate is named in the contract of delegation, the delegate shall not answer for its selection nor for its conduct of affairs.

If the right of a delegate to transfer the performance of the delegated task to another person is not provided in the contract or if it is provided but the substitute is not named in it, the delegate shall answer for the selection of the substitute.

Article 788. Termination of the Contract of Delegation

1. A contract of delegation shall be terminated., in addition to the general grounds for termination of an obligation, as the result of:

1) cancellation of the delegated task by the delegant;

2) refusal by the delegate;

3) death of the delegant or delegate, recognition of either of them as lacking dispositive capacity, of limited dispositive capacity, or missing.

2. The delegant shall have the right to cancel the delegated task and the delegate to refuse it at any time. An agreement to give up this right is null.

3. A party that has canceled a contract of delegation providing for the action of the delegate as a commercial representative must notify the other party of the termination of the contract at least thirty days in advance, unless the contract provides for a longer period.

In case of reorganization of a legal person that is a commercial representative, the delegant shall have the right to cancel the delegated task without such a preliminary notice.

Article 789. Consequences of Termination of the Contract of Delegation

1. If a contract of delegation is terminated before the delegated task is performed by the delegate in full, the delegant shall be obligated to compensate the delegate for the costs incurred by it in performance of the delegated task and when compensation is involved for the delegate also to pay it compensation in proportion to the work it has done. This rule shall not be applied to the performance by the delegate of a delegated task after it knows or should have known of the termination of the delegation.

2. The cancellation of the delegated task by the delegant shall not be a basis for compensation for the damages caused to the delegate by the termination of the contract of delegation with the exception of the termination of a contract providing for the action of the delegate as a commercial representative.

3. Refusal by the delegate to perform the task delegated by the delegant shall not be a basis for compensation for the damages caused to the delegant by the termination of the contract of delegation, with the exception of cases of refusal by the delegate in conditions when the delegant is deprived of the possibility of otherwise protecting its interest or of a refusal to perform a contract providing for the action of the delegate as a commercial representative.

Article 790. Obligations of Heirs of the Delegate and of the Liquidator of a Legal Person That is a Delegate

In case of the death of the delegate, his heirs shall be obligated to notify the delegant of the termination of the contract of delegation and to take the measures necessary for the protection of the property of the delegant, in particular to preserve his property and documents, and then to transfer this property to the delegant.

The liquidator of a legal person that is a delegate shall bear the same obligation.

CHAPTER 41. COMMISSION AGENCY

Article 791. The Contract of Commission Agency

1. Under the contract of commission agency, one party (the commission agent) is obligated on delegation from the other party (the commission principal) for compensation to conduct one or several transactions in its own name, but at the expense of the commission principal.

Under a transaction done by the commission agent with a third person, the commission agent shall obtain rights and become obligated although the commission principal was named in the transaction or entered into direct relations with the third person for performance of the transaction.

2. The contract of commission agency shall be made in written form.

3. The contract of commission agency may be made for a defined term or without an indication of the term of its effectiveness, with an indication or without an indication of the territory for its performance, with an obligation of the commission principal not to grant third persons the right to make in its interests and at its expense transactions the making of which is delegated to the commission agent or without such an obligation, with conditions or without conditions with respect to the assortment of the goods that are the subject of the commission agency.

4. A statute and other legal acts may provide for the peculiarities of individual types of the contract of commission agency.

Article 792. Commission Agency Compensation

1. The commission principal shall be obligated to pay the commission agent compensation and, in the case when the commission agent has undertaken a guaranty of the performance of a transaction by a third person (del credere), also supplementary compensation in the amount and by the procedure established in the contract of commission agency.

If the amount of compensation or the procedure for its payment is not provided by the contract and the amount of compensation cannot be determined from the terms of the contract, compensation shall be paid after performance of the contract of commission agency in an amount determined in accordance with Paragraph 3 of Article 440 of the present Code.

2. If a contract of commission agency was not performed for reasons depending upon the commission principal, the commission agent shall retain the right to commission agency compensation and also to compensation for expenditures borne.

Article 793. Performance of the Commission Delegated Task

The commission agent is obligated to perform the delegated task undertaken on the conditions most favorable for the commission principal in accordance with the instructions of the commission principal and in the absence in the contract of commission agency of such instructions, in accordance with the customs of trade or other usually made requirements.

In the case when the commission agent has made the transaction on conditions more favorable than those that were indicated by the commission principal, the supplementary benefit shall be divided equally between the commission principal and the commission agent unless otherwise provided by the agreement of the parties.

Article 794. Liability for Nonperformance of a Transaction Made for a Commission Principal

1. The commission agent shall not be liable to the commission principal for nonperformance by a third person of a transaction made with it at the expense of the commission principal except in cases when the commission agent did not employ the necessary care in selection of this person or undertook a guaranty of the performance of the transaction (del credere).

2. In case of nonperformance by a third person of a transaction, the commission agent shall be obligated to report this without delay to the commission principal, to gather the necessary evidence and also, on request of the commission principal, to transfer to it the rights under such a transaction observing the rules on assignment of a claim (Articles 397-404).

3. The assignment of rights to a commission principal under a transaction on the basis of Paragraph 2 of the present Article shall be allowed regardless of an agreement by the commission agent with a third person prohibiting or limiting such an assignment. This shall not free the commission agent from liability to the third person in connection with the assignment of the right in violation of an agreement forbidding it or limiting it.

Article 795. Subcommission

1. Unless otherwise provided by the contract of commission agency, the commission agent shall have the right for the purpose of performing this contract to conclude a contract of subcommission agency with another person, remaining liable to the commission principal for the actions of the subcommission agent.

Under the contract of subcommission agency, the commission agent obtains with respect to the subcommission agent the rights and duties of a commission principal.

2. Until the termination of the contract of commission agency, the commission principal shall not have the right without the consent of the commission agent to enter into direct relations with the subcommission agent, unless otherwise provided by the contract of commission agency.

Article 796. Deviation from the Instructions of the Commission Principal

1. The commission agent shall have the right to deviate from the instructions of the commission principal if by the circumstances of the case this is necessary in the interests of the commission principal and the commission agent could not ask the commission principal in advance or has not received an answer to its inquiry within a reasonable time. The commission agent shall be obligated to notify the commission principal of deviations made as soon as notification becomes possible.

A commission agent acting as an entrepreneur may be given the right by the commission principal to deviate from its instructions without preliminary inquiry. In this case the commission agent shall be obligated in a reasonable time to notify the commission principal on the deviations made unless otherwise provided by the contract of commission agency.

2. A commission agent who has sold property at a price less than that agreed with the commission principal shall have the obligation to compensate the latter for the difference unless it shows that it did not have the possibility of selling the property at the agreed price and that sale at a

lower price avoided even greater losses. In the case when the commission agent was obligated to ask the commission principal in advance, the commission agent must also show that it did not have the possibility of obtaining preliminary consent of the commission principal for deviation from its instructions.

3. If a commission agent has bought property at a price higher than that agreed with the commission principal, the commission principal, if it does not want to accept such a purchase, shall be obligated to notify the commission agent of this within a reasonable time after receipt from it of notice of the making of the transaction with a third person. Otherwise the purchase shall be considered accepted by the commission principal.

If the commission agent has reported that the difference in price will be covered at its expense, the commission principal shall not have the right to refuse the transaction concluded for it.

Article 797. Rights to Property That Is the Subject of Commission Agency

1. Property received by the commission agent from the commission principal or obtained by the commission agent at the expense of the commission principal are owned by the latter.

2. The commission agent shall have the right, in accordance with Article 373 of the present Code, to withhold property in its possession that are subject to transfer to the commission principal or to a person designated by the commission principal as security for its claims under the contract of commission.

In case of recognition of the commission principal as insolvent (or bankrupt) this right of the commission agent shall be terminated and its claims against the commission principal, within the limits of the value of property that it withheld, shall be satisfied in accordance with Article 374 of the present Code equally with claims secured by pledge.

Article 798. Satisfaction of Claims of the Commission Agent from Amounts Due to the Commission Principal

The commission agent shall have the right, in accordance with Article 426 of the present Code to withhold amounts due to it under the contract of commission agency from all the amounts received by it on account of the commission principal.

Article 799. Liability of the Commission Agent for Loss of, Shortage of, or Harm to the Property of the Commission Principal

1. The commission agent is liable to the commission principal for loss of, shortage of, or harm to property of the commission principal in the commission agent's possession.

2. If, during the acceptance by the commission agent of property sent by the commission principal or received by the commission agent for the commission principal, there are damages to or shortage of this property that may be noticed on external inspection and also in the case of the causing of harm by any person to the property of the commission principal that is in the possession of the commission agent, the commission agent shall be obligated to take measures for the protection of the rights of the commission principal, to gather the necessary proofs, and to report on every property without delay to the commission principal.

3. The commission agent who has not insured property of the commission principal in its possession shall be liable for it only in the cases when the commission principal has ordered it to insure the property at the expense of the commission principal or insurance of this property by the commission agent is provided for by the contract of commission agency or the customs of trade.

Article 800. Report of the Commission Agent

Upon performance of a delegated task the commission agent shall be obligated to present a report to the commission principal and to transfer to it every property received under the contract of commission agency. The commission principal, if it has objections to the report, must communicate them to the commission agent within thirty days from the day of receipt of the report unless a

different period has been established by the contract of commission. Otherwise, the report shall be considered accepted unless the contract of commission provides otherwise.

Article 801. Acceptance by the Commission Principal of Performance Under the Contract of Commission Agency

The commission principal is obligated:

1) to accept from the commission agent every property performed under the contract of commission agency;

2) to inspect property obtained for it by the commission agent and to inform the latter without delay of defects found in this property;

3) to free the commission agent from obligations undertaken by it to a third person in performance of the commission delegated task.

Article 802. Compensation for Expenditures for Performance of the Commission Delegated Task

The commission principal shall be obligated, in addition to payment of the commission compensation, and in appropriate cases supplementary compensation for del credere agency to compensate the commission agent for amounts spent by it in performance of the commission delegated task.

The commission agent shall not have the right to compensation for expenditures for storage of property of the commission principal in its possession unless established otherwise in a statute or the contract of commission agency.

Article 803. Cancellation of the Commission Delegated Task by the Commission Principal

1. The commission principal shall have the right at any time to withdraw from the performance of the contract of commission agency, canceling the delegated task given to the commission agent. The commission agent shall have the right to demand compensation for damages caused by the cancellation of the delegated task.

2. In the case when the contract of commission agency was made without an indication of the term of its effectiveness, the commission principal must notify the commission agent of the termination of the contract not less than thirty days in advance, unless a longer term of notice is provided by the contract.

In this case the commission principal shall be obligated to pay the commission agent compensation for transactions made by it until the termination of the contract and also to compensate the commission agent for expenses borne by it until the termination of the contract.

3. In case of cancellation of the delegated task, the commission principal shall be obligated, within the term established by the contract of commission agency, and if such a term is not established, without delay, to dispose of its property that is in the control of the commission agent. If the commission principal does not fulfill this obligation, the commission agent shall have the right to deposit the property for storage at the expense of the commission principal or to sell it at the price that is the most advantageous possible for the commission principal.

Article 804. Withdrawal by the Commission Agent from Performance of the Contract of Commission Agency

1. The commission agent shall not have the right, unless otherwise provided by the contract of commission agency, to withdraw from performance of it, with the exception of the case when the contract has been made without an indication of the term of its effectiveness. In such a case, the commission agent must inform the commission principal of the termination of the contract not later than thirty days in advance, unless a longer term of notice is provided by the contract.

The commission agent shall be obligated to take the measures necessary for ensuring the preservation of the property of the commission principal.

2. The commission principal must dispose of its property that is in the control of the commission agent during fifteen days from the day of receipt of the notice of withdrawal by the commission agent from performance of the delegated task, unless the contract of commission agency has established a different term. If it does not perform this obligation, the commission agent shall have the right to deposit the property for storage at the expense of the commission principal or to sell it at the price that is the most advantageous possible for the commission principal.

3. Unless the contract of commission agency provides otherwise, a commission agent who has withdrawn from performance of a delegated task shall retain the right to commission compensation for transactions made by it until the termination of the contract and also for compensation for the expenditures borne up to this time.

Article 805. Termination of the Contract of Commission Agency

The contract of commission agency shall be terminated, in addition to the general grounds for termination of an obligation, as a result of:

1) withdrawal by the commission principal from performance of the contract;

2) withdrawal by the commission agent from performance of the contract in the cases provided by a statute or contract;

3) death of the commission agent, recognition of him as lacking dispositive capacity, of limited dispositive capacity, or missing;

4) recognition of a commission agent as insolvent (or bankrupt).

In case of recognition of a commission agent as insolvent (or bankrupt), its rights and duties under transactions made by it for the commission principal in performance of the instructions of the latter shall pass to the commission principal.

CHAPTER 42. AGENCY

Article 806. The Agency Contract

1. Under the agency contract, one party (the agent) is obligated for compensation to take, on delegation from the other party (the principal), legal or other actions in its own name but at the expense of the principal or in the name and at the expense of the principal.

Under a transaction made by the agent with a third person in its own name and at the expense of the principal, the agent obtains rights and becomes obligated even though the principal was named in the transaction or entered into direct relations with the third person for the performance of the transaction.

Under a transaction performed by the agent with a third person in the name and at the expense of the principal, rights and duties arise directly for the principal.

2. The agency contract shall be made in written form.

3. In cases when in an agency contract there is provision for general powers of the agent to make transactions in the name of the principal, the latter, in relations with third persons does not have the right to rely on the agent's lack of the necessary authority unless it shows that the third person knew or should have known of the limitation of the authority of the agent.

4. The agency contract may be made for a defined term or without an indication of the term of its effectiveness.

5. A statute may provide for the peculiarities of particular types of agency contract.

Article 807. Agent's Compensation

The principal shall be obligated to pay the agent compensation in the amount and by the procedure established in the agency contract.

If the size of the agent's compensation is not provided in the agency contract and it cannot be determined proceeding from the terms of the contract, compensation shall be subject to payment in the amount determined in accordance with Paragraph 3 of Article 440 of the present Code.

