

Act I of 1992
on Cooperatives

Parliament

- on the basis of Para (1), Article 12 of the Constitution, according to which the State supports cooperatives created through the voluntary association of people, recognizes the autonomy of cooperatives, and
- with the purpose of enabling cooperatives adequately to serve the interests of members within an up-to-date legal framework,

enacts the following law:

Section I

Chapter I

Introductory Provisions

The Subject of the Law

Article 1

This law regulates the foundation of cooperatives, the organization of cooperative self-governments and other cooperative bodies, the rights and duties of the cooperative and its members, organizational changes in the cooperative, and the special issues of the interest representation of cooperatives.

Article 2

- (1) The provisions of the Civil Code shall apply to the financial and personal relations of cooperatives and their members which are not regulated by this law and are left unsettled by the rules of the self-government of cooperatives.
- (2) The law on banks and banking is also applicable to cooperatives carrying on banking activities, and the law on insurance affairs is also to be applied to cooperatives engaged in insurance activities.

The Cooperative

Article 3

A cooperative is a collective established in accordance with the principles of the freedom of association and self-help that pursues, through the personal participation and financial contribution of members, entrepreneurial and other activities serving the interests of members, within the framework of democratic self-government. The cooperative is a legal person.

Article 4

- (1) The members of a cooperative are natural persons; however, the bylaws may also permit the membership of legal persons. Except for personal participation and the holding of offices, the rights and duties of members that are legal persons are the same as those of members who are natural persons.
- (2) The provisions of Article 4, of Para (2) of Article 7, and of Article 9 of Law VI of 1988 on Business Organizations are applicable to the terms of the participation and membership of a foreign person in a Hungarian cooperative.
- (3) The number of members in a cooperative that are legal persons may not exceed the number of those who are

natural persons.

Chapter II

General Rules

Foundation of a Cooperative

Article 5

A cooperative may be founded by at least five members, and at least 15 members are required for the foundation of a cooperative to function in an educational institution (hereinafter: school cooperative), or for the setting up of a credit cooperative.

Article 6

(1) The foundation of a cooperative is decided by the general assembly held with the participation of the founding members. It is the duty of this general assembly to draw up the bylaws, elect officers, and to approve contracts concluded prior to foundation.

(2) The bylaws must be signed by the chairman of the constituent general assembly and the minute taker, and they must be authenticated by two cooperative members elected for this task at the constituent general assembly.

(3) The bylaws and any amendments to them must be recorded in a document countersigned by a lawyer (solicitor).

Article 7

(1) The foundation of a cooperative must be registered - for entry in the Rolls and for publication - within thirty days after the adoption of the bylaws at the Court of Registration keeping the roll of firms (hereinafter: Court of Registration).

(2) The existence of a cooperative is established with the act of entry into the Rolls by the Court of Registration with retroactive effect as from the date of the constituent assembly.

Article 8

(1) All those who acted on behalf of the cooperative before its official registration bear unlimited and joint liability for obligations undertaken on behalf of the cooperative. The exclusion or limitation of liability toward a third person is invalid.

(2) Liability as laid down under Para (1) above for the obligations undertaken on behalf of the cooperative prior to incorporation ceases when the general assembly of the cooperative gives its subsequent approval to the contract.

(3) If a cooperative begins its activities before registration, it must not refer to the lack of registration in its dealings with a third person.

Article 9

If the Court of Registration refused to enter the cooperative in the Rolls, cooperative activity must be stopped directly after receipt of the binding writ of refusal. In the interval between the constituent assembly until the ending of cooperative activity, the rules of a partnership must be appropriately applied in regard to the legal relationship between members, provided the conditions exist for this and the members have not disposed otherwise.

Article 10

In accordance with the provisions of this law and the regulations contained in the legal provisions on registration by the Court, the facts and figures relating to any cooperative are open and public.

Representation of the Cooperative

Article 11

(1) The cooperative is represented by the president of the board of directors, the managing president and the managing director, or the member of the board of directors designated for such duties in the bylaws; their competence cannot be validly limited in regard to third persons. Other members or employees may represent the cooperative in possession of a written empowerment by the officers listed above.

(2) The officers listed in the first sentence of Para (1) above have autonomous authority to sign papers on behalf of the cooperative. For the signature of another member or employee to be valid, joint authentication by two persons vested with the authority to represent the cooperative is necessary.

Supervision of Legality

Article 12

The Court of Registration supervises the observation of legality by the cooperative. When acting in this capacity in connection with cooperatives, the Court of Registration must apply the legal provisions on the court registration of firms.

Court Review of Unlawful Decisions

Article 13

(1) If a cooperative member has suffered some grievance - excluding grievance suffered in connection with work performance in an employment relationship or in a similar relationship - through a decision passed by the cooperative or cooperative organs that conflicts with the provisions of this law, with other statutes, with the cooperative bylaws, or with other self-government rules and regulations, the member may petition the Court to review the unlawful decision. This right cannot be validly ruled out.

(2) The action to have an unlawful decision reviewed must be initiated - under pain of forfeiture of the right - within thirty days of the delivery to the member of the ruling out decision. Except for a decision on the expulsion of a member, the starting of the action at law has no delaying force, but the Court may suspend execution of the decision.

(3) The general provisions of Law III of 1952 on the Code of Civil Procedure (hereinafter: CP) must be applied in regard to court proceedings.

Article 14

The bylaws may obligate the member who has suffered grievance deriving from an unlawful decision to report - before the starting of the action - the grievance to the supervisory board or the arbitration committee before starting action.

Section II

Chapter III

Self-Government of the Cooperative

The Meaning of Cooperative Self-Government

Article 15

Within the framework provided by the provisions of the law, the cooperative membership

a) decides itself in every question regarding the management and operation of the cooperative and in any issue connected with other activities serving the interests of members

b) sets up through election the corporate organs prescribed by the law or deemed necessary on account of their own needs

- c) passes the rules of self-government prescribed by this law or deemed necessary on account of their own needs
- d) checks the operation of the cooperative organs and the activities of cooperative officers
- e) provides for the accountability of the officers and leaders.

Article 16

Only a law can provide for cooperatives and particularly for their membership, oranzizational and financial relations. The cooperative may settle through reference to the rules of self-government questions that are not settled in legal provisions that have binding force.

