

# **MONGOLIA**

## **CIVIL CODE**

**Important Disclaimer**

**This translation has been generously provided by the Financial Regulatory Commission of Mongolia. This does not constitute an official translation and the translator and the EBRD cannot be held responsible for any inaccuracy or omission in the translation. The text should be used for information purposes only and appropriate legal advice should be sought as and when appropriate.**

**LAW OF MONGOLIA**

January 10, 2002

Ulaanbaatar city

**CIVIL CODE**

**SUBPART I.**

**GENERAL BASIS**

**Sub-part 1.**

**Civil Legal Relationship, Legislation**

**CHAPTER ONE**

**Common provisions**

**Article 1. Purpose of the Law**

1.1. The purpose of the Law shall be to regulate relationship with respect to material and non-material wealth arising between legal persons.

1.2. Civil legislation shall be based on the principle of ensuring equality and autonomy of participants to the civil legal relations, sanctity of their property, contract freedom, non-interference into personal affairs, unlimited exercising of civil rights and fulfillment of obligations, having violated rights restored and court protection.

1.3. Unless stipulated otherwise by law, this Law shall not be applied for regulating relationship with respect to material and non-material wealth, subject to regulation by Administrative Laws including Tax, Budget and Finance or based on administrative subordination.

**Article 2. Civil Legislation**

2.1. Civil Legislation shall consist of the Constitution of Mongolia, this Law and other legislative acts adopted in compliance with them.

2.2. If the International Treaty of Mongolia stipulates otherwise, the International Treaty shall be observed.

**Article 3. Application of Civil Legislation**

3.1. Courts shall not apply any law contradicting the Constitution of Mongolia.

3.2. In cases other than the International Treaty stipulating that national legislation should be adopted, civil legal relations shall be regulated by the International Treaty of Mongolia.

3.3. In case laws other than the Constitution and this Law contradict each other, the provisions of the Law, which regulates this matter in more details, or in case of absence of such, provisions of the lately adopted Law shall apply.

3.4. Validity of an invalidated law shall not be restored if the law annulling this law is invalidated.

3.5. If the Law envisages, the legal acts adopted in compliance with this Law by Government, other competent government agencies or officials and containing civil legal norms and enforced publicly, shall be applied.

3.6. Legal acts defining norms shall be applied only in case they replace the legal norms.

3.7. Ignorance about the Law or its misinterpretation shall not serve as a ground for its non-appliance or exempt from responsibilities stipulated by the Law.

#### **Article 4. Similar application of Civil Law**

4.1. Norms of other laws regulating similar relations shall be applied, if the Civil Law lacks norms regulating a particular relationship.

4.2. In the absence of norms regulating similar relations, the particular relations shall be regulated in compliance with the civil legal content, principles and commonly accepted norms.

4.3. Norms regulating particular relationship shall not similarly regulate other relations.

#### **Article 5. Retrospective application (ex post facto) of civil legislation**

5.1. Unless stated otherwise in the Law, retrospective application of civil legislation shall be excluded.

5.2. In case the newly approved legislation damages the rights and legitimate interests of the parties to the contract, contract terms and conditions shall be valid.

5.3. If parties to the contract agree, the newly adopted legislation with better terms and conditions shall apply.

#### **Article 6. Objects of civil legal relationship**

6.1. In accordance with the grounds and procedure stated in the law, material and non-material wealth, which could be valued in terms of money in civil circulation, shall be objects of civil legal relationship.

6.2. Material or non-material rights, action or non-action and information may be objects of civil legal relations as well.

## **Article 7. Participants to civil legal relationship**

7.1. Citizens, juridical/legal persons and organizations without legal status shall be participants to civil legal relationship.

7.2. Mongolian and foreign citizens, individuals without citizenship participating in the civil legal relationship shall be deemed as citizens.

7.3. Aimags, the capital city, soums, districts, as state, administrative and territorial units, may enter into civil legal relation like other legal entities.

## **CHAPTER TWO**

### **Grounds for arising and protecting civil legal relationship, exercising rights and assuming duties in civil legal relationship**

## **Article 8. Grounds for arising civil legal relationship**

8.1. Civil legal relationship shall arise on the following grounds:

8.1.1. transactions stated or not stated in the Law, which do not contradict content-wise the law;

8.1.2. court ruling causing civil legal relationship;

8.1.3. an administrative decision causing civil legal relationship if stated in the Law;

8.1.4. creation of an intellectual value;

8.1.5. causing harm;

8.1.6. acquisition or possession of goods without grounds;

8.1.7. legal cases creating civil legal relations;

8.1.9. other grounds stated in the Law creating civil legal relationship.

## **Article 9. Civil legal protection**

9.1. Civil legal protection shall aim at restoration of violated rights.

9.2. A participant to the civil legal relationship shall be entitled to select the person whose rights to be protected as provided by law.

9.3. Civil legal protection shall be executed by court or arbitration body along with procedures and methods provided by Law.

9.4. Civil rights shall protected as follows:

9.4.1. admitting the rights;

9.4.2. halting acts violating the rights and restoring the pre-violation conditions;

9.4.3. enforcing to assume duties;

9.4.4. eliminating damages caused;

9.4.5. liquidating non-material harms;

9.4.6. enforcing to pay indemnities stipulated in the law or contract;

- 9.4.7. invalidating decisions violating rights of others;
- 9.4.8. altering or terminating civil legal relationship;
- 9.4.9. self-help;
- 9.4.10. other methods stipulated by law.

#### **Article 10. Compelled defense**

10.1. Compelled defense shall be an appropriate and required action undertaken to defend him/herself, or other persons or assets from illegal attacks.

10.2. Harms caused by compelled defense shall be born by the person took the respective act.

#### **Article 11. Action taken in a desperate situation**

11.1. Action taken in a desperate situation shall an action/ or non-action/ taken to halt or prevent the danger of that particular situation, if other liquidation methods are impossible.

11.2. If the harm done in a desperate situation is less than the potential one, the person has taken such an action shall not be responsible for its liquidation.

11.3. If the harm done in a desperate situation is obviously more than the potential one, the person has taken such an action shall be responsible for its liquidation, commensurate to he/r excessive action.

11.4. Taking into consideration real circumstances of harm-doing, court may assign the third person, in whose interests the act was taken, to eliminate the harm, or the harm-doer or the third person may be partially or fully released from such an obligation.

11.5. If the person took action in a desperate situation, him/herself created such a situation, him/herself should eliminate the harm.

#### **Article 12. Self-protection**

12.1. In case it is impossible to get timely assistance from competent authorities, without which it is impossible to exercise civil rights or if serious impediment to such rights may occur, respective actions taken by a participant of a civil legal relationship in order to self- help and protect own legitimate interests, and targeted at detaining the performer who might seize, destroy or damage, escape or halt counter measures by the latter against legitimate actions taken by the competent person, shall not be deemed illegal.

12.2. Legal persons that took actions stated in Article 12.1 of this Law shall immediately notify the competent authority in order to seal the assets or detain the obligated person.

12.3. Self-help action shall not exceed the norms appropriate for the particular situation.

12.4. Person which took the action stated in Article 12.1 of this Law by mistake or by exceeding norms shall be obligated to eliminate the harm.

### **Article 13. Exercising rights and fulfilling obligations in civil legal relationship**

13.1. Participants of civil legal relationship shall fairly exercise and fulfill their rights and obligations stipulated by law.

13.2. Participants of civil legal relationship may at own will exercise rights and fulfill obligations not prohibited or not directly stated in the law.

13.3. Participants of civil legal relationship are prohibited to undertake activities harmful to others, limiting freedom of market relations, illegally taking advantage of legitimate advantages while enjoying own rights or fulfilling obligations. Otherwise, they shall bear responsibilities stipulated by law.

## **Sub-part 2.**

### **PARTICIPANTS TO CIVIL LEGAL RELATIONSHIP**

#### **CHAPTER THREE**

##### **Citizens**

#### **Article 14. Citizens' legal capacity**

14.1. Civil legal capacity shall commence with the birth and terminates with the death.

14.2. It is prohibited to limit civil legal capacity

#### **Article 15. Full civil legal capability**

15.1. Civil legal capability to acquire rights and obligations by own conduct or full legal capacity emerges with reaching 18 or adolescence.

15.2. Court may consider citizens reached the age of 16-18 with full civil legal capability at own request with the consent of parents, or guardians, or trustees based on grounds and procedures stipulated by Law.

15.3. If sound grounds exist, the court rule considering the citizen with civil full capability could be invalidated at the request of an interested person.

#### **Article 16. Partial civil legal capability**

16.1. Minors under age of 14-18 shall have partial civil legal capability.

16.2. Minors may conclude transactions other than the ones permitted by Law, based on written consent of the legal proxy (parents, guardians, trustees).

16.3. Minors may exercise the following rights without their legal proxy consent:

16.3.1. administering own salary, student stipend, other similar incomes, or any asset transferred to them for administering at own discretion;

16.3.2. concluding transactions harmless or of utility nature with immediate execution;

16.3.3. depositing in banks or credit institutions incomes stated in Article 16.3.1. of this Law.

16.4. Citizens of age 16-18 may be cooperative members.

### **Article 17. Some civil legal capability**

17.1. Persons of 7 to 14 age shall possess some civil legal capability.

17.2. Legal proxies (parents, guardians, trustees) of persons of 7 to 14 age shall on their behalf conclude transactions other than petty and harmless ones of utility nature with immediate execution.

### **Article 18. Citizens without civil legal capability**

18.1. Persons under age of seven shall lack civil legal capability.

18.2. Court shall deem deprived of civil legal capability the persons, unaware of own conduct and lacking self-control due to mental diseases, and shall establish for them custody.

18.3. Legal proxies shall conclude any transactions on behalf of persons with deprived civil legal capability.

18.4. In case of elapsing the conditions or grounds for considering the person deprived of civil legal capability, court may revoke its decision on considering her/him deprived of civil legal capability.

### **Article 19. Limited civil legal capability**

19. 1. Civil legal capability of drug addicted citizens, or the ones regularly using addictive drug substances or alcohol and causing substantial economic damages, may be limited and custody may be established at the request of interested person according to procedure defined by law.

19.2. It shall be prohibited to limit civil legal capability by concluding transactions.

19.3. Person with limited civil legal capability may conclude transactions with custodian consent within the unlimited part of the limited capability.

19.4. With elapse of circumstances served as grounds for limiting civil legal capability, court shall rule invalid the imposed limitation and shall release the custodian from obligations.

## **Article 20. Name of citizen**

20.1 Citizens shall have own names.

20.2. Procedure to register and change citizens' names shall be determined by law.

20.3. Citizen name shall be registered with the competent authority. Civil rights and obligations shall be acquired and exercised at own name. Pseudonyms could be used only according to the procedure and conditions stipulated by law.

20.4. Name changing shall not serve as grounds for changing or terminating the rights and obligations acquired under the previous name.

20.5. Person with changed name shall inform the obligation performer or the person whose obligations performed about the name change, in case of failure to do so s/he personally shall bear the responsibility for the consequences.

## **Article 21. Protection of name, honor, dignity and business reputation**

21.1. It is prohibited to use illegally the name of citizens.

21.2. If the person, who defamed citizen's name, honor, dignity and business reputation, fails to prove the defamation accuracy, s/he shall be liable to refute the defamation via media and in the form, it was originally disseminated, or in other forms.

21.3. If the defamation of others' name, honor, dignity and business reputation is due to incomplete information about the documents, the guilty person shall be liable to refute, as stipulated in Article 21.2 of this Law.

21.4. Citizen, considering harmful the dissemination without his/her consent of any personal information, defined by law as confidential, shall be entitled to demand the harm elimination.

21.5. Person, considering harmful any publication or public demonstration without its consent of an individual image in a form of photo, movie, video recording, portrait or any other form, shall be entitled to demand the harm elimination.

. In case a person receives any fee or payment for using his/her image or for granting rights to use his/her image in connection with his/ her social status for promotion during public activities as a part of training, scientific research, business activities, no special permit shall be required from the person.



21.7. If any information, defaming the name, honor, dignity and business reputation, or confidential personal news is publicized without the heir's consent as provided in Article 520 of this Law, its provision shall be equally applied.

21.8. Harm done in the case stipulated in Article 21.7, shall not be demanded to be compensated in material form.

21.9. Person violated rights provided by this Article, shall eliminate the harm done to others, as envisaged in Articles 497 and 511 of this Law.

## **Article 22. Citizen's residence**

22.1. Citizen's residence shall be determined by the administrative and territorial unit, where the individual is registered according to law.

22.2. If the citizen does not reside in the registered location, the place s/he basically live or the most of her/his personal assets is located may be deemed as her/his residence.

22.3. Residency of a person under others' custody shall be determined by the residency of her/his parents or custodians.

## **Article 23. Citizen declared missing**

23.1. Upon request of an interested person, Court may declare a citizen missing, if his/her whereabouts is unknown or not heard for a period of two years since the date of her/his missing from the place of residence.

23.2. Court shall rule the protection over the property of a missing citizen, and the citizen's statutory obligations such as raising and assisting her/his dependants, paying fees and taxes according to law, paying debts according to liabilities, shall be charged from the property.

23.3. If the location of the missing person is identified, or the person is back, the Court shall revoke its ruling and terminate the property protection.

23.4. Upon return, the missing citizen shall be entitled to reclaim his/her property available or transferred free to others on grounds other than stipulated by Article 23.3 of this Law. However, any profit gained in the result of using the assets for economic purposes, shall not be claimed.

23.5. The administrator shall pay the price of assets of the missing person if its sold, or pay their full or partial value if they are lost, or short of, or damaged, in the amount ruled by Court, depending on the degree of guilt.

23.6. If the missing person is back, the administrator of the assets, shall be entitled to demand the reimbursement of costs related to their protection, storage and use.

## **Article 24. Citizen declared deceased**

24.1. Upon request of an interested person, Court may declare a citizen deceased if his/her whereabouts remains unknown for over five years since the date of her/his missing from the residency, or if her/his existence remains unknown for a year since the date of missing in life-threatening circumstances.

24.2. Person missing while participating in military operations could be deemed deceased after the expiration of two years since the termination of such operations.

24.3. The date of death of the citizen declared deceased shall be the date, when the Court decision on considering him/her deceased enters into force.

24.4. If the citizen declared deceased due to missing under life-threatening circumstances, Court may consider the date of possible death as the date of the death of that citizen.

24.5. The property of a citizen declared deceased shall be transferred to others according to the succession rule.

24.6. If the person declared deceased is back or her/his location is identified, Court shall revoke its previous decision.

24.7. If the person declared deceased is back, s/he shall enjoy the right to reclaim the available property transferred free to others in inheriting or other forms. If thus transferred to the state property cannot be returned to the owner, its price shall be reimbursed.

24.8. Revocation of the Court rule declaring a person deceased shall not serve as grounds for invalidating the new marriage of her/his spouse.

## **CHAPTER FOUR**

### **Legal person**

#### **Sub-chapter one**

### **Common provisions**

## **Article 25. Legal person**

25.1. Legal person shall be an organised unity with concrete mission and engaged in regular activities, which is entitled to own, possess, use and dispose of its separate property, which can acquire rights and create liabilities in own name, which bears responsibility for consequences arising from own activities with its own assets, and which is capable to be defendant or plaintiff.

25.2 Legal person may be a for-profit or non-profit organisation with concrete goals specified by law or rules.

25.3. Legal person may have public or private, or mixed property.

25.4. If not otherwise provided in the Law, several legal persons may merge with the purpose to coordinate their activities, thus merging they will retain their legal person status.

25.5. Legal status of legal persons shall be defined by law.

## **Article 26. Civil legal capacity of legal persons**

26.1. Legal person shall have the rights and liabilities, arising with registering with the State Register, and terminating upon its liquidation according to law or its deletion from the State Register.

26.2. Procedure to register legal persons with or to be deleted from the State Register shall be determined by law.

26.3. Civil legal capacity of public legal persons shall arise or terminate with its foundation or liquidation according to law provisions, and they shall be entitled to participate in civil legal relationships with equal to other participants' rights.

26.4. Legal persons shall participate in civil legal relationship via their governing bodies.

26.5. Legal status of governing bodies of legal persons shall be specified by law of their incorporation by-laws.

26.6. Non-profit legal persons shall undertake activities in compliance with the objectives specified by their by-laws or charters.

26.7. For-profit legal persons shall be entitled to undertake any activity not prohibited by law or not in conflict with common behavioural norms.

26.8. Legal persons shall carry out some activities provided by law with the consent of respective competent authorities. The entitlement to undertake the activities shall emerge from the day of getting the special authorisation.

26.9. Civil legal capacity of legal persons shall be limited solely based on grounds and procedure prescribed by law.

## **Article 27. Name of legal persons**

27.1. Legal persons shall have own names. Legal person's name shall reflect its organisation and legal form.

27.2. If required by law, the legal person type should be indicated.

27.3. Legal person's name shall not duplicate or be misleadingly similar to the name of other legal persons.

27.4. Other persons shall be prohibited to use illegally other legal persons' names. The person violating this provision shall eliminate any damage done to others according to Article 497 of this Law.

27.5. Legal persons shall register their names as it stipulated in the Law.

27.6. Article 21 of this Law shall be equally applied for protecting the business reputation of legal persons.

### **Article 28. Business place of legal persons**

28.1. The place where the head office of the legal person is located shall be its business place.

28.2. Legal persons shall have own location or official address.

### **Article 29. Subsidiary and representative office of legal persons**

29.1. If prescribed by law or by its founding documents, a legal person may set up subsidiary or representative offices.

29.2. Subsidiary shall be a special unit located in place other than the legal person's business place, which assumes fully or partially its major functions.

29.3. A representative office shall be a unit located in a place other than the legal person's business place, obligated to defend legitimate interests and conclude transactions, or take other actions on behalf of the legal person.

The rights and liabilities of subsidiaries and representative offices shall be determined by the charter of the principal legal person.

29.5. Executives of subsidiaries and representative offices shall carry out their activities on the basis of authority delegated to them by the principal legal person. Subsidiaries and representative offices of the legal person shall not exercise legal person rights.

### **Article 30. Establishment of legal persons**

30.1. Unless otherwise stipulated in the law, citizens and legal persons may establish legal persons as prescribed by law.

To assume its functions or meet public needs, the state may establish legal persons, using own or joint property.

### **Article 31. Re-organization of legal persons**

31.1. A legal person may be reorganised by merging, joining, dividing, separating or restructuring at the decision of the assets' owner, or a designated body or a body authorised by its founding documents, as prescribed by law.

*Merging* shall take place when activities of two or more legal persons are halted, and their rights, obligations and responsibilities are transferred to a newly established legal person.

*Joining* shall take place when rights, obligations and responsibilities are transferred to another legal person after halting its activities.

*Dividing* shall take place when activities of legal persons are halted, and their rights, obligations and responsibilities are transferred to newly emerging two or more legal persons.

*Separating* shall take place when some rights, obligations and responsibilities of a legal person are transferred to a newly established legal person, without halting the former activities.

Legal person could be established by changing its organisation type, form and basic goals.

## **Article 32. Dissolution of legal persons**

32.1. Legal persons shall be liquidated on the following grounds:

32.1.1. decision of the owner or the designated body, or a body authorised by the founding documents;

32.1.2. court ruling about liquidating on the grounds of considering the person bankrupted, or repeated or serious breaching of the law, or other grounds stipulated in the law;

32.1.3. own decision on discontinuing its activities due to its term expiration or accomplishing its goals;

32.1.4. decision of the competent founder of the legal person;

32.1.5. any other grounds provided by law;

32.2. Commission, appointed by the body, which made the decision on liquidation, shall be in charge of liquidation process.

32.3. Liquidation Commission shall publicly announce about the liquidation of a legal person.

32.4. The time limit for acceptance by the Liquidation Commission of claims from creditors shall not be less than two months and not more than six months from the date of public announcement about the liquidation of the legal person.

32.5. Claims against a legal person in liquidation shall be satisfied in the following order:

32.5.1. payments to eliminate harm done to the life and health of others and other payments ruled by Court;

- 32.5.2. payment of the cost of activities carried out, within the rights and obligations, by the executor or Liquidation Commission, and other persons designated similarly;
  - 32.5.3. claims arising from contracts and transactions concluded in the process of re-capitalization of the plaintiff during its bankruptcy;
  - 32.5.4. money assets of depositors;
  - 32.5.5. wages of workers under labor contracts;
  - 32.5.6. payments to other claimants in accordance with law.
- 32.6. Principle of satisfying the following claims after full payment of all first claims shall be observed in satisfying claims against the legal person in liquidation.
- 32.7. If the available cash of the legal person is insufficient to satisfy the amounts owing to claimants, then the Liquidation Commission may sell other assets and complete the payments as provided by law.
- 32.8. If the assets of the legal person in liquidation are insufficient to meet its debts, its available assets shall be distributed among the claimants in proportion to the amounts owed and with proper sequence.
- 32.9. After satisfying debts of claimants, any remaining property shall be transferred to the legitimate owners or to authorised persons, if provided by law.
- 32.10. If there is no person to accept the property of the legal person in liquidation, then it shall be transferred to state ownership.

The registration body shall announce publicly the deletion of the legal person from the State register.

## **Sub-chapter two**

### **Types of legal persons**

#### **Article 33. Types of legal persons**

33.1. For-profit legal persons shall be established in the form of partnership or company.

33.2. Non-profit legal persons shall be established in the form of association, foundation or cooperative.

#### **Article 34. Companies**

34.1. Company shall be a legal person with shareholders' capital divided into certain number of shares, with separate own assets, and with basic for-profit goal.

34.2. Company legal status shall be determined by law.

#### **Article 35. Partnerships**

35.1. Partnership shall be a legal person with assets, consisting of its members contributions, and liable for its obligations with these assets and the personal property of its members, as provided by law.

35.2. Partnership legal status shall be determined by law.

### **Article 36. Associations, foundations, cooperatives**

36.1. *Association* shall be a legal person established based on voluntary amalgamation of several persons with common specific goals and membership.

36.2. *Foundation* shall be a legal person without membership, established by one or more founders by raising funds to attain publicly beneficial common goals.

36.3. Legal status of associations and foundations shall be determined by law.

36.4. *Cooperative* shall be a legal person, established jointly on voluntary basis by several persons to carry out activities aimed at satisfying common economic and social needs of its members, based on assets with corporate governance and control over joint assets.

36.5. Cooperative foundation, registration, membership, termination of and control over its activities, and other relations relevant to cooperative shall be regulated by law.

36.6. Monasteries and churches, participating in the civil legal relations, shall observe provisions of the law pertaining to the legal status of foundations

### **Article 37. Special regulation for foundations.**

37.1. The Governing body of a foundation or the governing board shall consist of donors, supporters and their designees.

37.2. Foundation Governing body shall nominate its executives and controlling body.

37.3. Foundation executives shall carry out activities consistent with the foundation statute, have the performance and financial reports considered by the governing body and published for public distribution.

### **Article 38. Foundation liquidation procedure**

38.1. Liquidation Commission, nominated by the authority and made the liquidation decision, shall be in charge of liquidation. In special cases Court may nominate another liquidation body, which shall bear responsibilities of members of Liquidation Commission.

38.2. Day-to-day activities of liquidated foundation shall be halted, the available assets shall be evaluated and payments made to claimants.

38.3. After making payments as provided by Article 38.1. of this Law, the remaining assets shall be terminated to one or more persons with goals common or similar to the liquidated foundation. In case of absence of such a person, it may be decided to transfer to the state ownership.

### **SUBPART III**

### **TRANSACTIONS**

### **CHAPTER FIVE**

### **Common provisions**

#### **Article 39. Transaction**

39.1. Transaction shall mean an action or non-action intended by citizens or legal persons aimed at creating, changing, transferring or terminating civil rights and obligations.

39.2. A single person may conclude a transaction expressing its intention.

#### **Article 40. Valid expression of will**

40.1. Expression of will shall become effective with its acceptance by the party.

40.2. If the other party refuses in advance or straightforward to accept the expressed will, it shall be deemed ineffective.

40.3. Transactions or wills expressed by the person before its death or losing its full civil legal capability shall remain valid.

#### **Article 41. Interpretation of will**

41.1. While interpreting the content of a will, direct meaning of its words shall be paid direct attention.

41.2. If the meaning of expressed will is ambiguous, it shall be interpreted by analysing the will expresser's needs, demands, words, actions and non-actions, as well as other conditions and circumstances.

#### **Article 42. Forms of transaction**

42.1. Transactions may be concluded as provided by law, or if not provided, the parties may agree on concluding either orally or in writing.

42.2. Written transaction with simple form shall enter into force upon signing it by the person expressing the will.



42.3. According to business traditions, the signature directly copied by technical means may be considered authentic to the original.

42.4. As to transactions requiring notary certification, it shall be certified by notary or other persons provided by law.

42.5. If a transaction requiring notary certification is not certified, and one of the parties accepts full or substantial performance of the obligations by the other party, but objects to notary certification of the transaction, then at the request of the party fulfilled its obligations, Court may consider that the transaction have been concluded.

42.6. If a person is unable to sign personally the document due to sickness or illiteracy, another authorised person may sign the transaction on her/his behalf.

42.7. If a written transaction was executed in several copies, it shall be considered concluded, if copies left with parties are mutually signed by both of them.

42.8. Both sides may conclude a transaction by expressing their will by taking practical actions as major condition.

42.9. If provided by law or contract, silence may be considered as acceptance of a proposal to conclude a transaction.

42.10. If the law provides that transaction not complying with the law mandatory writing requirements, is void, the parties shall mutually return all objects of transaction.

42.11. Unless otherwise provided by this law, if parties have a dispute over a transaction, breaching mandatory writing requirements, then they may prove the transaction by any other means of evidence, loosing the right to have it proven by witnesses.

### **Article 43. Evidence of transaction as concluded**

43.1. Oral transaction shall be considered concluded in follow cases:

43.1.1. agreement by the parties on the essential terms and conditions of the transaction;

43.1.2. handing over customary things like receipts or documents certifying the conclusion of the transaction;

43.1.3. if provided by law or contract, in the absence of a reply to a proposal for concluding the transaction, on the expiry of a fixed time or of a reasonable time for reply.

43.2. A written transaction shall be considered concluded in the following cases:

43.2.1. executing and signing by parties of a document expressing their will;

43.2.2. receiving by a party of an official letter, telegram, fax or other similar documents expressing the will of the other party accepting the proposal to conclude a transaction;

43.2.3. registering and certifying by notary of transactions due to registration or certification by notary, as provided by law.

If a party by its concrete conduct expressed its acceptance of the will expressed by the other party, then the transaction shall be considered concluded by conduct. If impossible to define the content, the transaction shall be deemed void.

#### **Article 44. Conditional transaction**

44.1. Conditional shall be the transaction, concluded agreeing that it would be executed in case a certain event takes place, or it would be terminated.

44.2. If a transaction provides for creation of rights and obligations depending on happening of an event with uncertain occurrence, or the parties are unaware about its existence, then it shall be considered to be a suspended conditional transaction.

44.3. If a transaction provides for termination of rights and obligations depending on happening of an event with uncertain occurrence, then it shall be considered to be a changeable conditional transaction.

If the future occurrence of an event depends on parties to the transaction, then this Article provisions shall not regulate this case.

#### **Article 45. Void conditional transaction**

45.1. If conditions are not in compliance with law requirements or contradict admitted common behavioural norms, or obviously unrealistic, the transaction shall be void.

#### **Article 46. Void conditions**

46.1. In case of concluding a transaction with condition that an event occurs at certain time, but the event does not take place, the condition shall be deemed void.

46.2. Condition without concrete term may occur anytime.

46.3. In case it is obvious that the event indicated in the condition will never take place, then the condition shall become invalid.

#### **Article 47. Condition deemed satisfied**

47.1. If the transaction with a condition that an event shall not occur at certain time, and prior to the specified time it becomes clear that it will not occur, then the conditions shall be deemed satisfied.

#### **Article 48. Obligations of the person concluded a conditional transaction**

48.1. Person, concluded a conditional transaction, shall not be entitled to any conduct obstructing the other side to fulfil its obligations prior to the occurrence of the event, indicated in the transaction.

48.2. If unfavourable conditions, arising from creating the condition, unfairly obstruct the condition creation, the condition shall be deemed created.

48.3. If favourable conditions, arising from creating the condition, unfairly impact the condition creation, the condition shall not be deemed created.

48.4. If by the time the condition is created, a person has already taken the act indicated in Article 48.1 of this Law, the harm done to the other side shall be eliminated by him/her.

#### **Article 49. Stock exchange transactions**

49.1. Transaction for investment into the stock exchange turnover or for the transfer of property rights (assets, securities etc) shall be subject to conclusion and registration with the Stock exchange, as provided by law.

49.2. Unless it does not conflict with the law, or the nature of this particular type of transaction, Stock exchange transactions shall be regulated by the rules governing contracts (contracts for sale, contracts for commission etc) adjusting them to its content.

49.3. Requirements to the disclosure of commercial secrets of parties to transactions with their consent shall be determined by the Law on Stock Exchange.

49.4. Disputes over the conclusion of stock exchange transactions, and rights and obligations arising from them, shall be considered and settled by the competent body, and the parties may appeal to Court with respect to their decisions.

#### **Article 50. Transactions requiring special authorization**

The third party, competent to issue authorisation – the mandatory condition for a transaction to become effective, shall equally notify parties to the transaction about issuing the authorisation or refusal to issue it.

The authorization does not need to be in the form to be observed in the transaction.

If the transaction, the validity of which depends on the authorization of the third person, concluded with the latter's consent, the provision of Article 54.5 of this Law shall be applied as well.

#### **Article 51. Invalidation of authorization**

51.1. If parties have not yet created any consequences based on the received authorisation with the purpose to conclude a transaction, the body, issued such an authorisation prior to concluding the transaction, may invalidate the authorisation. Parties shall be notified about the invalidation of the authorisation.

#### **Article 52. Condition for not retrospective use of authorisation**

Actions taken at the decision of the person competent to issue the permit prior to later support and authorisation of the transaction, or according to the mandatory execution, or in connection with administering the property by the Liquidation executor, shall be valid notwithstanding Articles 42.1. – 42.3 of this Law.

**Article 53. Valid conduct of unauthorized person**

53.1. If the conduct of unauthorized person is later supported and authorized by a full competent person, such conduct shall be deemed valid.

**Article 54. Transaction concluded by unauthorized minors under age 14-18**

54.1. If a person, concluded a transaction with a minor, requests the legitimate proxy to prove that the transaction was authorized, the latter shall notify the former in writing within 14 days. In this case, the authorization issued to the minor or refusal by the proxy shall be void.

54.2. If no reply received within the period stipulated in Article 54.1. of this Law, it shall be deemed that the authorization was renounced.

54.3. If the minor attains adolescence after concluding an unauthorized transaction without her/his legitimate proxy, her/himself shall decide whether the expressed will is still valid.

54.4. Person, concluded a transaction with minor, shall be entitled to renounce it prior to receiving an authorization supported by the legitimate proxy.