In the absence in the contract of terms on the procedure for payment of agent's compensation, the principal shall be obligated to pay compensation within a week from the time of presentation to it by the agent of a report for the prior period, unless another procedure for payment of compensation follows from the nature of the contract or the customs of trade.

Article 808. Limitations by the Agency Contract of the Rights of the Principal and the Agent

1. An agency contract may provide for an obligation of the principal not to conclude analogous agency contracts with other agents acting in a territory defined in the contract or to refrain from conducting, on this territory, the independent activity analogous to the activity that is the subject of the agency contract.

2. The agency contract may provide for an obligation of the agent not to conclude with other principals analogous agency contracts that must be performed on a territory coextensive in whole or in part with the territory indicated in the contract.

3. Terms of the agency contract, by virtue of which the agent shall have the right to sell goods, perform work, or render services exclusively for a defined category of buyers (or customers) or exclusively for buyers (or customers) having a place of location or a place of residence in a territory defined in the contract are void.

Article 809. Reports of the Agent

1. In the course of performance of the agency contract, the agent shall be obligated to provide the principal with reports by the procedure and within the times that are provided by the contract. In the absence of corresponding terms in the contract, the reports shall be presented by the agent in the course of performing by it of the contract or at the end of the effectiveness of the contract.

2. Unless the agency contract provides otherwise, the necessary proofs of expenditures made by the agent at the expense of the principal should be attached to the report of the agent.

3. A principal having objections to an agent's report must notify the agent of them within thirty days from the day of receipt of the report, unless the agency agreement has established another time. Otherwise the report shall be considered as adopted by the principal unless the agency agreement has provided otherwise..

Article 810. Subagency Contract

1. Unless otherwise provided by the agency contract, the agent shall have the right for the purpose of performance of the contract to conclude a subagency contract with another person, while remaining liable to the principal for the action of the subagent. The agency contract may provide for an obligation of the agent to conclude a subagency contract with or without an indication of the concrete terms of such a contract.

2. A subagent does not have the right to conclude transactions with third persons in the name of the person who is the principal under the agency contract with the exception of the cases when, in accordance with Paragraph 1 of Article 323 of the present Code, the subagent may act on the basis of a redelegation. The procedure for and consequences of such a redelegation are determined by the rules provided by Article 787 of the present Code.

Article 811. Termination of the Agency Contract

The agency contract shall be terminated, in addition to the general grounds for termination of an obligation, as the result of:

1) withdrawal of one of the parties from performance of a contract made without determination of the time of the end of its effectiveness;

2) death of the agent, recognition of it as lacking dispositive capacity, of limited dispositive capacity, or missing;

3) recognition of an agent as bankrupt.

Article 812. Application to Agency Relations of the Rules on Contracts of Delegation and of Commission Agency

The rules provided by Chapter 40 or Chapter 41 of the present Code shall be applied respectively to the relations arising from the agency contract depending upon whether the agent acts under the terms of the contract in the name of the principal or in its own name, unless these rules contradict the provisions of the present Chapter or the nature of the agency contract.

CHAPTER 46. LOAN

Article 877. The Contract of Loan

1. Under the contract of loan, one party (the lender) transfers to the ownership of the other party (the borrower) money or other property determined by generic characteristics, and the borrower is obligated to return to the lender the same amount of money (the amount of the loan) or an equal quantity of other property received by it of the same type and quality.

The contract of loan shall be considered made from the time of transfer of the money or other property.

2. Foreign currency and currency valuables may be the subject of a contract of loan on the territory of the Republic of Armenia with the observance of the rules of Articles 142, 143, and 356 of the present Code.

Article 878. The Form of the Contract of Loan

1. The contract of loan shall be made in written form.

2. In confirmation of the contract of loan and its terms, a receipt by the borrower or other document confirming the transfer to it by the lender of a defined monetary amount or a defined number of property may be presented.

3. Nonobservance of written form shall entail the invalidity of the contract of loan. Such a contract shall be considered void.

Article 879. Interest Under the Contract of Loan

1. Unless otherwise provided by the contract of loan, the lender shall have the right to receive interest from the borrower on the amount of the loan. In the contract of loan, the amount and procedure for calculation of interest must be clearly established. The amount of interest may not exceed twice the accounting rate of bank interest established by the Central Bank of the Republic of Armenia.

2. Unless otherwise provided by the contract of loan, interest shall be paid monthly.

3. A contract of loan shall be considered to be without interest, unless it directly provides otherwise in cases when:

1) a contract has been made between citizens for an amount not exceeding fifty times the minimum monthly wage, and not connected with the conduct of entrepreneurial activity by even one of the parties;

2) not money but other property defined by generic characteristics is transferred to the borrower under the contract of loan.

Article 880. Obligations of the Borrower to Return the Amount of the Loan

1. The borrower shall be obligated to return to the lender the amount of the loan received at the time and in the manner that are provided by the contract of loan.

In cases when the time for return is not established by the contract, or is defined as the time of demand, the amount of the loan must be returned by the borrower within thirty days from the day of receipt of demands from the lender, unless otherwise provided by the contract.

2. The amount of an interest-free loan may be returned early by the borrower.

Unless otherwise provided by the contract of loan, the amount of a loan made with interest may be returned early with the consent of the lender.

3. Unless otherwise provided by the contract of loan, the amount of the loan shall be considered returned from the time of its transfer to the lender or the deposit of the respective monetary funds on its bank account.

Article 881. Consequences of Violation by the Borrower of the Contract of Loan

1. In cases when the borrower does not return the amount of the loan on time, the calculation of interest provided by the contract of loan is terminated and on this amount, from the day when it should it have been returned until the day of return to the lender of the amount of the loan, interest is subject to payment only in the amount provided by Paragraph 1 of Article 411 of the present Code.

An agreement in the contract of loan on other conditions for payment of interest is void.

2. If a contract of loan provides for the return of the loan in parts (or in installments), then in case of violation by the borrower of the time established for the return of a scheduled part of the loan, the lender shall have the right to require the early return of the whole remaining amount of the loan together with the interest due.

Article 882. Dispute of the Contract of Loan

1. A borrower shall have the right to dispute a contract of loan, by showing that the money or other property in fact were not received by it from the lender or were received in a smaller quantity than indicated in the contract.

2. Dispute of a contract of loan on the bases provided by Paragraph 1 of the present Article by way of testimony of witnesses is not allowed, with the exception of cases when the contract was made under the influence of deception, force, threats, of a bad faith agreement of the representative of the borrower with the lender, or of a confluence of harsh circumstances.

3. If in disputing a contract of loan by a borrower on the bases provided by Paragraph 1 of the present article it is established that the money or other property in fact were not received from the lender, the contract of loan is considered not to have been made. When the money or property in fact were received by the borrower from the lender in lesser amount than indicated in the contract, the contract shall be considered made for this amount of money or property.

Article 883. The Consequences of Loss of Security for the Obligations of the Borrower

In case of nonperformance by the borrower of obligations provided by the contract of loan for ensuring the return of the amount of the loan and also in case of loss of security or worsening of its conditions due to circumstances for which the lender does not answer, the lender shall have the right to demand from the borrower early return of the amount of the loan and payment of the interest due unless otherwise provided by the contract.

Article 884. Loan for a Purpose

1. If a contract of loan is made with a condition of use by the borrower of the funds received for defined purposes (a loan for a purpose), the borrower must ensure the possibility of exercise by the lender of supervision of the use of the amount of the loan for the purpose.

2. In case of nonperformance by the borrower of the condition of the contract of loan on the use of the amount of the loan for a purpose and also in case of violation of the obligations provided by Paragraph 1 of the present Article, the lender shall have the right to demand from the borrower early return of the amount of the loan and payment of interest due, unless otherwise provided by the contract.

Article 885. The Contract of State Loan

1. Under the contract of state loan, the borrower is the Republic of Armenia and the lender is a citizen or a legal person.

2. State loans are voluntary.

3. The contract of state loan shall be made by the obtaining by the lender of state bonds or other state securities issued by the borrower evidencing the right of the lender to the receipt from the borrower of monetary funds, of other property, of established interest, or other property rights within the times provided by the terms of release of the loan to circulation.

4. Changing the terms of a loan released into circulation is not allowed.

5. The rules on the contract of state loan shall be applied respectively to loans issued by a commune.

Article 886. Substitution of a Debt as a Loan Obligation

1. By agreement of the parties a debt that has arisen from purchase and sale, lease of property, or on other ground may be replaced by a loan obligation.

2. Replacement of a debt by a loan obligation shall be conducted with the observance of the requirements on substitution (Article 430) and shall be made in the form provided for the making of a contract of loan (Article 878).

CHAPTER 47. CREDIT

Article 887. The Credit Contract

1. Under a credit contract, a bank or other credit organization (the creditor) is obligated to provide money funds (credit) to the borrower in the amount and on the conditions provided by the contract, and the borrower is obligated to return the monetary amount received and to pay interest on it.

2. The rules provided by Chapter 46 of the present Code shall be applied to relations under the credit contract, unless otherwise established by the rules of the present Chapter or follows from the nature of the credit contract.

Article 888. Form of the Credit Contract

The credit contract shall be made in written form.

Non-observance of written form shall entail the invalidity of the credit contract. Such a contract shall be considered void.

Article 889. Refusal to Provide or Receive Credit

1. The creditor shall have the right to refuse to provide the borrower with the credit envisioned in the credit contract in whole or in part if circumstances are present that obviously show that the amount provided to the borrower will not be returned on time.

2. In case of breach by the borrower of an obligation provided by the credit contract for use of the credit for a purpose (Article 884), the creditor also shall have the right to refuse further granting of credit to the borrower under the contract.

3. The borrower shall have the right to refuse to receive credit in whole or in part if it has notified the creditor of this before the time established by the contract for its granting unless otherwise provided by a statute, other legal acts, or the credit contract.

Article 890. Goods Credit

The parties may conclude a contract providing for the obligation of one party to provide the other party with property defined by generic characteristics (the contract of goods credit). The rules of the present Chapter shall be applied to such a contract unless otherwise provided by the contract or follows from the nature of the obligation.

Terms on the number, assortment, completeness, quality, containers and/or packaging of the goods provided must be performed in accordance with the rules on the contract of purchase and sale of goods (Articles 481-501), unless otherwise provided by the contract of goods credit.

Article 891. Commercial Credit

1. Contracts whose performance is connected with the transfer of monetary amounts or other property defined by generic characteristics into the ownership of the other party may provide for the granting of credit including in the form of an advance, preliminary payment, delayed, and installment payment for goods, work, or services (commercial credit), unless otherwise established by a statute.

2. The rules of the present Chapter shall be applied respectively to commercial credit unless otherwise provided by the rules on the contract from which the respective obligation arose and if it does not contradict the nature of such obligation.

CHAPTER 48. FINANCING WITH ASSIGNMENT OF MONETARY CLAIM (FACTORING)

Article 892. The Contract of Financing With Assignment of Monetary Claim

1. Under the contract of financing with assignment of the monetary claim, one party (the finance agent) transfers or is obligated to transfer to the other party (the client) monetary funds with reference to a monetary claim of the client (creditor) against a third person (the debtor) arising from the provision by the client of goods, the performance by it of work, or the rendering by it of services to the third person, and the client assigns or is obligated to assign this monetary claim to the finance agent.

The monetary claim against the debtor also may be assigned by the client to the finance agent for the purpose of providing security for performance of an obligation of the client to the finance agent.

2. The obligations of the finance agent under the contract of financing with assignment of a monetary claim may include the conduct of bookkeeping for the client and also the provision for the client of other financial services connected with the monetary claims that are the subject of the assignment.

3. The contract of financing with assignment of monetary claim shall be made in written form.

Article 893. Finance Agent

Banks and other credit organizations and also commercial organizations with permission (or a license) for the conduct of activity of such type may conclude, as finance agents, contracts of financing with assignment of monetary claims.

Article 894. The Monetary Claim Assigned for the Purpose of Obtaining Financing

1. The subject of assignment in connection with which financing is provided may be either a monetary claim, the time of payment on which has already arrived (an existing claim) or a right to obtain monetary funds that will arise in the future (a future claim).

A monetary claim that is a subject of assignment must be defined in the contract of the client with the finance agent in such a manner as will allow the identification of an existing claim at the time of making of the contract and a future claim—not later than at the time when it arises.

2. In case of assignment of a future monetary claim, it shall be considered as having passed to the finance agent after the right itself has arisen to receipt from the debtor of monetary funds that are the subject of the assignment of the claim provided by the contract. If assignment of the monetary claim is conditioned on a defined event, it will enter into force after the occurrence of this event.

Supplementary formalization of the assignment of a monetary claim is not required in these cases.

Article 895. Liability of the Client to the Finance Agent

1. Unless the contract of financing with assignment of the monetary claim provides otherwise, the client shall bear liability to the finance agent for the validity of the monetary claim that is the subject of the assignment.

2. The monetary claim that is the subject of the assignment shall be recognized as valid if the client has the right to transfer the monetary claim and at the time of assignment of the claim it does not know of circumstances as a consequence of which the debtor will have the right not to perform it.

3. The client is not liable for nonperformance or improper performance by the debtor of the claim that is the subject of the assignment in the case of presentation of it by the finance agent for performance, unless otherwise provided by the contract between the client and the finance agent.

Article 896. Invalidity of a Prohibition of Assignment of a Monetary Claim

1. Assignment to a finance agent of a monetary claim is valid even if an agreement exists between the client and its debtor on the prohibition or limitation of assignment.

2. The rule established by Paragraph 1 of the present Article does not free the client from obligations or liability to the debtor in connection with the assignment of the claim in violation of an agreement between them forbidding or limiting assignment.

Article 897. Subsequent Assignment of a Monetary Claim

Unless the contract of financing with assignment of the monetary claim provides otherwise, a subsequent assignment of the monetary claim by the finance agent is not allowed.

In the case when a subsequent assignment of the monetary claim is allowed by the contract the provisions of the present Chapter respectively shall be applied to it.