Self-Government Rules

Article 17

(1) The bylaws are the basic document on the organization, operation and management of cooperatives; their contents are determined by the cooperative membership with due attention to the aims and endowments of the cooperative.

(2) The bylaws must designate:

- a) the name, principal office and range of activities of the cooperative
- b) the most important rules regarding the organization of the cooperative and the operation of its organs
- c) the competence of the corporate bodies of the cooperative, the number of members in each, the officers of the cooperative and the term of their assignment
- d) the manner of announcing the convocation of a general assembly
- e) the rights and duties of members
- f) the amount of money represented by a share, the conditions of paying for it, and the number of shares each member is entitled to or may subscribe for
- g) how the cooperative is to be represented
- h) the jurisdiction of the local self-government units of the cooperative and their relationship with the central self-government of the cooperative itself
- i) connections between a member's own economic activities and the management and operation of the cooperative, and the principles governing the assistance and allocations provided by the cooperative for such contacts to function effectively
- j) in the case of a school cooperative (cooperative group) the relationship between the educational institution and the cooperative (cooperative group)
- k) whatever thing whose settlement is referred by the law to the bylaws, or considered necessary by the general assembly.

(3) If the cooperative establishes indivisible property, the bylaws will determine the objectives of the cooperative for the purposes of which this part of the assets may be used, particularly in the case of the dissolution or transformation into a business organization of the cooperative.

(4) The adoption or amendment of the bylaws requires a two-thirds majority of the votes of the members present at the general assembly, and in the case of a school cooperative the agreement of the principal of the educational institution.

(5) If the bylaws do not contain any provision on the period of the operation of the cooperative, the cooperative must be considered having been formed for an indefinite period of time.

Article 18

The general assembly will decide whether the cooperative frames - in addition to the baylaws - other rules of self-government.

Article 19

The rules of self-government may differ from the general legal provisions only to the extent the law itself permits departure.

Chapter IV

The Organs of Cooperative Self-Government

The General Assembly

Article 20

(1) The General Assembly is the principal organ of self-government of a cooperative. Its competence extends to

- a) the formulation and amendment of the bylaws and other rules of self-government
- b) election and relief from duties of the members and the president of the Board of Directors
- c) election of the members and chairman of the Supervisory Board and relieving them of their duties; the commissioning and relieving of duties of other persons seeing to their tasks
- d) setting the fees of office holders
- e) determination of the amounts of money represented by shares and the nominal value of cooperative quotas
- f) adoption of the annual report and decision-taking on the use of post-tax profits or on sources for covering losses
- g) decision-taking within the framework of the bylaws on what is to happen with indivisible property
- h) decision-taking on the fusions, splitting, reorganization or dissolution of the cooperative
- i) entry into cooperatives and business organizations, and quitting; foundation of a cooperative or business organization if the assets contributed exceed the value defined in the bylaws
- j) entry into an interest organization, and secession from it
- k) decision-taking on the starting of court action for damages against an office holder
- l) whatever else the bylaws refer to the competence of the General Assembly.

(2) Decisions on the organizational changes listed in Para (1) Points g) and h) above are within the exclusive competence of the General Assembly. Decisions on any other matter - except for provisions taken under the bylaws that affect the competence of the meeting of delegates - may be referred by the bylaws to the competence of the meeting of delegates.

(3) The bylaws may refer

- a) the self-government rules mentioned in Article 18 to the competence of the Board of Directors, and
- b) the election and relief of the members of the Board of Directors and of the Supervisory Board to the competence of the local government units of the cooperative.

Article 21

- (1) The General Assembly must be convoked as necessary, but at least once a year. The meetings of the General Assembly are convened by the Board of Directors. The General Assembly may be convoked for a special out-of-turn meeting if the holding of such a session has been proposed with the designation of the reason in writing by at least ten per cent of the members of the Supervisory Committee.
- (2) The General Assembly must be convoked in a writ at least fifteen days in advance of its date with the designation of the agenda. Provided that this is permitted by the bylaws, the General Assembly may also be convoked by means of an announcement.
- (3) If a motion to this effect has been proposed in writing by at least ten per cent of the membership, any affair or matter must be put on the agenda of the General Assembly. The same proportion of members may propose that the General Assembly review a decision by any self-government organ or officer of the cooperative, or move that it decide on a case belonging to the scope of another corporate body.

Article 22

- (1) There is a quorum of the General Assembly when at least half of the membership is present. If there has been no quorum - unless the bylaws provide otherwise - the at new general assembly meeting to be called with the same agenda within eight days, with respect to the original agenda there is a quorum, regardless of the number of members present.
- (2) Unless this law, the bylaws, or the General Assembly provides otherwise, the General Assembly must pass decisions in open voting if there is a simple majority in support of the decision.
- (3) Except for the cases regulated in Article 94 and in Para (2) of Article 107, each member is entitled to one vote in the General Assembly.

Article 23

A protocol must be taken on each meeting of the General Assembly. The protocol must contain the number of members present, a summary of the cases (motions) discussed, the decisions, and the data on voting. The protocol must be signed by the chairman of the General Assembly and the minute-taker, and it must be authenticated by two cooperative members elected for this purpose at the General Assembly meeting.

Article 24

- (1) The bylaws may designate a manner of holding general assemblies in the alternative form of sectional assemblies. In this case guidelines are provided for charting the districts of the sectional assemblies given to govern the sectional units for the assemblies.
- (2) Each of the sectional assemblies must be held with the same agenda and the votes at each must be added and considered together.

Article 25

- (1) For decisions that are practicable to be taken in that manner, the bylaws may make it possible for the members to vote in writing without convening a meeting of the General Assembly. In that case the bylaws must determine the procedures for voting in writing and the manner the members are informed on the decision taking and its time.
- (2) A voting procedure in writing is not considered acceptable in regard to the questions defined under Points a) through i) of Para (1) of Article 20.

The Meeting of Delegates

Article 26

- (1) The bylaws may call for regular meetings of delegates. In this case the ratio of the delegates to the membership,

the manner of election and the term of appointment are defined with the proviso that at least fifty delegates are to be elected.