54.5. If the legitimate proxy authorized the minor to conclude the transaction, but the proof document is not presented to the other side, the latter shall be entitled to renounce the transaction.

**Article 55. Transaction concluded by minors under age 14-18**

55.1. Minors shall exercise the right to conclude independently a transaction with regard to assets transferred to them, with the right to administer at own discretion, by the legitimate proxy or by a third party with the latter consent.

55.2. Article 55.1 of this Law shall not be applicable to unilateral transactions other than ones allowed by law to be concluded by minors.

**CHAPTER SIX**

**Void Transactions**

**Article 56. Void transaction**

56.1 A transaction shall be deemed void if:

56.1.1 breaches law or contradicts commonly accepted or behavioral norms;

56.1.2 made fictitiously;

56.1.3 made with the purpose of concealing another transaction;

56.1.4 made to represent a specific will, without genuine intention, with recklessness, and with foresight of its disclosure;

56.1.5 made by a person without legal capacity;

56.1.6 made by a citizen incapable to understand consequences of own conduct, nor able to manage self properly, due to mental illness, at the time s/he is officially not considered incapable legally;

56.1.7 expressed by a person with full legal capability at the time of incapacity to understand consequences of own conduct or in the state of temporary derangement

56.1.8 made with a breach of form defined by law or without consent of the respective person as stipulated by law

56.1.9 made by a legal person in breach of the main purpose of her/his own conduct;

56.1.10 other transactions concluded on the basis of void transactions mentioned above.

56.2. In case the parties learn about the conditions of considering void the transaction, specified in Article 56.1 of this law, after concluding it, but if it meets the requirements of another transaction, and if parties wish, the transaction that meets requirements shall be deemed valid.

56.3 In case a person concluded transaction specified in Articles 56.1.2-56.1.4 and 56.1.8 of this law, later acknowledges the validity of the will expressed in the contract and expresses it in a form stipulated by law, the transaction shall be considered newly made and valid.

56.4. An interested person may request to eliminate the consequences arising from the void transaction.

56.5. If for parties to the transaction, specified in Article 56.1 of this law, it is impossible to mutually return all objects transferred by the transaction, they shall be liable to pay the price.

56.6 The person guilty for concluding a void transaction shall reimburse losses caused to others.

#### **Article 57. Transaction could be deemed void**

57.1. Based on grounds and procedures specified by law, Court may consider void a transaction at the request of an interested party.

57.2. Transaction ruled by Court as void shall be invalid from the moment of its conclusion.

57.3. Transaction contradicting the form agreed by contract may be deemed by Court void at the request of an interested party.

57.4. Obvious mistake made by a party to the transaction while expressing its will in writing or making payments, shall not serve as grounds for considering the transaction void. The person made such a mistake shall be liable to correct it.

### **Article 58. Transactions concluded in the result of misleading**

58.1. Court may rule invalid transactions concluded expressing will based on serious misleading.

58.2. Following shall be deemed as serious misleading:

58.2.1. concluding a transaction different from the one intended;

58.2.2. confusion about the intended transaction content.

58.3. Following cases shall be deemed seriously misleading:

58.3.1. misleading personality of the person – the other party to the transaction, served as major reason for concluding the transaction;

58.3.2. confusion about the nature of the asset important for determining the value of the transaction object;

58.3.3. confusion about the right – serving as the transaction major grounds;

58.3.4. confusion about intention- the transaction object.

58.4. Transaction concluded based on disinformation about the expressed will of the client or person represented by the intermediary or representing person, may be regulated by Item 58.2. of this Law.

58.5. If the other party to the transaction agrees to execute the transaction at the request of the disputing party, the transaction concluded due to confusion shall not be considered void.

58.6. Person, concluded the transaction due to confusion, upon learning about the confusion shall be liable to inform about the other party.

58.7. If a party to the transaction is confused due to negligence or the transaction deemed void on grounds stipulated in Article 58.4 of this law, the guilty person shall be liable to eliminate the harm done to the other party to the transaction or to the third person. If the other party who knew, or had to know though being unaware, or potentially could find out about the confusion, the obligation to eliminate the harm shall not be created.

### **Article 59. Transactions concluded as a result of fraud**

59.1. If others are cheated with the purpose to conclude transaction, the cheated person shall be entitled to insist on considering the transaction void. In this case, considering the transaction void shall not depend on whether the person cheated had an intention to gain profit or do harm to the cheated person.

59.2. If a party to the transaction finds out later that the other party has hidden circumstances might obstruct the conclusion of the transaction, s/he shall be entitled to insist to consider the transaction void.

59.3. If person benefiting from the transaction knew or had to know that s/he was deceived by the third party, it may insist on considering the transaction void.

59.4. Interested party after a year upon learning that the grounds exist to consider the transaction void, shall be entitled to present its grievance.

### **Article 61. Some transaction parts become void**

61.1. Though some parts of transaction deemed void, but the remaining parts potentially could satisfy the transaction objectives, then the transaction shall remain valid.

61.2. Article 202.5. of this Law shall be applied for this provision as well.

## **CHAPTER SEVEN**

### **Representation**

#### **Article 62. Representation in transactions**

62.1. Transactions may be concluded via representatives/or proxies.

62.2. If law prohibits to conclude via proxies, or due to the nature of transaction, the parties should conclude it in person, such a transaction shall not be concluded via proxy.

62.3. Proxy mandate shall be created based on law or warrant.

62.4. Proxy shall be liable to carry out the authorised activity in person.

62.5. If the warrant envisages that activity could be carried out by others, or if it is required in the interest of the proxy, the warrant may be transferred.

62.6. The term of transferred warrant shall not be longer than the principal one.

62.7. Proxy shall be liable to inform the represented person/ principle about transferring the warrant to others and the person received it. If the proxy fails to do so, s/he shall bear the responsibility for consequences of the conduct of the person received the warrant.

#### **Article 63. Proxy**

63.1. If represented by warrant proxy may be a citizen or a legal person with full, or partial, or limited civil legal capability.

63.2. Within the mandate delegated by the principle, proxy shall conclude transactions with third parties on behalf of her/him. Rights and obligations created by transaction shall belong solely to the principle.

63.3. Proxy shall be liable to exercise the mandate fairly, adjusting it to the principal's rights and legitimate interests.

63.4. Proxy shall be liable to eliminate the harm done to the principle due to failure to fulfil obligations as provided by Article 63.3. of this Law.

63.5. Person represented by a citizen with partial or limited civil legal capability, without the consent of its legal representative, shall bear personal responsibility for any harm done to others, due to such representation.

#### **Article 64. Proxy mandate**

64.1. Principle may delegate mandate to the proxy by notifying orally or in writing her/him and the third party to the transaction about the representation and proxy mandate.

64.2. Written warrant shall meet the following requirements:

64.2.1. be signed by principle, and legal person's warrant shall be signed by executives, carry chop or seal on it;

64.2.2. warrant entitling to receive, or transfer, or administer legal person's assets shall be signed by the accountant beside executives;

64.2.3. issued date shall be indicated;

64.2.4. if provided by law, it should be certified by notary;

64.2.5. if warrant was issued for certain period of time, the duration should be indicated;

64.3. Warrant not meeting requirements of Article 64.2 shall be void.

64.4. Military man warrant shall be certified by commanders of the unit or organisation.

64.5. Warrants issued for a certain period of time shall be valid for no more than three years, warrants without a specified time shall be valid for a year period from the date of issuance.

64.6. Unless otherwise stipulated by law, requirements to the format of transaction to be concluded by proxy are irrelevant to the expression of will of being represented.

#### **Article 65. Acceptance of proxy mandate**

65.1. In case a person has created a situation, when another person comprehends itself as the former proxy, and with this comprehension the latter assumes seriously its proxy mandate and has concluded a transaction with a third person, the person having given such a comprehension of proxy mandate, shall not take advantage of the real absence of such a mandate.



65.2. In case the proxy concludes a transaction, without informing others about its proxy mandate, but the other party to the transaction has to be aware about dealing with a person representing others, the transaction consequences will be born by the person represented.

65.3. Provision of Article 65.2 shall be applied, if it was not important for the other party to the transaction with whom the transaction was concluded.

#### **Article 66. Advantages of principle's will**

66.1. If transaction is considered void due to insufficient expression of will by the proxy and desired consequences were not created, the will expressed by the principle shall prevail.

66.2. In case of concluding by the proxy of a transaction in compliance with the mandate issued and instructions received, the principle shall not be entitled to insist on considering the transaction void on the grounds that the proxy was not aware about conditions the principle knew or had to know.

#### **Article 67. Changed or terminated proxy**

67.1. If the proxy mandate changed or became invalid, the third party shall be notified about it in the form, in which originally the warrant was issued. In case this requirement is not met, the alteration shall not be used by parties in cases other than the third party knew or had to know about at the time of concluding the transaction .

67.2. Representation shall terminate on the following grounds:

67.2.1. declining the mandate by proxy;

67.2.2. mandate invalidation by the represented person;

67.2.3. unless otherwise stipulated in the law, either the proxy or represented person dies or loses full legal capability;

67.2.4. termination of the activity of the legal person was issued the warrant;

67.2.5. fulfillment of the mandate;

67.2.6. termination of the mandate fulfillment term;

67.2.7. if grounds for representation defined by law terminate - as provided by law.

67.3. Principle or proxy shall enjoy the right to invalidate anytime the warrant, or decline the representation. Transaction agreeing on non-existence of such rights shall not be valid.

67.4. Proxy shall be liable to return the mandate to the represented person, as soon as s/he learns about it.

67.5. The represented person shall notify the proxy and the third party about the invalidation of the warrant, directly or via any possible means of formal media.

67.6. Transaction concluded with another person by the represented person while he was not aware about termination of the warrant term or if it was impossible to know about it, shall be remain valid.

#### **Article 68. Transaction concluded by person without proxy mandate**

68.1. If a person without proxy mandate concluded any transaction with a third person on behalf of others, the validity of transaction shall depend on the consent of the represented person.

68.2. If the third person to the transaction requests consent from the represented person, he may receive it.

68.3. The consent shall be received within two weeks. If no reply is received during this period, consent shall be deemed declined.

68.4. Unless the third party to the transaction, while concluding it, knew that the proxy had no mandate, in all other cases it shall be entitled to renounce the transaction prior to getting the consent of the represented person.

#### **Article 69. Responsibility of person without proxy mandate**

69.1. If proxy fails to prove its mandate or the represented refuses to issue her/his consent to support the transaction, the person concluded the transaction at own discretion shall be liable to fulfill transaction obligations at the other side's demand, or eliminate any harm done to it.

69.2. If the third party was aware that the transaction had been concluded with a person without proxy mandate, or it had to know it, then the proxy without mandate shall not be responsible for any consequence of the transaction.

69.3. In cases other than representing other persons with the consent of the legitimate representative, a representative with limited or partial civil capability shall not assume any responsibility.

#### **Article 70. No proxy transaction with itself**

70.1. Proxy shall be prohibited to conclude transaction with her/himself on behalf of the principle, or on behalf of the latter with a third party.

### **SUBPART IV**

### **PERIOD OF TIME IN CIVIL LAW**

### **CHAPTER EIGHT**

### **Time Definition and Counting**

## **Article 71. Determination of period of time**

71.1. Period of time fixed in law, contract or court decision shall be defined by calendar date, week days, year, quarter, month, week, day or hour.

71.2. Period of time may be defined by an event which occurrence is inevitable.

## **Article 72. Procedure to count period of time**

72.1. Period of time shall be counted starting from a fixed date, or the expiration of the period, or after the event took place.

72.2. If the last day of the counted period of time expires on non-working day, then the time shall expire on the first day after the non- working day.

72.3. Period of time is defined in order to fulfil an obligation, so unless otherwise stated in the transaction, such an obligation shall be fulfilled within 24 hours of the last day of the period of time.

72.4. If an entity was supposed to fulfil the obligation, it shall be fulfilled within the last hour of the entity working day or production operation, as determined by the relevant procedure.

72.5. Document shall be deemed executed on time if it was transferred within 24 hours of the last day to a postal office or communication agency.

72.6. For counting the period of time, calendar year shall be consisting of 12 months, half a years – six months, quarter – three months, a day – 24 hours.

72.7. In case of extension, the new period of time shall be counted from the moment of the previous period expiration.

## **Article 73. Termination of counting a period of time**

73.1. Period of time fixed in years, half a year, quarter and months, shall expire the day of the expiring month. If there is no day of the expiring month, the period shall expire the last day of the month.

73.2. Calendar year shall start from January 1<sup>st</sup> and terminate on December 31<sup>st</sup>.

73.3. Period of time, fixed in weeks or days, shall expire at the hour of the day when the period expires.

73.4. Period of time, fixed by days of week, shall expire the last hour of the week, when the period expires.

73.5. Period of time, fixed in hours, shall expire at the moment of the hour, when the period expires.

## **CHAPTER NINE**

### **Prescription**

#### **Article 74. Right to demand prescription relevance**

In cases other than the law provides the prescription irrelevant, the right to demand a person to take or not to take any action shall have prescription.

Unless otherwise stipulated by law, prescription shall be irrelevant to non-material assets.

If specified by law, prescription shall be irrelevant to some property rights.

#### **Article 75. General and special prescription**

75.1. Unless otherwise stipulated by law, general prescription shall be ten years.

75.2. Unless otherwise specified in this Law, in the following cases special prescription shall be effective:

75.2.1. claims related to performing contract obligations shall have three year prescription;

75.2.2. claims related to contract obligations regarding immovable property shall have six year prescription;

75.2.3. claims related to obligations due to perform during a fixed time shall have three year prescription;

75.2.4. claims related to obligations arising due to causing damage to others' property shall have five year prescription.

75.3. At the request of parties, Court may change the prescription and its counting procedure.

#### **Article 76. Prescription term counting**

76.1. Prescription term shall be counted from the time of emerging of the right for claiming.

76.2. If rights were violated, or the violation was known or had to be known, or the appeal claiming or guaranteed terms were fixed, then claiming right shall commence when the claim response received or terms expired, unless otherwise stipulated in the law.

76.3. Prescription, related to claim regarding the refusal to perform certain actions, shall be counted from the time of violating such a claim.

76.4. If the claiming right depends on the claimant's conduct, the prescription shall be counted from the time when the claimant was supposed to take an action.

76.5. Prescription of a negative obligation shall be counted from the basic obligation assumption time.

## **Article 77. Termination of prescription of added obligation**

77.1. With termination of the principal obligation prescription (collateral, bail, guarantee and pledge), the prescription of added obligation shall terminate simultaneously.

## **Article 78. Cessation of prescription**

78.1. In following cases the prescription shall cease:

- 78.1.1. if performance of obligation was postponed,- for the period of delay ;
- 78.1.2. for the period, admitted by the principle of the obligation performer's refusal to perform the obligation;
- 78.1.3. if a competent authority due to emergency or force majeure was unable to refer to court within six months prior to the termination of the prescription, or if court was unable to run its regular operation, then – for a period, until such situation elapses;
- 78.1.4. claims between spouses during the validity of marriage;
- 78.1.5. as to parents and children, - until the latter reach adolescence;
- 78.1.6. claims between guardians, trustees and people under their custody – during the period when custody or trusteeship are still valid;
- 78.1.7. for a period when the validity of legal acts regulating such relationship are suspended.

78.2. Article 209 of this Law shall be irrelevant to Article 78.1.2.

78.3. From the time of elapsing the conditions ceasing the prescription, its counting shall renew. If the remaining time is less than three months, the prescription shall be up to three months, if prescription is less than six months, the term shall be prolonged for the remaining prescription period.

78.4. If a person deprived of or with partial civil legal capability has no legal proxy and the prescription might contradict their legitimate interests, the prescription shall not be counted during six months after the restoration of the person's civil legal capability or appointing the legal representative.

## **Article 79. Prescription break off**

79.1. If claimant or obligated person admits the claim to pay to the competent authority an advance, or interest, or provide guarantee, or in any other form, according to the established procedure, the prescription shall break off.

79.2. If a case was brought to Court, the prescription shall break until the Court ruling enters into force, or until the law-suit ends in other forms.

79.3. If parties reconciled, the law-suit cannot be continued, the prescription break shall stop by terminating the final actions take by parties or Court.

79.4. If the case mentioned in Article 79.3. of this Law, counting of the prescription term shall be renewed, but if any party decides to continue the law-suit, it will be equal to presenting claim, and the prescription shall be interrupted again.

79.5. If competent person revoked the claim or Court annulled the claim, the prescription shall not be deemed interrupted.

If competent person presents a new claim within six months, the prescription shall be considered interrupted from the day initially the claim was presented. During this period of time Articles 78.1.3 and 78.4. shall be equally applied.

If the prescription was interrupted, the passed time shall not be taken into consideration, the prescription shall start anew.

#### **Article 80. Prescription of legally valid claim**

80.1. Even if for a particular claim shortened prescription was set, but according to Court rule the claim is still legally valid, its prescription shall be ten years.

80.2. If legally valid claim is repetitive and relevant to future obligations, the shortened prescription set for that particular obligation shall remain valid.

#### **Article 81. Prescription for legacy right**

81.1. If the property to be inherited was transferred to a third person according to the legacy right, the prescription counting shall be continued, starting from the time when the property belonged to the previous owner.

#### **Article 82. Consequence of prescription expiration**

82.1. In case of expired prescription, obligation performer shall be entitled to refuse to perform the obligations,

82.2. If performer admits the obligation performance, being unaware about prescription expiration, s/he shall not be entitled to refuse to perform the obligation.

82.3. If performer fulfilled the obligation being unaware about prescription expiration, s/he shall not be entitled to claim back the performed obligation.

82.4. If Court or arbitration body considers that there is a sound reason for this, the prescription may be restored and violated right protected.

### **SUBPART V**

### **RIGHT TO MATERIAL AND NON-MATERIAL WEALTH**

### **CHAPTER TEN**

### **Material and non -material wealth**

### **Article 83. Property/Asset**

83.1. Anybody may acquire assets that are material wealth, and intellectual values, that are non-material wealth, as well as rights, earned by means not prohibited by law or conflicting with commonly accepted behavioral moral norms, In this case the abovementioned wealth is considered as asset.

### **Article 84. Material and non-material asset**

84.1. Asset that is subject to somebody's ownership shall be property.

84.2. Property shall be classified into immovable and movable.

84.3. Land and assets that cannot be used for their original purpose when they are in separation with land shall be classified as immovable property.

84.4. Goods other than that referred to in Item 84.3 of this Law shall be classified as movable property.

84.5. Rights and claim that bring profit to their owner or that entitle to demand from others or claim, as well as intellectual values belong to non-material asset.

### **Articl 85. Components of asset**

85.1. Components that can not be destroyed or separated without lossing their original designation shall be independent subjects of civil legal relationship.

85.2. Houses, constructions, installations and other things, that are constructed for permanent purposes but not to meet temporary needs and inseparably attached to the land shall be main components of land.

### **Article 86. Accessories to asset**

86.1. Movable property, not belonging to components of asset but serving to satify common utility designations of the main asset and which exists in spacial dependence on aset shall be accessories to asset.

86.2. Things that are pertinent to immovable property, serve to it and can be used in separation without causing serious damage to it shall be considered as accessories.

86.3. Temporary use of other asset for logistic purposes instead of a certain asset shall not make the former an accessory of the latter.

86.4. Temporary separation of an accessory from the main asset shall not deprive of its characteristics of being an accessory.

### **Article 87. Inseparable or limited rights**

87.1. Rights inseparably connected with other rights and that can not be exercised independently without them shall be inseparable rights.

87.2. Rights inherited from wider ranging rights, but limited by the latter shall be limited rights.

### **Article 88. Benefits from assets and rights**

88.1. Product, newly emerged from natural characteristics of assets or produced as a result of designated application of assets, shall be benefits from goods.

88.2. Incomes, generated by designated exercise of rights, shall be benefits from the particular right.

88.3. Unless otherwise provided by law and agreement, legal owner of asset and rights shall be entitled to own the benefits from goods and particular right.

88.4. If person concerned is liable to return benefits, s/he shall exercise rights to demand from authorized person a compensation for costs spent for production of benefits during the normal commercial operation within the limits not exceeding the cost of benefits concerned.

## **CHAPTER ELEVEN**

### **POSSESSION**

#### **Article 89. Creation of possession**

89.1. Possession shall be created by legal acquisition of rights and assets at own will.

89.2. Person, currently keeping asset in own possession on behalf of another person according to her/his authorization, shall not be considered as owner. In this case the person delegated the authority shall be the owner.

89.3. Person, acquired the right or obligation to possess assets for certain period of time according to own rights and in own legitimate interests, based on law or transaction, shall be direct possessor. The person, delegated the authority shall be indirect possessor.

89.4. If two or more persons jointly possess an asset, they shall be joint possessors.



89.5. If two or more persons possess certain parts of an asset, each of them shall be possessors of respective parts of the asset.

### **Article 90. Fair possessor**

90.1. Person, legally possessing an asset or having definite possession entitlement, shall be fair possessor.

90.2. Fair possessor shall be entitled within three years to reclaim from the new possessor the property lost from possession.

90.3. In cases other than acquisition of the asset via deception or use of force, the procedure stated in Item 90.2. of this Law shall be effective, if the new possessor enjoys prevailing rights over the previous possessor.

### **Article 91. Recognition of possessor as owner**

91.1. As to the third person, possessor shall be considered as owner of the property.

91.2. Item 91.1. of this Law shall not be applied for the following cases:

91.2.1. if ownership right is based on State registration;

91.2.2. for the previous owner, if property, except for money and securities ?, was out of possession due to reasons not depending on (such as loss or theft, etc.) the previous possessor's will.

### **Article 92. Demanding cancellation of acts impeding the exercise of possession and use rights**

92.1. Fair possessor likewise the owner shall be entitled to demand elimination of any other persons' impediments to exercise rights to possess and use assets in possession.

### **Article 93. Rights of legal possessor**

93.1. A property shall not be demanded from its legal possessor.

93.2. Unless otherwise provided by Law or agreement, legal possessor shall possess the benefits from the asset concerned during the period of possession.

93.3. Provision of this Article shall be effective as well for relations between direct and indirect possessors.

### **Article 94. Rights and obligations of fair possessor**

94.1. Fair possessor, not entitled to possess the asset or lost such a right, shall be liable to return the property to the authorized person.

94.2. Asset and benefits derived from it shall belong to the previous possessor until the authorized person gets the asset back.

94.3. Fair possessor shall be entitled to demand from the authorized person to reimburse the cost of storage, maintenance, repair and improvement of the asset during the possession period.

94.4 In case the property value increased as a result of improvement, the size of demanded reimbursement shall be evaluated at the improvement price at the moment of returning the asset. In this case, the demanded reimbursement amount shall not exceed the total sum of the property price plus profit.

94.5 In case the fair possessor failed to get benefits from the possession due to his/her own fault, the amount of the lost benefit shall be deducted from the reimbursement amount.

94.6 Fair possessor shall exercise the right to refuse to return the asset/ property back to the authorized person until his/her demands are satisfied.

#### **Article 95. Rights and obligations of non-fair possessor**

95.1. Non-fair possessor shall be liable to return the benefit from asset or rights to the authorized person and reimburse the due benefits, if s/he failed to get benefits due to own fault.

95.2. Non-fair possessor shall be entitled to demand from the authorize person to reimburse the cost of storage, maintenance, repair and improvement of the property/asset, in case this input increased the profit to the authorized person. The demanded sum shall not exceed the total sum of property/asset value and profit.

#### **Article 96. Termination of possession**

96.1. Possession shall be terminated, if possessor completely refused from possession or possessor/legal owner lost to others his/her right to keep the property in other forms in his/her possession.

96.2. Possession transferred as inheritance shall be transferred to heir in the same size as it was possessed by testator.

96.3. Possession of asset/ property shall terminate when owner or legal possessor present justified demand to possessor.

#### **Article 97. Suspension of possession period**

97.1. In case possessor lost his/her right to possess, the period referred to in Items 104.1 and 104.2. of this Law shall be suspended. When possession right is restored, the Period of possession shall be counted again beginning from the period of suspension excluding the past period.

97.2. In case possessor, lost possessor's right beyond own will or on the grounds of a third party claim, regained the right within a year from losing it, the period of possession shall not be considered suspended.

## **Article 98. Possession of intellectual values and rights**

98.1. The relevant provisions of Articles 89 - 94 of this Law shall be applied to acquisition of possession of intellectual values and rights.

## **CHAPTER TWELVE**

### **Property**

#### **Sub-chapter one**

#### **Common provisions**

### **Article 99. Types and forms of ownership**

99.1. There shall be public and private properties in Mongolia.

99.2. Common property shall have forms of state, local, ecclesiastical and public.

99.3. Private property shall have forms as individual and communal.

99.4. Public and private ownership may be in mixed forms.

### **Article 100. Owner.**

100.1. Unless otherwise provided by Law, the state, aimag, capital city, soum, duureg, individual and legal person shall be owners.

### **Article 101. Right to ownership**

101.1. Owners shall be entitled to possess, use, dispose of their ownership subjects at own discretion and protect them from any encroachment, without breaking the other parties' rights guaranteed by law or agreement and within the limits determined by law.

101.2. Owners shall be prohibited to abuse ownership rights by causing harm and damage to others. However, if the conduct inevitable to protect own interests was proven to be legitimate, it shall not be considered as abuse of rights.

101.3. Owner of livestock and pet, while exercise ownership rights, shall be liable to observe norms and standards on protection of livestock, wildlife and environment, to meet hygiene requirements and human security.

101.4. In case of owner's failure to use, maintain and store properly the ownership object conflicts with public interests, Court may charge the owner with obligation

to properly use, maintain and store the ownership object, or may commission the latter to have this obligation performed by somebody else for certain remuneration.

101.5. Ownership rights shall be applied to components of concerned asset/property.

101.6. Owner may transfer the rights provided by this Article to others, and the person, receiving these rights, shall be entitled to possess, use, and dispose the asset/ property according to designation authorized by the owner and for own activity purposes and procedure.

101.7. Unless otherwise provided by the contract, owner shall be responsible for risks of destruction or damages to object of ownership, its off-spring and benefits due to emergency and force majeure circumstances.

## **Article 102. Land ownership**

102.1. Land, other than the one in private ownership of citizens of Mongolia, shall be in state ownership.

102. 2. While exercising rights, landowners shall not cause damages to the environment or violate rights and legitimate interests of other persons.

102.3. If landowners transfer land for others' use, they shall instruct on its utilization. Land transferred for concrete purposes shall be prohibited to use for other purposes.

102.4. The term "landowner" in this Law shall mean the State until the procedure for private ownership of land by citizens of Mongolia is legalized.

102.5. Relations with regard to privatization, possession and use of State-owned land shall be regulated by law.

## **Article 104. Acquisition of ownership rights depending on possession period**

104.1. Person, possessing ownerless property for five years continuously and transparently like own one, after finding it in a fair manner, shall acquire the right to own it.

104.2. Unless otherwise provided by law, a non-owner, who acquired ownerless immovable property and was possessing it for a period of fifteen years like its owner after its registration with State register, shall acquire the right to own it with the termination of the above-mentioned period.

104.3. Right to ownership shall not be created for person, who acquired property in an unfair manner or if the legitimate owner of the property was identified within the period stipulated in Items 104.1. and 104.2. of this Law.

104.4. In case the assets acquired as stated in Items 104.1. and 104.2. of this Law was transferred to the third party on the basis of inheritance, the period of ownership for heir shall be continuously counted including the period when the property was under the possession of the previous possessor.

104.5. In case the owner presented claims to the person acquired the asset/property prior to the period stated in Items 104.1. and 104.2. of this Law, this period shall be suspended.

#### **Article 105. Prevailing right to acquire ownership right**

105.1. Unless otherwise provided by law and agreement, the possessor, who legally possessed and used the property for ten or more years, shall have the prevailing right to acquire ownership right for this particular asset/ property.

#### **Article 106. Claiming right of owner**

106.1. Owner shall be entitled to claim own asset/ property from its illegal possession by others.

106.2. If owner considers that his/her ownership right is violated to some extent, though this is not related to the possession of the ownership object, s/he shall be entitled to demand from the violator to eliminate the violation or stop the act impeding the exercise of the ownership right.

106.3. In case the right has continuously been violated after demanding according to Items 106.1. and 106.2 of this Law, s/he shall bring in an action to Court and have the violated right protected.

106.4. Provisions of Items 106.2 and 106.3. of this Law shall be applicable for the legal owner alike.

#### **Article 107. Restoration of violated right certified by security**

107.1. Court shall restore violated rights certified by bearer or inscribed security as prescribed by law.

107.2. Authority, competent to regulate and control the security market, shall restore violated rights certified by registered security.

#### **Article 108. Common ownership**

108.1. Two or more persons may commonly own asset/property partly or jointly, as provided by law or based on transaction.

108.2. Each owner of common ownership shall be entitled to claim the entire asset from possession of a third person, without hurting rights and legitimate interests of other owners.

108.3. Each owner of parts of common property shall be entitled to transfer own part of it to ownership of others or dispose otherwise and shall be liable to inform other owners of parts of common ownership of thus disposing.

108.4. Any owner of common ownership may transfer to others or otherwise dispose own part of ownership with permission of all other owners, on behalf of the right and in the legitimate interests of any of them.

108.5. Unless otherwise provided by law or agreement, partial owners of common property shall be responsible for cost, tax, fee and other obligations pertaining to maintenance and storage of own part of ownership, meanwhile joint owners of property shall be equally responsible for ownership. Benefits from use of common property shall be allocated commensurably to the above-mentioned shares or proportion.

108.6. Partial owner of common asset/property shall enjoy prevailing right purchase certain part of the common property.

108.7. Unless otherwise provided by law, partial owner of common property shall be entitled to sell own part of asset/property to a third party at a price not less than that offered to other owners, in case of absence of any answer from other owners within a month period since their notification about the intention to sell own part of property and offered price

108.8. Partial owner of common asset/property shall be entitled to separate own part of property or to demand the price of own part, if the designation, completeness and other characteristics of the property could be lost with split-up.

## **Subchapter two**

### **Creation and termination of ownership rights**

#### **Article 109. Transfer of ownership rights for immovable property**

109.1. Either transferor or transferee shall be entitled to request to transfer to others ownership rights for immovable property or have the transfer registered with the State register.

109.2. Grounds for transfer of immovable property shall be clearly stated in the transactions on transfer of immovable property and other relevant documents, and be registered with notary's office. In case, any of parties enters this relationship through a representative, a proxy mandate of representative shall be noted or attached to the document.

109.3. Non-owner, registered with the State register as owner, shall be the owner of the immovable property for the transferee of ownership rights. However, this provision shall not apply to transferee, who was aware that the transferor of rights was not the property owner.

## **Article 110. Termination of ownership rights for immovable property**

110.1. If ownership right for immovable property is transferred from a person to another based on transaction, ownership rights shall be created for the new owner and terminated for the previous owner by registering the transaction with Immovable Property Registration Office.