Article 898. Performance of a Monetary Claim by a Debtor to a Finance Agent

1. A debtor shall be obligated to make payment to a finance agent on condition that it has received from the client or from the finance agent written notice of the assignment of the monetary claim to the given finance agent and the monetary claim subject to performance is defined in the notice and the finance agent to whom payment must be made is also indicated.

2. On request of the debtor, the finance agent shall be obligated, in a reasonable time, to provide the debtor with proof of the fact that the assignment of the monetary claim to the finance agent actually took place. If the finance agent does not fulfill this obligation, the debtor shall have the right to make payment on the given claim to the client in the performance of its obligations to the latter.

3. Performance of a monetary claim by the debtor to the finance agent in accordance with the rules of the present Article frees the debtor from the respective obligation to the client.

Article 899. Rights of the Finance Agent to Amounts Received from the Debtor

1. If, under the terms of the contract of financing with assignment of the monetary claim, the financing of the client is conducted by the purchase from it of this claim by the finance agent, the latter obtains the right to all amounts that it receives from the debtor in performance of the claim and the client does not bear liability to the finance agent if the amounts received by it are less than the price for which the agent obtained the claim.

2. If the assignment of a monetary claim to a finance agent was conducted for the purpose of securing the performance of obligations of the client to it and the contract of financing with assignment of the claim does not provide otherwise, the finance agent is obligated to provide an accounting to the client and to transfer to it the amount exceeding the amount of the debt of the

client secured by the assignment of the claim. If the monetary funds received by the finance agent from the debtor are less than the debt of the client to the finance agent secured by the assignment of the claim, the client remains liable to the finance agent for the remainder of the debt.

Article 900. Setoffs of the Debtor

1. In the case of the making by the finance agent of a demand upon the debtor to make payment, the debtor shall have the right in accordance with Articles 426-428 of the present Code to present in setoff its monetary claims based on the contract with the client that the debtor already had by the time when it obtained notice of the assignment of the claim to the finance agent.

2. Claims that the debtor could make against the client in connection with the violation by the latter of an agreement forbidding or limiting the assignment of the claim are ineffective with respect to the finance agent.

Article 901. Return to the Debtor of the Amounts Received by the Finance Agent

1. In case of violation by the client of its obligations under the contract made with the debtor, the latter shall not have the right to demand from the finance agent the return of amounts already paid to it on a claim that has passed to the finance agent if the debtor has the right to receive such amounts directly from the client.

2. A debtor having the right to receive directly from the client amounts paid to the finance agent as the result of assignment of the claim nevertheless shall have the right to claim the return of these amounts by the finance agent if it is shown that the latter has not fulfilled its obligation to make to the client a promised payment connected with the assignment of the claim or has made such a payment knowing of the violation by the client of the obligation to the debtor to which the payment connected with the assignment of claim relates.

CHAPTER 49. BANK DEPOSIT

Article 902. The Contract of Bank Deposit

1. Under the contract of bank deposit [vklada] (of deposit [depozita]), one party (the bank) that has accepted a monetary amount (the deposit [vklad]) coming from the other party (the depositor) or coming for the depositor, is obligated to return to the depositor the amount of the deposit and to pay interest on it on the conditions and by the procedure provided by the contract.

2. A contract of bank deposit in which the depositor is a citizen is a public contract (Article 442).

3. The rules on the contract of bank account (Chapter 50) shall be applied to the relations of the bank and the depositor with respect to the account into which the deposit is made, unless otherwise provided by the rules of the present Chapter or otherwise follows from the nature of the contract of bank deposit.

Legal persons do not have the right to transfer monetary funds in deposit [vkladakh] (deposits [depositakh]) to other persons.

4. The rules of the present Chapter relating to banks shall be applied also to other credit organizations accepting deposits [vklady] (deposits [deposity]) from legal persons in accordance with a statute.

Article 903. The Right to Obtain Monetary Funds as Deposits

1. The right to obtain monetary funds as deposits is possessed by banks to which such a right has been granted in connection with a permission (or license) issued by a procedure established in accordance with a statute.

2. In case of acceptance of a deposit from a citizen by a person who does not have this right, or in violation of the procedure established by a statute or bank rules adopted in accordance with a statute, the depositor may demand the immediate return of the amount of the deposit and also payment on it of the interest provided by Article 411 of the present Code and compensation above the amount of interest for all damages caused to the depositor.

If such a person has taken the monetary funds of a legal person on the conditions of a contract of bank deposit, this contract shall be invalid (Article 305).

3. Unless otherwise established by a statute, the consequences provided by Paragraph 2 of the present Article shall be applied also in cases:

1) of obtaining of monetary funds of citizens and legal persons by sale to them of stock and other commercial paper and securities the issuance of which is found illegal;

2) of obtaining of monetary funds of citizens in deposit against bills of exchange or other commercial paper and securities not allowing receipt by their holders of the deposit on first demand nor the exercise by the depositor of the other rights provided by the rules of the present Chapter.

Article 904. The Form of the Contract of Bank Deposit

1. The contract of bank deposit shall be made in written form.

The written form of the contract of bank deposit shall be considered observed if the making of the deposit is confirmed by a bank book, bank certificate or certificate of deposit, or other document issued by the bank to the depositor that meets the requirements provided for such documents by a statute, bank rules established in accordance with a statute, and the customs of trade applied in banking practice.

2. Non-observance of written form of the contract of bank deposit shall entail invalidity of this contract. Such a contract is void.

Article 905. Types of Deposits

1. The contract of bank deposit is made on the conditions of the release of the deposit on first demand (a demand deposit) or on conditions of return of the deposit on the expiration of a time determined by the contract (time deposit).

The contract may provide for the making of deposits on other conditions of their return not contradictory to a statute.

2. Under the contract of bank deposit of any type, the bank is obligated to release the sum of the deposit or part of it on the first demand of the depositor, with the exception of deposits made by legal persons on other conditions of return provided by the contract.

Terms of a contract on the waiver by a citizen of the right to receive a deposit on first demand are void.

3. In cases when a time or other deposit, other than a demand deposit, is returned to the depositor on its demand before the expiration of the time or before the occurrence of other circumstances indicated in the contract of bank deposit, the interest on the deposit shall be paid at the rate corresponding to the rate of interest paid by the bank on demand deposits, unless another rate of interest is provided by the contract.

4. In cases when the depositor does not demand the return of the amount of a time deposit on the expiration of the time or the amount of a deposit made on other conditions of return—upon the occurrence of the circumstances provided by the contract, the contract shall be considered continued on the conditions of a demand deposit, unless otherwise provided by the contract.

Article 906. Interest on the Sum of the Deposit

1. The bank shall pay the depositor interest on the amount of the deposit at the rate provided by the contract of bank deposit.

In the absence in the contract of a term on the rate of interest to be paid, the bank shall be obligated to pay interest at the rate established in accordance with Paragraph 1 of Article 411 of the present Code.

2. Unless otherwise provided by the contract of bank deposit, the bank shall have the right to change the rate of interest paid on demand deposits.

In case the bank reduces the rate of interest, the new rate of interest shall be applied to deposits made to the bank before notice to the depositors on reduction of interest upon the expiration of a month from the time of the respective notice, unless otherwise provided by the contract.

3. The interest rate determined by the contract of bank deposit for a deposit made by a citizen on the condition of its release upon expiration of a determined time or upon occurrence of the events provided by the contract may not be unilaterally reduced by the bank, unless otherwise provided by a statute. By the contract for such a bank deposit made by the bank with a legal person, the rate of interest may not be unilaterally changed, unless otherwise provided by a statute or the contract.

Article 907. The Procedure for Calculation of Interest on the Sum of the Deposit and for Its Payment

1. Interest on the amount of a bank a deposit shall be calculated from the day following the day of its arrival at the bank until the day preceding its return to the depositor or its deduction from the account of the depositor on other grounds.

2. Unless otherwise provided by the contract of bank deposit, interest on the amount of the bank deposit shall be paid to the depositor on its demand at the expiration of each quarter separately from the amount of the deposit, and interest not claimed at this time shall increase the amount of the deposit on which interest is calculated.

Upon return of the deposit all interest credited up to that time shall be paid.

Article 908. Security for the Return of the Deposit

1. Banks are obligated to ensure the return of deposits of citizens by compulsory insurance and, in cases provided by a statute, also in other ways.

The return of the deposits of citizens by a bank, over fifty percent of the shares of the charter capital of which are held by the Republic of Armenia or communes, is additionally guarantied by their subsidiary liability on the claims of the depositor against the bank by the procedure provided by Article 415 of the present Code.

2. The means of securing by the bank of the return of the deposits of legal persons are determined by the contract of bank deposit.

3. At the making of the contract of bank deposit, the bank is obligated to provide the depositor with information on the security for the return of the deposit.

4. In case the bank fails to fulfill obligations provided by a statute or the contract of bank deposit for securing the return of the deposit and also in case of loss of security or worsening of its conditions, the depositor shall have the right to demand from the bank immediate return of the amount of the deposit, also payment of interest on it at the rate determined in accordance with Paragraph 1 of Article 906 of the present Code, and compensation for damages caused.

Article 909. Placing by Third Persons of Monetary Funds on the Account of the Depositor

Unless otherwise provided by the contract of bank deposit, monetary funds arriving at the bank on the name of the depositor from third persons with an indication of the necessary data on its account for the deposit shall be added to the account of the deposit. It shall be presumed that the depositor has expressed consent to the receipt of monetary funds from such persons, having provided them the necessary data on the account for the deposit.

Article 910. Deposits for the Use of a Third Person

1. A deposit may be made in a bank in the name of a specific third person. Unless otherwise provided by the contract of bank deposit, such a person shall obtain the rights of a depositor from the time of its presentation to the bank of the first demand based on these rights or of expression by it to the bank in another manner of the intent to use such rights.

The indication of the name of the citizen (Article 22) or the designation of the legal person (Article 58) for whose use the deposit is made is an essential term of the respective contract of bank deposit.

A contract of bank deposit for the use of a citizen who has died by the time of the making of the contract or of a legal person not existing by this time is void.

2. Until the expression by the third person of an intent to enjoy the rights of a depositor, the person who has made the contract of bank deposit may enjoy the rights of a depositor with respect to monetary funds it has deposited to this account.

3. The rules on a contract for the use of a third person (Article 446) shall be applied to a contract of bank deposit for the use of a third person, unless this contradicts the rules of the present Article and the nature of a bank deposit.

Article 911. The Bank Book

1. Unless otherwise provided by the agreement of the parties, the making of a contract of bank deposit with a citizen and the deposit of monetary funds to its account on the deposit is confirmed by a bank book. The contract of bank deposit may provide for the issuance of a bank book in a name or a bearer bank book.

The name and place of location of the bank and, if the deposit was made at a branch, also of its respective branch, number of the account for the deposit and also all amounts of monetary funds deposited to the account, all amounts of monetary funds withdrawn from the account, and the remainder of monetary funds on the account at the time of presentation of the bank book to the bank must be indicated in the bank book and confirmed by the bank.

Unless proven otherwise, the data on the deposit indicated in the bank book shall be the basis for settlements on the deposit between the bank and the depositor.

2. The release of the deposit, the payment of interest on it, and the fulfillment of orders of the depositor for the transfer of monetary funds from the account for the deposit to other persons shall be done by the bank upon presentation of the bank book.

If a bank book in a name is lost or is brought into a condition unsuitable for presentation, the bank on request of the depositor shall issue it a new bank book.

Reinstatement of rights for a lost bearer bank book shall be done by the procedure provided for bearer commercial paper and securities (Article 151).

CHAPTER 50. BANK ACCOUNT

Article 912. The Contract of Bank Account

1. Under the contract of bank account, a bank is obligated to credit monetary funds arriving to the account opened to the client (the accountholder), to execute the orders of the client on transfer and issuance of respective amounts from the account and on the conduct of other operations on the account.

2. A bank may use monetary funds that are on the account, guarantying the client the unobstructed disposition of these funds.

3. The bank does not have the right to determine or supervise the direction of use of monetary funds of the client nor to establish other limitations, not provided by a statute or contract of bank account, on its right to dispose of the monetary funds at its discretion.

4. The rules of the present Chapter relating to banks shall be applied also to other credit organizations in the making and performance by them of a contract of bank account in accordance with the permission (or license) granted.

Article 913. Form of the Contract of Bank Account

1. The contract of bank account shall be concluded in written form.

2. Non-observance of written form of the contract entails the invalidity of this contract. Such a contract is void.

Article 914. Making of the Contract of Bank Account

1. Upon the making of a contract of bank account, an account shall be opened for the client or a person designated by it at a bank on the conditions agreed upon by the parties.

2. The bank is obligated to make a contract of bank account with a client that has made a proposal to open an account on the conditions stated by the bank for the opening of an account of the given type, corresponding to the requirements provided by a statute and the bank rules established in accordance with it.

The bank does not have the right to refuse to open an account, the making of the respective operations under which is provided for by a statute, the bylaws of the bank, and the permission (or license) issued to it, with the exception of cases when such a refusal is caused by the bank's lacking the possibility of accepting for banking service or is allowed by a statute or other legal acts.

In case of an unfounded refusal of a bank to conclude a contract of bank account, the client shall have the right to bring against it the claims provided by Article 461 of the present Code.

Article 915. Authentication of the Right to Dispose of Monetary Funds Located on the Account

1. The rights of persons making in the name of a client orders for the transfer and release of funds from the account shall be authenticated by the client by presenting to the bank the documents provided by a statute, by bank rules established in accordance with it, or by the contract of bank account.

2. A client may give an order to a bank on the withdrawal of monetary funds from the account on demand of third persons, including a demand connected with the performance by the client of its obligations to these persons. The bank shall accept these orders on the condition of indication in them in written form of the necessary data allowing, upon presentation of the corresponding demand, the identification of the person having the right to present it.

3. The contract may provide for the verification of rights for the disposition of monetary amounts that are on the account by electronic means of payment and other documents with the use in them of analogues of a handwritten signature (Paragraph 2 of Article 296), codes, passwords, and other means confirming that the order is given by a person authorized to do so.