(2) In case sectional assemblies have been decided on as a regular procedure, the members participating in the sectional assemblies elect the delegates for the meetings of delegates. In the case of cooperative housing units (Article 92), the bylaws may provide otherwise.

(3) Any member of the cooperative may attend a meeting of delegates with say but no vote.

(4) Otherwise, the rules on General Assemblies are to be applied in regard to the competence and proceedings of the meeting of delegates - with the following differences:

a) no voting procedure that is entirely in writing is permitted - except for housing cooperatives

b) the second sentence in Para (1) of Article 22 is not applicable.

The Local Government Units of Cooperatives

Article 27

(1) The bylaws may recognize groups of members organized along workplace or organizational lines, domicile, or other communities of interest as local government units of the cooperative.

(2) The bylaws determine the competence of the local government units of a cooperative, their relations with the central local government organs of the cooperative and particularly matters in which the unit is entitled to decision-making, putting motions forward or the right of being consulted.

(3) Before a decision that affects the local self-government unit is taken by the Board of Directors, the local self-government is to be consulted.

The Board of Directors

Article 28

(1) The General Assembly elects a board of directors of at least three members. In the case of a cooperative whose membership is smaller than fifty members and also in the case of housing cooperatives, the bylaws may provide for the office of a sole director-president rather than a board of directors.

(2) Only members of the cooperative may be elected into the Board of Directors, though the bylaws may provide otherwise and may limit the number of Board members employed by the cooperative.

(3) The president of the Board of Directors, who is at the same time the President of the Cooperative, is elected by the General Assembly from among the members of the Board of Directors.

Article 29

(1) The Board of Directors guides the activities of the cooperative in accordance with the decisions of the General Assembly. The Board develops and directs the work organization of the cooperative, it exercises the rights of the employer as referred to its competence by the rules of self-government, and employs the managing director of the cooperative if the office has been established by provisions in the bylaws.

(2) The Board of Directors takes decisions in all matters deciding about which does not belong to the competence of other organs of the cooperative. It bears responsibility for its actions to the General Assembly.

(3) The Board of Directors is obligated to report to the General Assembly on the assets, the financial situation and incomes of the cooperative, and on its own activities.

(4) The provisions in Paras (1) through (3) above apply to the Director-President as well.

The Supervisory Board

Article 30

- (1) The General Assembly elects a Supervisory Board of at least three members and a Chairman from among the members of the board.
- (2) The bylaws of a cooperative of fewer than fifty members and of housing cooperatives may designate an auditor or a member of the cooperative as supervisor in charge of the duties of the Supervisory Board. The person so designated is to be considered an office holder.

Article 31

- (1) The Supervisory Board sees to the representation of the interests of members as owners and as members of the self-government. To this end it continuously supervises the entire activity of the cooperative.
- (2) The Supervisory Board
 - a) may examine any matter or affair connected with the operation of the organs and the management of the cooperative
 - b) may instruct the Board of Directors to proceed in accordance with the bylaws or other rules of self-government
 - c) may propose the relief or impeachment of the entire Board of Directors or of some of its members and also the convocation of the General Assembly
 - d) may itself convoke the General Assembly if the Board of Directors fails to fulfil its obligation to this end
 - e) on the basis of the annual report [Para (3), Article 29], expresses its views to the General Assembly on the management and operation of the cooperative; without this procedure no valid decision may be passed in regard to the annual report
 - f) may express its opinions also on other reports and papers submitted to the General Assembly
 - g) makes proposals to the General Assembly on the fees of the officers of the cooperative
 - h) reports at least once a year on its activity to the General Assembly.

Article 32

- (1) The competent corporate organs of the cooperative are duty bound to discuss in merit the motions and proposals of the Supervisory Board and to take decisions on each. The Chairman of the Board - or the member of the Board he or she commissioned to represent him or her - attends with say but no vote the meetings of the Board of Directors and other cooperative bodies.
- (2) The Supervisory Board is empowered to look into the papers and documents of the cooperative and to ask for any information seen fit from cooperative members. It is obligatory to provide the information.

Article 33

The State organs entitled to exercise control and supervision are obligated to inform the Supervisory Board on the commencement of their activities and to invite its participation.

The Arbitration Committee

Article 34

- (1) The bylaws may provide for the setting up of an Arbitration Committee of at least three members. The Arbitration Committee - or if there is none, the Supervisory Board - mediates in the cases of infringements of legal

rights and violations of interests within the cooperative, and in legal disputes in the membership.

(2) The operation of the Committee does not affect the possibility of resorting to the court and the time requirements in that connection.

(3) In matters affecting the entire membership or a relatively large group thereof and connected with work performance, conditions of work, and with profit shares, bonuses and subventions, the bylaws vest the Arbitration Committee with the rights of proposal and consultation.

Officers

Article 35

(1) Cooperatives have the following officers: the president and members of the Board of Directors, the president and members of the Supervisory Board, or the person empowered to deal with the tasks of the latter, the directors-president and - if the bylaws so provide - the managing director. The bylaws may provide for there being other officers as well.

(2) The officers are elected by secret ballot.

Article 36

(1) The following categories of persons are excluded from eligibility for office

a) those who are not members of the cooperative concerned unless this law or the bylaws provide that membership is not a prerequisite for holding the said office

b) a person who has been placed under a legal guardian because of limited or no disposing capacity

c) those on whom a binding sentence of imprisonment has been imposed as long as not relieved from the legal consequences of having had a record of previous conviction

d) a person who has been prohibited from the pursuance of a given occupation as long as that decision is in force, in a cooperative that carries on an activity to which the prohibitive decision applies

e) those who do not have the skills, the professional criteria or qualifications prescribed in the bylaws

j) any representative of a member who is a legal person.

(2) The bylaws may specify other reasons for disqualification.

Article 37

(1) Close kins [see Point b) of Article 685 in the Civil Code] and commonlaw spouses must not hold office in the same cooperative. Such relationships constitute incompatibility on the one hand between persons designated to handle money and materials and on the other hand with their immediate superiors, and also between the president and members of the Supervisory Board.

(2) The President and members of the Board of Directors, and the President-Director or Managing Director are not eligible for membership in the Supervisory Board and in the Arbitration Committee.