## **Article 111. Transfer of ownership rights for movable property**

111.1. Unless otherwise provided by law or agreement, rights ownership for movable property shall be created for the new owner and terminated for the previous by the actual transfer of the property to the ownership of transferee as requested, in conformity with relevant procedures.

111.2. Actual transfer of property shall be considered as completed, in following cases:

- 111.2.1. with transferring the property to the ownership of transferee;
- 111.2.2. with conclusion of transfer agreement, if the property in question is in the possession of transferee of ownership rights;
- 111.2.3. with conclusion of an agreement on transfer of claiming rights by the owner to the person acquiring the ownership right , if the property is in the possession of a third party.

## **Article 112. Transfer of ownership rights with payment of property price**

112.1. If parties agreed that ownership rights shall be transferred with complete payment of the price of property, the ownership right shall be transferred to the new owner, when the property price is fully paid.

112.2. Parties shall be liable to return all objects duly transferred to each other, if transferor of ownership rights renounces the agreement, when the transferee has not paid the price of property in due time. In this case, owner of the property in question shall be entitled to demand the party, that has not fulfilled the obligation, to compensate for damage and loss incurred, excluding ordinary depreciation.

## **Article 113. Transfer of ownership rights with transfer of securities and relevant documents**

113.1. If law or agreement provides so, ownership rights for property concerned shall be considered transferred with the transfer of documents or securities attached to the asset.

113.2. Ownership rights to be certified by inscribed security, shall be transferred by updating the entry of the inscriber security.

113.3. Ownership rights to be certified by non-bearer security, shall be transferred by handing-over the security to others.

113.4. Ownership rights to be certified by bearer security shall be transferred in conformity with relevant legislation.

113.5. Transferor of bearer security shall be responsible for validity of the security. However, the transferor shall not be responsible for the transfer of rights.

113.6. Rights certified by security shall be entirely transferred with transfer of security to others.

113.7. Transferor of inscribed security shall be responsible for its validity and transfer of rights.

#### **Article 114. Fair acquisition of ownership rights**

114.1. Rights to ownership shall be considered acquired fairly, if transferee of ownership rights was not aware or was not able to be aware that the transferor was not the owner of property. On the contrary, if, transferee of ownership rights was aware, or had to be aware or was able to learn that the transferor was not the owner of property, ownership rights shall not be considered as been acquired fairly.

#### **Article 115. Acquisition of property without ownership**

115.1. Ownerless property or property, the owner of which renounced own ownership with the purpose of terminating ownership rights, shall be considered as objects without ownership.

115.2. If person acquired objects without ownership by means other than that prohibited by law or did not violate the rights of authorized person while acquiring them, then s/he shall be entitled to possess and own the objects in accordance with Items 104.1. and 104.2 of this Law.

115.3. Unless otherwise provided by law, provisions of this Article may observed in case of acquisition, possession and ownership of lost livestock, pet or other animal.

#### **Article 116. Lost property**

116.1. Person found lost property shall be liable immediately notify its owner or the authorized claimant and hand over to them the property. In the absence of such persons, local administrative or police organization shall be informed, and her/himself shall store and protect it, or shall be liable to hand it over to these organizations.

116.2. Person found the lost property shall be entitled to ownership of it, if the owner or authorized person were not identified within one year from the time the authorized organizations were informed as stipulated in Item 116.1 of this Law. If the person found refuses to own the property, the property shall be transferred to local ownership.



116.3. Person found the lost property shall be entitled to demand from the owner or authorized person, or local authorized organizations a reward, and reimburse the costs related to storage, protection and search for owner of the property.

116.4. Reward amount shall be agreed by parties, but if they fail to do so, the reward amount shall be equal to ten percent of the whole price of the lost property.

116.5. If the lost property easily perishable or the cost of its storage and protection significantly exceeds its price, the person found it shall be entitled to sell it with the consent of competent authorities as specified in Item 116.1. through public sales points. In this case, proceeds from sales of the lost property shall be considered as lost property.

116.6. Person, found lost property in public place, office-room or public transport, shall hand over the property to the administration of the respective organization.

116.7. Administration of the organization specified in Item 116.6. of this Law shall be liable to announce publicly about the lost property, ensure its safety or transfer it to the authorized organization stipulated in Item 116.1. of this Law. In this case, person found the property and organization to which the lost property was handed over shall be entitled to demand the reward specified in Item 116.4. of this Law in equal amounts and related costs in real size.

116.8. Provision of Item 116.5. of this Law shall be applied to the property referred to in Item 116.6 as well. However, if the property owner or possessor was not identified within the period specified in Item 116.2. of this Law, the organization to which the lost property was handed over shall become owner of the property,.

### **Article 117. Lost livestock**

117.1. Person found lost livestock must notify the proper local administrative body or police organization and herd the livestock in her/his possession until the owner of the livestock is identified, or its transfer to local administrative body or police organization.

117.2. If the owner is identified within a year from the public announcement, the lost livestock together with offspring shall be returned. If the owner is not identified within this period, the livestock shall be kept in possession of the person found it or transferred to local ownership.

117.3. Person found the lost livestock shall be entitled to demand reimbursement of any costs incurred and reward for finding as prescribed by Item 116.3. and 116.4 of this Law.

### **Article 118. Hidden valuables**

118.1 Unless otherwise provided by law, if any hidden valuable, which had been buried underground for long time or abandoned until it became impossible to identify its owner or authorized person, was found, the person found it or owner of

the land or property, where the hidden valuable was found, shall be entitled to own it in equal shares, unless they agreed otherwise.

118.2. Hidden valuable shall be transferred as a whole to the owner of the land or property, where it was found, if hidden valuable was found in the result of exploration with the purpose of finding it without the consent of owner of the land or property, where hidden valuable was found.

118.3. If objects of historic and cultural value were found among buried valuables, they shall be transferred to the state ownership. In this case, the owner of the land and property, where the hidden valuable was found, or person found it shall be entitled to equal share of reward equal to fifty percent of price of the valuable.

118.4. Provision of this article shall not apply to buried valuables, archaeological and paleontological findings, found by persons in charge of research and digging during performance of their official duties.

### **Article 119. Merger or mix up of property**

119.1. Unless otherwise stipulate in law or contract, the movable property as main component of and attached to the estate as provided by Item 85.2. of this Law, shall be the property of the owner of the estate.

119.2. In case a new property, which is inseparable and created as a result of merger or mix up of property belonging to separate ownership of two or more owners, those owners shall be joint owners of the new property.

119.3. If a dispute arises about the ownership right for property referred to in Item 119.2. of this Law, the person, owned the major or main part of the property prior to merger or mix up, shall be the owner of the newly created property. The other person shall not be entitled to demand the restoration of the initial state of property, although s/he shall exercise the right to have damages caused to him/her be eliminated.

### **Article 120. Reprocessing of property**

120.1. In case if a person created a new movable property through repair, improvement and reprocessing, then the person and the owner of the property shall partially own the property in common, unless otherwise provided by law or agreement. Parts of ownership belonging to them shall be determined proportionally to the material cost and production expenses.

120.2. If a dispute arises over ownership rights between parties referred to in this Article, then the party, which invested more assets and labour into the newly created property shall be the owner of the property. The other party shall not be entitled to right to demand on restoration of the initial state of property, although shall have the right to demand damage compensation.

### **Article 121. Termination of others' rights by transfer of ownership right**

121.1. If ownership right was transferred according to Articles 119 and 120 of this law, any right of other persons concerning the property in question shall be terminated.

## **Article 122. Acquisition of ownership right over non-material property**

122.1. Unless otherwise provided by law, ownership right of a person created an intellectual property shall arise at the moment of its creation.

122.2. Owner of the right or claiming right may transfer own ownership rights to the owner of another property to the extent to which used to possess.

122.3. The previous owner shall be responsible for providing the new owner with all documents pertaining to right and claiming right, and any information necessary for exercising these rights, as well as for transfer of notification certified by notary office regarding the transfer of above-mentioned rights, if the new owner requires. The new owner shall bear the cost related to transfer of documents.

## **Article 123. Transfer of claiming rights**

123.1. Obligation performer shall fulfill obligations taken by the agreement before the principal until s/he is notified about the transfer of rights.

123.2. If it does not contradict the law, or contract, or the nature of the obligation, owner of the claiming rights may transfer his/her rights to a third party based on the agreement concluded, without the consent of performer of obligations

123.3. If rights and legitimate interests of obligation performer might suffer, transfer of claiming rights may be limited by agreement.

123.4. Performer of obligations shall be entitled to object or present claims at the moment of receiving a notification on transfer of claiming rights to a new performer of obligations.

123.5. If obligation performer demanded the initial principal to consider obligations fulfilled prior to the transfer of claiming rights, such demand may be addressed to the new performer of obligations.

123.6. Other rights, pertaining to claiming rights and methods to ensure its exercise, shall be transferred along with transfer of claiming rights to new owner.

123.7. If person exercising claiming rights agreed with several persons to transfer rights, then the first person agreed with, shall have full rights to demand before the obligation performer. If the first person agreed is impossible to identify, then it shall be considered that rights were transferred to the person, who first notified the obligation performer.

123.8. As for the transaction to be made in the form stated in the law or agreement, transfer of claiming rights shall be made in the form the transaction is made.

123.9. Procedure prescribed by this article shall be applied as well to the transfer of claiming rights as stated in the law, or on the basis of Court ruling or the decision of the competent government entity.

#### **Article 124. Transfer of loan**

124.1. Having agreed with the possessor of claiming rights, a third party may transfer to her/himself the debt of the obligation performer, thus becoming the obligation performer. In this case the procedure provided by Item 123.8 shall be effective as well.

124.2. New obligation performer shall be entitled to make all counter claims, arising from relationship between the claiming right possessor and previous obligation performer, to the claiming right possessor.

124.3. If a guarantor and pledgee refuse to continue their relations upon the transfer of debt, then the collateral/mortgage, pledge, guarantee and bank guarantee aimed at satisfying the demand shall be terminated.

### **Subchapter three**

#### **Family property rights**

##### **Article 125. Family property and its regulation**

125.1. Family property shall consist of properties of spouses, and other family members.

125.2. Some relations of property rights of spouses may be regulated by contract.

##### **Article 126. Common property of family members**

126.1. All properties accrued for the period of life together since the marriage, except for personal property of family members, shall be common property.

126.2. The following property shall be the common property of family members:

126.2.1. profits earned in the course of joint labour and economic activities of family members, as well as other revenues, cash accumulation and property which is newly accrued;

126.2.2. movable or immobile properties earned by incomes of common property of family members;

126.2.3. dividends and securities;

126.2.4. other properties accrued since the marriage, notwithstanding at whose name of spouses or family members the property is registered;

126.2.5. asset, cash accumulation transferred from separate property of a family member for the purpose of common ownership;

126.3. If the price of a personal property of a family member increased significantly as a result of reconstruction, innovation or re-equipping undertaken by other members of family or the separate property (apartment, gher, compound, house) was designed for the use of the new family, then these may be defined as property of common ownership.

126.4. Wife, husband, and other members of the family, who did not earn income since the marriage due to engagement in household works, child caring, sickness and other sound reasons, shall be entitled to ownership of family common property.

### **Article 127. Separate property of family member**

127.1. Unless a family member agrees to transfer it to common ownership of family members, the following property shall be own personal property:

127.1.1. property, money or property rights which were acquired by either spouse before the marriage;

127.1.2. accumulated money, property or property rights transferred to a spouse by inheritance or gift, as well as property or money acquired as a result of sale or monetization of those things;

127.1.3. property designated for individual consumption by a spouse;

127.1.4. intellectual property or author's honorarium;

127.1.5. reward for individual talent, capability and achievement;

127.1.6. property or money acquired by a spouse using personal property and which is required for carrying out professional activities.

127.2. Family members shall be entitled to right to possess, use and dispose of their personal property at their own discretion.

127.3. Unless otherwise agreed, family members shall be responsible with their personal property for assuming obligations arising from their private activities.

### **Article 128. Possession, use and disposal of common property**

128.1. Family members shall equally exercise rights to own, use, and dispose of properties of family common ownership, as well as possess, use and dispose them on the basis of mutual agreement.

128.2. Any member of family shall obtain written permission from a family adult member and have it certified by notary to dispose an immovable property of the family common ownership.

128.3. Unless otherwise provided by law, any transaction which does not comply with provision of Item of 128.2. shall be void.

128.4. If it is was reveled that a family member transferred property to others at own discretion or deliberately concealed profits and incomes derived from the transfer, then other family members whose rights were violated shall be entitled to restore their rights.

## **Article 129. Defining member share of common family property**

129.1. Per member share of family common property shall be defined in the following cases:

129.1.1. if dispute over per member share arises when a member leaves the family;

129.1.2. if the personal properties of spouses are insufficient to make payments ;

129.1.3. if payments are made by other members of the family;

129.1.4. on the opening of inheritance with the death of a family member.

129.2. Per member share of the property shall be the same for all family members including minors and disabled members.

129.3. In the case of divorce or the marriage considered void, Court may fix a different per member shares of property, taking into consideration the health condition of spouses or interest of children.

129.4. When defining per member share of property for family members, other than specified in Item 129.3 of this Law, Court may rule to reduce share size or not to give at all to a family member, taking into consideration her/his labour contribution and property size contributed to formation of the family common property.

129.5. Item 129.4 of this Law shall not be applicable if a family member was not able to contribute own labour or property to the formation of family common property for sound reason such as military service, academic study or long term illness, etc.

129.6. Court shall settle the disputes arising from the defining the per member share in the family common property.

129.7. If profit and income earned jointly by family members or earned as a result of assuming obligations by a member were proven to be used for family needs, then payment may be made from assets of common ownership, and if the asset is insufficient then the payment shall be made from the personal properties of the family member.

129.8. If profit and income gained were proven to be transferred to personal property of other members of the family or to assets of common ownership, in order to escape paying the compensation for damages caused to others or to conceal own illegal acts, then payment may be made in the required amount from the respective property.

## **Article 130. Split up common property jointly owned by family members**

130.1. Common property of family members may be split up at the request of a spouse or any adult member of family while marriage is valid, or after the divorce,

or at the demand of a plaintiff, if personal property of a family member is insufficient to make payment.

130.2. Family members may split up the property of common ownership based on their mutual consent.

130.3. Court shall define per member shares of in family common property in case of dispute, and rule which property should be allotted to which family member, and if the price of property transferred to a member exceeds her/his share, the price balance shall be give to other members.

#### **Article 131. Member leaving the family**

131.1. If one or more family members leave the family, they shall take their shares of common property, but shall not entitled to property which is essential for the further conduct of family business.

131.2. If it is impossible to give the share in kind, then its money equivalent shall be paid.

#### **Article 132. Spouses regulating ownership rights by contract**

132.1. In case of annulling the marriage and procedure regulating responsibility of spouses for family budget and expenses, the procedure of determining per spouse share of assets and other conditions pertaining to ownership rights may be regulated on the basis of contract in conformity with this Law.

132.2. Spouses shall conclude a written contract pertaining to their ownership rights and have it certified by notary. Contract that does not meet this requirement shall be invalid.

132.3. Spouses may conclude a contract pertaining ownership rights anytime prior to or after the marriage.

132.4. Contract concluded prior to marriage shall enter into effect from the date of marriage registration.

132.5. It is prohibited for spouses to include into the contract conditions, that regulate non-property relations, or obviously affecting legitimate rights and interests of either of spouses, or restricting legal capability of any of them.

#### **Article 133. Alteration and termination of contract**

133. 1. Contract may be cancelled by agreement of spouses or rule of Court at the request of any of spouses. Agreement on alteration and termination of contract shall be made in the format similar to the original contract.

### **Sub-chapter four**

## **Neighbor's rights**

### **Article 134. Neighboring property**

134.1. Bordering estates and other immovable property, which may mutually influence on each other shall be considered as neighboring property.

134.2. Owner or possessor of the neighboring property shall be obligated to pay respect to other parties in situations, other than exercising his/her rights and fulfilling obligations defined by law.

### **Article 135. Restriction and prohibition, or non-restriction and non-prohibition of neighbor's influence**

135. 1. Owner or possessor of one side of the neighboring property shall not be allowed to restrict or prohibit the other side's inevitable influence not impeding the use of his/her property.

135.2. If a party's influence was due inevitable necessity to use own property for ordinary entrepreneurial purposes, though the influence is serious, then the provision of Item 135.1 shall be applied as well. If this influence is considered exceeding the degree of normal use, then the other part shall be entitled to demand from the influencing party cash compensation.

135.3. Owner of the neighboring property shall be entitled to prohibit the construction and use of on-the-ground or underground facilities, that may cause serious damages to his/her rights and legitimate interests, and demand the owner or possessor of the other part to act violating rights.

135.4. In case if construction and facility referred to in the clause 135.3 of this law clearly conflicts with legitimate interests and rights of owner of the other part, despite they are constructed outside the fixed boundary of neighboring estates, then owner of neighboring property shall be entitled to demand to demolish or remove them.

135.5. A neighbor shall have rights to demand the owner or possessor of construction located on the territory of neighbor to undertake all the safety measures to prevent from the danger of falling of the construction on the territory owned by her/him.

### **Article 136. Use of water flow**

136.1. It is prohibited to change the flowing direction of underground clean water or waste water running across several estates, as well as to reduce the amount of water running to other estates, or to deteriorate the quality of water, or use flowing or underground clean water in a way restricting others' needs.

136.2. It is prohibited to change the natural river flow, except for cases provided by law.



### **Article. 137. Admission of violation of neighbor's border**

137.1. If possessor of land constructs facilities without neighbor's permission, then the neighbor shall have to admit such violation unless s/he demanded the possessor to halt his/her activities prior to or soon after beginning the act of violation of boundary.

137.2. The party violated the neighbor's rights, shall pay cash compensation to his/her neighbor annually and be liable to pay in advance the payment due in current year before the end of previous year.

### **Article. 138. Construction of roads, pipelines across neighbor's land**

138.1. In case an estate in possession is surrounded by private land and has no access to the road of public use or unable to use common network of power, gas and water supply, then possessor of the land shall be entitled to build a road, line or pipeline to be connected with the above-mentioned points through neighbor's land.

138.2. In the case referred to in Item 138.1. of this law, neighbor shall provide with relevant permission, and the party that builds a road, line or pipeline shall pay one time agreed compensation at the other party request. If parties fail to agree about the compensation amount, Court shall determine the amount of compensation.

138.3. Possessor of land, who changed or made impossible the use of road, line and pipeline, that had previously been used, without neighbor's permission, shall lose rights stipulated in Item 138.1 of this Law.

138.4. If possessor transferred a part of land of his/her estate, road, line and pipeline of public use, to possession of another person and the remaining part is needed to be connected with road, line and pipeline of public use, then the new possessor shall be obligated to issue a permission to build a road, and pipeline through his/her territory.

### **Article 139. Marking neighbor's boundary**

139.1. The land owner shall be entitled to demand the neighboring land owner to participate in erecting border marks along the boundaries of the neighboring area, restoring or repairing the marks earlier erected along the boundaries of the neighboring area, and unless stated otherwise, the parties shall equally share respective costs.

139.2. Unless there is no possibility to set the detailed boundaries, the size area practically in the possession of neighbors shall be taken into consideration. If the size is impossible to determine, parties shall possess equally divided parts of the disputed area. However, if they fail to do so the dispute shall be settled by Court.

### **Article 140. Communal use of neighboring area boundaries**

140.1. Neighbors shall have an equal right to use from both sides at the same time the boundaries of the neighboring area and other erections including fences etc. While exercising this right, both parties shall liable not to hinder other side's rights to use land.

140.2. The parties shall equally share the cost related to use and maintenance of fences and other erections.

140.3. No party shall be entitled to disassemble fences or other erections marking the boundaries of the neighboring area without permission from the other party.

140.4. Provision of Items 140.1- 140.3 shall not be applied in case a wall composing a component of a construction in the neighboring area in the ownership or possession of one party marks the boundary.

#### **Article 141. Transcription irrelevant to neighbor's ownership rights**

141.1. Transcription shall not relate to requirements stipulated in Items 135.3-135.5, 138.1, 138.4, 139.1 and 139.2 of this Law.

### **Sub- chapter five**

#### **Communal apartment ownership right**

##### **Article 142. Ownership of communal apartment**

142.1. Rooms inside the communal apartment and other non-apartment area not related to objects of communal ownership can be solely owned.

142.2. Parts of apartment house, construction and equipments that are not related to solely owned objects shall be in the communal ownership.

142.3. Part of the communal property, which is a part of apartment owner's property, shall be determined by the apartment area and the ratio of the overall area.

142.4. Only isolated apartments with concrete boundaries (apartment, room) and other isolated objects of the construction shall be considered as property of single ownership.

##### **Article 143. Apartment owners' association**

143.1. In case two or more households become owners of their apartment in the same communal apartment house, the Apartment owner's association (hereinafter refereed as an association) shall be set up with the purpose of exercising communal ownership rights, ensuring safety maintenance of the apartment house and protecting rights, benefits and interests of apartment owners.

143.2. Apartment owners inhabiting in neighboring few apartment houses may join and form a single association.

143.3. The Apartment owner's association shall not enjoy the rights of legal person.

143.4. All other persons owning apartments in the same apartment house shall be obligated to be members of the Apartment owner's association.

143.5. If the apartment house is composed of the mixed ownership apartments including state property and local property apartments, representatives appointed by the organization authorized by owners shall be members of the Association.

143.6. Matters related to the Apartment owner's association shall be regulated by law.

#### **Article 144. Dissolution of association**

144.1. In case the major part of the apartments and other assets is destroyed or damaged, and the damage and destruction cannot be repaired or eliminated using insurance or other ways, apartment owners may dissolve the association.

#### **Article 145. Creation and termination of single ownership rights for apartment**

145.1. The right for single ownership of an apartment shall be created on basis of law or transaction.

145.2. Transaction creating the right of single ownership of an apartment shall be certified by notary and registered with the State register.

145.3. All owners shall be entitled to have the apartment (room) and other area – objects of single ownership be registered with the State Real Estate Registration Office as provided by law.

#### **Article 146. Objects of single and communal ownership of apartment**

146.1. The area stipulated in Article 142 of this Law, and its components, which could be renovated, isolated and improved without violating the rights of other persons owning communal or single objects, or without damaging the outside image of the building, shall be objects of single ownership.

146.2. Even located in the middle of a single ownership area/property, but being a part necessary for ensuring the reliable quality and safety of the building, as well as installations and equipment, commonly used by owners, shall not be deemed as objects of single ownership.

146.3. Apartment owners may negotiate and agree about co-ownership of some parts of the area that belong to the single ownership objects.

146.4. It is prohibited to transfer single ownership areas for others' ownership in the form of selling, using as collateral or any other form, without including the respective part of communal property. This provision shall not cover non-apartment areas of single ownership property.

#### **Article 147. Distribution of costs and payments related to communal ownership objects of apartment houses**

147.1. Apartment owners shall be liable to pay the competent entities for heating, hot and clean water, sewage water removal, hygiene, electricity, communication related to their owned apartment and non- apartment areas, and to pay for maintenance and repair of communal ownership parts to the Apartment owner's association.

147.2. For determining the participation of apartment owners in paying costs related to services and repair of elevators, ladder, balconies, patio, gates, waste removal, window, and in financing other related costs, the total cost shall be divided by the total number of apartments in the house.

147.3. For defining apartment owner's participation in financing the repair and maintenance, insurance and other relevant inevitable costs related to the maintenance of roof, basement, space to the first blinder of heating supply, hot/cold water supply net, area to the switchboard of power input, area to the link-box of telecommunication line installed on each floor, wastewater net above the floor +0.00 mark, upper and lower water pools for public use located in the apartment house, parking area and other objects of communal ownership similar to them, the area belonging to single ownership shall be compared with total area of single ownership in the house.

147.4. Size of one third of non-residential area shall be added to owner's residential area to calculate the space that is in single ownership.

147.5. Owner, who did not make a proposal on issues other than providing the normal and safe operation of apartment use, and current repairs, shall not be liable to reimburse the costs related to the implementation of above-mentioned measures, but in this case s/he shall not be entitled to demand to use the products resulting from implementing the above-mentioned measures.

147.6. Association of apartment owners shall have repaired objects of communal ownership by professional organizations on contract basis. The association shall eliminate damages caused to others in related to contract obligations according to provisions stated in Items 147.2 and 147.3 of this Law, unless otherwise stipulated in the statute of the Association or contract with apartment owners.

#### **Article 148. Rights and obligations of apartment owner**

148.1. The apartment owner shall have the following rights:

- 148.1.1. Unless stated otherwise in law, owner shall exercise the right at own discretion to possess, use and dispose of the objects of single ownership;
- 148.1.2. To use the communal ownership objects according to their original designation;
- 148.1.3. To have a voting right commensurate to the own share in the regarding the maintenance and disposal of communal ownership objects;
- 148.1.4. To be entitled to take necessary measures to reduce and eliminate any potential damage to the communal objects without permission of co-owners and to claim for reimbursement of any related costs;
- 148.1.5. Other related rights stated in law;

148.2. The apartment owner shall have the following duties:

- 148.2.1. Not break rules of common residence with other co- owners in the course of using, maintaining and storing the objects of single ownership;
- 148.2.2. While maintaining, repairing and renovating own apartment or non- apartment parts of the building, the owner shall be obligated to follow respective legislation, standards and norms, not to cause damages to objects of other parties ownership, and not to break other legitimate rights and interests;
- 148.2.3. To take a certain part in financing the maintenance and repair of objects of communal ownership and other commonly accepted costs.
- 148.2.4. In order to secure the safety and normal operation of objects of communal ownership existing in the area of single owned objects, the owners shall be liable to permit access to these objects.
- 148.2.5. Accept any measures necessary to install communication and supply (water, sewage etc) lines.
- 148.2.6. In case the communal and other types of ownership objects were transferred to others' use, the owner shall be liable to share the responsibility for any consequences of due to the using person's failure to fulfill duties provisioned by Items 148.2.1- 148.2.7. of this Law.
- 148.2.7. The owner shall be liable to eliminate damages caused due to the failure to execute own duties stated in Items 148.2.4 and 148.2.5. of this Law

148.3. Non-use or refusal to use objects of single or communal ownership shall not serve as grounds for full or partial exempt from paying any costs related to exploitation, maintenance and repair of objects of the communal ownership.

#### **Article 149. Demanding rights of apartment owners**

149.1. Other owners of apartment shall have the right to demand to exclude the owner, who made the below-stated violations, from the Apartment owners' association, and to transfer to others her/his ownership rights for apartment:

- 149.1.1. if this owner seriously and regularly violated his/her obligations state in Items 148.2.1., 148.2.2 and 148.2.6 of this Law and did not take measures to stop and eliminate the violation within three months, despite the written warning from the side of Association;

149.1.2. if this owner did not perform his/her obligations, stated in Item 148.2.3 of this Law, over six months, or his/her outstanding payment exceeds 20 percent of the price of the apartment of sole ownership;  
149.1.3. other grounds provided by law.

149.2. If the apartment owner does not satisfy voluntarily the demand stated Item 149.1. of this Law, then the Association of apartment owners shall be entitled to sue her/him in the Court through its representative.

## **Sub-chapter six**

### **Limiting others' ownership rights with the purpose to exercise own rights**

#### **Article 150. Right to build buildings and installations on others' land**

150.1. Person, who obtained a right to build a building or installation on the land owned by others, shall transfer that land into own ownership with the right to hand down, use as mortgage, or sell to a third party, or dispose of it in other manner.

150.2 The land owner is obligated at the request of the person, obtaining the right to construct a building, to transfer into his possession the land that is not absolutely necessary to build the building and installation, but providing an opportunity to use the land in a better way.

150.3 The right to build buildings and installations shall necessarily have a specific term, and term shall not exceed 99 years. A transaction that conditions the premature termination of such rights shall be void.

150.4 In cases other than specified in Item 150.7 of this Law, it is prohibited to terminated the rights to construct a, at one party initiative.

150.5 The building or an installation that are built based on the right to construct a building or installation shall be deemed the main component of such a right, and destruction and break of the construction or installation shall not serve as grounds for termination of such rights.

150.6. If land owner's permit is required in case of selling the right to construct a building or installation to others, mortgaging it and other types of administering it, the owner shall not be entitled to refuse to give the permit except for situations when his/her rights and legal interests are seriously breached.

150.7 Unless provisioned otherwise by contract, a person who obtained the rights to construct a building or installation, shall pay the payments for possessing the rights to the land owner in accordance with the procedures stated in Item 137.2 of this Law. In case this payment is not done for two years, the land owner shall be entitled to cancel the contract at own initiative.

150.8 The parties may agree to revise every ten years the amount of the payment provisioned in Item 150.7 of this Law.

150.9 Unless otherwise provided by law or contract, when the right to possess the land for the purposes of construct a building or installation expires, the owner of land shall be obligated to compensate the price of the building or installation to the person who possessed the right.

150.10. Possessor of land may extend the term of the right to possess land allocated with designation to construct a building or installation for the period of normal existence of construction or installation concerned, instead of compensation provisioned in Item 150.9. of this Law.

150.11. If person, who used to possess land for the purposes of constructing refuses to extend the period as is stated in the clause 150.10 of this law, then he/she shall lose his/her rights to demand a compensation.

150.12. Unless otherwise provided by law or agreement, a person, who used to possess land for the purposes to construct a building or installation, shall not be entitled to separate the building or installation and their components, and move them away, upon the expiry of the term of the right concerned.

150.13. Right to construct a building or installation shall be registered with the State register.

150.14. Right to demand compensation as provided by Item 150.9. of this Law, shall be satisfied in the same order as the one for rights to construct a building or installation, and parties shall not be entitled to alter this order on negotiation basis.

150.15. If the rights to construct a building or installation are still under collateral at the moment of expiration of this right, then the person given the collateral shall be entitled to demand the performance of obligation secured by the pledge.

150.16 Owner of the land shall become a party to the rent contract concluded between the person, who used to have the right to construct the building or installation, and a third party.

150.17. The relevant part of the procedure on acquiring the immovable property provided by this law, shall be applied as well for relations pertaining to creation of rights to construct building or installation and acquisition of such a right.

#### **Article 151. Right to limit property rights of owner of an immovable property (servitude)**

151.1. To exercise own ownership rights, owners of immovable property shall have rights to limit the rights of other owners of immovable property (hereinafter called servitude) in the following ways:

151.1.1. if provided by law or agreement, use first of all in a limited way immovable property of others;

151.1.2. assign other owners not to carry out activities conflicting with his/her rights and legitimate interests;

151.1.3. restrict the exercise of some rights of owner limited by servitude towards the immovable property of party with servitude;

151.2. The authorized person while exercising the servitude shall be liable not to violate the legitimate rights of owner of the immovable property concerned,.

151.3. If parties agreed, the party with servitude shall regularly pay appropriate payment and bonus to the party with limited rights for the fixed period.

151.4. As for a house or construction, person with servitude shall be obligated to maintain it safe and use it properly, and parties may agree so that the party with limited rights shall unilaterally or partially be responsible for relevant cost.