Article 916. Operations With the Account Done by the Bank

The bank is obligated to perform for the client the operations provided for accounts of the given type by a statute, by bank rules established in accordance with a statute, and by customs of trade applied in bank practice, unless otherwise provided by the contract of bank deposit.

Article 917. The Times for Operations on the Account

The bank is obligated to deposit monetary funds received to the account of the client not later than the day following the day of the arrival at the bank of the respective payment document, unless another, shorter period is provided by statute or the contract of bank deposit.

The bank is obligated on order of the client to issue or transfer from the account monetary funds of the client not later than the day following the day of the arrival at the bank of the respective payment document, unless other periods are provided by a statute, bank rules issued in accordance with it, or by the contract of bank account.

Article 918. Giving Credit to the Account

1. In cases when, in accordance with the contract of bank account, the bank makes payments on demands against the account despite the absence in it of monetary funds (giving credit to the account), the bank shall be considered to have granted the client credit in the corresponding amount from the day of making of such a payment.

2. The rights and duties of the parties connected with giving credit to an account are determined by the rules on loan (Chapter 46) and credit (Chapter 47), unless the contract of bank account provides otherwise.

Article 919. Payment of Expenses of the Bank for Performing Operations With the Account

1. In cases provided by the contract of bank account, the client shall pay for the services of the bank for performing operations with monetary funds that are on the account.

2. Payment for the services of the bank provided by Paragraph 1 of the present Article may be deducted by a bank from the monetary funds of a client that are on the account after the making of each transaction unless otherwise provided by the contract of bank account.

Article 920. Interest for the Use by the Bank of Monetary Funds

1. Unless otherwise provided by the contract of bank account for the use of monetary funds located on the account of the client, the bank shall pay interest, the amount of which shall be deposited to the account.

2. The interest indicated in Paragraph 1 of the present Article shall be paid by the bank at the rate determined by the contract of bank account, or, in the absence in the contract of the respective term—at the rate established by this bank for demand deposits (Article 906).

3. The amount of interest shall be deposited to the account within the times provided by the contract and in cases when such times are not provided by the contract, at the end of each quarter.

Article 921. Setoff of Mutual Claims of the Bank and the Client on the Account

Monetary claims of the bank upon the client connected with giving credit to an account (Article 918) and with payment for services of the bank (Article 919) and also claims of the client upon the bank for payment of interest for the use of monetary funds (Article 920) are extinguished by setoff (Article 426), unless otherwise provided by the contract of bank account.

The setoff of these claims shall be done by the bank, which shall be obligated to inform the client of the setoff made by the procedure and within the times established by the contract and, if the respective terms have not been agreed upon by the parties, by the procedure and within the times usual for banking practice of presenting clients with information on the state of monetary funds on the respective account.

Article 922. Bases for Withdrawing Monetary Funds from an Account

1. Withdrawal of monetary funds from an account shall be made by the bank on the basis of an order by the client.

2. Without an order by the client, the withdrawal of monetary funds that are located on the account shall be allowed by decision of a court and also in other cases established by a statute or provided by the contract between the bank and the client.

Article 923. The Successive Order of Withdrawing Monetary Funds from an Account

1. If there are present on an account monetary funds, the sum of which is sufficient for the satisfaction of all claims presented against the account, the withdrawal of these funds from the account is done in the order of receipt of orders from the client and other documents for withdrawal (chronological order), unless otherwise provided by a statute.

2. In case of insufficiency of monetary funds on the account to satisfy the orders of the client and all the claims made against it, the withdrawal of monetary funds shall be made in the following order:

in the first order, withdrawal shall be made under an execution document providing for the transfer or issuance of monetary funds from the account for the satisfaction of claims for compensation for harm caused to life or health, and also claims for the recovery of support payments;

in the second order, withdrawal shall be made under an execution document providing for the transfer or issuance of monetary funds for settlements for payment of job leaving compensation and for payment for labor of persons working under a labor contract and for payment of compensation under a publishing contract;

in the third order, withdrawal shall be made under payment documents providing for payments to the state treasury and to the treasuries of communes;

in the fourth order, withdrawal shall be made under an execution document providing for the satisfaction of other monetary claims;

in the fifth order, withdrawal shall be made under other payment documents in chronological order.

Withdrawal of funds from the account on claims relating to the same order shall be made by chronological order of receipt of documents.

Article 924. Liability of the Bank for Improper Conduct of Operations Under the Account

In cases of late transferring of monetary funds arriving for the client to the account or of their unfounded withdrawal by the bank from the account, and also of failure to obey or improper performance of orders of the client to transfer monetary funds from the account or for their issuance from the account, the bank shall be obligated to pay on this amount interest by the procedure and in the amount provided by Article 411 of the present Code.

Article 925. Bank Secrecy

1. The bank guaranties secrecy of the bank account and bank deposit, and of operations on the account and information on the client.

2. Information subject to bank secrecy may be given only to the clients themselves or their representatives. State agencies and their officials may be provided with such information only in the cases and by the procedure provided by a statute.

3. In case of divulgence by the bank of information subject to bank secrecy, the client whose rights have been violated shall have the right to demand from the bank the compensation for the damages caused.

Article 926. Limitation of Disposition of the Account

Limitation of the rights of the client to dispose of the monetary funds on the account is not allowed, with the exception of cases of seizure of the monetary funds on the account or stoppage of operation of an account in cases provided by a statute.

Article 927. Rescission of the Contract of Bank Account

1. The contract of bank account may be rescinded on demand of the client at any time.

2. Unless otherwise provided by the contract of bank account, on demand of the bank the contract of bank account may be rescinded by a court in the following circumstances:

1) when the amount of monetary funds held on the account of the client is less than the minimum amount provided by bank rules or contract, unless such an amount is reinstated within a month from the day of warning by the bank of this;

2) in the absence of operations under this account in the course of a year, unless otherwise provided by the contract.

3. The remainder of monetary funds on the account shall be given to the client or at its order shall be transferred to another account not later than seven days after receipt of the respective written notice from the client.

4. Rescission of the contract of bank account shall be the basis for closing of the account of the client.

Article 928. Accounts of Banks

The rules of the present Chapter extend to correspondent accounts, correspondent subaccounts, and other accounts of banks, unless otherwise provided by a statute, other legal acts, or bank rules established in accordance with them.

CHAPTER 51. PAYMENTS

§ 1. General Provisions on Payments

Article 929. Cash and Non-cash Payments

1. Payments with the participation of citizens that are not connected with the conduct by them of entrepreneurial activity may be made in cash (Article 142) without limitation of the amount or by non-cash procedure.

2. Payments between legal persons and also payments with the participation of citizens connected with the conduct by them of entrepreneurial activity shall be made by non-cash procedure. Payments between the aforementioned persons may also be made in cash, unless otherwise provided by a statute.

3. Non-cash payments shall be made through banks or other credit organizations (hereinafter “banks”) in which the respective accounts have been opened unless otherwise follows from a statute or otherwise is conditioned by the form of accounts used.

Article 930. Forms of Non-cash Payments

1. In making non-cash payments, payments by payment orders, letters of credit, payments by draft, checks, and debit cards are permitted, and also payments in other forms provided by a statute, bank rules established in accordance with it, and customs of trade applied in banking practice.

2. The parties to a contract have the right to select and establish in it any of the forms of payments indicated in Paragraph 1 of the present Article.

§ 2. Payments by Payment Orders

Article 931. General Provisions on Payments by Payment Orders

1. In case of payment by a payment order, the bank is obligated on order of the payor at the expense of the funds located on its account to transfer a determined monetary amount to the account of the person indicated by the payor in this or another bank within the time provided by a statute or established in accordance with it, unless a shorter time is provided by the contract of bank account or is determined by the customs of trade applied in banking practice.

2. The rules of the present Section shall be applied to relations connected with the transfer of monetary funds through the bank by a person not having an account in the given bank, unless otherwise provided by a statute, by bank rules established in accordance with it, or otherwise follows from the nature of these relations.

3. The procedure for making settlements by payment orders shall be regulated by a statute and also by bank rules established in accordance with it and by customs of trade applied in bank practice.

Article 932. Conditions for Performance by the Bank of a Payment Order

1. The content of a payment order and of the payment documents presented with it and their form must satisfy the requirements provided by a statute and by bank rules established in accordance with it.

2. In case of failure of the payment order to satisfy the requirements of Paragraph 1 of the present Article, the bank may clarify the content of the order. Such a request must be made to the payor without delay upon receipt of the order. In case of failure to receive a reply within a time established by a statute or by bank rules established in accordance with it, or—in their absence—within a reasonable time, the bank may leave the payment order unperformed and return it to the payor, unless otherwise provided by a statute, by bank rules established in accordance with it, or by the contract between the bank and the payor.

3. The payor's order shall be performed by the bank only in case of presence of funds on the account of the payor, unless otherwise provided by the contract between the payor and the bank. Payments shall be made by the bank with observance of the order of withdrawal of monetary funds from the account (Article 923).

Article 933. Execution of the Order

1. A bank that has accepted a payor's payment order is obligated to transfer the corresponding monetary sum to the bank of the recipient of the funds for its deposit into the account of the person indicated in the order within the time established by Paragraph 1 of Article 931 of the present Code.

2. The bank shall have the right to involve other banks for performance of operations for the transfer of monetary funds to the account indicated in the client's order.

3. The bank is obligated immediately to inform the payor on its demand of the performance of the order. The procedure for formalizing and the requirements for the content of the notification on the performance of an order shall be established by a statute, by bank rules established in accordance with it, or by the agreement of the parties.

Article 934. Liability for Nonperformance or Improper Performance of an Order

1. In case of nonperformance or improper performance of a client's order, the bank shall bear liability on the bases and in the amounts provided by Chapter 26 of the present Code.

2. In cases when the nonperformance or improper performance of an order took place in connection with a violation of the rules of making payment operations by a bank involved for the performance of the payor's order, the liability provided by Paragraph 1 of the present Article may be imposed by the court on this bank.

3. If the violation of the rules of payment operations by the bank has led to the illegal delay of monetary funds, the bank shall be obligated to pay interest by the procedure and in the amount provided by Article 411 of the present Code.

§ 3. Payments by Letter of Credit

Article 935. General Provisions on Payments by Letter of Credit

1. In the case of payments by letter of credit, the bank acting on the authority of the payor for the opening of the letter of credit and in accordance with its order (the emitting bank) is obligated to make payments to the recipient of the funds or to pay, accept, or honor a transfer bill of exchange or authorize another bank (the executing bank) to make payments to the recipient of funds, or to pay, accept, or honor a transfer bill of exchange.

The rules on the executing bank shall be applied to an emitting bank that has made payments to the recipient of funds or has paid, accepted, or honored a transfer bill of exchange.

2.. The procedure for making settlements under a letter of credit shall be regulated by a statute and also by bank rules established in accordance with it and by customs of trade applied in banking practice.

Article 936. Revocable Letter of Credit

1. A revocable letter of credit is one that may be changed or revoked by the emitting bank without prior notice to the recipient of funds. Revocation of the letter of credit does not create any obligations of the emitting bank to the recipient of funds.

2. The executing bank is obligated to make payment or other operations under a revocable letter of credit if by the time of making them it has not received notice of the change of conditions or the revocation of the letter of credit.

3. A letter of credit is revocable unless directly established otherwise in its text.

Article 937. Irrevocable Letter of Credit

1. An irrevocable letter of credit is one that may not be revoked or changed without the consent of the recipient of funds.

2. On request of the emitting bank, the executing bank participating in the conduct of a letter of credit operation, may guaranty an irrevocable letter of credit (guarantied letter of credit). Such a guaranty signifies acceptance by the executing bank of an obligation supplementary to the obligation of the emitting bank to make payment in accordance with the terms of the letter of credit.

An irrevocable letter of credit guarantied by the executing bank may not be altered or revoked without the consent of the executing bank.

Article 938. Execution of a Letter of Credit

1. To execute a letter of credit the recipient of funds shall present to the executing bank documents confirming the performance of all terms of the letter of credit. In case of violation of even one of these terms execution of the letter of credit shall not take place.

2. If the executing bank has made payment or has conducted another operation in connection with the terms of the letter of credit, then the emitting bank shall be obligated to compensate it for the expenditures borne connected with the fulfillment of the letter of credit. These expenditures and

also all other expenditures of the emitting bank connected with the execution of the letter of credit shall be compensated by the payor.

Article 939. Refusal to Accept Documents

1. If the executing bank refuses to accept documents that by external characteristics do not correspond to the terms of the letter of credit, it shall be obligated without delay to inform the recipient of funds and the emitting bank of this with an indication of the causes of the refusal.

2. If the emitting bank, having received the documents accepted by the executing bank, considers that they do not correspond by external characteristics to the terms of the letter of credit, it shall have the right to refuse to accept them and to demand from the executing bank the amount paid to the recipient of funds in violation of the terms of letter of credit and, for an uncovered letter of credit, to refuse to compensate for the amounts paid.

Article 940. Liability of the Bank for Violation of the Terms of a Letter of Credit

1. Liability to the payor for violation of the terms of a letter of credit shall be borne by the emitting bank, and to the emitting bank by the executing bank, with the exception of cases provided in the present Article.

2. In case of unfounded refusal of the executing bank to pay monetary funds under a covered or guarantied letter of credit, liability to the recipient of funds may be imposed on the executing bank.

3. In case of incorrect payment by the executing bank of monetary funds under a covered or guarantied letter of credit as the result of violations of the terms of the letter of credit, liability to the payor may be imposed on the executing bank.

Article 941. Closing of a Letter of Credit

1. Closing of a letter of credit at the executing bank shall be made:

1) on the expiration of the term of the letter of credit;

2) on statement by the recipient of funds of its decision not to use the letter of credit before the expiration of the term of its effectiveness, if the possibility of such a decision is provided by the terms of the letter of credit;

3) on demand of the payor for the full or partial recall of the letter of credit, if such a recall is possible under the terms of the letter of credit.

The executing bank must make the emitting bank informed of the closing of the letter of credit.