(3) The bylaws may define other cases of incompatibility.

(4) The bylaws may provide relief from under the prohibitions in Para (1) above.

Article 38

(1) Except for membership in the Supervisory Board, the same person must not hold office with more than two cooperatives or business organizations concurrently.

(2) The same persons is not eligible for Supervisory Board membership in more than five coopeatives and business organizations concurrently.

(3) The cooperatives (business organizations) concerned must be informed about a multiple election.

Article 39

An officer of a cooperative

a) must not be a member with unlimited liability of a business organization

b) must not be a leading officer of a business organization engaged in an activity similar to that of the cooperative concerned.

Article 40

(1) Cooperative officers are obligated to proceed with the circumspection that is expected from office holders. For any damage they cause to the cooperative by infringement of their duties they bear joint responsibility in accordance with the provisions of civil law even though they are employees of the cooperative concerned.

(2) The responsibility described in Para (1) does not rest with the officer who voted against the decision concerned or protested against the measure taken and lodged his protest with the Supervisory Board - or else with the person acting on behalf of the Supervisory Board.

(3) Obliging an officer to pay damages is within the competence of the Court.

Article 41

(1) The assignment of a cooperative officer ends

a) when the period for which the assignment was made expires

b) with the death of the officer

c) with his resignation

d) when he is relieved of his duties by the General Assembly

e) when his cooperative membership ends provided that according to this law or the bylaws membership is necessary for filling the office concerned.

(2) The assignment of the office holder ends unless the reason for incompatibility or disqualification is stopped by the officer in question within 15 days of its arising

(3) Relief of officers is decided by the General Assembly by secret ballot

Section III

Chapter V

Cooperative Membership

The Establishment of Cooperative Membership

Article 42

(1) In accordance with the principle of open membership, no discrimination is permissible in the admission of members and in the determination of the rights and duties of members on the basis of race, colour, sex, language, religion, political or other views, nationality or social descent, property, birth or any other circumstance.

(2) Minors over 14 years of age may become members of a cooperative provided their legal representatives give their consent.

(3) The bylaws may determine the common interests whose sharing is a condition of membership.

Article 43

(1) The admission of a member is decided by the corporate body designated in the bylaws at the session directly following the submission of the application for membership. The decision must be made known to the person who has applied for membership; and if the application was not decided by one of its meetings, the General Assembly must be informed.

(2) The number of members admitted to a school cooperative apart from students must not exceed 15 per cent of the total membership.

(3) Unless there is a different agreement in force, membership is established when the member paid in to the cooperative the sum of his share - or the part thereof designated in the bylaws. In this case membership is retroactive from the date of the decision on the admission of the member.

(4) An appeal to the General Assembly is possible in the case of a negative decision on a request for admission unless the refusal was passed by the General Assembly itself.

Article 44

Cooperatives are obligated to keep records on their members. As long as no contrary evidence has been submitted, these certify the correctness of data on the start, existence and termination of membership.

Fundamental Rights and Duties of Members

Article 45

(1) It is the fundamental right of every member

a) to participate in the activities of the cooperative and to benefit from the business of the cooperative in accordance with his personal performance, financial contributions and any other interest in the cooperative

b) to claim and use the services the cooperative provides for its members, and to enjoy any other advantages of cooperation

c) to participate in the General Assembly with the right of say and vote

d) to hold office in the cooperative; this is a right to which no representative of an incorporated member of the cooperative is entitled

e) to ask for information from officers and managers on any question that concerns the cooperative.

(2) The organizational rights based on membership and the rights connected with personal contributions are equal for all members irrespective of their financial contributions to the cooperative.

Article 46

It is the general duty of members

a) to contribute the generally expected value in assets or property to the cooperative, and to share in the activities of the cooperative and its organs of self-government according to what he or she has undertaken

b) to treat and protect all cooperative property with care and circumspection.

Article 47

The rights and duties of members are laid down in detail in the bylaws and other self-government rules and regulations, and also specified in the membership contracts concluded with the cooperative.

Termination of Membership

Article 48

(1) Membership is terminated when

- a) the member dies, or a member that is a corporation ceases to exist
- b) a member secedes from the cooperative
- c) a member is expelled
- d) the cooperative is transformed into a business organization
- e) the cooperative is dissolved without any legal successor.

(2) The bylaws may also designate other instances that lead to the termination of membership.

Article 49

(1) Members who intend to secede from the cooperative must notify the management in writing.

(2) The bylaws (self-government rules) determine the interval that shall pass between a member's announcement of secession and the termination of membership. Membership is considered terminated after the elapse of this period.

Article 50

(1) The cooperative may expel a member who is culpable of

- a) behaviour gravely detrimental to or jeopardizing the interests of the cooperative, or
- b) failing - over a period determined in the bylaws - to fulfil duties deriving from membership despite admonition to do so.

(2) The member concerned must be invited to the meeting of the corporate organ entitled to decide on his or her expulsion. A resolution must be passed and a writ containing the resolution must be presented to the member concerned.

(3) An appeal to the General Assembly is possible on the expulsion order unless it was passed by the General Assembly. This does not interfere with the possibility of starting court action. Petitioning the Court has delaying effect.

(4) Membership expires after 30 days counted from the date when the expulsion order was made known to the member, unless

- a) the resolution sets a longer period
- b) action was started at Court for the legal revision of the decision within 30 days after notification of the member, and the Court has reversed or invalidated the expulsion order
- c) the General Assembly has changed the expulsion decision at the request of the member concerned.

Article 51

(1) Provided that membership is terminated on the basis of Points a) through c), Para (1) or of Para (2) of Article 48, financial settlement is in order with the former member concerned (or his or her heir).

(2) As part of the settlement, the assets put into the use of the cooperative on the basis of the membership contract must be placed at the disposal of the former member. The bylaws and the membership contract serve as the guideline for when the assets are to pass into the former member's hand. If the period is longer than the time when membership expires, a fee must be paid to the former member for the use of the assets during the period in question.

(3) If an asset put into the use of the cooperative can no longer be traced, or is no longer in the use of the cooperative at the time of secession, the former member must be compensated for its value.