151.5. In case the land or other immovable property of person with servitude is split up and transferred into the ownership of several persons, then each of those owners shall keep the servitude, unless rights of owner with limited rights are deteriorating.

151.6. In case the land of owner with limited by servitude rights, is split up to several persons, then land, other than that used be limited by servitude, shall be exempt from restriction of rights.

151.7. If somebody causes impediment to person with servitude in exercising his/her rights, then s/he shall be entitled to demand to eliminate the impediment.

151.8. Non-owner person may on grounds provided by law or contract exercise servitude rights to meet his/her household purposes likewise the person with servitude, then in this case this person shall not be entitled to transfer the servitude to others.

151.9. Owner with restricted rights shall be entitled to transfer the servitude to other parts of his/her estate, unless serious difficulty may occur to entitled person in exercising his/her servitude.

151.10. Owner of limited rights shall be responsible for costs related to the transfer of servitude as provided by Item 151.9. of this Law.

## **Article 152. Right to limited possession and use of others' property (usufruct).**

152.1. Rights to limited possession and use of other's property in the purpose to earn profit or benefit shall be called usufruct.

152.2. Usufruct owner shall be entitled to same rights as the owner of the property to possess and use the property, except for disposal of property through complete transfer of it into the ownership of a third person. In case of pledge and rent of the



property to the third party, then usufruct owner shall necessarily obtain the permission of the owner.

152.3. With termination of usufruct, the owner of the property concerned shall be a party to an agreement concluded by Usufruct owner with a third party.

152.4. For acquisition of usufruct, the same procedure used for acquisition of similar types, of movable and immovable properties as stated in this Law shall be used.

152.5. Usufruct may be determined with or without charge, for certain or uncertain period or for lifetime of the usufruct owner.

152.6. Usufruct may be terminated on the following grounds:

152.6.1. with death of person owning usufruct or dismissal of the legal person ;

152.6.2. usufruct owner and owner of property become one person.

152.6.3. termination of usufruct term.

152.7. Owner of the usufruct shall be obligated to return the property concerned to the principal owner when usufruct is terminated on the grounds specified in Articles 236-240 of this Law.

152.8. Usufruct owner shall not change the type and designated use of usufruct without consent of owner.

152.9. As for an estate, owner of the usufruct shall have rights to construct facilities for exploration and other necessary purposes and install equipment without changing the commercial designation of the estate.

152.10. Parties may assign experts at their expense to evaluate the current state of the usufruct.

152.11. If usufruct item is a complex of objects, then parties shall compile its list and document it by signing. At the request or cost of any party, parties may invite a competent person as a witness or request competent agencies or experts produce the list.

152.12. Unless otherwise provided by law or agreement, usufruct owner shall be responsible for repairs, securing normal commercial operation, maintenance of usufruct item, relevant taxes and payments as well as be responsible for insuring usufruct item. The owner shall not be responsible for normal depreciation of the usufruct item.

152.13. In case of insurance, the owner of the property concerned likewise the usufruct owner, shall be entitled to demand compensation from insurer.

152.14. Usufruct owner shall be obligated to notify immediately the principal owner in case of usufruct item is destroyed, damaged, or excessive expenses

required to meet the safety and soundness of the usufruct item, as well as if a third party raised a claim over the item. Usufruct owner shall not be entitled to refusal, when owner takes necessary measures to eliminate the circumstances.

152.15. If usufruct owner notified the owner in advance undertook necessary measures as provided by Item 152.14, then s/he shall be entitled to demand the owner to separate and return repairs and improvements if they are separable, or to pay for repairs.

152.16. If usufruct owner replaced some parts of property concerned with new ones to improve them, then s/he shall transfer items that have replaced the old parts to the owner, with the termination of usufruct.

152.17. Although usufruct owner shall be owner of profit and benefit earned beyond normal commercial use or exceeding the normal amount, s/he shall be obligated to compensate for the damages caused to usufruct item in this connection.

152.18. It is prohibited to transfer the usufruct without the owner consent and set double usufruct on it.

152.19. If usufruct item is a right, then the right concerned may be altered and invalidated only with the consent of usufruct owner on contract basis.

## **CHAPTER THIRTEEN**

### **Rights to pledge**

#### **Sub-chapter one**

#### **Common provisions**

#### **Article 153. Pledge**

153.1. If debtor fails to fulfil legal or contractual obligation secured by a pledge, then the creditor-pledgee shall be entitled to have her/his needs satisfied first from the value of the pledged property before other creditors.

153.2. With creation of rights to pledge, the person concerned shall exercise a prevailing right to demand the performance of obligations.

153.3. Pledge may be used for meeting future requirements with conditions possible to foresee at the pledge formation time.

153.4. Rights to pledge shall belong to main requirements, other auxiliary rights pertaining to it and benefits provided in Article 88 of this Law.

#### **Article. 154. Pledge items**

154.1. Movable and immovable property and rights that may be transferred to ownership of others may be items of pledge.

154.2. If the item of pledge was rights to demand and the debtor executed his/her obligations prior to termination of the period, then this performance shall be an item of pledge.

154.3. The item of pledge may be the ownership of others. In this case demand shall be satisfied after the relevant property will be transferred to pledgee's ownership. *(This section was modified by the Law of July 7 of 2005).*

154.4. The item of pledge may be arising in the future. In this case demand shall be satisfied after relevant property will be arising and transferred to the pledgee's ownership. *(This section was modified by the Law of July 7 of 2005).*

154.5. Pledger referred to in Item 154.4. of this Law shall have a prevailing right as a fair possessor over third persons.

154.6. A pledge contract may be altered by parties in order to replace the item of pledge with another.

#### **Article. 155. Transfer of pledge rights**

155.1. Rights to pledge shall be transferred to a new creditor when creditor-pledger transfers the demand secured by pledge to a third party.

155.2. For transfer of asset, securities that may be transferred to others, as well as rights to asset, the procedure to acquire them shall be used alike.

155.3. If transfer of pledge to others might touch the interests of a third person, then the third party concerned may transfer the rights to pledge to him/herself by satisfying demands of creditor.

#### **Article 156. Pledge contract**

156.1. Contract for pledge shall be concluded in writing.

156.2. Contract for pledge of immovable property must be certified by notary and registered with the Real Estate Register agency. A contract for pledge shall contain the name, place of residence of the parties to it, the obligation secured by the pledge and its amount, the time for performance and the type and value, as well as the location of the pledged property.

156.3. Contract, that does not meet requirements state in Items 156.1. and 156.2. of this Law shall be invalid.

156.4. At request of a party the contract for pledge may be certified by a notary or registered with registering organization.

#### **Article 157. Rights and obligations of parties**

157.1. Pledgor shall be entitled to the following rights:

157.1.1. acquire benefits from pledge within the demand secured by pledge;

157.1.2. have his/her demand satisfied from the sum of sales of pledge prior to other creditors;

157.1.3. sell the pledge item in accordance with provisions of this Law, unless the pledgee chooses other option or had other object pledged within the period stated in Item 157.2.2. of this Law;

157.1.4. demand to transfer the pledge to his/her possession if s/he consider that pledgee does not perform obligations stated in Item 157.6.1 of this Law.

157.1.5. secure the completeness of pledge when the pledge is transferred to his/her possession and demand from pledgee the necessary cost arising with this regard;

157.2. Pledgor shall have the following obligations:

157.2.1. immediately inform the pledgee, in case a real situation of destruction and significant reduction of value of pledge emerges;

157.2.2. in the case stated in Item 157.2.1. of this Law, to recommend the pledgee to chose other options and possible period to bring another pledge item;

157.2.3. keep the money earned from sales of pledge until the end of the period stated in Item 157.1.3. of this Law;

157.3. If several items are pledged in order to meet demand of creditor, then unless otherwise provided by law, the pledgor shall be entitled to chose the item that meets the demand, however, this should not exceed the quantity and size to meet the demand.

157.4. Pledgor shall exercise rights stated in Article 92 of this Law, in case the condition impeding implementation of pledge rights emerge.

157.5. Pledgee shall exercise the following rights:

157.5.1. get benefit from pledge during the period of possessing it;

157.5.2. if circumstances stated in Item 157.2.1 emerge, offer an alternative that may satisfy the demands of pledgor demanding a replacement;

157.5.3. demand to transfer the pledge item to a third party, who is capable to keep the pledge item sound and safe, if s/he considers that pledgor can not perform properly his/her obligations stated in Item 157.1.5. of this Law.

157.5.4. demand to transfer the remaining income from sales of pledge at auction after deduction of creditor's demand, costs related to holding an auction and other necessary costs;

157.6. Pledgee shall assume the following obligations:

157.6.1. Ensure safety and soundness of the pledge which is in her/his possession;

157.6.2. inform the third party, if a third party involvement is necessary with regard to object to be pledged at the moment of conclusion of contract for pledge.

157.7. If the pledgee is not debtor in the demand to secure by pledge, then the pledgee shall be entitled to make counter-demand that can be made from a debtor to a creditor.

157.8. If the demand secured by pledge can be secured with assets of debtor and a third party at the same time, then the pledgee shall be entitled to rights to demand the creditor to secure the demand with asset of debtor first.

### **Article 158. Satisfaction of pledger's demand**

158.1. The pledger's demand shall be satisfied through sales of pledge or other forms of sale, if rights to demand are created or period of performing the obligations is over.

158.2. Pledger's demand is deemed satisfied, when debtor makes proper payment to creditor.

158.3. Pledger shall be entitled to demand to sell the pledge, if the period of complete and partial satisfaction of cash demand is due, and s/he shall exercise this right only to have own demand satisfied.

158.4. If it is necessary to take actions of legal importance in order to meet the demand secured by pledge, then the pledger have rights to demand the pledgee to undertake actions, which may be taken by pledgee with a third party on behalf of the pledgor, unless the latter undertakes these actions within fourteen days

158.5. If a pledge is pledged to several persons, then the person, who first accepted as pledge shall have rights to demand to sell the pledge. If this person refuses to exercise this right, then the next pledger shall exercise this right to demand.

### **Article 159. Sales of pledge**

159.1. Unless otherwise provided by law, a pledge shall be sold at the auction according to procedures set forth in this Law.

159.2. Price of the pledge may be determined by an expert prior to sales, if pledgee demanded so, and in this case the pledgee shall bear the relevant cost.

159.3. Owner of the pledge may take part in the sales operation of the pledge and make an offer purchase the pledge.

159.4. Participants of the auction shall be explained that they shall lose rights to purchase unless they had paid the price of the pledge.

159.5. Pledge shall be transferred with unrestricted rights to a person who acquired the pledge legally and in a fair manner.

## **Article 160. Termination of pledge rights**

160.1. Rights to pledge shall be terminated in the following cases:

- 160.1.1. if demand secured by pledge is terminated;
- 160.1.2. if pledger notified the pledgee/possessor about his/her refusal from pledge;
- 160.1.3. if pledger gave the pledge, that was under his/her ownership, back the pledgee;
- 160.1.4. if rights to possess the pledge transferred to pledger;
- 160.1.5. if the pledge was destroyed;
- 160.1.6. on other grounds set forth in the law;

160.2. Rights to pledge shall not be terminated, if the demand to secure by pledge remains for a third party in the case referred to in Item 160.1.3..

160.3. In case the rights to pledge is terminated on grounds other than that referred to in Items 160.1.4. and 160.1.5. of this Law, then the pledger shall be obligated to return the pledge back to pledgee or possessor.

## **Sub-chapter two**

### **Special regulation of movable property and rights' pledge**

#### **Article 161. Transfer of demand secured by pledge**

161.1. Creditor may transfer his/her rights to pledge to others by transfer of demand secured by pledge.

161.2. Rights to pledge shall not be created, if transfer of pledge along with transfer of demand is impossible.

#### **Article 162. Acquisition of permission**

162.1. Unless otherwise provided by law and agreement, pledger and pledgee shall be obligated to obtain mutual permission in the following cases:

- 162.1.1. from pledgee, if pledger takes a pledge;
- 162.1.2. from pledger, if pledgee is to make a transaction with a third party with regard to the pledge.

#### **Article 163. Sale of immovable property and rights**

163.1. Pledger may entrust a special sales organization for sales of pledge through it, if the market or stock exchange price of pledge is evident.

163.2. Pledger shall be obligated to notify in advance the possessor of the pledge of the possible sales of pledge, as well as its price. The pledge shall not be sold within fourteen days since the notification.

#### **Article 164. Pledge of rights**

164. 1. Relevant provisions of Articles 153-160 of this Law shall be equally applied to pledge of rights.

### **Sub-chapter three**

#### **Mortgage of immovable property**

#### **Article 165. Hypothec**

165.1. Creditor's mortgage of certain immovable property in order to have his/her demand satisfied first before all the other creditors shall be hypothec.

165.2. Maximum price of immovable property that may satisfy the demand of the creditor shall be identified and noted in the State register.

165.3. Possessor and creditor may mutually agree to replace the demand secured by hypothec with other demand, and in this case they shall have respective changes registered with state registration.

165.4. If demand of creditor is to be satisfied with hypothecs of several immovable property, each immovable property shall be used for entire satisfaction of demand concerned and the creditor may chose any of immovable property for having his/her demand satisfied.

165.5. Hypothec shall be equally applied to component of and benefit from immovable property, which was acquired by irregular commercial operations, or which having not been transferred to ownership of others although it was acquired by standard commercial operations.

165.6. If otherwise provided by agreement, interest, tort, damage caused and Court costs, in addition to main obligations, shall be deducted from the price of immovable property that is a hypothec object.

#### **Article 166. Registration of hypothec**

166.1. Hypothec is created with its registration with the State register.

166.2. Possessor, debtor and creditor of immovable property shall make a document certifying the amount of demand secured by hypothec, its interest, and period of performing the demand. The owner and creditor of the immovable

property shall have hypothec registered in conformity with procedures set forth in the law.

### **Article 167. Secured hypothec**

167.1. Creditor may agree to have his/her rights to hypothec exercised by proving own demands only, without making the registration of rights to hypothec as a proof. This hypothec shall be registered with the State register as secured hypothec.

167.2. Hypothec may be determined for demand concerning payment obligations of non-bearer or inscribed/bearer securities. In this case it shall not be necessary to have the hypothec secured.

### **Article 168. Transfer of hypothec to owner**

168.1. Hypothec shall be transferred to owner of immovable property by the termination of creditor's demand or if the creditor refused from his/her demands.

168.2. In the case referred to Item 168.1. of this Law, the owner shall terminate the hypothec and write off the State register or may transfer it to another person, retaining the registration order.

168.3. If owner of immovable property is liable before a third person for terminating the hypothec, or the immovable property or hypothec should be transferred to the same person, then it may be noted in the State register in advance.

168.4. Unless owner of the immovable property is obligated before the pledgee in person, s/he shall exercise the same rights as the person, who is obligated in person, and he/she shall be entitled to request the demand to be considered invalid or have a the requested amount reduced.

### **Article 169. Satisfaction of creditor demand**

169.1. Owner of the immovable property shall be obligated to satisfy the demand of creditor if period of satisfaction of creditor's demand is due, or from the time when the obligation performer acquires the right to perform the obligation.

169.2. If the owner satisfied the demand of creditor, then s/he shall have rights to demand the creditor to provide him/her with documents necessary for making changes in the State register or termination of hypothec.

169.3. Unless owner is obligated in person, s/he may transfer the obligations from debtor to him/herself with the consent of pledger.

### **Article 170. Protection of creditor rights**

170.1. Owner shall be obligated to have the value of immovable property, serving as hypothec, determined realistically.



170.2. If a situation endangering the immovable property emerges, creditor may set a period of time for owner to eliminate the danger. If owner did not take actions to eliminate the danger by expiration of the period, then creditor shall be entitled to have his/her demands immediately satisfied from the property concerned.

170.3. If immovable property is insured, then in the event of emerging insurance, insurer shall be obligated to notify the creditor and then provide insurance compensation to insured.

170.4. If there grounds exist to consider that insurance compensation shall not be used for rehabilitation or restoration purposes, then the creditor shall be entitled to take necessary measures not to let insured receiving insurance compensation.

170.5. If it is determined that the owner failed to perform obligations with regard to safety and soundness of immovable property serving as hypothec, then the creditor shall be entitled to demand the transfer of immovable property to his/her ownership.

#### **Article 171. Non-restriction of owner transaction right**

171.1. Transaction, obligating the owner not to use the immovable property serving as a hypothec, not to transfer it to ownership of others, and not to otherwise entitle rights to it to third party, shall be invalid.

171.2. Validity of the transaction concluded by hypothec owner with a third party shall depend on the creditor's permission.

171.3. Transaction about agreeing that right to ownership of immovable property shall be transferred to creditor unless the latter demand is satisfied completely or partially, shall be invalid.

#### **Article 172. Transfer of hypothec and demand**

172.1. Hypothec and demand serving as its grounds may be transferred together to others only in a case referred to in Item 87.1. of this Law.

172.2. Demand is considered as transferred if documents of hypothec certified with notary is transferred to a new creditor and this new creditor is registered with State register.

172.3. If obligation performer executed his/her obligations before the previous creditor after the transfer of demand to the new creditor, but was not unaware of such a transfer, then the previous creditor shall perform obligations before the new creditor to the extent to which obligation was performed by debtor.

172.4. Hypothec and demand shall be transferred to new creditor in the same amount as the previous creditor had.

172.5. Document that is registered with the State register and certifies the transfer of hypothec to new creditor shall be considered true and reliable. Debtor shall not be entitled to make demand with regard to it. If new creditor was aware of a mistake in the registration, then this provision shall not apply to such a case.

172.6. If rights and legitimate interests of a third party were damaged as a result of a hypothec, the person concerned shall be entitled to satisfy the demand of creditor and transfer the hypothec rights to him/herself.

172.7. If a third party satisfied the creditor's demand according to provision of Item 172.6. of this Law, then s/he shall be entitled to transfer the pertaining documents and registration into her/his name.

172.8. If hypothec was transferred to a person who satisfied the creditor's demand as referred to in Item 172.6 of this Law, then s/he shall be entitled to demand the owner to compensate the damages caused.

172.9. If a creditor, who is entitled to demand, has the same amount of obligations as the obligation performer, then their demands maybe considered as mutually satisfied.

### **Article 173. Hypothec refusal and rights to demand**

173.1. If creditor renounces the demand and hypothec and have this refusal registered with the State register according to appropriate procedures, hypothec shall be transferred to the owner of the property concerned.

173.2. If creditor declined the hypothec, but retained his/her demand valid, then debtor shall be exempt from obligation to the extent s/he already paid the compensation for damages caused by hypothec.

173.3. Owner of the immovable property shall be entitled to demand the creditor to decline the hypothec, in case the hypothec becomes impossible to use for long-term with her/his acquisition of the right to dispute.

### **Article 174. Demand on sale of immovable property**

174.1. Creditor shall be entitled to demand to sell the immovable property, in case the debtor exceeded the period of satisfaction of hypothec demand.

174.2. Provision of this law shall be applied for sales of immovable property, and regulations of this law shall be deemed more detailed.

174.3 If the creditor is a bank or a non-bank financial institution, it shall submit the request to a law court for selling hypothec in a judicial way or to a registry office for selling in a non-judicial way as prescribed in the law. The articles 175.5-175.7, 176 and 177 of this law are not applicable for selling hypothec in non-judicial way. *(This section was modified by the Law of July 7 of 2005).*

174.4 The procedure for selling hypothec in non-judicial way shall be established by the law. *(This section was modified by the Law of July 7 of 2005).*

### **Article 175. Forced sale of pledge based on Court ruling**

175.1. In case the obligation performer failed to fulfill obligations when demanded as provided by Article 174 of this Law, immovable property serving as hypothec shall be subject to forced sales at the decision of Court, unless otherwise provided by law.

175.2. Court may determine other forms of sales of immovable property based on the claims from owner of the immovable property and creditor, and considering proposals made by authorized parties.

175.3. Creditor, debtor and owner shall be entitled to take part in the auction.

175.4. Debtor shall lose his/her rights to keep the benefit from the property by issuance of decision on sales of immovable property at auction.

175.5. If debtor lives with his/her family members in a house or in a room of the house, that serves hypothec, s/he shall become lessee by the moment of issuance of Court decision on forced sales of immovable property and shall be obligated to pay the rent to creditor at the current rate.

175.6. Person, who assigned by Court to lead the auction, shall carry out the auction within 30 days from issuance of Court decision.

175.7. Person assigned by Court to lead the auction shall notify the public of the event through the mass media 14 days prior to it.

### **Article 176. Suspending and postponing auction**

176.1. In case the owner or third person, whose rights may be affected by carrying out the auction, satisfies the creditor's demand in advance, then the auction may be suspended.

176.2. Court may postpone the auction based on the request from the owner and having considered proposals by parties entitled to ownership rights by up to six months in the following cases:

176.2.1. if it is possible to postpone the auction depending on the nature of debt to be paid by debtor;

176.2.2. if it is necessary to consider the personal and commercial relations of owner.

176.3. If Court deems that temporary postponement of auction, stated in Article 176.2 of this Law, may potentially create an explicitly negative consequences for the creditor, it may decline the owner's request.

### **Article 177. Auction price**

177.1. The price, offered for real estate to be auctioned, shall be mutually agreed and fixed jointly by obligation performer, obligation assigner and owner, but if no agreement was reached, the competent auctioneer shall determine the price based on expert's opinion. The expert shall be nominated by the auctioneer.

177.2. If no price offer was up to the level of the price offered at the initial auction, or no one participated in the auction, the second auction shall be conducted.

177.3. Second auction shall be organized within 30 days after the first one. Second auction shall be publicly announced as provided by law.

177.4. The price offered by auction participants shall be sufficient to cover the costs related to organizing the auction and meeting the creditor's requirements. If the price was not high enough, it shall be considered that the auction did not take place.

### **Article 178. Ownership right over auctioned item**

178.1. The buyer, offered the highest price, shall be liable to transfer to the competent person conducted the auction the price, from which the auction conducting cost shall be deducted.

178.2 Buyer shall become the owner of the property from the time of paying fully the price of the auctioned property.

178.3. All limited rights for property and other hypothecs, registered after the hypothec, enforced by the creditor, shall be terminated with transferring the ownership right.

178.4. Nonetheless, other limited rights to be exercised with regard to that particular immovable property, shall remain valid.

178.5. New owner bought the immovable property, shall become a party to the contract valid during transferring the ownership right.

### **Article 179. Distribution of auction proceeds**

179.1. If the obligation assignor /creditor is the sole person registered with the State register with hypothec right, or if the auction proceeds were sufficient to satisfy the needs of all obligation assignors, after deducting from it the cost related to organizing the auction, the competent person, organized the auction, shall distribute the remaining proceeds, after deducting from it all costs among obligation assignors according to proper order and procedures, and transfer the residuals to the owner participated in the auction

179.2. If the price at which the immovable property was sold not enough to satisfy requirements of obligation assignors, the competent auction organizer shall deduct the cost of organizing the auction, deposit the remaining amount on a

special account and distribute it among obligation assignors in the order they were registered with the State register.

#### **Article 180. Auction organizer's liability**

180.1. If damages were caused to others due to the failure of a competent person nominated to organize the auction properly fulfill the obligations, the damages shall be compensated as provided by Article 497 of this Law.

#### **Article 181. Transfer of immovable property**

181.1. Court may rule to transfer the property for others' management instead of auctioning it based on the request of obligation assignor with hypothec claiming rights. In this case, Court may nominate a competent person to manage the immovable property or transfer this right to the owner.

181.2. Before making decision provided by Article 181.1., Court shall be liable to consider the opinions of all competent persons registered with the State register, whose rights and legitimate interests might be affected with forced transfer of the property for others' management.

181.3. Court shall rule as provided in Article 181.1. only in case, the proceeds from transferring for others' management would be more than the costs related to its management.

181.4. If the obligation performer and her/his family reside in the building or its part, which was forced to be transferred for others' management, s/he shall pay the rent at the rate prevailing at that particular time.

181.5. Competent person managing the immovable property shall get all benefits from the property, deduct from it all management and other related costs according to own proposal approved by Court, and dispose of the residuals at the end of the year.

181.6. If the obligation assignor's requirements were met, the competent person managing the immovable property shall return the immovable property to its owner.

181.7. If it became obvious that the obligation assignor's requirements cannot be met by forced management, it shall be terminated and the immovable property shall be sold through auction.

### **Sub-chapter four**

#### **State register**

## **Article 182. State registration right**

182.1. Rights, except for the right to own immovable property/real estate and other rights of property that is relevant to it, shall be registered with the State register.

182.2. In case it is stated in the law or contract, movable property and related rights should be registered with the State register.

182.3. Registration of rights stated in this article shall be regulated by law.

## **Article 183. State registration note**

183.1 Note written in the State register shall be considered accurate, unless the person, receiving the right registered with the State register under the mane of the person transferring the right based on transaction, knew that the note was inaccurate or refused to believe that it is accurate.

183.2. If the registration is made under the name of a person who is not entitled to register it, the person suffered from harm as a consequence of that registration in terms of rights and legislation, shall be entitled to demand from the person whose name is in the register to alter the records in the registration.

183.3. In order to identify the genuine owner of the right registered with the State register, a person, whose right is violated, shall be entitled to submit to registration office an application about inadequate records in the State register.

## **Article 184. Order of registered rights**

184.1. Order of registered rights in the State register shall be determined according to the submission order of application to register.

184.2. The order could be altered later based on the permission of parties that are exchanging their orders, and the alteration shall be recorded in the State register.

184.3. In order to register any rights, the owner of immovable property/real estate may put a condition to register any right before another, the such a condition shall be recorded the State register.

## **Article 185. Preliminary records in the State register**

185.1 In order to meet the requirements of registering immovable property/real estate rights, preliminary records may be made in the State register.

185.2. The recording specified in Article 185.1 of this Law could be made in order to satisfy conditional demands or those may emerge in the future.

185.3. Unless the registration, which will be made after preliminary recordings, terminates or damages the demanding rights of a person, whose rights are protected by the preliminary records, such records shall not impact on the person.

185.4. The preliminary record shall be made in order to determine the possessor of right, with the permission of the owner of the immovable property.

185.5. If preliminary record is likely to reduce the opportunity to use the property for a long period of time, possessor of the property shall be entitled to demand from the person who made such recording to cancel it.

185.6. If any rights of the person insisted on preliminary recording are not valid, s/he shall be entitled to demand from the possessor of the property a permission to get registration, which is necessary to implement requirements that would be satisfied by preliminary record.

## **PART II**

### **OBLIGATIONS**

#### **Sub-part one**

### **GENERAL BASIS**

## **CHAPTER FOURTEEN**

### **Common provisions**

#### **Article 186. Obligation relationship**

186.1 As provided by the law or contract, a performer has an obligation before a client, to perform an action or refuse to perform a particular one, and the client is entitled to demand execution of the obligation.

186.2 Depending on characteristics and contents of the obligation, an exclusive obligation, regarding rights and property of the other party, may be delegated to either of two parties.

#### **Article 187. Grounds for obligation**

187.1. Obligation shall emerge on the grounds stipulated in Article 8 of this Law.

187.2. Obligations stipulated in Article 186 of this law may emerge at the preparatory stage of entering a contract.

187.3. If contract was not concluded due to the negligence of either party in the process of negotiations, the obligation may arise to pay to the other party the cost of conducting negotiations by the party guilty in negligence.

## **Article 188. Obligation to provide information**

188.1. Obligation may create rights for any party to obtain information.

188.2. In case the information possessor may provide with information, required for defining the obligation content, without harm to own rights and interests, the other party shall be entitled to such information.

188.3. Party receiving the information, shall be liable to reimburse the costs related to providing information to the other party.

## **CHAPTER FIFTEEN**

### **Contract law**

#### **Sub-chapter one**

#### **Common provisions**

## **Article 189. Liberty of contract parties**

189.1. Parties to the contract shall be entitled within the legal frame-work to conclude contract freely and define its content.

189.2. In order to protect societal and individual interests, certain types of contracts may concluded based on special permission issued by government-authorized entities. The procedure of issuing special permission shall be defined by law.

189.3. Contract concluded based on special permission shall enter into effect after receiving special permission from the competent organization.

189.4. A person dominating the market of producing certain types of goods, or delivering services, or performing works, shall be liable to enter a contract with persons willing to make a deal with it in areas mentioned above, and shall not be entitled to put pressure on the other party to accept unequal terms and conditions or to refuse to conclude a contract.

189.5 A contract, which is not named directly or regulated by this law, but having specific content, expressing basic contract characteristics and forms shall be considered as an unnamed contract. General provisions of this Law shall apply to unnamed contracts.

## **Article 190. Concluding contracts regarding the property available currently or in future**



190.1. Contracts, under which a party taking an obligation to transfer all his/her properties to be available in the future to another party's ownership, or limited use or possession (usufruct), shall be deemed void.

190.2. Contracts under which a party taking a obligation to transfer all or part of his/her currently available properties to another party's ownership or limited use or possession (usufruct), shall be certified by notary.

#### **Article 191. Contract on property to be inherited**

191.1. A contract regarding the property to be inherited by a citizen, concluded between third parties shall be deemed invalid.

191.2. Item 191.1 of this Law shall apply to a contract between third parties regarding a share of property to be inherited by to a citizen, as well as restrictions set by testator's written will.

191.3 Article 191.1 shall not apply to a contract between legal heirs regarding shares of inherited-to-be property.

#### **Article 192. Obligation applying to property accessories**

192.1. In case a party takes an obligation to transfer his/her property to another party for ownership, or limited possession, or use, such an obligation shall apply equally to accompanying items of the property, unless otherwise stipulated in the contract.

#### **Article 193. Defining the obligation execution**

193.1. If the method, form and procedure of executing obligation determined by a party or a third party to contract, may cause hesitation of the other party or other parties, the matter shall be tackled based on principles fairness and by mutually expressing own wills.

193.2 If determined method, form and procedure of executing obligation do not meet the principles of fairness, or are deemed by any of parties that they slowing down the process of determining obligation execution, this party shall be entitled to approach the court for settling.

#### **Article 194. Regulation for non-contract obligations**

194.1. Regulation relevant to contract obligation may apply to non-contract obligation relations, unless this conflicts with obligation nature.

### **Sub-chapter two**

## **Contract conclusion**

### **Article 195. Proposal to enter a contract**

195.1. Practical, sufficiently clear expression of a will of a party expressed to one or more particular persons in order to be bound with someone who accepts her/his will regarding rights and obligations, shall be deemed as an offer to enter a contract.

195.2. Core terms and conditions of a contract and regulation determining it shall be stated in an offer to enter a contract.

195.3. Conditions, stipulated in the law or stated in contract, furthermore, the conditions accepted by a party at the requested by the other party, shall be deemed as core conditions of a contract.

195.4. If a proposal to enter a contract is implicit in the expression of will to indefinite persons, it shall be deemed as call for proposal.

195.5. A party, proposed to conclude a contract, shall not entitled to revoke the proposal within the period of time stipulated by law, contract or the proposal.

195.6. A response accepting to conclude a contract on different terms and conditions shall be deemed as a new proposal to enter a contract.