2. The unused amount of a covered letter of credit is subject to return to the emitting bank without delay simultaneously with the closing of the letter of credit. The emitting bank is obligated to transfer the returned amounts to the account of the payor from which the funds were deposited.

§ 4. Payments by Draft

Article 942. General Provisions on Payments by Draft

1. In case of payments by draft, the bank (the emitting bank) is obligated on instruction by the client to conduct at the expense of the client actions for receipt from the payor of payment and/or acceptance of payment.

2. The emitting bank, having received an instruction from the client, shall have the right to involve another bank to fulfill it (the executing bank).

The procedure for conducting payments by draft shall be regulated by a statute, bank rules established in accordance with it, and the customs of trade applied in banking practice.

3. In case of nonperformance or improper performance of the instruction from the client, the emitting bank shall bear liability to it on the bases and in the amount that are provided by Chapter 26 of the present Code.

If the nonperformance or improper performance of the instruction from the client took place in connection with a violation of the rules for making accounting operations by the executing bank, liability to the client may be imposed on that bank.

4. Relations connected with payment by draft that are not regulated by the present Code are regulated by statute.

Article 943. Fulfillment of a Draft Authorization

1. In the absence of any document or in case of noncorrespondence of documents by their external characteristics to the draft, the executing bank shall be obligated to inform without delay the person from whom the draft was received of this. In case of failure to eliminate these defects, the bank shall have the right to return the documents without execution.

2. The documents are to be presented to the payor in the form in which they were received, with the exception of notes and inscriptions of the banks necessary for the formalization of the draft operation.

3. If the documents are subject to payment on demand, the executing bank must make presentation for payment without delay upon the receipt of the draft.

If the documents are subject to payment at another time, the executing bank must, to obtain acceptance by the payor, present the documents for acceptance without delay upon receipt of the draft, and the demand for payment must be made not later than the day of the occurrence of the time of payment indicated in the document.

4. Partial payments may be accepted in cases when this is established by bank rules or in case of the presence of a special permission in the draft.

5. Amounts received (drawn) must without delay be transferred by the executing bank to the disposition of the emitting bank, which must transfer these amounts to the account of the client. The executing bank shall have the right to withhold, from the amounts drawn, the compensation due to it and reimbursement for expenditures.

Article 944. Notification About Operations Conducted

1. If payment and/or acceptance are not received, the executing bank shall be obligated to inform without delay the emitting bank of the causes of the nonpayment or refusal of acceptance.

The emitting bank shall be obligated to inform the client immediately of this, asking it for instructions with respect to further actions.

2. In case of failure to receive instructions on further actions within the time established by bank rules, or in its absence, within a reasonable time, the executing bank shall have the right to return the documents to the emitting bank.

§ 5. Payments by Checks

Article 945. General Provisions on Payments by Checks

1. In case of payments by check (Article 155) only a bank where the maker of a check has funds which it has the right to dispose of by writing checks may be indicated as payor under a check.

2. Revocation of a check before the expiration of the period for its presentation is not allowed.

3. Issuance of a check does not extinguish the monetary obligation in fulfillment of which it was issued.

4. The procedure and conditions for the use of checks in payments shall be regulated by the present Code, and in the area not regulated by it, by other statutes and bank rules established in accordance with them.

Article 946. Requisites of a Check

1. A check must contain:

1) the designation “check”;

2) an order to the payor to pay a defined amount of money;

3) the designation of the payor and an indication of the account from which payment must be made;

4) an indication of the currency of payment;

5) an indication of the date and place of the making of the check;

6) the signature of the person writing the check—the maker of the check.

A document in which any of the abovementioned requisites is absent is not a check.

A check that does not indicate the place where it was made is considered as made in the place of location of the maker.

An indication on interest is considered as not having been written.

2. The form of the check and the procedure for filling it out are determined by a statute and bank rules established in accordance with it.

Article 947. Payment of a Check

1. A check shall be paid at the expense of the maker of the check.

In case of deposit of funds, the procedure and condition of deposit of funds for coverage of the check shall be established by bank rules.

2. A check is subject to payment by the payor on the condition of presentation of it for payment in the period established by a statute.

3. The payor of a check is obligated to verify by all methods available to it the authenticity of the check and also that the presenter of the check is a person authorized by it.

In case of payment of an endorsed check, the payor is obligated to verify the correctness of endorsements, but not the signatures of the endorsers.

4. Damages resulting as the consequence of payment by the payor of a counterfeit, stolen, or lost check, shall be imposed on the payor or the maker depending upon whose fault they were caused.

5. A person who has paid a check shall have the right to demand transfer of the check to it with a signature on the receipt of payment.

Article 948. Transfer of Rights Under a Check

1. Transfer of rights under a check shall be made by the procedure established by Article 149 of the present Code with observance of the rules provided by the present Article.

2. A check made to a name is not subject to transfer.

3. In a transferable check, an endorsement to the payor has the effect of a signature for the receipt of payment.

An endorsement made by the payor is invalid.

A person holding a transferable check received by endorsement shall be considered the legal holder, if it bases its right on an uninterrupted series of endorsements.

Article 949. Guaranty of Payment

1. Payment under a check may be guarantied in full or in part by a surety notation.

The guaranty of the payment under a check (surety) may be given by any person, with the exception of the payor.

2. The surety notation shall be placed on the face side of the check or on a supplementary list under the heading “consider as surety” and indications by whom and for whom it is given. If it is not

indicated for whom it is given, then it shall be considered that the surety is given for the maker of the check.

The surety notation shall be signed by the surety with an indication of its place of residence and the date of making the notation and if the surety is a legal person, the place of its location and the date of making the notation.

3. The surety shall answer in the same way as the one for whom it gave the surety notation.

Its obligation shall be valid even in the case when the obligation that it guarantied is invalid on any ground other than a defect of form.

4. A surety who has paid a check shall obtain the rights deriving from the check against the person for whom it gave the guaranty and against those who are obligated to the latter.

Article 950. Cashing a Check

1. Presentation of a check at a bank serving the holder of the check for collection is considered presentation of a check for payment.

Payment of the check shall be made by the procedure provided in Article 943 of the present Code.

2. Transfer of funds under the check to the account of the holder of the check shall be made after the receipt of payment from the payor, unless otherwise provided by the contract between the holder of the check and the bank.

Article 951. Confirmation of Refusal to Pay a Check

1. Refusal to pay a check must be confirmed by one of the following methods:

1) making by a notary of a protest or preparation of an equivalent document by the procedure established by a statute;

2) a notation of the payor on the check on refusal to pay it with an indication of the date of presentation of the check for payment;

3) a notation of a collecting bank with an indication of the date to the effect that the check was timely presented and not paid.

2. A protest or equivalent document must be executed before the expiration of the period for presentation of the check.

If presentation of the check took place on the last day of the period, then the protest or equivalent document may be executed on the next working day.

Article 952. Notification of Nonpayment of a Check

The holder of a check shall be obligated to notify its endorser and the maker of the check of nonpayment in the course of two working days following the day of the execution of the protest or equivalent document.

Each endorser must, within two working days following the day it has received notice, communicate the notice received by it to its endorser. Notice is to be sent within the same period to the person who gave a surety notation for this person.

A person who has not sent notification in the period indicated does not lose its rights, but it must compensate for the damages that might occur as the result of non-notification of nonpayment of the check. The measure of the damages compensated may not exceed the amount of the check.

Article 953. Consequences of Nonpayment of a Check

1. In case of refusal of the payor to pay a check, the holder of the check shall have the right at its choice to bring a suit against one, several, or all persons obligated on the check (maker, surety, indorsers), who bear joint and several liability to him.

2. The holder of the check shall have the right to demand from these persons payment of the amount of the check, of its expenses in obtaining payment, and also of interest in accordance with Paragraph 1 of Article 411 of the present Code.

The same right shall belong to the person obligated on the check after it has paid the check.

3. A suit by the holder of the check against the persons indicated in Paragraph 1 of the present Article may be presented in the course of six months from the day of the end of the period of presenting the check for payment. Subrogation claims on suits of obligated persons to one another shall be extinguished with the passage of six months from the day when the respective obligated person satisfied the claim or from the day of bringing suit against him.

CHAPTER 52. ENTRUSTED ADMINISTRATION OF PROPERTY

Article 954. The Contract of Entrusted Administration of Property

1. Under the contract of entrusted administration of property one party (the founder of the administration) transfers to the other party (the entrusted administrator) for a defined term property into entrusted administration and the other party is obligated to conduct administration of this property in the interests of the founder of the administration or of a person indicated by it (the beneficiary).

The transfer of property into entrusted administration does not entail the transfer of the right of ownership to it to the entrusted administrator.

2. In conducting entrusted administration of property, the entrusted administrator shall have the right to conduct with respect to this property, in accordance with the contract of entrusted administration, any legal or factual actions in the interests of the beneficiary.

A statute or contract may provide for limitations with respect to individual actions for the entrusted administration of property.

3. The entrusted administrator shall make transactions with property transferred into entrusted administration in its own name, indicating that it is acting as such an administrator. This condition shall be considered observed if on conducting the actions not requiring written formalization the other party is informed that they are being made by an entrusted administrator in such capacity and in written documents after the name or designation of the entrusted administrator the notation, “D.U.”, is made.

In the absence of an indication of the action of an entrusted administrator in this capacity, the entrusted administrator shall be obligated to third persons personally and shall answer to them only with the property belonging to it.

Article 955. Object of Entrusted Administration

1. Individual objects related to immovable property, securities, commercial paper, rights confirmed by undocumented securities, exclusive rights, and other property may be objects of entrusted administration.

2. Money, with the exception of cases provided by a statute, may not be an independent object of entrusted administration.

Article 956. The Founder of the Administration

The founder of the entrusted administration is the owner of the property or, in the cases provided by Article 968 of the present Code, another person.

Article 957. The Entrusted Administrator

1. The entrusted administrator may be an individual entrepreneur or a commercial organization.

In cases when entrusted administration of property is conducted on bases provided by a statute, the entrusted administrator may be a citizen who is not an entrepreneur or a non-commercial organization.

2. Property may not be transferred into entrusted administration to a state agency or an agency of local self-government.

3. The entrusted administrator may not be the beneficiary under the contract of entrusted administration of property.

Article 958. Essential Terms of the Contract of Entrusted Administration of Property

1. The contract of entrusted administration of property must indicate:

1) the composition of the property transferred into entrusted administration;

2) the designation of the legal person or the name of the citizen in whose interests the administration of the property is conducted ;

3) the amount and form of compensation to the administrator, if payment of compensation is provided by the contract;

4) the term of effectiveness of the contract.

2. The contract of entrusted administration of property may be made for a term not exceeding five years. For individual types of property transferred into entrusted administration, a statute may establish other time limits for which the contract may be made.

In the absence of a statement of one of the parties on the termination of the contract, at the end of the term of its effectiveness it shall be considered extended for the same term and on the same conditions as was provided by the contract.

Article 959. Form of the Contract of Entrusted Administration of Property

1. The contract of entrusted administration of property must be made in written form.

2. The contract of entrusted administration of immovable property is subject to notarial certification..

3. A right of entrusted administration with respect to immovable property is subject to state registration.

Article 960. Segregation of Property Transferred into Entrusted Administration

1. Property transferred into entrusted administration shall be segregated from other property of the founder of the administration and also from the property of the entrusted administrator. This property shall be reflected for the entrusted administrator on a separate balance sheet; for which independent accounting shall be maintained. For payments for the activity connected with entrusted administration, a separate bank account shall be opened.

2. In case of bankruptcy of the founder of the administration, entrusted administration of this property shall be terminated and the property shall be included in the general assets of the proceedings.

Article 961. Transfer into Entrusted Administration of Property encumbered by Pledge

1. The transfer of pledged property into entrusted administration shall not deprive the pledgee of the right to levy execution on this property.

2. The entrusted administrator must be warned of the fact that the property transferred to it into entrusted administration is burdened with a pledge. If the entrusted administrator neither knew nor should have known of the burdening with a pledge of the property transferred to it into entrusted administration, it shall have the right to demand in a court the rescission of the contract of entrusted administration of property with compensation to him of actual damage and payment of proportionate compensation.

Article 962. Rights and Duties of the Entrusted Administrator

1. The entrusted administrator shall exercise, within the limits provided by a statute and the contract of entrusted administration of property, the rights of an owner with respect to the property transferred into entrusted administration. The entrusted administrator shall exercise disposition of immovable property in the cases provided by the contract of entrusted administration.

2. The rights obtained by the entrusted administrator as the result of actions for the entrusted administration of property shall be included in the system of the property transferred into entrusted administration. Obligations that have arisen as the result of such actions of the entrusted administrator shall be performed at the expense of this property.

3. For the protection of rights to property that is in entrusted administration, the entrusted administrator shall have the right to demand all types of elimination of a violation of its rights (Articles 274, 275, 277, 278).

4. The entrusted administrator shall present the founder of the administration and the beneficiary with a report on its activity within the times and by the procedure that are established by the contract of entrusted administration of property.

Article 963. Transfer of Entrusted Administration of Property to Another Person

1. The entrusted administrator shall conduct entrusted administration of property personally with the exception of cases provided by Paragraph 2 of the present Article.

2. The entrusted administrator may authorize another person to take, in the name of the entrusted administrator, actions necessary for the administration of the property, if it is empowered to do so by the contract of entrusted administration of property or if it has received the consent of the founder of the administration in written form to do so, or was compelled to do so by force of circumstances for the safeguarding of the interests of the founder of the administration or the beneficiary and does not have the possibility of receiving instructions of the founder of the administration in a reasonable time.

The entrusted administrator shall be liable for the actions of an authorized person selected by it as for its own actions.

Article 964. Liability of the Entrusted Administrator

1. The entrusted administrator who has not employed in the entrusted administration of property the necessary care for the interests of the beneficiary or the founder of the administration shall compensate the beneficiary for lost profit for the time of entrusted administration of property and the founder of the administration for the damages caused by the loss of or harm to property, taking into account its natural wear, and also lost profit.

The entrusted administrator shall bear liability for the damages caused unless it shows that these damages occurred as the result of force majeure or the actions of the beneficiary or the founder of the administration.