(4) In regard to the profit share due to the former member and to the manner and time of payment of the amount represented by his shares, the bylaws or the decision of the cooperative self-government body the bylaws designate is must followed.

Chapter VI

Ownership Relations Between the Members and the Cooperative

Shares

Article 52

(1) The member may subscribe to the number and sum of shares specified in the bylaws.

(2) Pledging the purchase of one share is obligatory for each member when the cooperative is founded or when the member concerned enters it, unless

a) the case is that of a housing cooperative

b) the member has made other contributions (Article 54).

(3) Provided that the member did not pay in the full sum of the share on entry in the cooperative, he or she is obliged to pay the remainder in the manner and at the time - at the latest within oone year of joining - specified in the bylaws. In the case of a newly founded cooperative, the one year period runs from the date of the registration of the cooperative.

Article 53

(1) The shares must each be of an idencetical sum. A share is nontransferable and is not subject to court distraint if the cooperative member bears liability to a third party.

(2) A share entitles a holder to receive the appropriate dividend from the after-tax profit of the cooperative.

Other Financial Contributions by Members

Article 54

(1) Within the framework of the self-government rules and the resolutions of the General Assembly, cooperative members may, apart from subscribing to shares, make other forms of financial contributions and may give loans on interest to the cooperative.

(2) The manner of paying, using, terminating and repaying the contributions mentioned under Para (1) above and the amount of the dividends (interests) due after them are subject - in respect to the part not designated in the self-government rules - to a written agreement between the member and the cooperative.

(3) Provided that the member has made contributions in other forms as well as subscription to shares, he may apply for shares up to the value of his contributions. This provision does not extend to loans given to the cooperative.

Cooperative Quotas

Article 55

(1) The amounts out of the after-tax profits to be spent according to the decision of the General Assembly on the increase of the equity capital must be divided among the owners of the individual quotas. On the amounts so distributed registered securities (cooperatives quotas) must be issued at the request of those entitled to them.

(2) Provided that the equity capital must be used for the compensation of losses, the General Assembly must proportionately reduce the nominal value of the quotas.

Article 56

(1) Cooperative quotas are transferable and inheritable, and entitle their holders to annual dividends on the after-tax profit of the cooperative. No interest is payable on cooperative quotas.

(2) Provided that a cooperative member wishes to transfer his quota to an outsider, the cooperative and its members are entitled to the right of preemption. If those who have the right of preemption do not state their claim within 30 days of the announcement of the transfer of the equity, it is taken for granted that they do not intend to avail themselves of the right.

(3) The General Assembly or the meeting of delegates may decide on the purchase by the cooperative of the quotas of a cooperative officer.

(4) Unless the quotaholder is a member of the cooperative, at the General Assembly meeting he has right of say but not vote.

Article 57

(1) The cooperative must keep records of the holders of the cooperative quotas and of the nominal values of the quotas. Transfer or inheritance of the quotas must be immediately reported to the cooperative.

(2) The rights associated with a quota are restricted to the person who owns quota according to the records.

Article 58

If membership ceases on the basis of Points a) through c), Para (1), or of Para (2) of Article 48, the former member (his legatee) is entitled to the amount of the share(s) he holds provided that the share capital has not been used to cover losses. In addition, a former member may claim his part of the provisions set aside by the General Assembly of the cooperative with this purpose.

Allocations for Members

Article 59

(1) Agricultural and industrial cooperatives are obligated to create a solidarity fund - as indivisible property - commensurate to ten per cent of their assets.

(2) In accordance with the principle of cooperative solidarity, the cooperative extends various types of financial assistance and services to their members - especially members in need, disabled or ill for a long period, or having several children - and the widows and orphans of members, in the manner and according to the conditions laid down in the bylaws (rules of self-government). The benefits include relief, pension supplements, specialized training, meal vouchers, contributions to resort stays, providing a social nurse, etc.; and also extend to support for cultural and sports activities.

(3) The amount designated by the General Assembly out of what is paid for the purposes of the allocations may be accounted for as costs.

Article 60

The cooperative supports members in the manner and according to the conditions determined in the bylaws (self-government rules), provides for the use of real estate and means of production by members who carry on economic activities outside of the cooperative. Other varieties of this type of support include grants of produce or products, or

of cash to buy produce or products, and other types of assistance.

Section IV

Chapter VII

Economic Activities of Cooperatives

Basic Rules

Article 61

- (1) The cooperative manages the assets it owns or those placed by members or others at its disposal for use and disposes of its after-tax profits freely within the framework of this law.
- (2) The bulk of the annual distributable profit of the cooperative must be divided up among the members proportionately to the personal contribution of each.

Article 62

- (1) A cooperative is free to engage in any activity that is not referred by the law to the exclusive provenance of a different type of business organization or of the State (a government organ).
- (2) A credit cooperative may act only for its members.

Rules Connected with Work

Article 63

Within the framework of cooperative membership it is possible for other types of legal relations like enterprise and employment to become established.

Article 64

Group or individual membership contracts corresponding to the rules of self-government and the provisions of the Civil Code determine what is to be done in work of an entrepreneurial nature.

Article 65

- (1) Except for its provisions on disciplinary responsibility, the Labour Code and the rules of cooperative self-government, furthermore the contracts concluded in accordance with them are to be complied with in regard to legal relations that have been established between cooperatives and their members in the nature of employment.
- (2) The Labour Code is applicable to the employment relations of the employees of cooperatives.

Article 66

- (1) Members employed in a legal relationship in the nature of employment and the employees of cooperatives may on the basis of Law II of 1989 create common interest organizations whose rights are determined by the Labour Code and the legal provisions issued on the latter's basis.
- (2) The rights and duties related to work performance and to procedures connected with their enforcement are settled - on the basis of the legal provisions on employment relations - by the agreements concluded between the cooperative on the one hand and the interest organizations of the members and employees on the other hand.

Building Reserves

Article 67

In the measure and manner set in the bylaws, cooperatives - except for housing cooperatives - may create accumulated profit reserves (from their post-tax profits). Unless the law provides otherwise, at least ten per cent of the after-tax profits must be placed in the reserves to the point where the reserves reach the extent of share capital determined in the bylaws. From this source among other things losses may be covered.