195.7. If the part, sent a proposal to establish a contract, receives the response late and immediately informs the other party about it, the delayed response shall be deemed as a new proposal to enter a contract.

### **Article 196. Considering contract concluded**

196.1. A contract shall be deemed concluded on the following grounds:

196.1.1. if law provides that contract shall be concluded by transferring property, the parties agree on core terms and conditions of the contract and transfer the property;

196.1.2. if law provides that contract shall be concluded in writing or parties agreed that a document shall be executed and signed, or if a party receives documentation like letter, facsimile, or official note signed by the other party that expressed the acceptance of the contract proposal;

196.1.3. if a contract proposal was sent with stated deadline, and accepting response from the other party was received within the deadline;

196.1.4. if a contract proposal was sent in written form, without indicating the deadline, and the accepting response to it was received within normal and reasonable time;

196.1.5. if verbal proposal made in person was accepted immediately;

196.1.6. if a party accepted the proposal to enter a contract, sent the positive response in time, but it was received late, and the other party, decided not to conclude a contract due to this delay, did not notify about it the responding party;

196.1.7. in case a party which received a proposal, assuming that the offering party will accept the proposal according to traditions established in business circles in accordance, and sends a response proposing terms and conditions different from the original offer, but the originally offered party fails to notify the other side about its refusal.

196.2. If a business operator, providing services to others, receives a proposal from its regular business partner to perform certain types of activity, it shall be obligated to respond within reasonable time. If it fails to fulfil this obligation, s/he shall be deemed as accepted the contract proposal.

196.3. If a party, received a proposal, gives negative response within normal and reasonable time, but the in case the proposing party did not know about it and sends goods according to contract obligations. In this case party received the offer shall receive and stores the goods in order to prevent or reduce any potential damage to them, or shall take all possible measures to keep it safe and sound, and shall demand the proposed party to reimburse incurred expenses.

## **Article 197. Bidding**

197.1. A contract could be concluded by bidding.

197.2 . A contract shall be concluded with a person that won in a bid, unless otherwise stipulated in law.

197.3. Owner, or right possessor, or an authorized person may be organizes of the bidding process.

197.4. An authorized organization shall organizes the activity on the basis of contract concluded with owner or right possessor on their behalf.

197.5. A contract to sell property or property right may be concluded through bidding only it is provided by law.

197.6. Bidding process shall be organized in a form of auction or competition.

197.7. The winner of an auction bidding shall be a person who offered the highest price.

197.8. The winner of a competition shall be a person best meets all requirements that are determined in advance by the competition organizing commission. Unless

otherwise stipulated in the law, form of the bidding process shall be determined by the owner or possessor of the property rights.

197.9. If only one bidder was present, an auction or a competition shall be deemed that it did not take place.

197.10. An auction or competition may be organized both open or closed.

197.11. Any person may attend in an open auction or competition..

197.12. Closed auction or competition may be attended exclusively by specially invited persons.

197.13. Unless stipulated otherwise in the law, organizers not less than 30 days prior to the event shall announce containing information on the form of organizing the event, date and venue, contract object, starting price, procedure to register participants and determining the winner, and other information. If contract object is the right to conclude a contract, the date to conclude the contract shall be indicated.

197.14. Unless otherwise stipulated in the law or the announcement, the organizer of open and closed auction or competition shall be entitled to refuse to organize it. However, this refusal shall be made not less than three days prior to auction date and not less than 30 days prior to competition date.

197.15. An organizer, who refused to organize an auction or competition violating the date stated in Item 197.14 of this Law, shall be liable to compensate direct damages to the participants.

197.16. Organizer of closed auctions or competition, shall be liable to compensate the damages caused to participants invited to the event, regardless of when s/he refused to organize the events.

197.17. A participant in bidding process shall pledge according to the procedure, in the amount and on time specified in the announcement.

197.18. The pledge shall be returned to persons, who did not conduct the bidding process, or did not participated in it, or did not win, though participated in it.

197.19. While entering a contract with the winner, the pledge shall be included into the contract execution.

197.20. The winner of a bidding process or the event organizer, shall sign notes about the results of the auction or competition the day the event took place and these notes shall be valid likewise the contract.

197.21. If the winner avoids signing the notes, s/he shall lose the pledge.

197.22. If an organizer avoids signing the notes, the pledge offered by the other party shall be returned, furthermore, shall be liable to pay compensate the

damages caused by participation in the event in the amount exceeding the pledge.

197.23. If bidding process is organized with condition to acquire a right to enter a contract, parties shall sign the contract within 20 days after the completion of the event and signing the notes, or within the period of time mentioned in the announcement. If a party avoids entering a contract, another party shall consider the contract concluded and shall be entitled to demand obligation execution, as well as damage compensation.

197.24. Auction, organized in violation of procedure set by law, shall be deemed invalid.

197.25. A contract, concluded with the winner of void auction, shall be deemed invalid.

197.26. The procedure stipulated in this Article shall apply to auction that will be organized according to the execution of Court ruling.

#### **Article 198. Interpretation of contract**

198.1. While interpreting a contract, literal meaning of its words shall be considered.

198.2. If the meaning of any contract condition is not comprehensible, its content shall be defined by comparing with its other conditions and overall content of the contract.

198.3. If some words and expressions of contract could be interpreted differently due to the local dialect or specifics, they shall be interpreted in local context, where parties concluded the contract reside. If parties are resident in different areas, words and expressions shall be interpreted in the context of the area, where the party, accepted proposal to enter contract, reside.

198.4. If expressions conflict with each other or have various meanings, they shall be interpreted by a meaning more appropriate for contract.

198.5. In order to interpret the content of mixed contract, the law provisions regulating a certain type of contract that is more similar to contract execution, shall be taken into consideration.

198.6. If contract content is impossible to determine as provided by Items 198.1.-198.5 of this Law, the integrated views of parties shall be clarified, by keeping the contract objective in mind, and for this purpose circumstances and conditions like negotiations, exchanged documentation, business practices established between parties, traditions of business circles, shall be taken into account prior to entering the contract.

## **Article 199. Contract effeciation upon acceptance**

199.1. In order to consider valid a contract, which certifies already established obligation relations, a obligation performer shall inform the acceptance in writing.

199.2 When obligation relations are established in a form of negotiation, a contract shall be concluded in an appropriate form.

199.3 It is not necessary to conclude a contract in a form stipulated in law, if debt is accepted by making the payment or parties negotiated.

### **Sub- Chapter III**

#### **Standard contract conditions**

## **Article 200. Standard conditions forming part of contract**

200.1. Conditions offered by a party to another; that is not determined by law, but which specifies procedure clarifying law provisions, and that shall be used permanently and determined beforehand, shall be standard conditions of contract.

200.2. Conditions, determined as a result of negotiations between parties, shall not be standard conditions of contract.

200.3. In the presence of following conditions, standard conditions shall become inseparable parts of contract concluded between parties:

200.3.1. if it is provided that the proposing party shall clearly write standard conditions in a place, where the contract is concluded, and the party enters a contract with a person who accepts these conditions; and

200.3.2. if the other party had a chance to familiarize with above-mentioned conditions and accepted them.

200.4. If the proposal receiving party is a business operator, and due to own business specifics should be aware of or possibly should be familiar with standard conditions beforehand, the standard condition shall be an inseparable part of the contract.

200.5. If the external conditions expressing standard conditions were different from the typical form, standard conditions shall not be an inseparable part of the contract.

## **Article 201. Interpretation of standard conditions**

201.1 If meaning of words and expressions that express standard conditions are incomprehensible, they shall be interpreted in favor of the proposal receiving party.

## **Article 202. Invalid standard conditions**

202.1. Even if standard conditions are in the contract, but they contradict mutual trust and fairness principles and are harmful to the other party, accepting these conditions, then the conditions shall be deemed void. In this case, the circumstances forcing their inclusion into the contract, interests of parties and other circumstances shall be taken into account.

202.2. If the party, proposing to conclude a contract with a an individual not running a business, incorporates following conditions into the standard conditions of the contract, they shall be invalid:

202.2.1. excessively long and ambiguous deadlines are set for receiving and refusing from the proposal;

202.2.2. excessively long or ambiguous deadlines not in compliance with law determined for obligation execution are set;

202.2.3. if the law does not provide but the contract stipulates that rights shall be annulled without concrete grounds;

202.2.4. if it provides a right to a party to alter obligations already determined by law or refuse from them in a manner not in the legal interests of the other party;

202.2.5. if it provides entitling a party to demand to calculate expenses in a way that excessively high or exceeding the real amount of costs;

202.2.6. if it provides to deem that exclusively important interpretation was already provided to the other party;

202.2.7. if it provides groundless sharp increase of prices within a short span of time for long-term obligation relations;

202.2.8. if legal rights of the other party to refuse from executing rights or obligations are restricted or rejected;

202.2.9. if the proposing party is released from the liability, provided by law, to remind the other party to assume obligations or to give it sufficient time to perform obligations;

202.2.10. if it provides that the proposing party demands excessive amount of compensation for damages caused to him/her;

202.2.11. denying or limiting the responsibility for damages caused, due to an extreme carelessness or deliberate actions by the proposing party or its legal representative;

202.2.12. rights of the other party to demand compensation of damages caused, due to breach of obligations, are limited;

202.2.13. denying the entitlement to demand the entire damage caused due to non execution of obligation, or refusal, or cancellation of the contract in case the legal interests of the other party were damaged due to partial performance of obligations by the proposing party;

202.2.14. if the responsibility of the proposing party for deficient delivery of goods, or poorly performed work or provided services, is determined lower than stated in the law;

202.2.15. if it provides that the other party shall pay tort in case of annulling the contract due to non or improper execution of obligations the proposing party;

202.3. If the following conditions are incorporated into the contract standard conditions concerning the regular supply of goods and service and regularly performed work, then these conditions shall be deemed void:

202.3.1. if the other party is liable to perform the obligations for more than two years;

202.3.2. if it provides that contract shall be deemed extended for more than a year in case neither of parties proposes to annul the contract; and

202.3.3. if the provision that the contract annulling period is three months longer than the period for which the contract is deemed to be extended, is not in the legitimate interests of the other party.

202.4. Except for cases mentioned below, standard conditions shall be deemed void if they provide that a third party shall participate in these contract relations instead of the proposing party with equal rights, or provide even its possible participation:

202.4.1. a third party is indicated by name;

202.4.2. if only the other party shall be entitled to annul the contract.

202.5. If any part of standard conditions of the contract is void or they are not the core provisions of the contract, the contract as a whole still shall be valid.

#### **Sub-chapter four**

#### **Contract in favor of third party**



## **Article 203. Demand right of contract in favor of third party**

203.1 Unless otherwise stipulated in the law or contract, or if not conflicting with nature of obligation, either the client of contract in favor of third party or of third party shall be entitled to demand obligation execution from performer.

203.2. Unless separately stipulated in the contract, its content and objectives shall determine whether third party is entitled to make decision independently, or whether this right shall be created directly or with specific pre-conditions need, or whether parties to the contract, entered it without third party permission, shall be entitled to alter or terminate the latter rights.

203.3. The party included into the contract in favor of a third party special conditions related to rights and obligation, provided by Item 203.2 of this Law, shall be entitled to replace the third party, regardless the permission of the other party.

203.4. Unless otherwise provided by the contract, and if it does not conflict with the nature of obligation, client shall be entitled to demand execution of obligation, if the third party rejects rights stated in the contract.

### **Sub-chapter five**

#### **Refusing contract**

## **Article 204. Contract refusal**

204.1. If either of parties rejects the contract, other party shall be informed about it.

204.2 Unless otherwise stipulated in the law or contract, refuse contract period shall be determined by the party who did not propose refusal. If during this period, the party was not informed about the contract refusal, then it shall lose the right to refuse contract .

204.3. If several persons participate in one or both parties to the contract, they shall refuse contract jointly. If any of them loses the right to refuse contract, then others shall this right as well.

204.4. If the contract was concluded with condition that the obligation performer shall lose the right to refuse the contract the client shall refuse the contract as soon as such condition emerged.

204.5. If contract was concluded with condition that the either party shall be entitled to refuse contract if the other party fails to assume obligations, and the obligation performer was entitled to finalize assessing the fulfillment of mutually demanded obligations, and the latter immediately informed the client about the

assessment of obligation after the contract refusal by the client, such a refusal shall be invalid.

## **Article 205. Consequences of contract refusal by any contract party**

205.1. If either party refuses contract as provided by law or contract, parties shall be entitled to mutually return contract accomplishments in physical form and profits from its implementation.

205.2. In the following cases, the obligation performer shall reimburse the obligation execution not in physical form, but in cash:

205.2.1. depending on characteristics of executed obligation, it is not possible to return in physical form;

205.2.2. if the party receiving the executed obligation utilizes it, or transfers to others' ownership, or is restricted by others' rights, or changed it by processing or recycling it; and

205.2.3. if obligation item was damaged, spoiled, missing and destroyed besides normal depreciation or loss.

205.3. If obligation performer executed any obligation in response, as provided in contract, such an obligation executed in response shall replace the cash payment.

205.4. In the following cases, obligation performer shall not pay compensation:

205.4.1. if defected item, transferred by client according to contract, which served as grounds the performer to refuse contract, was revealed by her/him in course of processing or recycling the contract item;

205.4.2. if contract item was damaged, spoiled, missing or destroyed due to the negligence of client;

205.4.3. if contract item got damaged, spoiled or missing, though it was duly kept and protected by a performer. In this case the remainder of contract item shall be returned to client.

205.5. If the obligation performer failed to earn potential profit due to violation of procedure to use the obligation item, s/he shall be liable to eliminate the harm caused to client.

205.6. If obligation performer returned contract item, or paid the cost, or as stipulated Items 205.4.1 and 205.4.2 of this Law, no need arose to return contract item or compensate any damage, then the client shall be liable to reimburse the inevitable costs to the obligation performer. Other costs shall be paid by performer only to the client in the amount of profit earned by the client.

205.7. Parties shall be liable to execute obligations, stipulated in Item 205.1 of this Law, in person and simultaneously.

## **CHAPTER SIXTEEN**

### **Executing obligations**

#### **Sub-chapter one**

#### **Common provisions**

#### **Article 206. Principles to execute obligations**

206.1. An obligation shall be executed properly, fairly, at determined place and on time.

#### **Article 207. Place to execute obligation**

207.1. Unless otherwise stated in law or contract, and if it does not conflict the nature of obligation, its execution place shall be determined as follows:

207.1.1. obligation related to any immovable property shall be executed at the place, where the immovable property exists;

207.1.2. in case of an obligation to transport any property – in the place, where property was transferred to the first carrier to in order to deliver it to the client or an authorized person;

207.1.3. in case of monetary obligation – in the place, where the client is resident. If the client changed the residence and informed performer about it, the place shall be the new residence of the client; and

207.1.4. in case of other obligations – in the place where the obligation performer is resident.

207.2. In the case stated in Item 207.1.3 of this Law, the obligation performer shall be deemed executed the obligations by transferring money to bank or organization similar to it, in order to send it to address of the client.

207.3. In case the client or the obligation performer were liable to inform each other about changing the place of residence, prior to executing the obligation, the expenses related to performing or receiving the obligation in a new place shall be covered by the relocating party, who shall be responsible for any risk.

#### **Article 208. Obligation execution time period**

208.1. Obligation shall be executed within the time period stipulated by law or contract.

208.2. In case the duration of obligation execution was not set or conditions were not made, or if it is impossible to set it due to the characteristics of the obligation, the client shall be entitled to demand any time the execution of obligation and the obligation performer shall be liable to execute the obligation immediately.

208.3. Unless otherwise stipulated in the law or contract, depending on the characteristics of the obligation, the obligation performer shall be liable to execute the obligations within 10 days from the time the client demands the execution of obligation.

208.4. If the duration of executing obligation was set by law or contract, the client is not entitled to demand execution of obligation prior to the duration.

208.5. If the client does not object, the obligation performer shall be entitled to execute the obligation before the set time.

208.6. If the obligation performer became insolvent, or the amount of property ensuring the obligation execution decreased, or left without property, the client shall be entitled to demand from the former the execution of obligation immediately before the time period stated in Item 208.4 of this Law.

208.7. As for the transaction made with conditions, execution shall take place from the day the condition emerged.

## **Article 209. Refusal to execute obligation**

209.1. Except for cases when the obligation performing party starts executing obligation according to the bi-lateral contract, the obligation performing party may refuse to execute obligation before the other party executes counter obligation.

## **Article 210. Obligation execution by a third party**

210.1. Unless the law or contract provide that the obligation performer shall execute obligations in person or the characteristics of obligation are affected, the obligation may be executed by a third party.

210.2. If the obligation performer rejects the execution of obligation by a third party, the client shall be entitled to refuse to receive the obligation execution.

210.3. Unless the law stipulates that a third party shall assume responsibility, the principal obligation performer shall be responsible for the obligation that was not executed or not executed properly.

210.4. If obligation is forced to be executed from the property of the obligation performer, a person, who considers might lose own rights regarding the property,

shall be liable to satisfy requirements of the client. In this case, the client's demanding right shall be transferred to the third party, which satisfied execution of obligation.

### **Article 211. Submission of executed obligation**

211.1. Executed obligation shall be submitted to the client or an authorized person stated in the contract or Court.

211.2. If obligation execution was submitted to a person not entitled to receive it, the obligation shall be deemed executed only the client permits or the client got profit from it.

### **Article 212. Obligation to select**

212.1. Unless otherwise stipulated in the law or contract, or this does not conflict with the nature of obligation, the obligation performer shall entitled to choose and execute one obligation out of several.

212.2. If obligation performer shall be entitled to refuse to take an action subject to execution, then in case of refusal, the obligation to execute the rest of actions shall remain valid.

212.3. When selection is made as provided by Item 212.2 of this Law, the obligation performer shall inform the client about it.

### **Article 213. Partial execution of obligation**

213.1. If it is stated in contract or the client permits, the obligation performer shall be entitled to execute the obligation in parts.

213.2. The client shall be entitled to refuse receiving execution that is different from one indicated in contract. This provision shall be equally applicable for obligation with costly execution.

### **Article 214. Quality of obligation execution**

214.1. If the quality of obligation execution was not clearly stated in the contract, the obligation performer shall be liable to execute obligations meeting normal requirements and to transfer property with quality not below the average.

### **Article 215. Right to impede obligation execution**

215.1. Until the client assumes own obligations and makes possible to execute obligation, the obligation performer may cease obligation execution other than cash payment.

215.2. If obligation item is property that shall be determined by characteristics of type, the obligation performer shall be liable to execute the obligation in any condition.

### **Article 216. Obligation execution order**

216.1. If the obligation performer shall be liable to execute several same type obligations, but their execution is not enough to pay all debts, the performer shall be entitled to select and execute any obligation. If the performer did not make the selection, the debt with payment deadline due, shall be paid first.

216.2. In case the payment deadline of several debts coincide, requirement with most difficult conditions, shall be executed first.

216.3. If requirements have similar conditions for the obligation performer, priority shall be given to the obligation with possible execution.

216.4. If obligation execution is not enough to cover all debts, first of all, Court expense, secondly, main obligation and lastly, interests shall be paid.

## **Sub-chapter two**

### **Executing obligation of cash payment**

#### **Article 217. Banknote to execute the payment**

217.1. Obligation of cash payment shall be executed by Mongolian banknote - togrog.

217.2. Unless not prohibited by law, parties may execute monetary obligation in foreign currency banknotes.

#### **Article 218. Currency rate to make the payment**

218.1. If currency rate appreciates or depreciates before the time of making the payment, the payment shall be made at currency rate existed when the obligation was created.

218.2. If the type of currency banknote changed, the payment shall be calculated at currency rate existed when the banknote was changed.

## **CHAPTER SEVENTEEN**

### **Circumstances obstructing obligation execution**

#### **Sub-chapter one**

#### **Common provisions**

#### **Article 219. Obstruction to obligation performance due to obligation performer's fault**

219.1. In case the obligation performer broke the obligation, the client shall be entitled to demand compensate for damages caused.

219.2. If the obligation performer exceeds the deadline to execute obligation, the client may indicate additional time to execute obligation. If the obligation is overdue again, the client shall be entitled to demand compensation for caused damage.

219.3. If it is obvious that no results could be achieved with giving additional time, or if exercising rights by the client to get compensation for caused damages, are more in the interests of parties, then additional time shall not be given.

219.4. In case the obligation performer violates deliberately his/her obligation, it is prohibited to agree in advance to release her/him from the obligation to eliminate caused damages.

219.5. The obligation performer, whose obligation is executed by legal representative or other parties, shall be fully responsible for caused damages to the client, due to their actions.

219.6. Unless otherwise stated in the contract, or if it does not conflict with the characteristics of obligation, in case the obligation performer fails to fulfill obligation due to non- receipt of obligation item from another party, her/himself shall bear the responsibility emerged from this.

#### **Article 220. Impossibility to perform obligation due to changed circumstances**

220.1. If circumstances, namely the grounds for concluding the contract, have changed obviously after entering the contract, and parties were aware about such a change beforehand, and if it was possible not to enter a contract or conclude with different content, parties shall be entitled to mutually demand to adjust the contract to changed circumstances.

220.2. If expectations of parties about the grounds to enter contract were wrong, it may be deemed identical to changes in the conditions of concluding the contract.

220.3. Parties shall be liable to take urgent measures to adjust the contract to changed circumstances.

220.4. If adjusting the contract to changed circumstances is impossible or the other party does not allow it, the party with suffered interests, shall be entitled to refuse from the contract.

### **Article 221. Contract renouncing by parties on sound grounds**

221.1. If sound grounds exist, parties entered a long-term contract, may renounce the contract regardless its expiration date.

221.2. Force majeure condition and emergency, or the circumstances, making impossible to demand to prolong or extend duration of the contract in order to protect legitimate interests and rights of parties, shall be deemed as sound grounds.

221.3. If a breach of contract obligation becomes grounds for terminating it, the contract may be terminated only within the period to give prior warning or eliminate conflicts stated in Items 219.3 and 225.2 of this Law.

221.4. An authorized person may renounce contract within normal and reasonable period of time after becoming aware of existence of termination grounds.

221.5. If previously performed obligation becomes meaningless with contract termination, it shall be terminated as well. Regulation provided by Article 205 of this Law shall apply to the termination.

221.6. Article 227 of this law shall apply as well to requirements to eliminating damages.

## **Sub-chapter two**

### **Consequences of duration overdue**

#### **Article 222. Overdue by obligation performer**

222.1. In the following cases, obligation performer shall be deemed overdue:

222.1.1. if obligation was not performed on time; and

222.1.2. failure to perform obligation even after the client's warning about the expiration of the obligation performance term;

222.2. If circumstances led to passing the due time were not caused by the obligation performer's fault negligence, s/he shall not be deemed passed the due time.



222.3. Obligation performer passed the due time, shall be responsible for any careless actions or non-action.

222.4. Obligation performer, passed the due time, shall be responsible for the caused damages regardless of any event had impact on it. However, s/he shall not be responsible for damages caused due to the event that would have happened, even the obligation was performed on time.

222.5. If obligation of monetary payment was not performed on time, the obligation performer shall be liable to pay interests that fit to overdue period.

222.6. Tort shall not be calculated from the interest.

222.7. Client shall be entitled to demand to eliminate caused damages due to a the obligation performer's overdue.

222.8. If the obligation performer executes the obligation before the deadline without getting client's permission, it shall be deemed as if s/he passed the due time.

### **Article 223. Client passing the due time**

223.1. If client did not receive performance of obligation executed on time, s/he shall be considered overdue.

223.2. If the client was liable to take certain actions in order to create conditions to perform obligation, but this did not happen causing overdue, then the client shall deemed passed the due time.

### **Article 224. Obligation emerging from the client's overdue**

224.1. As provided by Article 223 of this law, the client guilty for overdue, shall be liable to eliminate the damages caused to the obligation performer.

224.2. Regardless of guilt or non-guilt of the client passed the due time, the following obligation and consequence shall arise for her/him:

- 224.2.1. compensation for additional costs incurred to the obligation performer due to storing contract items,
- 224.2.2. accepting risks of accidental damage or destruction of contract items;
- 224.2.3. losing the right to get interests and tort related to monetary payment obligations.

## **Sub-chapter three**

### **Breach of bi-lateral contract obligations**

## **Article 225. Contract renouncement due to breach of obligation by parties**

225.1. If either party breaks contract obligations, and no results achieved, though additional time was set, the other party shall be entitled to renounce the contract.

225.2. If the client did not set additional time, however reminded the obligation performer to execute obligations, additional time shall be deemed set.

225.3. Though performer violated some parts of obligation, but performance of the rest of it id not beneficial for the client, the latter shall be entitled to renounce the contract.

225.4. In the following cases, parties cannot renounce the contract:

225.4.1. slight violation of obligation;

225.4.2. if the client is entitled to demand the contract be valid, though the requirements stated in Item 186.2 of this Law, were violated;

225.4.3. if the client him/herself is guilty fully or partially for violation of the obligation by the obligation performer;

225.4.4. if the obligation performer make counter demand to the client prior to her/his refusal from contract, or it is possible to make counter demand immediately after the client's refusal from contract.

225.5. If it is inevitable and obvious that grounds to renounce the contract shall appear in the future, the client shall be entitled to refuse from the contract before the time for executing the obligation by the obligation performer starts.

225.6. Obligation performer may set the time period for the client to refuse from the contract.

225.7. Though the client does not exercise the right to renounce the contract during the period stated in Item 225.6 of this Law, but if the obligation performer fails to fulfil contract obligations during the period of prior warning or additional period to perform obligation, the client shall be entitled to renounce the contract.

## **Article 226. Circumstances not requiring additional period or prior warning**

226.1. If the following circumstances exist, setting additional period or to giving prior warning as stated in Items 204.2 and 219.2 of this Law, are not required:

226.1.1. it is clear that no results will be achieved;

226.1.2. if contract relations are supposed to be prolonged in case the obligation performer fails to perform the obligation within the period stated in contract, but shall perform during the additional period; and

226.1.3. if it is necessary to annul contract immediately on special grounds in the interests of both parties.

## **Article 227. Responsibility for obligation breach**

227.1. If a contract party violates his/her obligation, the other party shall be entitled to demand compensation for caused damages due to contract renouncing.

227.2. Grounds stipulated in Item 227.1 of this Law shall not apply if the other party is not guilty in the refusal from the contract by a party.

227.3. Expense paid by the client, property loss or damage, and income to be earned, if the obligation performer had performed the obligation, shall be deemed as loss.

227.4. If the obligation performer fails to perform the obligation to transfer certain property to the client's right to own or possess, use or dispose, the client shall be entitled to demand to transfer this property to his/her or to compensate for the caused damages.

227.5. Unless otherwise provide in the law or contract and if the obligation performer fails to perform the obligation to perform certain work or provide assistance, the client shall be entitled to perform the obligation him/herself or ask a third party to do so, or to demand to compensate caused damages.

## **CHAPTER EIGHTEEN**

### **Elimination of harm**

#### **Article 228. Right to eliminate harm**

228.1. A party is responsible for eliminating the harm, shall be liable to restore the violated right of the other party to condition existed before the harm done. If it is impossible to restore the violated right or it requires relatively high cost, harm can be compensated in cash.

228.2. Victim may set a certain time period to the party responsible for eliminating the harm in order to restore his/her right, but if the obligation is not performed within that period, the former may demand to perform in cash.

228.3. If the victim was incapacitated, or labor capacity decreased, or consumption increased due to health damage, the party responsible for eliminating the damage shall liable to eliminate the damages by paying the former money (subsidy to support and care) every month.

228.4. Victim shall be entitled to demand unavoidable treatment costs in advance from the party responsible for eliminating the harm.

228.5. In case the victim was professionally incapacitated, and it is necessary to acquire a new profession, this regulation shall similarly apply to compensation of costs related to it.

228.6 If sound reason exists, the victim may demand one-time compensation instead of monthly subsidy as stated in Item 228.3 of this Law.

### **Article 229. Scope of eliminating harm**

229.1. To eliminate the harm, the party responsible shall be liable to compensate for actual damage caused to the property and income to be earned.

229.2. In order to determine the size of harm, the victim's interests, circumstances in which harm was done, and the degree of guilt of the person did the harm, shall be taken into consideration.

### **Article 230. Eliminating non-material harm**

230.1. Victim shall be entitled to demand to eliminate the non-material harm.

230.2. Only in exceptional cases stated in the law, non-material harm shall be compensated in money term.

230.3. If action or non-action of an authorized person or victim had impact on causing the harm or its prevention, or increasing the damage caused by harm, then degree of their guilt shall be taken into considered when the obligation to eliminate the harm and its scope will be determined.

## **CHAPTER NINETEEN**

### **Method ensuring performance of obligation**

#### **Article 231. Method ensuring performance of obligation**

231.1. Obligation performance shall be ensured by the following methods:

231.1.1. tort/fine;

231.1. 2. pledge;

231.1. 3. warranty

231.1.4. collateral

231.1.5. bail

- 231.1.6. contract to transfer the property to ownership, in order to ensure performance of obligation /feduci/  
231.1.7. other methods stated in the law.

## **Article 232. Tort/Fine**

232.1. Tort shall be payment of money to be made by a party to the other party for non-performance or improper performance of his/her obligations as stipulated by law or contract.

232.2. In case of non-performed pledge obligation, tort may be used as well.

232.3. Tort contract shall be concluded in written form.

232.4. Tort shall have a form of fine or compensation for losses. The total amount of tort shall not exceed 50 per cent of the value of the non-performed obligation.

232.5. Fine shall be tort due by a party failed to perform or improperly performed his/ her obligation, the amount of which was stipulated in advance by law or under contract, or calculated on the basis of a fixed percentage of the value of the non-performed or improperly performed obligation.

232.6. Compensation for losses shall be tort determined to pay in the amount of 0.5 percentage per day of the value of the non-performed obligation, that shall be paid by the party, which passed the due time stated in the law or contract.

232.7. If not provided in the law that tort shall be imposed on in case of the obligation performer fails to perform his/her obligation on time, the client shall not be entitled to demand tort, but shall be entitled to demand eliminate caused damages.

232.8. If tort amount obviously high, Court may reduce the amount depending on circumstances of the case.

## **Article 233. Pledge**

233.1. Pledge is money, paid in advance, included into the mandatory payment by a party to the contract to the other, as a proof of contract conclusion.

233.2. If contract is annulled or the party offering pledge does not include the pledge into the obligation performance, , the party received the pledge, shall return it after performing the obligation.

233.3. If a party offering pledge, shall be liable due to non-performed obligation, the pledge shall remain with the party received the pledge. In this case, the pledge shall be included when the pledge receiver calculates compensation for caused damages.

233.4. If the party received the pledge is responsible for to non-performed obligation, the pledge shall be returned to the party offered the pledge. In this case, the latter shall be entitled to demand compensation for harm done to it.

#### **Article 234. Warranty**

234.1. In order to secure performance of obligation by the obligation performer, a third party may provide the client with warranty.