2. Obligations under a transaction made by the entrusted administrator exceeding the powers granted to it or in violation of the limitations established for it shall be borne by the entrusted administrator personally. If the third persons participating in the transaction neither knew nor should have known of the excess of powers or of the established limitations, the obligations that have arisen shall be subject to performance by the procedure established by Paragraph 3 of the present Article. The founder of the administration may in this case demand from the entrusted administrator compensation for damages suffered by it.

3. Debts on obligations that arose in connection with the entrusted administration of property shall be paid at the expense of this property. In case of insufficiency of this property execution may be levied on the property of the entrusted administrator and in case of insufficiency also of its property—on the property of the founder of the administration that was not transferred into entrusted administration.

4. The contract of entrusted administration of property may provide for the granting by the entrusted administrator of a pledge to secure compensation for damages that may be caused to the founder of the administration or the beneficiary by the improper performance of the contract of entrusted administration.

Article 965. Compensation to the Entrusted Administrator

The entrusted administrator shall have the right to the compensation provided by the contract of entrusted administration of property and also to compensation of the necessary expenses made by it in the entrusted administration of property at the expense of income from the use of this property.

Article 966. Termination of the Contract of Entrusted Administration of Property

1. The contract of entrusted administration of property shall be terminated, in addition to the general grounds for termination of an obligation, as the result of:

1) the death of a citizen who is the beneficiary or the liquidation of a legal person that is the beneficiary unless the contract provides otherwise;

2) a refusal by the beneficiary to receive the benefits under the contract unless the contract provides otherwise;

3) death of a citizen who is the entrusted administrator, recognition of it as lacking dispositive capacity, of limited dispositive capacity, or missing, and also recognition of an individual entrepreneur as insolvent (or bankrupt);

4) withdrawal by the entrusted administrator or the founder of the administration from the conduct of entrusted administration in connection with the impossibility for the entrusted administrator to personally conduct the entrusted administration of the property;

5) withdrawal by the founder of the administration from the contract for other reasons than that which is indicated in the fifth subparagraph of the present Paragraph, on the condition of payment to the entrusted administrator of the compensation provided by the contract;

6) recognition of the citizen-entrepreneur who is the founder of the administration as insolvent (or bankrupt).

2. In case of withdrawal by one party from the contract of entrusted administration of property, the other party must be informed of this three months before the termination of the contract, unless the contract provides another period of notification.

3. In case of termination of a contract of entrusted administration, the property that is in entrusted administration shall be transferred to the founder of the administration unless the contract provides otherwise.

Article 967. Transfer of Securities or Commercial Paper into Entrusted Administration

In case of transfer of securities or commercial paper into entrusted administration, provision may be made for the combining of the securities or commercial paper transferred into entrusted administration by various people.

The powers of the entrusted administrator for the disposition of the securities or commercial paper shall be determined in the contract of entrusted administration.

The peculiarities of entrusted administration of securities or commercial paper shall be determined by a statute.

The rules of the present Article shall be applied respectively to rights confirmed by undocumented securities or commercial paper (Article 152).

Article 968. Entrusted Administration of Property on Bases Provided by a Statute

1. Entrusted administration of property may also be instituted:

1) as the consequence of the necessity of continual administration of the property of a ward in the cases provided by Article 40 of the present Code;

2) on the basis of a will in which there is named a person to execute the will (the executor);

3) on other bases provided by a statute.

2. The rules provided by the present Chapter shall be applied respectively to relations for entrusted administration of property instituted on the bases indicated in Paragraph 1 of the present Article unless otherwise provided by a statute or derives from the nature of such relations.

In cases when the entrusted administration of property is instituted on the bases indicated in Paragraph 1 of the present Article, the rights of the founder of the administration provided by the

rules of the present Chapter belong respectively to the agency of guardianship and tutelage, to the person executing the will or to another person indicated in a statute.

CHAPTER 53. Entrepreneurial System License (Franchising)

Article 969. The Contract of Entrepeneurial System License

1. Under the contract of entpreneurial system license (hereinafter—system license) one party (the rightholder) is obligated to provide the other party (the user) for compensation for a term or without an indication of a term the right to use in the entrepreneurial activity of the user a system of exclusive rights belonging to the rightholder, including the right to a firm name of the rightholder, to protected commercial information, and also to other objects of exclusive rights provided by the contract—trademark, service mark, etc.

The contract of system license provides for the use of the system of exclusive rights, business reputation, and commercial experience of the rightholder in a determined volume (in particular with an establishment of a minimum and/or maximum volume of use), with an indication or without an indication of the territory of use with respect to a defined area of entrepreneurial activity (sale of goods received from the rightholder or produced by the user, conduct of other trade activity, performance of work, rendering of services).

2. Commercial organizations and citizens registered as individual entrepreneurs may be parties under a contract of system license.

Article 1003. The Form and Registration of the Contract of System License

1. The contract of system license shall be made in written form.

Non-observance of the written form of the contract shall entail its invalidity. Such a contract shall be considered void.

2. A contract of system license shall be registered by the state agency that conducted the registration of a legal person or individual entrepreneur acting under the contract as the rightholder.

If the rightholder is registered as a legal person or individual entrepreneur in a foreign state, registration of the contract of system license shall be conducted by the agency that conducted the registration of the legal person or individual entrepreneur that is the user.

In relations with third persons, the parties to the contract of system license concession shall have the right to rely upon the contract only from the time of its registration.

The contract of system license for the use of an object protected in accordance with patent legislation shall be subject to registration also in the authorized agency of executive authority in the area of patents and trademarks. In case of nonobservance of this requirement, the contract shall be considered void.

Article 971. System Sublicense

1. A contract of system license may provide for the right of the user to permit other persons the use of the system of exclusive rights or part of this system that was granted to it on the conditions of sublicense agreed by it with the rightholder or defined in the contract of system license. The contract may provide for an obligation of the user to grant during a defined period to a defined number of persons the right of use of these rights on the conditions of sublicense.

The contract of system sublicense may not be made for a term longer than the contract of system license on the basis of which it was made.

2. If the contract of system license is invalid, contracts of system sublicense made on the basis of it shall also be invalid.

3. Unless otherwise provided by the contract of system license made for a term, in case of its early termination the rights and duties of the secondary rightholder under the contract of system sublicense (or of the user under the contract of system license) shall pass to the rightholder unless it has renounced the taking for itself of the rights and obligations under this contract. This rule shall be

applied respectively in case of rescission of a contract of system license made without an indication of the term.

4. The user shall bear subsidiary liability for harm caused to the rightholder by the actions of the secondary users unless otherwise provided by the contract of system license.

5. The rules provided by the present Chapter on the contract of system license shall be applied to the contract of system sublicense unless otherwise follows from the peculiarities of sublicense.

Article 972. Compensation Under the Contract of System License

Compensation under the contract of system license may be paid by the user to the rightholder in the form of fixed one-time or periodic payments, transfers from receipts, extra charges on the wholesale price of the goods transferred by the rightholder for resale, or in another form provided by the contract.

Article 973. Obligations of the Rightholder

1. The rightholder is obligated:

1) to transfer to the user technical and commercial documentation and to provide other information necessary to the user for the realization of the rights provided to it under the contract of system license and also to instruct the user and its employees on questions connected with the realization of these rights;

2) to issue the user the licenses provided by the contract, having ensured their formalization by the established procedure.

2. If the contract of system license does not provide otherwise, the rightholder is obligated:

1) to ensure the registration of the contract of system license (Paragraph 2 of Article 1003);

2) to provide the user with continual technical and consulting support, including support in the training and raising of the skills of employees;

3) to supervise the quality of the goods (or of labor or of services) produced (or performed or rendered) by the user on the basis of the contract of system license.

Article 974. Obligations of the User

Taking into account the nature and peculiarities of the activity conducted by the user under the contract of system license, the user is obligated:

1) to use, in the conduct of the activity provided by the contract, the firm name of the rightholder in the manner indicated in the contract;

2) to ensure the correspondence of the quality of the goods produced by it on the basis of the contract, of work performed, of services rendered to the quality of the analogous goods, work, or services, produced, performed, or rendered by the rightholder;

3) to observe the instructions and directions of the rightholder directed at ensuring the correspondence of the nature, means, and conditions of the use of the system of exclusive rights to that which it enjoys as the rightholder, including instructions involving the external and internal appearance of commercial premises;

4) to render the buyers (or customers) all additional services that they could expect, obtaining (or ordering) goods (or work or services) directly from the rightholder;

5) not to divulge secrets of production of the rightholder or other confidential commercial information received from it;

6) to provide the agreed number of sublicenses if such an obligation is provided by the contract;

7) to inform the buyers (or customers) by the method most obvious for them that it is using the firm name, trademark, service mark, or other means of individualization by virtue of a contract of system license.

Article 975. Limitations of the Rights of the Parties Under the Contract of System license

1. A contract of system license may provide for limitations of the rights of the parties; in particular it may provide for:

1) an obligation of the rightholder not to provide other persons with similar systems of exclusive rights for their use on the territory attached to the user or to refrain from its own analogous activity on this territory;

2) an obligation of the user not to compete with the rightholder on the territory to which the effect of the contract of system license;

3) a renunciation by the user of the receipt under the contracts of system license of analogous rights from competitors (or potential competitors) of the rightholder;

4) an obligation of the user to agree with the rightholder on the place of location of commercial premises used for the realization of the exclusive rights provided under the contract and also on their external and internal appearance.

Limiting terms may be found invalid on the demand of the antimonopoly agency or other interested person, if these terms, taking into account the condition of the relevant market and economic position of the parties, violate antimonopoly legislation.

2. Terms limiting the rights of the parties under the contract of system license shall be void if by virtue of them:

1) the rightholder has the right to determine the price of sale of goods by the user or the price of work (or services) performed (or rendered) by the user, or to establish an upper or lower limit for these prices;

2) the user shall have the right to sell goods, perform work, or render services exclusively to a defined category of buyers (or customers) or exclusively to buyers (or customers) having a place of location (or place of residence) on the territory defined in the contract.

Article 976. Liability of the Rightholder for Claims Made Against the User

The rightholder shall bear subsidiary liability for claims made against the user on the nonconformity of the quality of the goods (or work or services) sold (or performed or rendered) by the user under the contract of system license.

On claims made against the user as the producer of products (or goods) of the rightholder, the rightholder shall be liable jointly and severally with the user.

Article 977. Preferential Right of the User to Conclude the Contract of System license for a New Term

1. Unless otherwise provided by provided for the contract of system license, a user who has properly fulfilled its obligations shall have, under otherwise equal conditions a preferential right to other persons, to conclude a contract for a new term.

2. A user shall notify in writing the holder of the right on his will to conclude this contract in a term, mentioned in the contract of system license, and if this term is not mentioned in contract, in reasonable term upon the end of contract.

3. Upon conclusion of the contract of system license for a new term conditions of the contract might be changed upon an agreement of parties.

Article 978. Change of the Contract of System License

The contract of system license may be changed in accordance with the rules provided by Chapter 30 of the present Code.

In relations with third persons, the parties to the contract of system license shall have the right to rely on a change in the contract only from the time of registration of this change by the

procedure established by Paragraph 2 of Article 970 of the present Code, unless they show that the third person knew or should have known earlier of the change of the contract.

Article 979. Termination of the Contract of System License

1. Each of the parties to a contract of system license made without an indication of a term shall have the right at any time to withdraw from the contract, having informed the other party of this six months in advance, unless the contract provides a longer term.

2. Early rescission of a contract of system license made with an indication of a term and also rescission of a contract made without an indication of a term are subject to registration by the procedure established by Paragraph 2 of Article 970 of the present Code.

3. In case of termination of the rights belonging to the rightholder to a firm name, the contract of system license shall be terminated.

4. Upon recognition of the rightholder or user as insolvent (or bankrupt), the contract of system license shall be terminated.

Article 980. Maintenance of the Contract of System License in Force Upon Change of the Parties

1. The transfer to another person of any exclusive right included in the system of exclusive rights transferred to the user is not a basis for change or rescission of the contract of system license. The new rightholder becomes a party to this contract with respect to the rights and obligations relating to the transferred exclusive right.

2. In case of the death of the rightholder, his rights and duties under the contract of system license pass to the heir upon the condition that he is registered or, in the course of six months from the day of opening the inheritance, will be registered as an individual entrepreneur. In the contrary case the contract shall be terminated.

The realization of the rights and the performance of the duties of the deceased rightholder until the adoption by the heir of these rights and duties or until the registration of the heir as an individual entrepreneur shall be conducted by an administrator appointed by a notary.

Article 981. Consequences of Changing the Firm Name of the Rightholder

In case of change by the rightholder of its firm name or commercial designation, the right to use of which is included in the system of exclusive rights, the contract of system license shall be effective with respect to the new firm name of the rightholder unless the user demands rescission of the contract and compensation for damages. In case of continuation of the effect of the contract, the user shall have the right to demand a proportional reduction of the compensation due to the rightholder.

Article 982. Consequences of Termination of an Exclusive Right the Use of Which Was Granted under the Contract of System license

If, during the term of effectiveness of a contract of system license, the period of effectiveness of an exclusive right has expired whose use was granted under this contract, or this right has terminated on another basis, the contract of system license shall continue to be in effect with the exception of the provisions relating to the terminated right, and the user, unless otherwise provided by the contract, shall have the right to demand the proportional reduction of the compensation due to the rightholder.

In case of termination of the rights belonging to the rightholder to a firm name, the consequences shall ensue that are provided by Paragraph 3 of Article 979 and by Article 981 of the present Code.

CHAPTER 54. INSURANCE

Article 983. Voluntary and Compulsory Insurance

1. Insurance shall be conducted on the basis of contracts of property or personal insurance made by a citizen or legal person (the insured) with an insurance organization (the insurer).

2. The contract of personal insurance is a public contract (Article 442).

3. In cases when a statute imposes upon persons indicated in it an obligation to insure as the insured the life, health, or property of other persons or their civil law liability to other persons at the insured's own expense or at the expense of the interested persons (compulsory insurance), the insurance shall be conducted by the making of a contract in accordance with the rules of the present Chapter. For the insurers the making of contracts of insurance on conditions proposed by the insured shall not be obligatory.