Obligation to Report and to Keep Accounts

Article 68

The provisions of the law on accounting must be applied in regard to the obligation of the cooperative to report and to keep the accounts.

Chapter VIII

Liability

The Liabilities of the Cooperative

Article 69

- (1) The assets of the cooperative must cover its liabilities. The assets of the cooperative are, share capital, equity capital, the accumulated profit reserve: and indivisible properties and freely disposable assets.
- (2) The cooperative member's own property and the pay he or she receives for work must not be considered collateral for the liabilities of the cooperative. This provision, however, does not apply to members of housing cooperatives.

Liability for Damages of the Cooperative and Its Members

Article 70

- (1) The cooperative is liable for damages wrongfully caused to a member according to the general rules of liability under civil law.
- (2) Regardless of culpability, the cooperative is to compensate members for damages
 - a) incurred during the work performance of the member within the legal framework of employment or in the course of his own economic activities done under the direct guidance and supervision of the cooperative
 - b) which affected things generally taken to the workplace.
- (3) The cooperative is not burdened by liability as described under Para (2) above if it proves that the damage was caused by some unavoidable occurrence or factor outside its scope of operation or solely by the unavoidably uncontrollable behaviour of the member concerned. Even when this is not the case, the cooperative is exempt from liability in regard to the part of the damages precipitated by culpable behaviour on the part of the member.

Article 71

Except for damage caused in the course of work performance connected with legal employment relations, a member is liable according to the provisions of civil law for damages caused to the cooperative.

Article 72

Enforcement of the obligation to compensate for damages is within the competence of the Court.

The Rules of Liability between the Cooperative and its Employees

Article 73

The provisions of the Labour Code must be applied in regard to the enforcement of liability through disciplinary action and the indemnification obligation of cooperative members, and also in regard to the liability of the cooperative for damages caused to its employees.

Section V

Chapter IX

Fusion, Separation, Transformation and Dissolution of Cooperatives

Fusion of Cooperatives

Article 74

(1) Two or more cooperatives may decide at a separate General Assembly for each with a two-thirds majority vote of all members - of the members present in the case of credit cooperatives - to fuse into a new cooperative or to form a merger with one cooperative becoming absorbed in the other. In the case of a school cooperative, fusion (merger) requires the approval of the head of the educational institution.

(2) The fusing (merging) cooperatives set the date of their union, outline the new cooperative bylaws, modify the rules of self-government as needed, and hold the necessary elections at a joint general assembly meeting.

(3) The rights and duties of the cooperatives uniting pass on to the new cooperative (the one that absorbs the other).

Article 75

Otherwise, Articles 7 through 9 of this law and Articles 60 through 66 of Law XIII of 1989 on the transformation of business organizations (Hereinafter: TrL) are applicable to fusions and mergers.

Article 76

In the course of the union of cooperatives the rules and regulations on the control of divisional fusion or mergers of Law LXXXVI of 1990 on the prohibition of unfair market practices shall also be applied.

Split of Cooperatives

Article 77

(1) The General Assembly may decide with a two thirds majority of the votes of all members that the cooperative is to split into two or more cooperatives. Two general assemblies must be held for splitting.

(2) At the first general assembly the members of the cooperative state their intention to split and on who wishes to become affiliated to this or that cooperative. Following this, the Board of Directors is obliged to draw up a balance sheet and on its basis to prepare a proposal for the division of assets, which - except for housing cooperatives - must be seen by an auditor. The Board of Directors is also bound to submit its proposal on the determination of the nominal value of quotas.

(3) The second general assembly makes the decision on separation and on the division of assets, and determines the nominal values of quotas.

Article 78

The new cooperatives are liable for earlier obligations according to the ratio represented by the division of the assets.

Transformation of Cooperatives

Article 79

(1) A cooperative may become transformed into a limited liability or joint stock company; a savings, credit or insurance cooperative may become transformed only into a joint stock company.

(2) Accounts must be settled through the application of Article 91 below with any cooperative member who does not seek admission into the business organization. If these members form a new cooperative or join another cooperative, the part of what is according to a separate law the indivisible property of each goes to the cooperative they have founded or joined.

Article 80

If 15 per cent of the members move in writing for transformation, the Board or Directors is obliged to convoke at a date within 90 days the General Assembly that is to prepare the transformation of the cooperative (hereinafter: preparatory meeting).

Article 81

(1) The Board of Directors is duty bound to submit to the preparatory meeting a motion that

a) provides information on the economic objectives to be attained through transformation, the means necessary for this purpose, and the future position of cooperative members including the question of allocations and assistance (Articles 50 and 60 above)

b) contains a proposal on the form of business organization and the distribution of assets opted for

c) reviews the points of view represented by the submitters of the motions or proposals and by the Board of Directors.

(2) The preparatory meeting decides on the questions that constitute the subject matter of the proposals with the majority vote of two thirds of all members - in the case of housing cooperatives, though not in the case of resort cooperatives, with unanimous vote.

(3) The preparatory meeting may appoint a committee to prepare transformation.

Article 82

The Board of Directors (committee) is obligated according to the decisions passed by the preparatory meeting to prepare, apart from the transformation plan and the balance sheet, a note listing the allocations and benefits to be retained.

Article 83

(1) Provided that the preparatory meeting has opted for transformation, the Board of Directors is bound to convoke the transformation assembly within 30 days following the preparatory meeting.

(2) All the members of the cooperative must be invited to the transformation assembly. The documents enumerated in Articles 81 and 82 must be attached to the invitation.

(3) The transformation assembly decides on transformation with a two-thirds majority vote of all the members - in the case of housing cooperatives, though not in the case of resort cooperatives, unanimously. Following this, the meeting continues its work as the first meeting of the members of the limited liability company or as the constituent meeting of a joint stock company in accordance with the rulings of Act VI of 1988 on business organizations (hereinafter: BO).

Article 84

(1) The prerequisite for transformation is the distribution of all the assets - embodied in securities - of the cooperative among the members.

(2) The cooperative undergoing transformation must pass on the shares or quotas that fall on its assets indivisible

according to a separate law, to the cooperative property management agency designated by the assembly. This part of cooperative property may be purchased by the business organization within one year at the face value plus the interests due. This does not apply to housing, savings and school cooperatives.