234.2. Warranty contract shall be concluded in written form.

234.3. Unless otherwise provided in contract, contract shall not be cancelled at the initiative of one party providing warranty.

234.4. If the obligation performer fails to perform his/her obligation, the client shall be entitled to demand the warranty provider to perform the obligation on non-argument principles.

234.5. Guarantor liable before the client, shall not be entitled to demand performance of obligation from the obligation performer.

234.6. Bank guarantee shall be regulated as stated in Article 457 of this Law.

#### **Article 235. Contract on transferring property to ownership to ensure performance of obligation**

235.1. In case the person, assuming obligation according to contract concluded to ensure performance of obligation by transferring property to ownership, transfers moveable property to the ownership of the client with the purpose of ensuring obligation performance, or the obligation assuming person executes the core obligation on time, the client shall be liable to return the property.

235.2. It may be stated in the contract that the liable person transferred property shall be entitled to use it.

235.3. If the client disposed transferred properties in accordance with contract prior to performing the main obligation, the liable person, who performed his/her obligation shall be entitled to demand compensation for caused damage.

235.4. If a liable person assumed his/her obligation to make payment on time and get back the transferred property or failed to not perform the obligation, contract of transferring property to the ownership in order to satisfy performance of obligation shall expired when the client actually receives the transferred property.

235.5. Contract to transfer property to the ownership in order to ensure performance of obligation, shall be concluded in written form.

## **CHAPTER TWENTY**

## Termination of obligation

### Article 236. Liability expires with obligation performance

236.1. Obligation shall expire on the following grounds:

236.1.1. if a performer executed his/her obligation properly;

236.1.2. if the client receives another performed obligation instead of the one to be performed;

236.1.3. parties agreed to change the previous obligation;

236.2. In the case stated in Item 236.1.3 of this Law, previous obligation relations shall expire.

236.3. At request of the obligation performer the client shall be liable to provide, documentation that certifies the receipt of complete or parts of performance of obligation.

236.4. If the interest is not stated in the documentation of debt repayment, the interest shall be deemed paid and monetary obligation shall expire.

236.5. If debt was paid in several instalments, stage by stage, unless otherwise provided in the documentation about receiving the last part, previous parts shall be deemed paid.

236.6. Type and amount of debt, given name, surname of obligation performer, or of a person paid the debt, duration and place where the obligation was performed shall be indicated in the documentation about receipt of performance of obligation, executed by an authorized person or the client.

236.7. If obligation performer presents a note proving requirements of the client, s/he shall be entitled to demand to return or annul the note together with documentation about performance of obligation.

236.8. If the client is unable to return the proof note, the obligation shall be entitled to demand to give a document about expiration of the obligation.

236.9. Unless parties agreed otherwise, the obligation performer and the client or the latter heir shall be responsible for the cost of issuing documentation about receiving obligation performance in case of death of the client and his/her heir resides in another place or if the client changed the place of residence.

236.10. In case of client's refusal to perform the following actions, the obligation performer shall be entitled to refuse to submit the performance of obligation:

236.10.1 issuing documentation about receiving performance of obligation;

236.10.2 canceling or returning the proof note stated in Item 236.7 of this Law; and  
236.10.3 writing in the documentation about receiving performance of obligation about the impossibility of returning the proof note, or developing a document about the termination of obligation performance.

236.11. In the case stated in Item 236.10 of this Law, the client shall be deemed as exceeded the deadline of receiving obligation performance.

### **Article 237. Obligation termination with transferring it for deposit**

237.1. If the client exceeded the deadline for receiving obligation performance or his/her place of residence is unknown, the obligation performer shall be liable to transfer obligation item to notary of place where the obligation shall be performed; and money or stocks to the bank, through notary, for deposit. In that case, the obligation performer shall be deemed as s/he performed his/her obligation and freed from the obligation.

237.2. Notary shall be obligated to transfer the obligation item, transferred by the obligation performer, to the client. The person, assigned to keep the item until its transfer, shall be selected at the notary's discretion while the documentation shall be kept with her/himself.

237.3. The obligation item should meet storing requirements, items that might decay easily or might lose the quality shall not be accepted.

237.4. Notary shall inform the client that performance of obligation was received for depositing and shall demand him/her to receive the performance of obligation.

237.5. The client shall be liable for the costs related to storing of the obligation item.

237.6. The obligation performer shall be entitled to demand back the item, transferred to notary for storing, anytime before transferring it to the client. In case of getting back the obligation item, it shall be deemed as not been transferred for storing.

237.7. If the client refuses to accept obligation item or the time stated in Item 237.9 of this Law expired, the obligation performer may get back the item transferred for deposit.

237.8. As provided in Item 237.6 and 237.7 of this Law, the obligation performer, got back the item transferred for deposit, shall be responsible for the cost of storing.

237.9. Notary shall keep the item transferred to her/him for up to three years and if the client has not received the item during this period, the obligation performer shall be informed about it and the former shall demand from the latter to get back



the item. If the item is not returned within a set time period, it shall be transferred to the state ownership.

### **Article 238. Calculating and expiring obligation with mutual requirement**

238.1. Similar mutual demands between two parties, which deadline is due, may be counted and the obligation terminated.

238.2. If party entitled to demand agrees, mutual demands may be counted and the obligation may be terminated prior to the period to satisfying the demand of either party.

238.3. Demands which transcriptions have expired may be counted and the obligation may be terminated.

238.4. If the mutual demands to be counted and terminated are not equal, the small one shall be counted fully, while the balance after counting, shall be deemed valid.

238.5. If party received the proposal of counting obligations, shall be liable to satisfy several demands, regulation provided by Items 216.1 to 216.4 of this Law shall be applied.

238.6. If a party is liable in addition to the principal obligation to pay interest and other costs, regulation stated in Item 216.4 of this Law shall be applied.

238.7. Obligation to be performed in different places, may be agreed by parties to count and be terminated.

238.8. In the following cases, obligation may not be mutually counted and terminated:

238.8.1. if parties agreed in advance that obligation shall not be mutually counted;

238.8.2. if obligation item cannot be take as payment or this item is the source of living;

238.8.3. if obligation was taken to eliminate harm done to human life and health; and

238.8.4. other cases provisioned in the Law.

### **Article 239. Termination of obligation with annulling the debt**

239.1. If parties cancelled the debt on negotiation basis, this obligation shall be terminated.

239.2. In case, other than the client retains the right to demand from other obligation performers, if one of joint performers of obligation paid off all debt, other performers shall be released from the obligation.

239.3. The client, after deducting the share of the released obligation performer, may consolidate into one all remaining parts and demand from other obligation performers.

239.4. With terminating the debt of the main obligation performer, the guarantor or a guarantee issuer shall be relieved from their duties.

239.5. Relieve from the duty of the guarantor or the guarantee issuer shall not serve as grounds for freeing the main obligation performer from the duty.

239.6. Other guarantors shall be freed from their duty if one of the co-guarantors freed from the debt.

239.7. Obligation relations shall not be terminated with one of parties refusal from her/his demands. In this case, the party refused from the demands shall be liable to perform obligation provided by the contract until the other party refuses from her/his demands.

#### **Article 240. Other grounds for terminating obligation**

240.1. Obligation shall be terminated in the following cases:

240.1.1. if the client and the obligation performer become one party;

240.1.2. in case the performance of obligation is inseparably connected to the personal condition of the obligation performer, when the obligation performer is considered incapable in terms of civil legislation, or disappeared without any trace, or deceased or announced deceased;

240.1.3. in case the obligation performance of is only relevant to the client, who is incapable in terms of civil legislation, or disappeared without any trace, or deceased or announced deceased;

240.1.4. if a legal person has been dismantled without legacy right and dismissed from the State register; and

240.1.5 other grounds stated in the law or contract.

### **CHAPTER TWENTY-ONE**

#### **Participation of many persons in the obligation**

##### **Article 241. Co-clients**

241.1. If several persons are entitled to demand complete or partial performance of obligation from the performer of obligation, and the latter is obligated to provide complete or partial performance of obligation, they shall be deemed as sovereign co-clients.

241.2. Sovereignty of co-clients shall be established on the grounds stated in the law or contract or non-divided characteristic of the obligation item.

241.3 If any of clients does not present demands as stated in Item of 241.1 of this Law, the obligation performer may transfer performance of obligation to any of clients at own discretion. In this case, the latter shall be freed from obligation before other clients.

241.4. If one of co-clients refuses from his/her demand, the obligation performer shall be freed from the obligation as much as the share of client refused from demand.

241.5. If one of co-clients has several heirs, each of them shall be entitled to inherit his/her part of right to claim debt.

241.6. If any of co-clients receives complete performance of obligation from a performer, the latter shall not be obliged to hand over respective parts of the obligation to each of other clients.

241.7. Unless co-clients negotiated otherwise, their right to demand performance of obligation shall be equal.

#### **Article 242. Co-performers of obligation**

242.1. If any of obligation performers are obligated to provide complete or partial performance of obligation, and the client is entitled to demand complete or partial performance of obligation from each performer of obligation, then they shall be deemed as co-performers of obligation.

242.2. Joint obligation shall emerge as provided by law or contract, or in connection with non-divided characteristics of the obligation item.

242.3. The client may demand, at own discretion, complete or partial performance of obligation from any performer of obligation, and obligation taken by co-performers shall remain valid until the obligation is performed completely.

242.4. Any of co-performers shall be entitled to present to the client any counter demand provided by law or given right, or a demand common for all co-performers,.

242.5. If any of co-performers handed over complete performance of obligation to the client, other co-performers of obligation shall be freed from the obligation.

242.6. With presenting demands to an obligation performers, the client shall retain the right to demand from other co-performers.

242.7. Consequences, arising from the delay of receiving by the client of performance of obligation from a performer, shall be relevant to other co-performers as well.

242.8. Consequences arising from violation of time-period to perform obligation by an obligation performer, shall not be relevant to other co-performers.

242.9. If a co-performer has several heirs, each of them shall be liable for obligation equal to corresponding share in the overall inherited obligation , but if the demand is non-dividable, this regulation shall not apply.

242.10. If debt of a co-performer is integrated with the demand of the client, obligation of other co-performers of obligation shall terminate in the amount of the debt of the obligation performer.

242.11. Unless otherwise provided in the law or contract, or if the obligation of each co-performer is impossible to determine, their obligation shall be equal.

242.12. Unless otherwise provided in the law, the obligation performer, who executed the joint obligation, shall be entitled to demand performance of obligation from each of performer by part imposed on.

242.13. If any of co-performers is insolvent, part of obligation imposed on him/her shall be equally divided among other solvent co-performers.

242.14. Termination or seize of prescription term for a co-performer shall not be relevant to other performers.

### **PART III**

## **CONTRACT LAW**

### **SUB-PART I**

## **CONTRACT OBLIGATION REALATED TO TRANSFERRING PROPERTY TO OTHER'S OWNERSHIP**

### **CHAPTER TWENTY TWO**

#### **Sale and purchase, trading**

#### **Sub-chapter one.**

#### **Common provisons**

#### **Artilce 243. Sale and purchase contract**

243.1. Under sale and purchase contract, a seller shall be liable to transfer goods without any right violation and physical deficiency and related to it documentation, to the ownership of buyer, who as procurer and buyer of supplied goods shall be liable to pay the negotiated and agreed price to the seller and receive the purchased goods.

243.2. Seller shall be obligated to provide the buyer with complete, true and accurate information about the designation, characteristics of usage, storage, use

and transportation condition and procedures, duration of warranty and durability of the goods sold.

#### **Article 244. Sale and purchase contract price**

244.1. Unless price is not directly stated in the sale and purchase contract, parties may negotiate and agree on instruments of setting price.

#### **Article 245. Distributing costs related to property transfer**

245.1 .Unless otherwise provided in contract, seller shall be liable for cost related to the transfer of goods /weighing, packaging, etc/ and buyer shall be liable for costs related to transporting, delivering and receiving the goods from the place where the seller is located.

245.2. Unless otherwise provided in contract, buyer shall be liable for costs related to formulating the immovable property sale and purchase contract and required documentation, having the documentation certified by a notary and registration with the State register.

#### **Article 246. Seller's obligation to dispatch goods**

246.1. As provided by law, seller transferred goods to the transporter, but did not put any recognition mark on them or any mark by other tools, shall inform buyer about dispatching goods and send a comprehensive list of freight

246.2. If seller is liable to deliver goods, s/he is obligated to conclude a contract required to deliver goods to the place of destination with certain normal type of transportation conditions.

246.3. If seller is not obligated to insure goods during the transportation, s/he shall be liable obliged to provide buyer with all necessary information required to conclude insurance contract.

#### **Article 247. Transfer of benefit and risk to buyer**

247.1. Unless otherwise provided in contract, with their transfer of sold goods to buyer, benefits gained from using them, or the risk of their accidental damage or destruction shall be born by buyer.

247.2. If seller delivered the sold goods to the place different from the one stated in contract, as requested by buyer, benefit and risk shall be transferred to the buyer since they were transferred to the transporter or an authorized person.

#### **Article 248. Goods deemed received**

248.1. Unless otherwise provided in the law, condition to receive goods shall be defined by contract.

248.2. If buyer performs certain action certifying the reception of goods, these goods shall be deemed received.

#### **Article 249. Contract parties refuse from their obligation**

249.1. If actual circumstances emerge when one of parties to the contract after concluding it, becomes unable to perform the majority of his/her obligation, the other party may refuse from his/her obligation.

249.2. If one party's obligation was performed in advance by the method to ensure the performance of obligation stated in the law, the other party shall not refuse from his/her obligation.

249.3. In case of delivery of sold goods in several installments, a party's failure to deliver the one part of goods lead practically to non-delivery of the following part the other party may refuse from his/her contract obligation after the expiration of period, stated in Items 204.2 and 219.2 of this law.

#### **Article 250. Prevailing right to own sold property**

250.1. If seller sold one property to several buyers, then the first buyer got the property into own possession, or the one concluded contract first, shall have a prevailing right to get the property into own possession if the property has not been transferred to anyone else's possession.

#### **Article 251. Physical deficiency of sold property**

251.1. Property, which quantity/volume, size and quality are stated in contract, shall be deemed non-deficient in terms of its physical condition.

251.2. If quality of the property is not stated in contract, the property which is possible to use for purpose stated in contract, shall be deemed physically non-deficient.

251.3. If it does not seriously affect performance of obligation, although some parts of it are missing or transferred goods are different from the ones stated in contract and in smaller amount, or a part of the property has deficiency, the property shall not be deemed entirely deficient.

#### **Article 252. Right deficiency of sold property**

252.1. As for the sold property, unless the third party has complaint on the ownership right of the property, the property shall be deemed as property without any right violated.

252.2. If void ownership right is registered as property, it shall be deemed defective.

### **Article 253. Right and duty seller in terms of property deficiency**

253.1. If a sold property contains defects, the seller shall be obliged to eliminate the defect and replace it with the same type of property if it is determined by characteristics of type, or replace it with other property which is necessary for the buyer at that particular time.

253.2. According to Item 253.1 of this Law, all costs related to eliminating the defects (loading, transporting, payment for work performance, material cost and etc) shall be borne by the seller.

253.3. If the seller replaces the deficient property with non-deficient property, the seller shall be entitled to claim back the previous property.

### **Article 254. Right and duty of buyer regarding property defect**

254.1. The buyer shall be entitled to demand eliminating any property defect, its replacement with another same type one, or compensation for costs related to eliminating the defect, or the contract revocation.

254.2. Unless presenting his/her official complaint stated in Item 254.1 of this Law within the warranty or refunding period, the buyer may request to reduce the original price by the amount that needs to eliminate the defect. In this case, the evaluation shall be made at price prevailed at the time of contract conclusion.

254.3. Except for cases other than stated in Item 251.3 of this Law, if seller delivered property with less quantity than stated in the contract, buyer shall be entitled to refuse to accept the property.

254.4. If buyer accepts (receives) the property stated in Item 254.3 of this Law, the seller shall pay back the price of missing parts in the proportion of this part in the overall contract price.

254.5. If seller delivered property in quantity/volume larger that stated in contract, buyer shall be entitled to accept it and pay the price of exceeded volume in proportion to the overall contract price, or send the seller back the excessive quantity at latter's cost.

254.6. If seller set warranty period for the property, buyer shall be entitled to claim for compensation within the warranty period. If no warranty period was set, but buyer revealed the defect within six months since receiving the ownership right for the transferred property, then s/he shall be entitled to claim for one of several claims stated Item 254.1 of this Law.

254.7. Property warranty period shall started from the date of risk transfer to buyer. If the property defect was identified within the warranty period, it shall be deemed that the property had defects at the time of risk transfer to buyer.

### **Article 255. Buyer loses the right to claim**

255.1. In the following cases, buyer shall be deemed as lost the right to claim:

255.1.1. If buyer received the property was aware or was possible to know the property defect at the moment when s/he received it;

255.1.2. if business operating buyer fails to assume her/his obligation to immediately check the property while receiving it; and

255.1.3. if the defect occurred due to buyer's failure to observe the procedure of transportation, storing and use, or if it occurred due to emergency or force majeure conditions.

255.2. Item 255.1 of this Law shall not be applied if seller intentionally hide the defects while transferring the property.

### **Article 256. Contract cancellation in connection with property defects**

256.1. Both seller and buyer shall be entitled to cancel the contract in connection with the property defect. In this case, the seller shall be liable to compensate any losses incurred to buyer.

256.2. In case of selling several properties and some of them are deficient, the contract shall be canceled for the deficient part, but if this part should be used for the same purpose together with other parts (or deficient part is inseparable from others or considered together as a complex set, the contract shall be canceled as a whole.

256.3. If the main part of the property is deficient, the contract shall be entirely revoked, but if its the auxiliary parts or accessories are defected, the contract shall be partly canceled.

### **Article 257. Invalidity of transaction limiting the responsibility**

257.1. Parties may negotiate and state in the contract that no responsibility shall be borne for selling defected property, or that responsibility shall not be limited, however, if seller intentionally hide the defects of the property, such negotiations shall be deemed void.

### **Article 258. Obligation to store sold property**

258.1. If buyer fails to receive the bought property on time, seller shall be obligated to store the property.

258.2. Seller shall be entitled to keep or detain the property until the buyer pays relevant price of the property or reimburses any respective expenses.

258.3. In case buyer receives the property, but wishes to it exercising her/his rights, then s/he shall be obligated to store the property and ensure its safety and shall be entitled to retain property until seller pays the relevant costs related to storage.



258.4. Unless the cost is very high, the party liable to store the property, may store the property at the cost of the other party in the warehouse owned by a third party.

### **Article 259. Selling stored property**

259.1. If a contract party delayed receiving the property or fails to pay costs related to storing the property, the party storing the property shall be entitled to sell the property according to the respective procedure. Thus doing, the selling party shall be obligated to notify about the property sale to the other party within seven days.

259.2. From the proceeds from selling property as provided by Item 259.1 of this Law relevant costs including selling and storing, shall be deduct from the total price of the property, and the remaining money shall be transferred to the other party

259.3. In the case stipulated in Article 258 of this Law, if the property in storage is easily perishable or fast devaluating, or storing is relatively expensive, the party liable to store it, shall be entitled to sell the property as provided by this provisions.

### **Article 260. Rights, requirements, selling and buying other properties**

260.1. If it does not conflict with the content of obligation, this provision shall be equally applied for rights, requirements, selling and buying other properties.

260.2. In case of selling any right, the seller shall be liable to bring sound grounds of the validity of right and cover costs related to transferring the right.

260.3. In case of selling a right giving an opportunity to own property, the seller shall be liable to transfer to buyer a property without any physical or ownership right defects.

### **Article 261. Eliminating harm done due to violation of contract obligation by parties**

261.1. Damages, caused to a party of sale and purchase contract due to the other party failure to fulfill the contract obligations, shall be eliminated according to common procedure for eliminating any caused harm.

## **Sub-chapter two**

### **Sale and purchase on lease**

#### **Article 262. Contract for sale and purchase on lease**

262.1. Under a contract for sale and purchase on credit, seller shall be obliged to transfer the property before the buyer pays the price of property, and buyer shall

be obliged to make the payment of the price stated in contract in parts or completely after a certain period of time, or pay in parts during a certain period of time.

### **Article 263. Forms of sale and purchase contract on lease**

263.1. Lease contract shall be concluded in written form.

263.2. Following terms and conditions shall be included in the lease contract;

- 263.2.1. amount of payment due in cash;
- 263.2.2. amount and date of partial payment;
- 263.2.3. amount of interest should be paid;
- 263.2.4. price or regulation to set price

263.3. Seller shall be obligated to transfer to buyer copies of contract and accompanying documents.

263.4. If a contract conflicting with the procedure provide by this Article, was concluded, the contract shall be considered valid according to Item 196.1.1 of this Law. In this case, seller shall not pay interest, but the price of property. The payment shall be made within the period states in the contract.

### **Article 264. Seller renounces contract**

264.1. If buyer fails to perform his/her obligation stated under sale and purchase contract on lease or performed it improperly, seller shall be entitled to renounce the contract. The parties shall be obligated to return all properties acquired under the contract.

264.2. In the case of stated in Item 264.1 of this Law, seller shall be entitled to claim for compensation for damages caused by buyer.

## **Sub-chapter three**

### **Sale and purchase contract with condition to re-purchase property**

#### **Article 265. Right of seller re-purchase the property**

265.1. If it is stated in the sale and purchase contract, seller shall be entitled to re-purchase/buy back the property sold to buyer. This right of seller shall be exercised depending on his/her will.

#### **Article 266. Contract price**

266.1. Unless otherwise stated in contract, seller shall be entitled to re-purchase the property at the initially sold price.

266.2. If value was added in the result of improving the property, party re-selling the property shall be entitled to demand the total price not exceeding the amount of added value.

#### **Article 267. Obligation of property re-seller**

267.1. Party re-selling property to the initial owner, shall be obliged to transfer the property along with accessories/accompanying items.

267.2. If party re-selling property caused damages to the property or lost it, replaced it with other one before seller exercises rights stated in Article 265 of this Law, the former, shall be liable for eliminating caused damages.

267.3. Party re-selling the property shall not be entitled to transfer the property to a third party for ownership before seller exercises the right stated in Article 265 of this Law. Transaction concluded by violating this regulation shall not be deemed valid.

#### **Article 268. Exercise of re-purchasing right**

268.1. Time period to exercise the right to re-purchase property shall be determined by mutual agreement of parties, and the duration shall not exceed five years.

### **Sub- chapter four**

#### **Sale and purchase of property in future /Option/**

#### **Article 269. Contract for sale and purchase property in future**

269.1. Parties may agree about selling or buying certain object before a concrete time or any particular event, or may conclude a contract to acquire certain item at the initiative of buying party.

269.2. Respective provisions of this Law about sale and purchase contract shall equally relevant to contract stated in Item 269.1 of this Law.

### **Sub-chapter five**

#### **Prevailing purchase right**

#### **Article 270. Exercising prevailing purchase right**

270.1. In case of selling property to a third person by the seller, the latter shall be obliged to notify buyer who has prevailing right purchase the property.

270.2. Seller shall set a period for buyer with prevailing right to exercise her/his right, but if the latter fails to exercise the right, seller shall be entitled to conclude sale and purchase contract with a third person.

270.3. If seller fails to perform his/her obligation stated in Item 270.1 of this Law, the buyer with prevailing right shall be entitled to demand from seller to conclude sale and purchase contract on the same condition as was proposed to the third person by seller.

#### **Article 271. Invalidity of seller's contract with the third person**

271.1. In case the prevailing right to purchase was not performed or the right was exercised, the transaction, concluded by seller with a third person envisaging to renounce the contract concluded with the buyer with prevailing right, shall be invalid.

#### **Article 272. Additional obligations of the third party**

272.1. If third person took an obligation to deliver additional services or extra obligations according to contract concluded with seller, the buyer with prevailing right shall be obligated to pay for the additional service or obligation.

272.2. If additional service or obligation are impossible to expressed in money term, the prevailing right shall not be exercised.

272.3. Transaction, concluded by the third person with the seller to take additional obligation with the purpose disqualify the prevailing right to purchase, shall be deemed void.

#### **Article 273. Non-transfer of the prevailing right to purchase**

273.1. Unless otherwise stated in law or contract, the prevailing right to purchase shall not be transferred to others.

### **Sub-chapter six**

#### **Commerce**

#### **Article 274. Commercial contract**

274.1. Under commercial contract, parties shall be are obligated to mutually transfer certain properties for ownership.

274.2. Under a commercial contract, parties shall be considered sellers with regard to selling property and buyers with regard to properties buying.

274.3. Respective provisions of this Law related to sale and purchase contract shall be equally relevant to commercial contracts.

274.4. Regulations on trading of state owned assets and securities shall be determined by separate laws.

#### **Article 275. Calculating price balance of properties for sale**

275.1. If prices of properties exchanged under a commercial contract, are not equal, the price difference shall be calculated in money term.

## **CHAPTER TWENTY-THREE**

### **Gift**

#### **Article 276. Gift contract**

276.1. Under a gift contract, with the consent a person to receive the gift, grantor shall transfer certain property to the latter's ownership without any re-payment.

276.2. By transferring the property, gift contract shall be deemed concluded.

276.3. As to property which ownership right is created by concluding a contract in a form determined by law, the gift contract shall be established in the same form.

276.4. If gift promise to present with certain property is certified by notary, then obligation shall be created.

276.5. Certain property may be gifted as contribution for a special purpose.

276.6. A person, who receives the contribution, shall possess, use and dispose the property of contribution according to designation, and if recipient fails perform this obligation or performs improperly, the grantor shall be entitled to demand from latter duly to possess, use and dispose of the contributed property.

#### **Article 277. Limiting grantor's right**

277.1. Grantor shall not be entitled to gift property in demand for subsistence of persons under her/his care.

#### **Article 278. Responsibility of grantor**

278.1. Grantor shall liable to eliminate damages caused to gift receiver due to the intentional hiding by grantor the defects of gifted property.

#### **Article 279. Gift contract concluded for special purposes**

279.1. Parties may agree that gift contract becomes effective upon creating or certain or reaching certain goals.

279.2. Conditions and goals stated in Item 279.1 of this Law may be devoted to others' or common benefits. In this case, the grantor or interested person shall be entitled to demand to create conditions and the achieve goals.

279.3 If party entitled to receive the gift fails to create conditions or achieve goals, grantor may renounce the contract.

279.4 Gift contract for special purpose shall be concluded in written form.

### **Article 280. Revocation of gift contract**

280.1. In the following cases, grantor and his/her heir shall be entitled to demand to revoke the gift from the receiver:

280.1.1. if person, received the gift, performed serious misconduct offending the grantor;

280.1.2. if person, received the gift, intentionally damaged the health or life of the grantor or his/her relatives or intended to do so;

280.2. If the gift contract was cancelled, the gift items shall be returned to the grantor or his/her heir.

280.3. If a year passed since emerging the right to demand revoking the gift, the gift shall not be cancelled.

## **CHAPTER TWENTY-FOUR**

### **Loan**

#### **Article 281. Loan contract**

281.1. Under a loan contract lender shall be obligated to transfer to the ownership of borrower money or other property that shall be determined by characteristics of type, and a borrower shall be obligated to return the property of the same type, amount, quality, and quantity or money that was received by him/her within negotiated time.

#### **Article 282. Interest of loan contract**

282.1. Under loan contract, parties may negotiate and determine the interest.

282.2. If interest rate was set in the amount obviously damaging damage to the right and legitimate interests of borrower, then Court may reduce the interest rate at the request borrower.

282.3. If interest rate is set, loan contract shall be concluded in written form. If this requirement is not satisfied, right to receive interest shall be lost.

282.4 Loan contract shall be deemed concluded after transferring money or other property to the borrower.

### **Article 283. Loan contract term**

283.1. If the time of loan repayment is not fixed by the contract, borrowers shall be obligated to repay the loan on lender's request within one month from the time of request.

283.2. If interest rate was not fixed by the contract, the borrower may repay the loan before expiration date specified in the contract.

283.3. If interest rate was fixed in the contract, borrowers may repay the loan with interest rates only if the interest rate was fixed by contract with the lender's consent.

283.4. Unless otherwise provided by contract, the interest rate must be paid each year.

### **Article 284. Demand on immediate loan repayment**

284.1. If financial situation of the lender deteriorates and the borrower failed to perform obligations, lender is entitled to demand immediate repayment of the loan.

284.2. If circumstances stated in Item 284.1 of this law existed before conclusion of the contract, but the lender becomes aware of it after concluding the contract, he or she shall be entitled to demand immediate return of the loan.

### **Article 285. Refusal to issue a loan**

285.1. If certain circumstances arise under which a borrower may fail to repay a loan due to deterioration of assets' condition, the lender shall be entitled to refuse to issue promised loan.

### **Article 286. Issuing loan with collateral**

286.1. In order to ensure the fulfillment of loan contract obligations, lender shall be entitled to require immovable property collateral.

286.2. Interest rate on a pledged loan shall be determined by parties.

286.3. In case borrower fails to repay the loan and interest on time, lender shall immediately notify borrower in writing of intention to sell mortgaged property to ensure obligation fulfillment. If the borrower fails to perform its obligations within 10 days from the date of notification, pledged property may be sold on a commission basis or auction sale, and proceeds shall be used to perform obligations, and remaining money shall be returned.

286.4. Lender is obligated to ensure full safety of mortgaged property but it shall not have the ownership or disposal rights.

286.5. Contract for a loan with collateral issued by a lender shall be concluded in writing. A contract not complying with this requirement shall be deemed void.

286.6. Items 157.1.3, 157.2.1, 157.2.2, 157.3, 159.2, 159.5 of this law shall apply to loans issued by lender under collateral.

## **SUB- PART 2**

### **Contractual liability for property transfer**

#### **CHAPTER TWENTY FIVE**

##### **Sub-chapter one**

##### **Article 287. Property lease**

287.1 Under assets leasing contract, a lessor undertakes to transfer property for temporary use of a lessee, and the lessee undertakes to pay fees for use of that property.