4. A statute may provide for cases of obligatory insurance of the life, health, and property of citizens at the expense of funds of the budget (obligatory state insurance).

Article 984. Interests, Insurance of Which is Not Permitted

1. Insurance is not permitted:
of unlawful interests;
Insurance against losses from participation in games, lotteries, and wagers is not permitted.

2. Terms of a contract of insurance contradicting Paragraph 1 of the present Article are void.

Article 985. The Contract of Property Insurance

1. Under the contract of property insurance, one party (the insurer) is obligated, in exchange for the payment stated in the contract (the insurance premium), upon the happening of the event provided in the contract (the insured event) to compensate the other party (the insured), or the other person for whose benefit the contract is made (the beneficiary), for the damages caused as the result of this event to the insured property or damages in connection with other property interests of the insured (to pay the insurance compensation) within the limits of the amount determined by the contract (the insured amount).

2. Under the contract of property insurance, the following property interests in particular may be insured:

1) the risk of loss (perishing), shortage of, or harm to defined property (Article 986).

2) the risk of liability under obligations arising as the result of causing harm to the life, health, or property of other persons or, in cases provided by a statute, also of liability under contracts—the risk of civil liability (Articles 987 and 988).

3) the risk of loss from entrepreneurial activity because of the breach of their obligations by contract partners of the entrepreneur or change of conditions of this activity due to circumstances not depending upon the entrepreneur, including the risk of nonreceipt of expected income—entrepreneurial risk (Article 989).

Article 986. Insurance of Property

1. Property may be insured under a contract of insurance for the benefit of a person (the insured or beneficiary) having an interest based upon a statute, other legal act, or contract in the preservation of this property.

2. A contract of insurance of property made in the absence of interest of the insured or beneficiary in the preservation of the insured property is invalid.

3. A contract of insurance of property for the benefit of a beneficiary may be concluded without indication of the name or designation of the beneficiary (insurance “for the account of whom it may concern”).

In case of making of such a contract, the insured shall be given a bearer insurance policy. The presentation of this policy to the insurer shall be required for the exercise by the insured or the beneficiary of the rights under such a contract.

Article 987. Insurance of Liability for Causing Harm

1. Under a contract of insurance of the risk of liability for obligations arising as the result of causing harm to the life, health, or property of other persons, the risk of liability of the insured himself or of another person upon whom such liability may be imposed may be insured.

2. The person whose risk of liability for causing of harm is insured must be named in the contract of insurance. If this person is not named in the contract, it shall be considered that the risk of liability of the insured himself is insured.

3. The contract of insurance of the risk of liability for causing harm shall be considered made for the benefit of the persons to whom harm may be caused (the beneficiaries), even if this contract is made for the benefit of the insured or of another person liable for causing harm, or if in the contract it is not said in whose benefit it is made.

4. In the case when liability for causing harm is insured because its insurance is obligatory and also in other cases provided by a statute or the contract of insurance of such liability, the person for whose benefit the contract of insurance is considered to have been made shall have the right to present a demand directly to the insurer for compensation for harm within the limits of the insured amount.

Article 988. Insurance of Liability Under a Contract

1. Insurance of the risk of liability for breaching a contract shall be allowed in the cases provided by a statute.

2. Under the contract of insurance of the risk of liability for breaching a contract, only the risk of liability of the insured himself may be insured. A contract of insurance not meeting this requirement is void.

3. The risk of liability for breaching the contract shall be considered insured for the benefit of the party to whom, under the terms of this contract, the insured must bear the corresponding liability—the beneficiary, even if the contract of insurance is made for the benefit of another person or it is not stated in it for whose benefit it is made.

Article 989. Insurance of an Entrepreneurial Risk

1. Under a contract of insurance of an entrepreneurial risk, only the entrepreneurial risk of the insured itself may be insured and only for its benefit.

2. A contract of insurance of entrepreneurial risk of a person who is not the insured is void.

A contract of insurance of entrepreneurial risk for the benefit of a person who is not the insured shall be considered made for the benefit of the insured.

Article 990. The Contract of Personal Insurance

1. Under the contract of personal insurance one party (the insurer) is obligated for a payment defined by the contract (the insurance premium) paid by the other party (the insured) to pay at one time or to pay periodically the amount provided by the contract (the insured amount) in case of causing of harm to the life or health of the insured himself or of another citizen named in the contract (the insured person), the reaching by him of a specified age, or the happening in his life of another event provided by the contract (the insured event).

The right to receive the insured amount belongs to the person for whose benefit the contract was made.

2. The contract of personal insurance shall be considered made for the benefit of the insured person, unless another person is named in the contract as the beneficiary. In case of the death of the person insured under a contract in which no other beneficiary is named, the heirs of the insured person shall be recognized as beneficiaries.

A contract of personal insurance for the benefit of a person who is not the insured person, including for the benefit of an insured who is not the insured person, may be made only with the written consent of the insured person. In the absence of such consent, the contract may be

recognized as invalid on suit of the insured person and in case of the death of this person, on suit of his heirs.

Article 991. Compulsory Insurance

1. A statute may impose, upon persons indicated in it, the obligation to insure:

1) the life, health, or property of other persons defined in a statute in case of the causing of harm to their life, health, or property;

2) the risk of one's own civil liability that may occur as the result of the causing of harm to the life, health, or property of other persons or the breach of contract with other persons.

2. The obligation to insure one's own life and health may not be imposed upon a citizen by a statute.

3. In cases when the obligation to insure does not derive from a statute, but is based on a contract, including the obligation to insure property—on a contract with the holder of the property or on the bylaws of the legal person that is the owner of the property, such insurance is not obligatory in the sense of the present Article and does not entail the consequences provided by Article 993 of the present Code.

Article 992. Realization of Compulsory Insurance

1. Compulsory insurance shall be realized by the making of a contract of insurance by the person upon whom the obligation of such insurance is imposed (the insured) with the insurer.

2. Compulsory insurance shall be realized at the expense of the insured with the exception of compulsory insurance of passengers, which, in the cases provided by a statute, may be realized at their expense.

3. The objects subject to compulsory insurance, the risks from which they should be insured, and the minimum sizes of insured amounts are determined by a statute.

Article 993. Consequences of Violation of Rules on Compulsory Insurance

1. A person, for whose benefit, according to a statute, compulsory insurance should have been effected, shall have the right, if it is known to it that this insurance has not been effected, to demand by court procedure that it be realized by the person upon whom the obligation to insure is placed.

2. If the person upon whom the obligation to insure is placed has not done so or has made a contract of insurance on conditions worsening the position of the beneficiary in comparison with the conditions defined by a statute, it, in case of happening of the insured event, shall bear liability to the beneficiary on the same conditions on which insurance compensation should have been paid with proper insurance.

3. Amounts improperly saved by the person upon whom the obligation to insure was placed due to the fact that it did not fulfill this obligation or fulfilled it improperly shall be recovered for the income of the Republic of Armenia with assessment of interest on these amounts in accordance with Article 411 of the present Code.

Article 994. The Insurer

1. Legal persons that have permission (or a license) for the conduct of insurance of the respective type may make contracts of insurance as insurers.

2. The requirements to which insurance organizations must answer and also the procedure for licensing their activity and for the exercise of state supervision over this activity shall be determined by the statutes on insurance.

Article 995. Performance of Obligations Under the Contract of Insurance by the Insured and the Beneficiary

1. Making of a contract of insurance for the use of a beneficiary, including when it is the insured person, shall not free the insured from performing the obligations under this contract, unless the contract provides otherwise or the obligations resting on the insured are performed by the person for whose benefit the contract is made.

2. The insurer shall have the right to demand from the beneficiary, including when the beneficiary is the insured person, the performance of obligations under the contract of insurance, including the obligations resting on the insured, but not performed by him, upon making by the beneficiary of a demand for payment of insurance compensation under a contract of property insurance or of the insured amount under a contract of personal insurance. The risk of the consequences of nonperformance or untimely performance of the obligations which should have been performed earlier are borne by the beneficiary.

Article 996. Form of the Contract of Insurance

1. A contract of insurance shall be made in written form. Non-observance of the written form entails the invalidity of a contract of insurance. Such a contract is void.

2. A contract of insurance may be made by the making of one document (Paragraph 2 of Article 450) or by the presentation to the insured by the insurer on the basis of the insured's written or verbal application of an insurance policy (or record, certificate, or receipt), signed by the insurer.

Concluding the contract on the conditions proposed by the insurer shall be confirmed by acceptance from the insurer of the documents indicated in the first subparagraph of the present Paragraph.

3. The insurer in concluding the contract of insurance shall have the right to use standard forms of contract (insurance policy) developed by it or by an association of insurers for individual types of insurance.

Article 997. Insurance Under a General Policy

1. Systematic insurance of various lots of property of one type (goods, freight, etc.) on like conditions in the course of a determined term may, by agreement of the insured with the insurer, be done on the basis of one contract of insurance—a general policy.

2. The insured shall be obligated, with respect to each lot of property falling under the effect of the general policy, to inform the insurer of the information required by this policy in the term provided by it and, if no term is provided, without delay after receiving the information. The insured shall not be freed from this obligation even if by the time of receiving such information the possibility of losses subject to compensation by the insurer has already passed.

3. Upon demand of the insured, the insurer shall be obligated to issue insurance policies for individual lots of property falling under the effect of the general policy.

In case of non-correspondence of the content of the insurance policy to the general policy, preference shall be given to the insurance policy.

Article 998. Essential Terms of the Contract of Insurance

1. In the making of a contract of property insurance agreement must be achieved between the insured and the insurer:

1) upon the specific property or other property interest that is the object of the insurance;

2) on the nature of the event for the case of the happening of which the insurance is made (the insured event);

3) on the size of the insured amount;

4) on the term of effectiveness of the contract.

2. In the making of a contract of personal insurance agreement must be achieved between the insured and the insurer:

1) upon the insured person;

2) on the nature of the event for the case of the happening of which in the life of the insured person the insurance is made (the insured event);

3) on the size of the insured amount;

4) on the term of effectiveness of the contract.

Article 999. Determination of the Terms of the Contract of Insurance in the Rules of Insurance

1. The conditions on which a contract of insurance is made may be determined in standard rules of insurance of the respective type adopted or confirmed by the insurer or by an association of insurers (rules of insurance).

2. The terms contained in the rules of insurance and not included in the text of the contract of insurance (or insurance policy) shall be obligatory for the insured (and the beneficiary) if in the contract (or insurance policy) there is a direct indication of the application of these rules and the rules themselves are stated in the same document as the contract (or insurance policy) or on its reverse side or attached to it. In the latter case presentation to the insured upon the making of the contract of the rules of insurance must be confirmed by a notation in the contract.

3. Upon making of a contract of insurance, the insured and the insurer may agree on changing or excluding individual provisions of the rules of insurance and on supplementing the rules.

4. The insured (or beneficiary) shall have the right to rely in defense of its interests on the rules of insurance of the respective type to which there is a reference in the contract of insurance (or insurance policy), even if these rules by virtue of the present Article are not binding for it.

Article 1000. Information Provided by the Insured Upon the Making of the Contract of Insurance

1. Upon the making of the contract of insurance, the insured is obligated to communicate to the insurer circumstances known to the insured having substantial significance for determining the probability of the happening of the insured event and the size of possible damages from its happening (the insured risk), unless these circumstances were not known and were not required to be known by the insurer.

In any event, all circumstances specifically stated by the insurer in the standard form of contract of insurance (or insurance policy), or in a written questionnaire of the insurer, are recognized as substantial.

2. If a contract of insurance is made in the absence of answers of the insured to any questions of the insurer, the insurer may not thereafter demand the rescission of the contract or recognition of it as invalid on the basis that the respective circumstances were not communicated by the insured.

3. If after making of the contract of insurance it is established that the insured communicated to the insurer knowingly false information on the circumstances indicated in Paragraph 1 of the present Article, the insurer shall have the right to demand recognition of the contract as invalid and the application of the consequences provided by Paragraph 2 of Article 340 of the present Code.

The insurer may not demand recognition of a contract of insurance as invalid if the circumstances about which the insured was silent have ceased.

Article 1001. The Right of the Insurer to an Evaluation of the Insured Risk

1. At the making of a contract of insurance of property, the insurer shall have the right to make an inspection of the insured property and in case of necessity to have an expert examination made for the purpose of determining its actual value.

2. At the making of a contract of personal insurance the insurer shall have the right to make an investigation of the insured person to evaluate the actual condition of his health.

3. The evaluation of the insurance risk by the insurer on the basis of the present Article shall not be obligatory for the insured, who shall have the right to show otherwise.

Article 1002. Secrecy of Insurance

The insurer does not have the right to divulge information received by it as the result of its professional activity about the insured, the insured person, and the beneficiary, their condition of health, nor the property position of these persons. For violation of secrecy of insurance, the insurer, depending upon the type of the violated rights and/or the nature of the violation shall bear liability in accordance with the rules provided by Article 141 or Article 162 of the present Code.

Article 1003. The Insured Amount

1. The amount within the limits of which the insurer is obligated to pay compensation under a contract of property insurance or which it is obligated to pay under a contract of personal insurance (the insured amount) shall be determined by the agreement of the insured with the insurer in accordance with the rules provided by the present Article.

2. In case of insurance of property or entrepreneurial risk, the insured amount must not exceed their actual value (of the insurance value), which is considered to be:

1) for property—its actual value at the place where it is located on the day of making of the contract of insurance;

2) for entrepreneurial risk—the losses from the entrepreneurial activity that the insured, as might be expected, would have suffered upon the happening of the insured event.

3. In contracts of personal insurance and contracts of insurance for civil liability the insured amount shall be determined by the parties at their discretion.

Article 1004. Contesting the Insurance Value of Property

The insurance value of property indicated in the contract of insurance may not be contested thereafter with the exception of the case when an insurer that did not use its right to evaluate the insured risk (Paragraph 1 of Article 1001) before the making of the contract was intentionally led into misapprehension with respect to this value.