Article 85

- (1) The registered capital (primary stock) of the new business organization is formed by
 - a) the total value of the cooperative quotas at the disposal of the members of the cooperative, and
 - b) the total pecuniary contribution of the members of the new business organization.
- (2) The contribution (share) of the individual BO members is determined according to their proportion of the assets designated under Points a) and b) of Para (1) above. The lowest possible sum for this primary stock - different from Para (1) of Article 159 of the BO Law - must not be less than HUF 10,000 for the members of the cooperative undergoing transformation.
- (3) The subscription of shares by members of the cooperative undergoing transformation must not be rejected.

Article 86

If a cooperative

- a) is transformed into a limited liability company, Articles 26 and 27 of TrL
- b) if it is transformed into a joint stock company, Points b) and f) of Article 33 of TrL must also be applied.

Article 87

Provided that the majority of the founders of a limited liability company or of a joint stock company were members of the transformed cooperative, the new company may add the modifier "cooperative" to its registered company name.

Article 88

The business organization created through transformation is the general legal successor of the transformed cooperative. Otherwise, Articles 4 through 11 and 71 through 75 of TrL must be applied in regard to transformation.

Dissolution of the Cooperative

Article 89

- (1) The cooperative is dissolved if
 - a) the General Assembly decides with a two-thirds majority vote of all the members - in the case of housing cooperatives unanimously - on termination, without leaving a legal successor
 - b) it fuses with another cooperative or becomes merged in it, if it splits, or becomes transformed into a business organization
 - c) the membership decreased to fewer than five members - in the case of school or credit cooperatives fewer than 15 - and therefore, or for some other lawful reason, the Court of Registration declares it dissolved
 - d) its existence is terminated by the Court in the course of a liquidation procedure.
- (2) If membership has decreased below the minimum figure, the cooperative must not be declared dissolved unless it has failed to report the fact to the Court of Registration within six months of its occurrence.
- (3) The cooperative is dissolved when it is struck from the Rolls.

Article 90

(1) If pursuant to Points a) or c) of Para (1) of Article 89 the cooperative dissolves without a legal successor being left, its final accounts must be made. In this case the provisions under Articles 47 through 54 of the BO Law must be applied with the differentiation regulated under Para (2).

(2) In the case of housing cooperatives, the auditor of the final accounts is appointed by the Court of Registration, provided that the members have failed to agree on a person to do the final accounting. In any other case, the Board of Directors settles the final accounts.

(3) After publication of the start of liquidation proceedings because of insolvency, no cooperative membership relationship may be established.

Article 91

(1) After the conclusion of the final accounts, the remaining funds and assets must be divided up between the members, and the quota holders who are not members, in proportion of their shares, other contributions or quotas, and then paid out to them. The parts of property that are indivisible according to the bylaws must be used for purposes specified in the bylaws of the cooperative.

(2) In the case of housing cooperatives, the property passes into the joint ownership of former members and former owners who were not members, in accordance with their interests.

Section VI

Chapter X

Special Provisions Relating to Housing Cooperatives

Common Provisions

Article 92

(1) In the application of this law, housing cooperatives include the building and maintenance cooperatives for flats, pensioner's special apartment houses, resort accommodation facilities, garages, and premises for workshops and stores (hereinafter: housing cooperatives).

(2) Housing cooperatives are communal organizations providing services of public utility.

Article 93

The site of the future housing cooperative must constitute a coherent area in a district, or another kind of unit corresponding to the nature of the cooperative (the part of the site scheduled to be built in in a given phase of a construction project; a building, block of buildings, etc.).

Article 94

At a housing cooperative general assembly only one vote may be counted for each flat (unit of use). If the flat (unit of use) is owned (used) by several members, the bylaws determine how to consider votes.

Housing Cooperative Membership

Article 95

(1) To be a member of a housing cooperative, one is to

a) undertake the payment obligations and other obligations prescribed in harmony with the purpose of the housing cooperative, furthermore

b) agree in case of failing to fulfil the payment obligations

bb) to have his or her debts deducted from emoluments in the case of a natural person through ceding the corresponding part of his or her pay to the housing cooperative

bc) to the enforcement of immediate collection in the case of a legal entity or another person disposing of a bank account.

(2) In the case of a housing cooperative, the membership application of the owner of a unit or of the person having usufruct in the unit must not be refused provided that the said person satisfies the conditions set under Para (1).

(3) If the flat is in the ownership or use of several persons, each coowner or person entitled to its use may apply for membership in the housing cooperative.

(4) In the case of the rejection of the membership application, decision on any dispute falls within the competence of the Court.

Article 96

(1) In regard to proving the payment obligation of a nonmember owner, Point b), Para (1) of Article 95 is applicable.

(2) The statement of ceding is a destrainable document. Provided that an owner who is a member or is not a member fails to fulfil his or her payment obligation to the housing cooperative despite delivery of a writ calling on him or her to do so, the board of directors may on the basis of the ceding document request the employer to deduct the debt due from the pay of the person in default.

(3) If the member secedes from the housing cooperative or is expelled, the statement of ceding remains valid as long as the former member is in debt.

Article 97

(1) Admission as a member to a special cooperative apartment house for pensioners depends on meeting the general conditions for housing cooperative membership, on being a pensioner, or having attained pensionable age, or reaching entitlement to old age pension within five years.

(2) The bylaws may set further conditions for membership.

(3) The member may grant domicile in his or her housing unit to another person only if that person meets the conditions specified under Paras (1) and (2). Granting domicile to a person not fulfilling the requirements entail cessation of membership.

Article 98

(1) Housing cooperative membership is also terminated when the given member's ownership of the flat or other premises or when his right of usufruct or temporary use ceases.

(2) In the case of the cessation of membership, the right of permanent or temporary use of the flat or premises also ceases.

Article 99

(1) In the case of a housing cooperative, a seceding member and a legatee may transfer the rights attached to having participated in the building of the house, and the person who has acquired the rights may apply for membership. The request may be refused only if the applicant does not satisfy the general requirements of housing cooperative membership.

(2) The claims on the cooperative of a member expelled from the housing cooperative may be limited by the bylaws to the payments of the former member for building and construction, and for the work performed and services rendered for him or her. This provision also applies to former members who seceded from the cooperative without

vesting their rights as builders on another person.