##### **Article 288. Rights and obligations of lessor**

288.1. A lessor shall have the following obligations:

288.1.1 Lessor shall transfer property in conformity with the contract terms;

288.1.2 If provided by law or contract, lessor shall reimburse necessary expenses related to leased assets;

288.1.3 Unless otherwise provided by contract, lessor must repair leased assets;

288.1.4 Lessor shall perform other obligations stated in law or contract;

288.2. Lessor shall have the following rights:

288.2.1. Lessor shall have the right to own improvements made to leased assets and that can be separated;

288.2.2. Lessor shall have the right to claim for damage caused by the failure of lessee to implements duties specified by Item 289.1.3, 289.1.4;

288.2.3. If lessee allows assets to deteriorate, break or created conditions leading to deterioration and breakage or does not pay rental fees for three months despite repeated warnings, lessor may terminate contract and claim for losses caused;

288.2.4. Unless otherwise provided by contract, lessor may refuse to pay costs of improvements to assets made without permission and that can not be separated;

288.2.5. Lessor shall have other rights provided by law or contract;



## **Article 289. Rights and obligations of lessee**

289.1. A lessee shall have the following obligations:

- 289.1.1 to use leased assets in accordance with terms of contract;
- 289.1.2 to regularly pay rental fees for use of assets;
- 289.1.3 not to repair or alter leased assets structure or design without consent of lessor;
- 289.1.4 not to allow assets to deteriorate to more than normal depreciation as reflected by law or contract;
- 289.1.5 to return assets to lessor upon expiry of contract in complete;
- 289.1.6 to inform lessor promptly if discovering a defect in assets or circumstances require immediate action in order to protect assets;

289.2. Rights of lessee

- 289.2.1 Lessee shall have right not to pay rental fee if it is impossible to use leased assets without his or her fault;
- 289.2.2 Lessee has right to claim from lessor rented assets maintenance costs;
- 289.2.3. Lessee may terminate contract for assets rent any time regardless of term stated in Item 294.3 if leased assets may cause harm to health and life of others;
- 289.2.4. Lessee may terminate contract before contract expiry if finds a legal person, financially capable and willing to rent assets for remaining contract period, and notifies lessor not less than one month before contract expiration;
- 289.2.5. Unless otherwise agreed by parties, lessee can demand compensation for repair and improvements made with consent of lessor upon expiry of contract;
- 289.2.6. Lessee may separate any improvements made from leased assets upon expiry of contract;
- 289.2.7. Lessee may transfer and sublease assets to third parties with consent of lessor;
- 289.2.8. Lessee shall have other rights provided by law or contract.

289.3. In case specified in Item 289.2.7, lessor shall have no right to refuse without justified grounds.

289.4. Item 289.2.3 shall apply even if lessee was aware of dangers before concluding assets leasing contract and does not present any complaint.

289.5. If assets had hidden defects which become known during or after contract conclusion for assets leasing and lessor refuses to repair defects or procrastinates, lessee may demand to reduce rental fee or claim for damages caused.

289.6. According to Item 289.2.7 duration of contract for sub- lease shall not exceed duration of original assets leasing contract.

289.7. Lessee which properly performs obligations under assets leasing contract shall have a priority right to conclude new rental contract upon expiry of previous

contract. If leasing contract is concluded with another party in breach of this provision, former lessee may demand from lessor to transfer rights and obligations of a new lessee.

#### **Article 290. Defective assets**

290.1. Assets with quality, amount and size complying with contract terms shall be considered as physically fit.

290.2. If condition of assets is not specified in contract, assets that can be used for purposes stipulated in contract shall be considered as fit.

290.3. If third parties have no rights to make any claim as to leased assets, such assets shall be considered as legally defectless.

290.4. Lessor shall be liable for any consequences arising from limitation of leased assets by third party rights.

290.5. Rental fee shall be reduced correspondingly to decrease in use of leased assets due to its inadequate condition.

290.6. Item 290.5 shall not apply if lessor repaired assets or defects are not significant to restrict proper use of assets.

290.7. If lessor does not perform obligations to repair assets, lessee may carry out necessary repairs and require reimbursement of repair costs.

290.8. If lessee knew of defects at time of contract conclusion, it shall not be entitled to raise a claim unless otherwise provided by law.

#### **Article 291. Grounds for exempting lessee from liability**

291.1. Lessee shall not be liable for deterioration of leased assets quality if used according to contract terms and purpose;

#### **Article 292. Fee payment methods**

292.1. Unless otherwise provided by law or contract, lessee shall pay rental fees for leased assets upon completion of contract

292.2. Lessee shall be obligated to pay rental fees in instalments according to agreed schedule.

292.3. If agreed by parties, additional expenses shall be paid.

292.4. Lessee shall not be exempt to pay fees if assets were not used properly due to lessee's fault

292.5. Lessee shall have right to raise a claim related to rented assets and demand its satisfaction or consideration and any terms of contract limiting such rights shall not be valid.

### **Article 293. Duration of contract**

293.1. Assets leasing contract shall be concluded for definite or indefinite periods of time.

293.2. If assets leasing contract is concluded for more than 10 years, after its expiry any of parties may terminate contract within time stated in Item 294.3

### **Article 294. Termination of leasing contract**

294.1. Assets leasing contract shall be terminated on the following grounds:

294.1.1. expiry of contract

294.1.2. if leasing contract is concluded for indefinite period and period specified in contract or law passes after notification on contract termination by any party;

294.1.3. contract is terminated according to terms stated in contract;

294.2. Parties may terminate contract according to the following justified reasons:

294.2.1. if obligations under leasing contract are not performed or performed improperly by one party, other party may terminate contract;

294.2.2. if lessor or close relatives need leased apartment;

294.2.3. if lessee refuses to pay market based rental fee proposed by lessor;

294.2.4. other grounds specified by law

294.3. Unless otherwise provided by contract, and no circumstances for termination arise, either party may terminate contract anytime but must give three months advance notice to other party. Such a period shall be counted since day of notification.

294.4. If contract is concluded for lease of furnished apartment, lessor shall comply with Item 294.3. when terminating contract.

294.5. Item 294.4 shall not apply to hotels and hostels.

294.6. Lessor shall request termination of contract for apartment leasing in writing.

### **Article 295. Consequences of leasing contract termination**

295.1. Lessee shall return assets to lessor upon termination of contract with allowance for natural wear out and depreciation or as agreed in contract.

295.2. Lessee of land shall not retain it upon termination of contract in order to satisfy any claim.

295.3. If lessee transfers assets for a use to a third party without consent and knowledge of lessor, latter may require leased assets from third party upon termination of contract

295.4. If lessee extends time of returning leased assets upon termination of contract, lessor may claim for losses in form of rental fees for overdue period of time.

#### **Article 296. Extension or continuation of leasing contract**

296.1. If lessor does not object to a further rent of assets by lessee upon contract expiration, it shall be deemed extended for indefinite period on same terms and conditions.

296.2. If contract is concluded for definite period, lessee may request in writing its extension for definite or indefinite period no less than two months prior to contract termination and lessor may extend contract except grounds specified by Item 294.2.

#### **Article 297. Consequences of ownership rights transfer**

297.1. If lessor transfers ownership of leased assets to a third party, all rights and obligations of lessors shall be passed on to new owner.

#### **Article 298. Liability period**

298.1. Within six months from contract termination lessor shall have right to raise a claim for damage caused by improper use, deterioration of leased assets, and lessee may demand reimbursement of expenses related to maintenance of assets in proper condition.

298.2. Liability period shall be determined according to provisions of Article 76.

#### **Article 299. Rights of lessee to protect assets**

299.1. Lessee has right to protect rented assets by legal means from infringement by the owner or others.

#### **Article 300. Void leasing assets contract**

300.1. Following contracts and agreements for leasing assets shall be considered void:

300.1.1. Exemption of the lessor from or the reduction of liability in case he or she knew about defected assets but deliberately did not inform the lessee about them;

300.1.2. limitation or revocation of the right to terminate contract;

300.1.3. if lessee is obligated to reimburse higher price than the actual damage;

300.1.4. other cases specified in law;

### **Article 301. Lessor right to retain**

301.1. Lessor of a land, building or apartment has the right to retain assets of the lessee located on his or her land, building or apartment in order to fulfill contract.

301.2. If assets pledged by the lessor are returned back to lessee for normal use or to ensure normal living conditions, lessor's pledging right shall be expired.

### **Sub- part Two**

#### **Lease of apartment**

### **Article 302. Contracts for apartment leasing**

302.1. Under contract for apartment leasing, lessor shall undertake to transfer residential houses, apartment buildings and apartments to possession and use by lessee, and lessee shall undertake to pay rental fee for its use on time.

302.2. Unless provided otherwise by law or contract, lessees who live in one apartment shall have equal rights to use its common areas (kitchen, bathroom, entrances, stairways) that cannot be leased separately.

302.3. If lessor undertakes measures to improve apartment buildings, apartments or residential houses, he or she must inform lessee of impending works, and lessee is obligated not to hamper this works.

302.4. Related provisions of law shall equally apply to leasing contract of apartments.

### **Article 303. Prevailing right of lessee**

303.1. Lessee who properly performed obligations for last three years, has the prevailing right to conclude a new leasing contract or purchase the property.

### **Article 304. Refusal of lessee from contract**

304.1. Irrespective of time specified in Item 294.3, lessee may terminate the contract if it becomes disadvantageous to him or her as a result of not transferring all or parts of apartment on time or lessee loses later rights to use the apartment.

### **Article 305. Sublease of apartments**

305.1. Lessee may sub-lease all or parts of the rented apartment to a third party with the consent of the lessor.

305.2. In case described in Item 305.1, the lessor has no right to refuse without good reason.

305.3. The following grounds shall be considered as good reasons:

- 305.3.1. if lessor has serious grounds to refuse or it depends on a personal situation of a sub-lessee;
- 305.3.2. leased area becomes overburdened;
- 305.3.3. other grounds stated by law or contract

305.4. Parties shall determine the duration of contract for sublease, but it may not exceed the remaining period of the original contract for apartment lease.

305.5. Contract for sublease may be concluded for indefinite period of time. In this case, parties may terminate the contract anytime, but they are obligated to comply with the period of time referred in Item 294.3

305.6. If apartment is subleased, the rights and obligations of sublessor shall be transferred upon termination of the contract to the lessor.

### **Article 306. Rights of lessee family members**

306.1. Spouses, children, parents who live permanently with the lessee shall be considered as family members

306.2. Relatives other than specified in Item 306.1 and/or disabled persons under the lessee's care who are living permanently with him or her for no less than one year in one household, may be considered to be family members.

306.3. Any dispute in respect of family members shall be decided by the Court.

306.4. A family member living permanently with lessee shall have all rights and obligations of lessee provided by law or leasing contract of apartment

306.5. Upon request by lessee or family members, leasing contract of apartment may be concluded with any of family members.

306.6. If an adult family member leaves the family, any disputes arising in respect of possession and use of the apartment shall be decided by the Court irrespective of whom contract for apartment lease was concluded with.

306.7. In case of lessee death, the rights and obligations shall be transferred to family members who live permanently with lessee and they have the right to terminate contract within time specified in Item 294.3

306.8. If disputes arise in respect of possession and use of the apartment between divorced spouses, the Court shall resolve these disputes. If the Court decides to give apartment to a spouse who was not a lessee, this spouse shall be considered the lessee.

### **Article 307. Lodgers**

307.1. Lessee may permit a lodger to live in the rented apartment without contract and free of charge. The lodger must vacate apartment on lessee's request.

#### **Article 308. Transfer of apartment ownership**

308.1. If right of ownership of the leased apartment is transferred to another person, the leasing contract of apartment shall remain in force.

#### **Article 309. Termination of contract due to demolition**

309.1. The contract for apartment leasing shall be terminated if relevant authorities decide to demolish the apartment building.

309.2. If contract is terminated under Item 309.1 of this article, the lessee shall be given another apartment and, if impossible, expenses borne by the lessee shall be reimbursed by the authorities.

309.3. If the leased apartment is demolished as a result of not complying with maintenance requirements, provisions of this article shall not apply.

#### **Article 310. Leasing contract between employer and employee**

310.1. If an employer concludes leasing contract of an apartment under its possession with an employee for indefinite period of time and the contract for works between parties is terminated, the employer is entitled to terminate the apartment leasing contract.

310.2. If the employer concludes leasing contract of apartment with the employee for definite period of time and the contract for works expires before leasing contract, Items 294.2, 294.3 shall equally apply in respect of the termination of apartment leasing contract.

#### **Article 311. Official apartment**

311.1. Apartments transferred for temporary use to certain persons due to the rights and privileges related to their official status according to the law, shall be considered official.

311.2. If persons referred in Item 311.1 possess certain rights and privileges related to their official status, and these rights and privileges are terminated, the relevant authorities shall recover official apartment.

311.3. Unless otherwise provided by law, regulation of contracts for assets leasing shall equally apply to possession of official apartments.

## **CHAPTER TWENTY SIX**

### **Financial leasing**

## **Article 312. Contracts for financial leasing**

312.1. Under contract for financial leasing, a lessor shall undertake to transfer assets to possession of a lessee within time specified in contract, and the lessee shall undertake to pay fee for its use on time.

312.2. Lessor shall be obligated to produce themselves or through a third party, or purchase an object of contract upon request from lessee.

312.3. Parties may include in the contract for financial leasing that the lessee shall purchase or continue to lease object of contract.

312.4. If the lessee compensates depreciation and cost of contract object upon the contract expiration, he or she may have the right and obligation to purchase or lease contract object.

## **Article 313. Forms and terms of contracts**

313.1. Contracts for financial leasing shall be concluded in written form.

313.2. The contract shall contain total price, fees, methods of payment, duration of contract, rules governing payment in case of early termination of contract.

313.3. If provisions of this article are breached, the contract for financial leasing shall be void.

## **Article 314. Obligations of lessor**

314.1. Lessor shall be held liable for the failure to transfer contract object or transfers it late, or transferred assets do not conform to contract terms.

314.2. If provided by contract, prior to filing a complaint to lessor, lessee may claim for damages caused by seller or carrier of contract object.

## **Article 315. Consideration of lessor claim**

315.1. If the financial leasing contract is terminated due to the lessee's fault, depreciation, unpaid fees and other expenses shall be taken into account when determining lessor's claim.

## **Article 316. Rights and obligations of third parties**

316.1. If provided by contract, a third party may produce or supply contract object upon request of lessor and require reasonable award or reimbursement of expenses from the lessor.



316.2. If provided by contract, the third party is obligated to give accurate information to the lessee on repair, adjustment, installation, use of the contract object.

### **Article 317. Other provisions on financial leasing contract**

317.1. Unless provided otherwise in this article, provisions of law governing contracts for assets leasing shall equally apply to financial leasing contracts.

## **CHAPTER TWENTY SEVEN**

### **Leasing contract**

#### **Article 318. Leasing contract**

318.1. Under leasing contract, a lessor shall undertake to transfer to a lessee's possession and use named assets in order to conduct economic activities in conformity to the purposes stated in its charter, and the lessee shall undertake to pay fees according to contract.

318.2. Lessee shall use rented assets within period and in accordance with the contract terms and to have the right to possess revenue and profits derived from leased assets.

318.3. Leasing contract shall be concluded in writing and leased immovable property shall be registered at real estate registration agency.

318.4. A contract which does not comply with requirements of Item 318.3 shall be deemed void.

318.5. Unless otherwise provided in this article, regulations of contracts for property lease shall equally apply to leasing contracts.

#### **Article 319. Rental fee**

319.1. Payment of rental fee can be made in cash or in other agreed form.

319.2. If the quality of leased assets deteriorates due to unexpected circumstances or force majeure, parties may terminate the leasing contract by mutual agreement.

#### **Article 320. Duration of leasing contract**

320.1. Duration of a leasing contract shall be determined by parties.

320.2. If a leasing contract is concluded for more than 10 years, it may be terminated after 10 years according to provisions of law and upon initiative of any party.

320.3. If a leasing contract on land or right to land lease is concluded for indefinite period, this contract may be terminated after one year or within one month at the end of one year of lease.

320.4. If parties terminate the leasing contract before its expiration, they shall comply with Item 320.3.

### **Article 321. Lease of land with assets**

321.1. Lessee of land with its assets has an obligation to protect land and assets from damage and deterioration.

321.2. If the property assets are damaged or destroyed due to reasons beyond the lessee control, the lessor is obligated to replace them.

312.3. If the lessee agrees by contract to make separate appraisal of assets on leased land and return them upon the termination of contract, he or she shall be liable for any damages or destructions caused by unexpected circumstances or force majeure.

312.4. If provided by contract, the lessee may use some parts of assets for economic activities.

321.5. The lessee shall comply to requirements of using land assets for economic purposes

321.6. After the completion of leasing contract of land, the property and improvements on surface of leased land that impossible to separate shall be transferred to ownership of the lessor

321.7. Upon the termination of leasing contract, lessee shall be obligated to return leased land assets to lessor.

321.8. If the price of assets at the moment of their transfer from lessor to lessee differs from its price of returning them, the lessee shall compensate to lessor the difference. Price of assets shall be determined according to ongoing market rates at the termination of leasing contract.

321.9. The lessor may refuse to accept or pay for an asset which has no importance for economic activities or is too expensive.

321.10. In order to satisfy claims concerning leased land assets, the lessee may pledge the assets. If the lessor satisfies claims in other form, the lessee may relinquish its pledge right. If certain parts of the claim are satisfied in monetary form, the lessee may release some parts of pledged assets.

### **Article 322. Leasing of factories, businesses**

322.1. Factories and businesses may be leased with its assets.

322.2. If livestock and domestic animals belonging to assets, die or become injured, the lessee shall compensate damage to the lessor irrespective of proper business conduct.

322.3 Provisions of Article 321 shall equally apply to lease of factories and businesses

### **Article 323. Sublease**

323.1. Unless otherwise provided by contract, the lessee may sublease the rented assets only with the lessor's consent.

323.2. If a sub-lessee does not dispose of rented assets in accordance with terms agreed with the principal lessor, he or she shall be liable for any consequences arising from misuse to principal lessor. In this case, principal lessor may demand to revoke the rights of sub-lessee.

### **Article 324. Substitution of lessee**

324.1 If the lessee returns rented assets to the lessor before the contract expiration, he or she shall not be exempted from rental fees.

324.2 If the lessee proposes a new legal person who agrees with terms of contract and capable of paying the rental fee to the consent of the lessor, the lessee shall be exempt from obligations under Item 324.1.

### **325 Continuation of leasing contract after lessee death**

325.1. If lessee dies, his successor may terminate the contract within six months from the end of respective quarter.

325.2. If the lessee's successor considers it possible to continue to use rented assets itself or through a third party for economic activities, he or she may refuse to terminate and request the lessor to extend contract.

### **Article 326. Obligations of lessee**

326.1. Upon termination of leasing contract, the lessee shall return leased assets allowing for normal depreciation or as agreed in contract.

326.2. The lessor may raise claim for damages caused and demand to pay rental fee for overdue period of time.

## **CHAPTER TWENTY EIGHT**

### **Lease of agriculture land**

#### **Article 327. Contracts for lease of agriculture land**

327.1. Agriculture land may be leased with or without residential or business facilities.

327.2. Unless provided otherwise in this article, regulations of leasing contracts shall equally apply to lease of agriculture land.

#### **Article 328. Property transfer**

328.1. A lessor shall undertake to transfer to a lessee land with assets to be used for purposes specified in contract.

328.2. Unless otherwise provided by contract, lessee shall maintain property and repair assets under lease such as residential and commercial buildings, roads, fences and walls and use that property for economic activities.

328.3. Upon conclusion and termination of leasing contract, parties shall jointly make a list of property to be transferred under leasing contract reflecting amount, size, price, quality of assets at time of transfer and confirmed by signatures of parties.

#### **Article 329. Pledging rights of lessors**

329.1. In order to satisfy own demands under leasing contract, the lessor may pledge revenues and profits derived from leased assets.

#### **Article 330. Extension of contract**

330.1. Leasing contract of agriculture land for more than two years shall be concluded in writing, and contracts not complying with this term shall be considered as being concluded for indefinite period and these contracts shall be terminated after one year after they come into effect.

330.2. If any party proposes to extend a contract concluded for more than three years, and the other party does not reject it within three months upon the receipt of proposal, the contract shall be considered extended for indefinite period.

330.3. A proposal or refusal to extend contract shall be made in writing.

#### **Article 331. Obligation on necessitated expenses**

331.1. A lessor shall be obligated to compensate a lessee necessitated expenses.

331.2. If the lessor agrees to compensate expenses other than provided in Item 331.1, he or she shall make payment upon the termination of leasing contract.

#### **Article 332. Rights and obligations of parties upon contract termination**

332.1 If a harvest resulting from the lessee business operation is not collected before the contract expiration, the lessee may request the lessor to extend the

leasing contract, or lessor is obligated to compensate to lessee the cost of the harvest.

332.2. When agriculture land lease expires, the lessee shall return leased buildings and equipment in normal condition, complying with the requirements of regular business activities, with allowing for natural wear out and depreciation or as agreed in the contract.

332.3. If the lessee returns leased assets in better condition than at time of lease, he or she may require a compensation from the lessor.

332.4. The lessee may separate improvements made to leased assets or the lessor may purchase those improvements for proper price upon the termination of leasing contract.

## **CHAPTER TWENTY NINE**

### **Franchising**

#### **Article 333. Franchising contract**

333.1 Under franchising contract a franchisor shall undertake to transfer a license, obtained according to established procedures and allowing use of non-material property, to a franchisee, and latter shall undertake to conduct activities in accordance with structures and cooperative program agreed with franchisor, as well as to pay proper fees or a certain part of revenues. Non-material property shall include a name of a company, trademark, product design, packaging, management, planning, communication, main guidelines on goods and services procurement.

#### **Article 334. Obligations of parties**

334.1 A franchisor shall have the following obligations:

- 334.1.1. to protect a cooperation program from involvement of third parties;
- 334.1.2. to regularly update program;
- 334.1.3. to supply necessary information;
- 334.1.4. to provide technical assistance;
- 334.1.5. to offer training for franchisee employees;

334.2 A franchisee shall have the following obligations:

- 334.2.1. to use rights and property received under contract productively and in accordance with purpose;
- 334.2.2. to pay fees and certain parts of revenue on time;
- 334.2.3. to insure transferred rights and property in favor of franchisor if provided by contract;
- 334.2.4. not to transfer license and franchising to third parties without franchisor consent;
- 334.2.5. to submit own employees to training program offered by franchisor and bear respective expenses;

334.2.6. to inform clients and customers of franchisor trade name use under license;

334.3. Parties shall exchange all necessary information if a contract is concluded and to maintain the confidentiality of received information if a contract is not concluded.

### **Article 335. Forms of franchising contract**

335.1. Franchising contracts shall be made in writing.

335.2. Franchising contract shall contain such basic terms as the contract duration, procedures of termination and extension of the contract, obligations of parties and the program for franchise implementation.

### **Article 336. Duration of franchising contract**

336.1. Parties shall determine duration of franchising contract depending on demand for particular product or service and market share.

336.2. If franchising contract was concluded for more than 10 years, and the duration of contract is not fixed, either party may terminate the contract after 10 years within one year since notifying the other party on termination.

336.3. If the contract term expires, parties, guided by principles of mutual trust and business cooperation, may extend the contract for definite or indefinite period on same or renewed terms at initiative of either party until their business relationship comes to end.

### **Article 337. Limiting competition**

337.1. Upon the expiration of the franchising contract, the franchisor shall have the right to prohibit the franchisee's successor to compete in a specific territory for up to one year.

337.2. If this prohibition stated in Item 337.1 causes serious damage to the core business of the franchisee, the franchisor shall award a reasonable compensation to franchisee.

### **Article 338. Mutual liabilities of parties**

338.1. Parties shall be liable for implementation of contractual obligations and accuracy of information provided.

338.2. Franchisee shall be obligated to compensate damage and expenses caused to the franchisor in related to obligations under franchising contract

338.3. Franchisor shall not be obliged to issue any guarantee as to possible revenues the franchisee may earn under franchising contract.

338.4. Franchisor shall not be liable for any damage caused to clients as a result of conduct by franchisee.

## **CHAPTER THIRTY**

### **Gratuitous use of assets**

#### **Article 339. Contracts for gratuitous use of assets**

339.1. Under contract for gratuitous use of assets property one party shall undertake to transfer to other party's disposal specific assets for gratuitous use, and the other party shall undertake to use assets in accordance with its purposes and return them upon termination of contract in normal condition.

339.2. Provisions of Articles and Items 289.1.3, 289.1.6, 289.2.6, 293, 295.3, 296, 297, 298 of this law related to contracts for property lease shall also apply to contracts for gratuitous use of assets.

#### **Article 340. Obligations of grantee**

340.1. Grantees of gratuitous use of property shall have the following obligations:

- 340.1.1. to use assets in conformity with the contract terms and prevent their deterioration other than regular wear out;
- 340.1.2. not to transfer assets for use and possession of a third party without consent of grantor;
- 340.1.3. to pay any inevitable expenses necessary to maintain assets in normal condition;
- 340.1.4. to return assets in normal condition upon the expiration of contract;

#### **Article 341. Termination of contract for gratuitous use**

341.1. A grantor assets transferred for gratuitous use may terminate contract in the following cases:

- 341.1.1. if assets are agreed to be used for specific purpose and for indefinite period, and the specified period of time expires; or at any time if the purpose was not determined;
- 341.1.2. if the grantor needs that assets for own use;
- 341.1.3. if the grantee of assets for gratuitous use fails to perform its obligations provided in Items 340.1.1.-340.1.3 or performs improperly;
- 341.1.4. if the grantee dies;

341.2. The grantee of assets for gratuitous use may return the assets anytime.

#### **Article 342. Liabilities of parties**

342.1. The grantor of assets for gratuitous use who intentionally did not inform the other party of any defects in body or in legal status of assets, shall be obligated to compensate any damage caused to user of the assets.

342.2. The grantee of assets for gratuitous use shall be liable for any damages incurred to assets as a result of his or her improper action.

342.3. The grantee of assets for gratuitous use shall be liable for any damage caused to other party as a result of damage, loss, alteration or deterioration of assets to a greater extent than natural wear out.

342.4. If grantee of assets for gratuitous use transfers assets to a third party with the consent of grantor, he or she shall not be exempt from any liabilities arising from their use.

### **Sub- part 3.**

## **OBLIGATIONS RELATED TO PERFORMANCE OF WORKS AND RENDERING ASSISTANCE**

### **CHAPTER THIRTY ONE**

#### **Contracted work**

#### **Article 343. Contract for works**

343.1. Under contract for works, a contractor shall undertake to carry out a particular work stipulated in a contract using own or provided by employer materials, and an employer shall undertake to accept that work and pay agreed remuneration.

343.2. An object of contract for works shall be results of execution of works.

343.3. Any tangible result of contractor's work shall be transferred to the other party ownership.

343.4. If the contractor produces goods which can be specified by type and form and transfers it into ownership of the employer, procedures regulating contracts for sale and purchase shall apply.

343.5. Depending of the nature of some kind of works other laws may apply to the contract for works.

#### **Article 344. Work remuneration**

344.1. Unless provided otherwise by law, reward for work execution, methods, procedures and time for payment shall be agreed by parties.

344.2. If reward for work execution is not specified, the employer shall make payment depending on the nature of executed work and reasons and based on a tariffs for particular work confirmed by entitled authorities. In case no such a list of tariffs is available, the employer shall base the award on the ongoing average market rates.



### **Article 345. Budget for work execution**

345.1. Contractor may fix a budget for execution of works stipulated in the contract.

345.2. If the planned budget for execution of works tends to go over due to unforeseen factors, contractor shall immediately inform the employer.

345.3. If the employer decides to terminate contract due to exceeding budget, he or she shall be obligated to pay the remuneration due for performed work according to planned budget.

345.4. If the contractor included unreasonably high build in costs when fixing the budget, the employer may refuse to pay remuneration for work execution.

### **Article 346. Payment of remuneration**

346.1 Unless otherwise agreed by parties, the payment shall be made upon the completion of work and acceptance of work results.

346.2 If parties agree to execute work in stages or parts and set a premium for each part or stage separately, payments shall be made upon the completion of each stage.

### **Article 347. Head contractor and subcontractor**

347.1. Contractors may engage other legal persons (subcontractors) for execution of work stipulated in contract. In this case, the contractor shall act as a head contractor in relation to the employer, and as an employer in relation to subcontractor.

347.2 Unless otherwise provided by law or contract, the contractor shall be liable to employer for subcontractors work result.

### **Article 348. Duration of work contract**

348.1. Unless otherwise provided by law, parties shall determine the duration of contract for work, and they may set a work schedule depending on the nature of the work involved.

348.2. Unless otherwise provided by law, parties may agree on mutual liabilities arising from a disruption of work schedule, but not exceeding the liability arising from a breach of main contract term.

### **Article 349. Period for raising a claim**

349.1. If contractor breaches contract terms or executes work with defects, the employer may raise a claim within six months from the date of accepting work, and, if defects are not possible to detect at the time of work acceptance, the

employer may raise a claim within one year from accepting the work, unless otherwise provided by law or contract.

349.2. If law or contract provides a warranty period during which a claim can be raised on any detected work defect, the period for presenting claims shall be counted from the date of discovering the defect.

349.3. Liability period shall be counted from the date on which time limit for presentation of claims referred to in this article expires

### **Article 350. Obligations of contractor**

350.1. Contractor shall undertake the following obligations:

350.1.1. to execute work stipulated in contract on time;

350.1.2. to personally execute work to be carried out in person due to nature of work or the personal nature of contractor;

350.1.3. to inform immediately employer:

a) if materials supplied for works and employer's instructions on work methods tend to negatively affect the quality and results of work;

b) if conditions arise beyond control of the contractor and that may negatively affect the quality and results of work;

350.1.4. to take all necessary measures to ensure proper condition of materials supplied by employer;

350.1.5. to use economically and according to purpose materials supplied by employer, to report to employer on disposal of materials, to transfer to employer the remaining materials after the completion of work;

350.1.6. to transfer results of work without any defects to employer;

350.1.7. to be liable for any expenses, cost of materials, road fees, transportation and other expenses necessary to remedy any defects in work results;

350.1.8. to use materials of proper quality if obligated to execute work with own materials;

### **Article 351. Obligations of employer**

351.1. An employer shall undertake the following obligations:

351.1.1. to pay remuneration according to set procedures on the dates stipulated by contract or after accepting the work;

351.1.2 to accept work results within time stipulated in contract;

351.1.3 to provide contractor with materials, tools, equipment and space necessary to do the work if provided by contract;

351.1.4 to take all measures to replace, upon request of contractor, materials that do not meet requirements or are of poor quality, to amend improper instructions, to remove obstacles that negatively affect work quality and results;

351.2. Work result shall be deemed accepted if employer fails to accept it on time.

### **Article 352. Demands of parties under work contact**

352.1. Claims for damage caused by failure or improper performance of obligations by any of parties shall be regulated by general rules provided in this law.

352.2. Employer shall have right to issue the following demands:

- 352.2.1. to remedy any work defect or do the work again at contractor's initiative and expense if the result of work has defects;
- 352.2.2. if contractor does not remedy defects within specified time, employer may remedy those defects and claim a compensation;
- 352.2.3. to reduce the remuneration correspondingly to for the work result decrease of the value of the work result due to defects;

352.3. If contractor refuses to conclude contract due to relatively high cost of liquidating defects, the employer rights referred to in Item 352.2.2 shall be revoked.

352.4. If contractor was aware of any defects at time of handing over work results, he or she shall lose the right to raise a claim provided in Item 352.2 of this law.

352.5. Contractor shall have the right to issue the following demands:

- 352.5.1. to claim compensation for damage caused by non- acceptance of executed work or non-performance of obligations by employer specified in Item 351.1 of this law or latter's failure to do needed actions;
- 352.5.2. to take back the work results handed over to employer earlier if work is executed again to remedy defects and new results of work are produced;
- 352.5.3. to demand remuneration in case employer fails to accept the work results on time and they are destroyed or damaged as a result of force majeure or unexpected disaster or it was impossible to accomplish the work in time due to the employer's fault.