Article 1005. Partial Property Insurance

1. If, in the contract of insurance of property or entrepreneurial risk, the insured amount is established as less than the insurance value, the insurer upon happening of the insured event is obligated to compensate the insured (or the beneficiary) part of the damages suffered by the latter in proportion to the relation of the insured amount to the insurance value.

2. The contract may provide for a higher measure of insurance compensation, but not higher than the insurance value.

Article 1006. Supplementary Property Insurance

1. In the case when the property or entrepreneurial risk is insured only for part of the insurance value, the insured (or beneficiary) shall have the right to obtain supplementary insurance including from another insurer, but on the condition that the overall insured amount in all the contracts of insurance does not exceed the insurance value.

2. Non-observance of the provisions of Paragraph 1 of the present Article shall entail the consequences provided by Paragraph 4 of Article 1007 of the present Code.

Article 1007. Consequences of Insurance Above the Insurance Value

1. If the insured amount indicated in the contract of insurance or property or of entrepreneurial risk exceeds the insurance value, the contract shall be void with respect to that part of the insured amount that exceeds the insurance value.

The excess part of the insurance premium paid shall not be subject to return in such a case.

2. If, in accordance with a contract of insurance, the insurance premium is paid in installments and at the time of establishment of the circumstances indicated in Paragraph 1 of the present Article it has not been fully paid, the remaining insurance payments must be paid in an amount reduced in proportion to the reduction of the size of the insured amount.

3. If the exaggeration of the insured amount in the contract of insurance was the result of deception on the part of the insured, the insurer shall have the right to demand recognition of the contract as invalid and compensation for the damages caused to it by this in the amount exceeding the amount received by it from the insured as an insurance premium.

4. The rules provided by Paragraphs 1-3 of the present Article respectively also shall be applied in the case when the insured amount exceeds the insurance value as the result of insurance of one and the same object with two or several insurers (duplicate insurance).

The amount of insurance compensation subject to payment in this case by each of the insurers shall be reduced proportionally to the reduction of the initial insured amount under the respective contract of insurance.

Article 1008. Property Insurance against Various Insurance Risks

1. Property and entrepreneurial risk may be insured against various insurance risks both under one and under separate contracts of insurance, including under contracts with different insurers.

In these cases the size of the overall insured amount by all the contracts may exceed the insurance value.

2. If, from two or several contracts made in accordance with Paragraph 1 of the present Article, there derives an obligation of the insurers to pay insurance compensation for one and the same consequence of the happening of one and the same insurance event, the rules provided by Paragraph 4 of Article 1007 of the present Code shall be applied to such contracts in respective part.

Article 1009. Joint Insurance

The object of insurance may be insured under one contract of insurance jointly by several insurers (joint insurance). If the rights and duties of each of the insurers are not defined in such a contract they are jointly and severally liable to the insured (or the beneficiary) for the payment of insurance compensation under a contract of property insurance or the insured amount under a contract of personal insurance.

Article 1010. The Insurance Premium and Insurance Payments

1. The insurance premium is payment for the insurance that the insured (or the beneficiary) is obligated to pay the insurer by the procedure and within the times established by the contract of insurance.

2. The insurer, in determining the size of the insurance premium subject to payment under the contract of insurance, shall have the right to apply insurance rate tariffs developed by it, determining the premium taken per unit of insured amount, taking into account the object of insurance and the nature of the insurance risk.

In cases provided by a statute the size of the insurance premium shall be established in accordance with the insurance tariffs established or regulated by the agencies of state insurance supervision.

3. If a contract of insurance provides for the paying of an insurance premium in installments, the contract may define the consequences of nonpayment of current installment payments at the established times.

4. If an insured event happened before the payment of the current insurance payment, the making of which was overdue, the insurer shall have the right in determining the amount of insurance compensation subject to payment under a contract of property insurance or the insured amount under a contract of personal insurance to subtract the amount of late insurance payment.

Article 1011. Change of the Insured Person

1. In a case, when under a contract of insurance of the risk of liability for the causing of harm (Article 987), the liability of a person other than the insured is insured, the latter shall have the right, unless otherwise provided by the contract, at any time before the happening of the insured event to replace this person with another, having notified the insurer in writing of this.

2. The insured person named in the contract of personal insurance may be replaced by the insured with another person only with the consent of the insured person himself and the insurer.

Article 1012. Replacement of the Beneficiary

1. The insured shall have the right to replace the beneficiary named in the contract of insurance with another person, having informed the insurer in writing of this. The replacement of a beneficiary under a contract of personal insurance who was named with the consent of the insured person (Paragraph 2 of Article 990) is allowed only with the consent of this person.

2. The beneficiary may not be replaced by another person after it has fulfilled any obligation whatsoever under the contract of insurance or has presented to the insurer a demand for payment of the insurance compensation or insured amount.

Article 1013. Start of Effectiveness of the Contract of Insurance

1. The contract of insurance shall enter into force from the time of payment of the insurance premium or the first installment of it, unless provided otherwise in the contract.

2. The insurance provided by the contract of insurance shall extend to the insured events that have happened after the entry of the contract of insurance into force, unless in the contract a different time of start of effectiveness of the insurance is provided.

Article 1014. Early Termination of the Contract of Insurance

1. A contract of insurance shall be terminated before the expiration of the term for which it was made if, after it has gone into force, the possibility of happening of the insured event has ended and the existence of the insured risk has been terminated by circumstances other than the insured event. Such circumstances, for instance, include:

destruction of the insured property due to causes other than the happening of the insured event;

termination by the established procedure of the entrepreneurial activity of the person who has insured an entrepreneurial risk or a risk of civil liability connected with this activity.

2. The insured (or beneficiary) shall have the right to withdraw from a contract of insurance at any time, if by the time of withdrawal the possibility of happening of the insured event has not ended due to the circumstances indicated in Paragraph 1 of the present Article.

3. In case of early termination of a contract of insurance due to circumstances indicated in Paragraph 1 of the present Article, the insurer shall have the right to part of the insurance premium proportional to the time during which the insurance was in effect.

In case of early withdrawal by the insured (or the beneficiary) from the contract of insurance, the insurance premium paid to the insurer shall not be subject to return unless the contract provides otherwise.

Article 1015. Consequences of Increase of the Insured Risk During the Term of Effectiveness of the Contract of Insurance

1. During the term of effectiveness of the contract of property insurance, the insured (or the beneficiary) shall be obligated to inform the insurer without delay of the substantial changes that became known to it of the circumstances communicated to the insurer upon making of the contract if these changes may substantially influence the increase of the insured risk.

Changes shall be recognized as significant in any event if they are mentioned in the contract of insurance (or insurance policy) or in the rules of insurance given to the insured.

2. An insurer that has been informed of the circumstances entailing increase of the insured risk shall have the right to demand changes of the terms of the contract of insurance or payment of an increased insurance premium proportional to the increased risk.

If the insured (or beneficiary) objects to the change of the terms of the contract of insurance or increased payment of the insurance premium, the insurer shall have the right to demand rescission of the contract in accordance with the rules of Chapter 30 of the present Code.

3. In case of nonperformance by the insured or the beneficiary of the obligation provided by Paragraph 1 of the present Article, the insurer shall have the right to demand rescission of the contract and compensation for the damages caused by rescission of the contract (Paragraph 5 of Article 469).

4. The insurer does not have the right to demand rescission of a contract of insurance if the circumstances causing the increase of the insured risk have already ceased.

5. In case of personal insurance the consequences of changing the insured risk during the term of effectiveness of the contract of insurance indicated in Paragraphs 2 and 3 of the present Article may occur only if this is directly provided in the contract.

Article 1016. Transfer of the Rights to the Insured Property to Another Person

1. Upon transfer of the rights to the insured property from the person in whose interests the contract of insurance was made to another person, the rights and duties under this contract shall pass to the person to whom the rights to the property have gone, with the exception of cases of

compulsory taking of property on the grounds indicated in Paragraph 2 of Article 279 of the present Code or renunciation of the right of ownership (Article 280).

2. The person to whom the rights to the insured property have passed must inform the insurer of this in writing without delay.

Article 1017. Notification of the Insurer on the Happening of the Insured Event

1. The insured under a contract of property insurance, after it has learned of the happening of the insured event, is obligated without delay to inform the insurer or its representative of its happening. If the contract provides a time and/or a means of notification, it must be done in the agreed time and in the manner indicated in the contract.

The same obligation rests on the beneficiary who knows of the making of the contract of insurance to its benefit if it intends to use the right to insurance compensation.

2. Nonperformance of the obligation provided by Paragraph 1 of the present Article shall give the insurer the right to refuse to pay the insurance compensation, unless it is shown that the insurer knew in a timely manner of the happening of the insured event or that the insurer's lack of information on this could not affect its obligation to pay the insurance compensation.

3. The rules provided by Paragraphs 1 and 2 of the present Article shall be applied respectively to the contract of personal insurance if the insured event is the death of the insured person or the causing of harm to its health. In such a case the period of notification of the insurer established by the contract cannot be less than thirty days.

Article 1018. Reduction of Losses from the Insured Event

1. In case of happening of the insured event provided by a contract of property insurance, the insured shall be obligated to take all the reasonable and available measures in the given circumstances to reduce the possible damages.

In taking such measures, the insured must follow the instructions of the insurer if they are communicated to the insured.

2. Expenditures for the purpose of reducing the damages subject to compensation by the insurer, if such expenses were necessary or were made to fulfill the instructions of the insurer, must be compensated by the insurer, even if the respective measures turned out to be unsuccessful.

Such expenditures shall be compensated proportionally to the relation of the insured amount to the insurance value, regardless of whether, together with compensation of other damages, they may exceed the insured amount.

3. The insurer shall be freed from compensation for damages that have arisen as the result of the fact that the insured intentionally did not take the reasonable and available measures to reduce the possible damages.

Article 1019. Consequences of the Happening of the Insured Event Due to the Fault of the Insured, the Beneficiary, or the Insured Person

1. The insurer shall be freed from payment of insurance compensation or the insured amount if the insured event happened as the result of the intent of the insured, the beneficiary, or the insured person, with the exception of cases provided by Paragraphs 2 and 3 of the present Article.

2. An insurer shall not be freed from payment of the insurance compensation under a contract of insurance of civil liability for the causing of harm to the life or health if the harm is caused due to the fault of the person responsible for it.

3. The insurer shall not be freed from payment of the insured amount that under the contract of personal insurance is subject to payment in case of the death of the insured person if its death occurred as the result of suicide, and by which time the insurance contract had been in effect for no less than three years.

Article 1020. Bases for Freeing the Insurer from Payment of the Insurance Compensation and the Insured Amount

1. Unless a statute or the contract of insurance provides otherwise, the insurer shall be freed from payment of the insurance compensation and the insured amount if the insured event occurred as the result of:

1) the effect of a nuclear explosion, radiation, or radiation poisoning;

2) military actions and also maneuvers or other military measures;

3) civil war, popular uprising of any type, or strikes.

2. Unless the contract of property insurance provides otherwise, the insurer shall be freed from payment of the insurance compensation for losses that have arisen as the result of taking, confiscation, requisition, seizure, or destruction of the insured property by order of state agencies.

Article 1021. Transfer to the Insurer of the Rights of the Insured to Compensation for Loss (Subrogation)

1. Unless the contract of property insurance provides otherwise, the right to claim that the insured (or beneficiary) has against the person liable for the losses compensated as the result of the insurance passes, within the limits of the amount paid, to the insurer who has paid insurance compensation. A term of the contract excluding the transfer to the insurer of the rights of a claim against a person who has intentionally caused damages is void.

2. The right of claim that has passed to the insurer shall be exercised by it with observance of the rules regulating the relations between the insured (or beneficiary) and the person liable for the losses.

3. The insured (or the beneficiary) shall be obligated to transfer to the insurer all the documents and proofs and to report to it all information necessary for the exercise by the insurer of the rights of a claim that have passed to it.

4. If the insured (or the beneficiary) gave up its right of claim against the person liable for the damages compensated by the insurer or the exercise of this right became impossible due to the fault of the insured (or the beneficiary), the insurer shall be freed from payment of the insurance compensation in full or in corresponding part and shall have the right to demand the return of the amount of compensation paid in excess.

Article 1022. Prescription on Claims Connected With Property Insurance

A suit on claims arising from a contract of property insurance may be presented within the course of two years.

Article 1023. Reinsurance

1. The risk of payment of insurance compensation or the insured amount undertaken by the insurer by the contract of insurance may be insured by it in full or in part with another insurer (or insurers) under a contract of reinsurance made with the latter.

2. Unless otherwise provided by the contract of reinsurance, the rules of the present Chapter applicable with respect to insurance of entrepreneurial risk shall be applied to the contract of reinsurance. The insurer under the contract of insurance (the basic contract) who has made a contract of reinsurance shall be considered in this latter contract to be the insured.

3. In case of reinsurance the person liable to the insured under the basic contract of insurance for payment of the insurance compensation or the insured amount remains the insurer under this contract.

4. The consecutive making of two or more contracts of reinsurance is allowed.

Article 1024. Compulsory State Insurance

1. For the purpose of ensuring the social interests of citizens and the interests of the state a statute may establish obligatory state insurance of the life, health, and property of state employees of certain categories.

Obligatory state insurance shall be conducted at the expense of funds appropriated for this purpose from the state budget to the ministries and other funds of executive authority (the insured).

2. Obligatory state insurance shall be conducted in accordance with statutes and other legal acts on such insurance on the basis of contracts of insurance.

3. Payment shall be made for obligatory state insurance to the insurers in the amount determined by statutes and other legal acts on such insurance.

4. The rules of the present Chapter shall be applied to compulsory state insurance to the extent not otherwise provided by statutes and other legal acts on such insurance and that it does not otherwise follow from the nature of the respective relations for insurance.

Article 1025. Application of the General Rules on Insurance to Special Types of Insurance

The rules of the present Chapter shall be applied in the area of insurance of foreign investments from noncommercial risks, medical insurance, insurance of bank deposits, and insurance of pensions, and also to other types of insurance unless otherwise provided by the statutes on these types of insurance.