(3) Within thirty days after the admission of the new member, the housing cooperative is obliged to settle accounts with the member who has seceded or has been expelled.

Article 100

(1) In the case of the demise of a member of the special cooperative apartment house for pensioners, the heir may use the flat only if - at his or her request - he or she is admitted to the membership of the cooperative.

(2) The membership application of the heir, the person presented with the apartment as a gift, and of the purchaser must not be refused if the applicant meets the conditions prescribed under Paras (1) and (2) of Article 97.

(3) If the legatee does not meet the conditions stipulated, does not apply for membership in the cooperative, and the rights of ownership or usufruct have not been vested on a person fulfilling membership requirements within six months after the probate certificate on the distribution of the estate has become final, the cooperative apartment house for pensioners is entitled for an additional six months to the right of purchase at the current market price of the right of ownership or of usufruct.

Article 101

(1) Once the right to the regular use of the flat has expired, the former member is obliged to vacate the apartment and has no further claim for accommodation placement. The same provision is applicable also if the right to use a unit in a cooperative resort condominium has expired.

(2) After the termination of membership in a housing cooperative, the former member has no claim on the return of payments he or she has made to the cooperative - unless there is evidence of surplus payment. However, the bylaws may rule otherwise.

Article 102

In the case of a housing cooperative, the launching of court action to supervise the expulsion of the decision to expel a member does not have delaying force.

Article 103

A housing cooperative may split only into housing cooperatives that correspond to an area unit or other units (Article 93).

Ownership Relations and Conditions for Use in Housing Cooperatives

Article 104

(1) If the flats in a housing cooperative are in the private ownership of the members, the bylaws determine whether the site attached to the building, the building structures of the house, the rooms and premises for joint use, the central equipment and appointments, the caretaker's flat, and other premises (e.g., office, workshop, store rooms, etc.) serving the needs of the housing cooperative are to become cooperative property or the joint property of the members.

(2) The owner of a flat in a housing cooperative is obliged to announce to the management his or her intention to sell the flat.

Article 105

(1) If the bylaws so provide, the flats may be owned by the housing cooperative. In that case the member is entitled to the regular use of a concrete flat, which he may himself use, put to profitable utilization, or on which he may transfer the right of use.

(2) In the case of the transfer of the flat being subject to consideration, the housing cooperative is entitled to the right

of first refusal according to the rules on preemption. The housing cooperative itself exercises this right or designates a member to exercise it.

(3) Provided that the housing cooperative does not exercise the right of first refusal, the member may transfer his right of use to a person who meets the criteria of membership. The application for membership of such a person must not be refused.

(4) In the case of the demise of a member, the rules of inheritance apply to the right of use.

Article 106

Within the framework of the decisions of the general assembly, everyone of the members is entitled to use the land and the parts of the building that are in the joint ownership of the members, but no co-owner is entitled to exercising this right to the detriment of the rights or rightful interests of the others.

Article 107

(1) A cooperative resort house (condominium) may also be established with the provision that each member is entitled to the temporary use each year of a unit in the cooperatively owned building for a period of time set in the bylaws.

(2) Each natural person who is a member disposing of the right to the temporary use of a resort accommodation unit is entitled to one vote at general assemblies regardless of the measure of the right to use. Legal persons that are members dispose of an additional vote after each unit for the use of which they have acquired the right for year-around use.

Article 108

(1) In the case of the demise of a member, the rules of inheritance are applicable to the right of temporary use of resort units.

(2) The membership application of the legatee, the person who has been presented with the right of use, or of the purchaser of the right must not be rejected if the applicant meets the criteria of membership.

Operation and Management of Housing Cooperatives

Article 109

(1) The source for financing the activities of the housing cooperatives is provided by the payments of members for building, maintenance, repair and renovation and other revenues of the cooperative.

(2) The liabilities of members and non-member owners connected with building and maintenance (running the cooperative) and renovation must be separately determined and recorded for each building. The mode of standing the costs should be designated in the bylaws.

Article 110

(1) The housing cooperative is liable with its property for debts accruing from its basic activities (building, maintenance and renovation). If this is insufficient collateral for covering debts, the general assembly may obligate members and non-member owners to effect further payments.

(2) The management may order extra payments in proportion to the price rises that affect running expenses.

(3) In the case of entrepreneurial activity carried on by the housing cooperative, the members and non-member owners are exempt from the responsibility defined under Para (1) above only if the bylaws provide for setting apart a proportion of the assets of the cooperative corresponding to the enterprise. In this case the cooperative is liable with the property set apart for the purpose for obligations deriving from the enterprise.

Miscellaneous Provisions

Article 111

(1) The housing cooperative may press for claims based on warranties and guaranties, and for the payment of damages related to them if they are connected with building and construction work and other work on the houses and flats. In the course of judging legal disputes, the provisions of Chapter XXV of the Code of Civil Procedure must be observed provided that the other party is also a business organization.

(2) Claims for damages lapse in five years against business organizations as well.

Chapter XI

Closing Provisions

Interest Organizations for Cooperatives

Article 112

(1) For the protection of their own interests as well as the interests of cooperative members, for the promotion with joint funds of their economic activities, and for fostering international relations among cooperatives, cooperatives may create regional or branch organizations and national interest representation organizations. Accession is on a voluntary basis.

(2) The national organizations for interest representation may establish the joint national interest federation of the Hungarian cooperative movement to represent the Hungarian cooperatives in international organizations.

(3) The provisions of Law II of 1989 on the right of association must be appropriately applied to the interest organizations of cooperatives.

Article 113

(1) Before proposals that concern cooperatives or their memberships are submitted to the Government or to Parliament, the views must be known of the national interest organization concerned and of the joint national interest federation. If there are substantial differences in opinion, the case must be submitted to the Government and to Parliament for decision taking.

(2) The joint national interest federation advances its opinion in all-cooperative issues belonging to the competence of Parliament and the Government.

(3) The national interest organizations and the joint national interest federation may propose legislation.

Entry into Force

Article 114

The entry into force of this law and the setting of transitional rules are subject to the provisions of a separate law.