### **Article 353. Defects in work result**

353.1. If a third party does not have any rights to raise any claim to an employer regarding the result of work, those work results shall be deemed as legally defectless.

353.2. If number, size, quality conform with the contract, work results shall be deemed as physically defectless.

353.3. If the contract does not specify number, size and quality, results of work that may be used in accordance with contract shall be considered as physically defectless

### **Article 354. Contractor's pledge right**

354.1. Contractor may pledge a movable property in his or her possession which is a result of work ordered by employer in order to satisfy his or her claims.

354.2. If objects of contract are buildings or specific part of a building, contractor shall be entitled to mortgage land for buildings in order to satisfy his or her claims.

### **Article 355. Termination of contract**

355.1. If any parties seriously breaches the contract, other party may terminate contract according to grounds and procedures provided in Articles 225, 226 and claim for compensation of damages caused.

355.2. Employer may terminate contract anytime before the completion of works.

355.3. It is not required to set additional time in cases other than described in article 226, if contractor does not perform its obligations to remedy defects.

355.4. If employer's order can be executed in other form, the contractor may terminate contract according to Item 355.2.

355.5. If contractor is not guilty or special circumstances arise, the contractor may terminate contract anytime irrespective of Item 355.4 and shall be exempted from any liability for resulting damage to employer. And he or she may request to be paid for the executed work if the employer has interest to obtain results of work executed by contractor before the contract termination.

355.6. In case employer terminates the contract, it shall be obliged to compensate the damage to contractor after deducting from the due payment the amount of remuneration issued before.

### **Article 356. Sharing risks of contingency**

356.1. Contractor shall be liable for all risks if results of executed work are destroyed and damaged due to contingency and force majeure before delivery of the results.

356.2. Employer shall be liable for consequences of destruction or damage caused by force majeure or contingency to the work results remaining in the possession of contractor if it fails to accept them on time.

356.3. If work materials are destroyed or damaged in cases described in Items 356.1, 356.2 of this law, party which supplied materials shall be liable for risks.

### **Article 357. Void contract for works**

357.1. If contractor does not intentionally inform the other party of any defects in work results and these defects are discovered later, any agreements as to full or partial exemption from liabilities shall be deemed void.

### **Article 358 Regulation of some types of work contract**

358.1. Related provisions of this chapter shall apply to all specific types of contracts for works.

## **CHAPTER THIRTY TWO**

### **Hired work**

#### **Article 359. Hired work**

359.1. Under a contracted work, employee undertakes to perform specific job order and employer undertakes to issue due wages.

359.2. Any kind of job can fall under this category of contract.

#### **Article 360. Payment for hired work**

360.1. If not specified otherwise by contract, wages shall be issued after completion of job order or service.

360.2. It can be agreed that wages can be issued in instalments and according to an agreed schedule.

#### **Article 361. Execution of work order**

361.1. Unless specified otherwise by law or contract, employee shall execute job order personally and it is not allowed to pass it to third party.

#### **Article 362. Refusal to accept work or service results**

362.1. If employer postpones or refuses to accept job result, employee shall have the right to discontinue execution of job order and to demand due payment.

#### **Article 363. Working conditions**

363.1. Employer shall have duty of providing office space, tools and equipment necessary to ensure employees' health and meeting safety standards and work specific requirements.

#### **Article 364. Termination of contract**

364.1. Hired employment shall end with expiration of agreed contract term.

364.2. If contract does not specify employment terms or due to job or service specific nature and aims, parties shall have the right to terminate contract at agreed time.

#### **Article 365. Contract termination**

365.1 Depending on schedule of payments, contract can be terminated in the following cases:

- 365.1.1. if paid on daily basis, on next day after last payment;
- 365.1.2. if paid on weekly basis, on next week's first working day after last payment;
- 365.1.3. if paid on monthly basis, within 15<sup>th</sup> of month payment was made;
- 365.1.4. if on quarterly or longer basis, after making payment 30 days before term expiration;
- 365.1.5. if not agreed, after issuing due payment 14 days before contract termination;

365.2. For contracts for more than five years term, employee shall have the right to terminate contract after five years with six-month prior notice to other party.

#### **Article 366. Contract extension**

366.1. If employee notifies employer about expiry of contract and expresses an interest to extend it, and latter is consent, contract shall deem extended for unspecified time period.

#### **Article 367. Contract termination**

367.1. Employee shall have the right to demand remuneration for the work accomplished until the termination of contract due to reasons specified in Article 221 of this law.

367.2. Employee shall have not the right to demand remuneration if contract was terminated due to failure of employee to meet its contract obligations or involvement in activities contrary to contract and with employer performing all its obligations.

367.3. In case contract is terminated after the advance payment or some part of remuneration was issued, employer shall have the right to demand it back.

367.4. Employer shall be responsible for damage caused by the termination of contract due to activities contrary to contract.

#### **Article 368 Proof of contracted employment**

368.1. Employee shall have the right to request from employer a written statement confirming contracted employment and its duration.

## **CHAPTER THIRTY THREE**

### **Labour**

#### **Article 369. Labour contract**

369.1. Citizens may conclude labour contracts with legal persons or citizens.

369.2. The procedure for conclusion and terms of labour contracts shall be determined by law.

369.3. Unless otherwise provided by law, general grounds of this law shall be applied for labour contracts.

## **CHAPTER THIRTY FOUR**

### **Tourism**

#### **Article 370. Tourism contract**

370.1. Under tourism contract travel agency takes an obligation to provide agreed services, and the tourist takes the obligation to pay for such services.

#### **Article 371. Involving third party into tourism**

371.1. Tourist while being in own country, involving a third party into tourism, shall be entitled to submit a request to an agency engaged in tourism.

371.2. If travel agency deems that the third party stated in Item 371.1. does not meet trip required conditions, it shall be entitled to request to replace it with another person before the trip.

371.3. Travel agency shall be entitled to demand from the tourist to pay for extra costs connected with the third party involvement in trip.

#### **Article 372. Obligation not to make a mistake**

372.1. Travel agency shall be liable to organise the trip without making any mistakes like lowering the magnitude of the trip, mentioned in the contract, or making the trip senseless.

372.2. If the travel agency fails to fulfil obligations stated in Item 372.1 of this Law, the tourist shall be entitled to demand to eliminate the mistake, and if such an elimination is relatively costly, the travel agency may refuse to eliminate the mistake.

372.3. If travel agency fails to eliminate the mistake within time given by the tourist, the latter may eliminate it her/himself at own cost and shall be entitled to demand the former to reimburse respective cost.

372.4. If travel agency flatly refuses or is unable to eliminate the mistake, it shall not be required to set the time stated in Item 372.3.

372.5. In case of any mistake, the trip cost may be reduced, taking into consideration the time required for its elimination.

372.6. If tourist did not inform the travel agency to eliminate the mistake due to own fault, the trip cost shall not be reduced.

### **Article 373. Termination of contract**

373.1. Contract shall be terminated on the following grounds:

373.1.1. if due to trip mistake a substantive damage was caused to the tourist;

373.1.2. if tourist informed the travel agency about the impossibility to participate in the trip due to sound reasons;

373.1.3. if travel agency failed to eliminate the mistake on time set by the tourist;

373.2. If contract was cancelled due to grounds stated in Item 373.1., travel agency shall fail to get the agreed payment. However, it could be paid for the insufficient part of the organised trip.

373.3. If travel agency is liable for sending back the tourist after the trip, according to the contract obligation, it shall be liable to fulfil the contract obligation. In this case the travel agency shall be responsible to pay the cost related to sending back the tourist.

373.4. If serious difficulties for the trip or other circumstance, which might cause damages to the tourist, emerged due to emergency or force majeure conditions, which was impossible to foresee during entering the contract, either party to the contract shall be entitled to terminate the contract, and the cost of sending back the tourist shall be equally shared by both parties.

### **Article 374. Damage compensation**

374.1. If mistake was made due to travel agency's fault, the tourist shall be entitled to demand from the travel agency in addition to terminating the contract to compensate for damages caused.

374.2. If trip did not take place or it was not organised properly, the tourist shall be entitled to demand from the travel agency to compensate for time wasted in money term.

### **Article 375. Time to present claims**

375.1. Tourist may present claims with regard requirements stated in Items 372.3. and 374 to the travel agency within one month after the trip.

375.2. If tourist was not guilty in the expiration of the time stated in Item 375.1., any claim may be presented even after the expiration of the above time.



### **Article 376. Transcription**

376.1. Transcription for presenting claims by tourist shall be six months.

376.2. Transcription term shall be counted from the day of expiration of presenting claims or the day, when travel agency refused to accept claims.

### **Article 377. Responsibility limitation**

377.1. Travel agency may limit its responsibilities by three-fold cost of services based the tourist consent in the following cases:

377.1.1. damage caused by the travel agency to the tourist was not intentional or due to former's carelessness;

377.1.2. if travel agency was not liable to bear alone the responsibility for the damage caused to the tourist due to mistakes made by others participants of trip organisation.

### **Article. 378. Right to renounce the contract**

378.1. Tourist may renounce the contract any time before the trip, in such case s/he shall be entitled to get back the costs saved due to cancelling the trip or the advanced payments to the travel agency designed for paying for other services.

378.2. In the case stated in article 378.1. travel agency shall loose the right to get the fees agreed in the contract, however, it shall be entitled to demand from the tourist to compensate for damages caused to it.

### **Article 379. No alterations to procedures stated in the law**

379.1. While concluding a contract, parties to it shall be prohibited to change procedures stipulated in this Article, in a way affecting the tourist.

## **CHAPTER THIRTY FIVE**

### **Carriage**

#### **Article 379. Contracts for carriage**

379.1. Under contract for carriage, a carrier shall take an obligation to transport passengers or the cargo entrusted to it by the sender to an agreed destination, and the sender shall take an obligation to pay the price agreed.

379.2. Conditions for the carriage of cargo, passengers and luggage, and the responsibilities of parties to the contract for carriage shall be determined by law, or by rules for particular kinds of carriage, enacted in compliance with law.

#### **Article 381. Concluding contract**

381.1. Person publicly proposing to transport passengers, cargo and luggage shall conclude a contract for transportation, unless there are sound reasons for refusal to do so.

### **Article 382. Passenger transportation**

382.1. Contract with passengers shall be considered concluded when they are given tickets or boarding cards.

382.2. Tickets and boarding cards could be in single or many passengers use, but the possibility to transfer them shall terminated when transport means start moving.

### **Article 383. Contract termination**

383.1. Passenger may cancel transportation contract any time without causing damage to the contract, but s/he shall compensate to the carrier any damage caused due to contract cancellation.

383.2. If from the side of carrier were revealed circumstances, which were not possible to know, but if known, could serve as reason for not concluding contract, or in case there is a potential delay in reaching the place of destination or trip time is longer, the passenger may refuse to enter the contract. In this case the liability to compensate the damage shall not arise.

### **Article 384. Carrier liabilities**

384.1. If during transportation any damage was caused to the passenger or to her/his property, or the carried luggage was lost or damaged, the carrier shall bear the responsibility stated in law or rules of particular transport kinds.

384.2. Carrier shall not bear any responsibility for the damage caused by emergency or force majeure circumstances, or due to the passenger's fault, or luggage carried by the passenger.

384.3. Damage caused to the passenger by the driver or other staff of the carrier due their failure to perform duties, breakage, shortage or poor quality of materials shall not serve as grounds for exempting the carrier from responsibility.

384.4. Damage caused to passenger due to delay shall not be born by carrier unless stipulated otherwise in the contract, or it was caused on purpose or carelessness.

384.5. Carrier's responsibility shall not limited or lifted by contract.

### **Article 385. Passenger liabilities**

385.1. Passenger shall be responsible for the damage caused to the carrier due to her/his faulty activity, or luggage or cargo, or other stuff carried by her/him.

385.2. Passengers who strictly observed conditions and procedures on storage and transportation, they shall not bear any responsibility for the damage.

### **Article 386. Freight transportation contract**

386.1. Freight transportation contract shall be accompanied with consignment documents.

386.2. The consignment document shall be made in three copies and signed, with one copy accompanying the shipment, the second one going to the carrier and the third remaining in consignor's possession.

386.3. If the shipment transportation shall be made by various or several means or types of transportation, or in parts, the consignor can demand to file documents for each type or mean of transportation or part of shipment.

386.4. Irrespective of missing, incomplete or lost consignment, respective provisions of this Chapter shall be relevant to transportation content and conditions of validity.

### **Article 387. Consignment**

387.1. The consignment documentation shall reflect the following information:

387.1.1. date the documents were filed;

387.1.2. name of the consignor;

387.1.3. name and address of the transportation agent;

387.1.4. date and place of handing over the shipment to the agent, the final destination;

387.1.5. name and address of the consignee;

387.1.6. normal name of shipment and packaging, generally accepted specials marks for dangerous shipment;

387.1.7. number of pieces, sizes, markings and shipment registration number

387.1.8. shipment weight and other measurement notes;

387.1.9. transportation costs (transportation price, extra expenses, custom duties, other expenses related to the forwarding shipment during the contract term);

387.1.10. other provisions specified by law;

387.2. The parties to contract can include in the consignment document following information if necessary:

- 387.2.1. prohibition of the shipment transfer to or load on other means of transportation;
- 387.2.2. expenses to be borne by the transportation agent ;
- 387.2.3. the amount of additional expenses to be paid at the shipment dispatch time;
- 387.2.4. the shipment value, special instructions for handling ;
- 387.2.5. instructions on the shipment insurance;
- 387.2.6. the limit for delivery time;
- 387.2.7. the list of documents presented to the transportation agent;

### **Article 388 Transfer of shipment to transportation agent**

388.1 When receiving the shipment, the transportation agent shall check the following:

- 388.1.1. if documents accurately reflect the shipment number, sizes and markings;
- 388.1.2. the shipment packaging and appearance;

388.2. If the transportation agent has no possibility to examine shipment as specified in Item 388.1.1., it shall enter into the consignment document about it and about the shipment appearance and package .

388.3. The consignor can demand from the transportation agent to examine the number of pieces, sizes and its parts and to reflect these in the consignment document, and shall bear the costs involved.

388.4. The fact of the shipment transfer to the transportation agent and consignment documents shall serve as a proof of concluding a contract unless proven contrary.

388.5. If the notes required by Item 388.2. of this Law were not filed, it shall be assumed that the consignment accurately reflects the shipment appearance, number of pieces, sizes and markings.

388.6. If transportation agent discovers any discrepancy while receiving the shipment, the consignor shall be responsible for the damage caused to other parties due to the shipment packaging, unless the former did not present conditions to this end.

388.7. The consignor shall supply the transportation agent with custom declaration, other additional documents, as well as all the information necessary to deliver the shipment to the destination point.

388.8. The transportation agent is not responsible for the accuracy of information provided by the consignor according to Item 388.7. of this Law.

388.9. The consignor shall be responsible for the damage to the transportation agent in case of incomplete or inaccurate information and documents, unless the damage results from the agent's own fault.

388.10. The transportation agent shall be responsible for losing or misusing the received or attached documents but in the amount not exceeding of the responsibility for the lost shipment.

### **Article 389. Shipment disposal**

389.1. The consignor has the right of disposal over the shipment up to canceling freight forwarding operation to prevent the delivery of shipment to a destination other than reflected in the consignment document.

389.2. This right of disposal ends with the transfer of the second copy of the consignment to the consignee, and thereafter the transportation agent shall follow the latter's instructions.

389.3. If the consignor does not file special instructions, the consignee will take disposal right over the shipment at the moment of receiving the consignment.

389.4. If the consignee instructs the transportation agent to deliver the shipment to a third party, the latter shall have not right to name other consignees.

389.5. The following procedure shall be observed in exercising the disposal right over the shipment:

389.5.1. the consignor or the consignee with shipment disposal right can give the transportation agent new instructions entered in the consignment document and compensate expenses and cost involved after the execution of the instruction;

389.5.2. the new instructions shall be possible to implement immediately upon receiving them, and shall not be harmful to normal operation of the transportation company and pose hazard for the consignor's or the consignee's other shipments;

389.5.3. instructions for opening or dividing the shipment are not allowed;

389.6. In case it is not possible to fulfill other instructions because of the instruction to open the shipment, the transportation agent shall immediately notify the party that issued it.

389.7. The transportation agent shall bear sole responsibility before the authorized person for harm caused due to its failure to execute the instructions or to executing them without receiving the original copy of the consignment provided by Item 389.5.1. of this Law.

### **Article 390. Transfer of shipment to consignee**

390.1. The consignee shall exercise the right to demand the second set of consignment documents from the transportation agent as a proof of receiving the shipment at the moment of receiving the shipment.

390.2. The consignee shall be entitled on own behalf to claim the lost, missing or not receiving the shipment on time, as specified in the contract.

390.3. To exercise the right specified in Item 390.2. of this Law, the consignee shall reimburse all expenses reflected in the consignment document. The transportation agent may retain the right to refuse to hand over the shipment in case a dispute arises over the payment of such expenses until its requirements are satisfied.

### **Article 391. Circumstances preventing transportation**

391.1. If it is impossible to implement the transportation contract fully or under conditions stated in the consignment document before delivering the shipment to the place of designation and handing it over to the consignee, the transportation agent may demand from the party with disposal right over the shipment according to Item 389 of this Law.

391.2. In situations when delivery according to instructions is not possible or no new instructions provided by Article 389 of this Law received in time, the transportation agent shall be liable to take measures most suitable to the interests of the authorized person.

391.3. The transportation agent shall be entitled to sell the shipment in cases of spoilage, storage costs exceeding that of transportation and other unavoidable situations without waiting for instructions from the authorized person.

391.4. If the shipment sold according to Item 391.3. of this Law, the transportation expenses shall be deducted from the proceeds and the remainder shall be transferred to the authorized person. The transportation agent shall have the right to demand compensation if the revenue from the shipment sale does not cover the transportation costs.

391.5. The transportation agent shall be entitled to demand further instructions from the consignor if circumstances impeding handing over the shipment after its delivery to the point of destination.

391.6. The transportation agent shall be entitled to demand to accept the shipment in case the consignee refuses to receive the shipment, if no other instructions came from the consignor.

391.7. If conditions, impeding handing over the shipment, emerge after the consignee gives instructions to transfer the shipment to a third party as stated in Item 389.4. of this Law and provisions of Items 391.1. and 391.2 of this Law are applied, the consignee shall exercise rights and obligations of the consignor and the third party shall exercise the rights and obligations of the consignee.

391.8. In circumstances provided by Items 391.1, 391.3, 391.5-391.7. of this Law, the transportation agent can unload the shipment at the expense of the authorized person. In such case, the delivery of shipment shall be deemed completed and the transporting agent may store the shipment or a third party may be assigned to do so.

### **Article 392. Transportation agent's right to take the shipment as pledge**

392.1. The transportation agent shall be entitled to retain the shipment as pledge until the right to dispose of the shipment arises in order to have the transportation costs paid.

### **Article 393. Transportation agent's liability**

393.1. The transportation agent shall bear full or partial responsibility for lost, incomplete, damaged or delayed shipment from the moment of receiving and delivering the shipment.

393.2. The transportation agent shall be exempted from liability for lost, incomplete, damaged or delayed shipment due to the authorized person's fault or in case of following instructions of the latter, or if the transportation agent could not prevent the above conditions or its consequences.

393.3. The provisions on limiting the transportation agent's responsibility or relieving it from the duty to prove shall not apply in case of direct fault of the transportation agent.

393.4. The transportation agent shall be relieved from liability for lost, incomplete or damaged shipment in following cases:

393.4.1. the parties agreed to transport the shipment by transportation means with open access and this was reflected in the consignment;

393.4.2. the shipment was not packaged and of low quality;

393.4.3. the consignor, the consignee or a third person representing them examined and loaded or unloaded the shipment ;

393.4.4. the inherent danger of breaking down, rusting, drying up, wearing out, shrinking, spilling or be affected by rodents fully or partially due to its specific nature;

393.4.5. the registration number or notes did not match requirements;

393.4.6. transportation of animals;

393.5. The transportation agent shall be liable for damage caused for reasons other than reflected in Item 393.4. of this Law which might exist.

393.6. The transportation agent shall be exempted from responsibility if it can prove that was not guilty in the loss, incompleteness or damage to shipment which was caused by one or more reasons stipulated in Item 393.4. of this Law.

393.7. In case of the shipment lost, incomplete or damaged due to force majeure during the transportation as stipulated in Item 393.4.1. of this Law, provisions of Item 393.6. shall not be relevant.

393.8. Item 384.3. of this Law shall apply to the transportation agent as well.

#### **Article 394. Filing a complaint**

394.1. The shipment shall be deemed as matching the consignment and accepted if the consignor did not inspect the shipment together with the transportation agent or did not expressed any complaint for the lost, incomplete or damaged shipment until it is proven contrary, it the consignee shall be considered as received the shipment in condition as it was stated in the consignment document.

394.2. The consignee shall file a written complaint regarding obvious damage or shortage the day of receiving the shipment or within one week after the receiving the shipment in case of complaints regarding invisible ones .

394.3. If the consignee and the carrier checked the shipment, but failed to reveal hidden defects, the opposite proof of result of examination may be presented within a week time.

394.4. The consignee shall have the right to demand compensation for the damage caused by late delivery in case of filing a written complaint to the carrier within 21 days after receiving the shipment.

394.5. The time period stated in this Article shall not include days of dispatching, checking and delivery.

394.6. The transportation agent and the consignee shall be liable to assist each other in conducting relevant inspection and identification of critical factors.



## **Article 395. Transcription period**

395.1. The transcription period for claiming right arising from transportation contract shall be one year, and in case of damage caused on purpose or due to carelessness the transcription shall be three years.

395.2. The transcription period shall be counted from the following occurrences:

395.2.1. day the shipment was lost or damaged; or the day when it became known or should have been known; of the day of expected delivery in case of delay;

395.2.2. in case of incomplete shipment delivery- from the 30<sup>th</sup> day after the expiration of the time to deliver the shipment agreed by the transportation contract, if such date was not specified, from the 60<sup>th</sup> days since the date of actual receiving the shipment by the carrier;

395.2.3. in other cases, from the day received the response to the complaint or the day when the time of presenting complaint expires.

## **Article 396. Chain freight forwarding**

396.1. If the transportation is handled by several carriers, each carrier shall bear full responsibility for transportation and assume disposal right at the moment of receiving the shipment and consignment documents from the previous carrier.

396.2. Upon the receipt of the shipment each forwarding agent shall file in the date and provide a signed copy to the previous agent, as well as entering own name and address in the second copy of the consignment document.

396.3. If necessary, the carrier receiving the shipment shall reflect on the second copy of the consignment document a proof of the shipment receipt and the put the mark stipulated in Item 388.2 of this Law.

396.4. In all successive shipment transfers, Items 388.4. and 388.5. shall apply to both the passing on and receiving carriers.

396.5. If the shipment was lost, incomplete or damaged, the compensation claim may be issued to the first and the last carrier, or directly to the carrier responsible for the loss, damage or delay, the demand may be presented to several carriers.

396.6. The transportation agent shall have the right to file a counter claim in following cases:

396.6.1. one transportation agent paid solely for the damage inflicted by several agents that should have shared responsibility for lost, incomplete or damaged shipment on equal basis.

396.6.2. carriers borne responsibility commensurate to payment each received due to impossibility of establishing personal liability, despite the requirement to pay according to the degree of liability for each lost, incomplete or damaged part of the shipment.

396.6.3. in case no responsibility of specific carrier can be established, the responsibility is spread equally.

396.7. If one of carriers is insolvent other carriers shall spread the payment according to the share of revenues received.

396.8. If the transportation agent filing a claim paid without grounds or the plaintiff failed to appear at court despite advance notice, the latter shall have no right to refuse to accept the claim or file a counter claim.

396.9. Carriers in charge of the chain transportation may agreed on issues other than stipulated in Items 396.6. and 396.7. of this Law.

#### **Article 397. Some void transportation transactions**

397.1. Transactions contrary to the provisions of this Chapter, other than stipulated in Item 396.9 of this Law, shall be deemed void.

397.2. Any transaction on transfer to others by the carrier of claims arising in connection with insurance of freight or transfer of right to prove shall be deemed not valid.

#### **Article 398. Additional compensation liability**

398.1. The consignor or the consignee may agree in advance with the carrier that in case a shipment of special importance is lost or incomplete, the agent responsible shall pay double price.

### **CHAPTER THIRTY SIX**

#### **Assignee Contract**

#### **Article 399. Assignee contract**

399.1. Under the assignee contract an attorney undertakes to perform on the behalf of and at the expense of principal certain actions, and the principal undertakes to pay for the service, unless otherwise stipulated in the Law or contract.

399.2. If the particular conduct of the assignee is of counter payment character. It shall be deemed that parties have mutually agreed on payment

399.3. The attorney shall perform the assigned task personally unless specified otherwise by law or contract.

399.4. The principal has the right to cancel the assignment and the attorney to refuse from the task at any time. No contract restricting this right shall be considered valid.

#### **Article 400. Attorney duties**

400.1. The attorney shall execute the assignment in accordance with the instructions of the principal.

400.2. The attorney shall have the right, in the interest of the principal, to recede from the instructions in case of necessity and if it was impossible to inform about it in advance, or though previously requested the principal, further instructions have not been received in due time.

400.3. The attorney shall be liable to inform at principal's request on the progress of the assignment and to promptly pass on to the principal all items received in the course of executing the assignment.

400.4. If attorney recedes from the assignment, it shall return all the remaining items received for the execution of the assignment.

#### **Article 401. Principal duties**

401.1. The principal shall accept the results of the assignment and provide the attorney with items necessary for the assignment execution, reimburse the expenses paid by the attorney, unless not specified otherwise by the contract.

#### **Article 402. Compensation for contract cancellation**

402.1. If the principal alters or cancels the assignment before its complete execution, the principal shall be liable to reimburse the expenses paid in the course of the assignment execution and compensate for the damage incurred. If it was agreed to pay a fee, a portion of the fee due for executed tasks shall be paid.

402.2. If attorney was not guilty in executing the principal's instructions under dangerous conditions, the principal shall be responsible for the damage caused.

#### **Article 403. Death of attorney or legal person dissolution**

403.1. In case of attorney's death, its successor shall be liable to notify the principal on the termination of the contract and take action to protect the attorney's property.

#### **Article 404. Transfer of assignment to another person**

404.1. If it is stipulated in the contract, or if the principle delegated the right, or personal implementation is impossible, and if implementation of the assignment by another person is in the best interests of the principle, the attorney may transfer the assignment to another person.

404.2. The attorney, delegating the assignment fully or some tasks to a person replacing him/her, shall promptly inform the principal and provide the necessary information on the replacing person.

404.3. The attorney shall bear responsibility for the failure or improper execution of the assignment due to the nomination of the replacement not meeting the requirements or violation of Items 404.1. and 404.2. of this Law.

404.4. The principal shall be entitled to change the replacing person nominated by the attorney any time.

#### **Article 405. Termination of assignee contract**

405.1. The assignee contract may be terminated on following grounds:

405.1.1. The principal cancels the assignment;

405.1.2. Refusal of the attorney to execute the assignment;

### **CHAPTER THIRTY SEVEN**

#### **Entrusted assets**

#### **Article 406. Property entrusting contract**

406.1. Under the property entrusting contract the settlor undertakes to transfer the right of disposal over movable property or assets to the trustee, and the latter undertakes the obligation, upon receiving them, to manage and dispose the trust funds in the best interests of the settlor.

406.2. Trust contract shall be concluded in written form.

406.3. The trustee shall dispose the entrusted assets on its own and at the expense and risk of the settlor.

406.4. The trustee shall exercise the ownership mandate while entering into legal relations with the third person and shall be responsible for the consequences and shall compensate damages caused by actions contradictory to the interests of the settlor.

406.5. The trustee shall not receive any reward from the settlor for managing entrusted assets unless specified otherwise by the contract.

406.6. The trustee shall own the proceeds and revenues from managing the entrusted assets.

## **CHAPTER THIRTY EIGHT**

### **Parcel forwarding contract**

#### **Article 407. Parcel forwarding contract**

407.1. Under the parcel forwarding contract the forwarding agent undertakes to transport parcel or shipment on its own behalf, but at the expense of the consignor, and the latter undertakes to pay the service fee.

407.2. Unless specified otherwise in this chapter, the general provision for commission contract shall apply.

#### **Article 408. Forwarding agent rights and liabilities**

408.1. The agent shall be obliged to transport the parcel and shipment according to requirements and conditions reflected in the contract, to choose a carrier, and to fulfill the orders in the interest of the consignor.

408.2. The agent shall insure the shipment if the consignor expressed a wish to do so. In case if the consignor did not express such a wish, the agent shall insure the parcel under regular insurance terms.

408.3. Unless the consignor expressed disagreement in writing, the agent shall insure the shipment against any damage from the consignor's own default actions at the expense of the latter with the insurance agent of its own choice and should inform the consignor about this.

408.4. The consignor shall promptly notify the agent about any damage in accordance with Item 408.3 of this Law and the latter should pass on the information to the insurance company.

408.5. If the recipient of the parcel refuses or unable to accept the shipment for other reasons, the rights and obligations of the forwarding agent shall be determined by the transportation rules.

408.6. The parcel shall be deemed accepted complete and without any defect except for the case when it was impossible to check the parcel in the presence of the client and the recipient which discovered the damage reports on it to the agent.

408.7. The recipient shall inform the sender about any obvious damage or shortage within the day of receiving the parcel.

408.8. Unless specified otherwise by the contract, the forwarding agent can transport the parcel by own mean of transportation and at own expense. In such case, the forwarding agent shall exercise rights and obligation equal to that of transportation agent but not to the detriment of the consignor interests.

408.9. The forwarding agent shall bear responsibility for any damage resulting from own or its employee' fault.

408.10. In case the third party afflicts damage to parties to the contract, the forwarding agent shall exercise the claim right at the consignor's expense only with the consent of the latter. Otherwise the client has the priority right over the claims.

408.11. If the forwarding agent or its employee inflicted damage to the consignor, the provision of the contract limiting their liability or transferring the obligation to prove the damage to others shall be void.

#### **Article 409. Consignor rights and liabilities**

409.1. The consignor shall be obliged to present the forwarding agent information on the parcel and other necessary data, transportation documents.

409.2. The consignor shall be obliged to provide documents proving that the information provided in accordance with Item 409.1. is true.

409.3. The consignor shall inform the forwarding agent about the parcel's appearance, possible dangers and safety instructions.

409.4. If the consignor failed to provide information in accordance with Item 409.3. of this Law, and forwarding agent shall have the right to dislodge the shipment, destroy or take other measures at any time to prevent the threat and be exempted from any liability for damage inflicted to the consignor by such actions.

409.5. The consignor shall package the parcel according to the requirements of the forwarding agent.

409.6. The consignor shall put special markings on the parcel before handing it over to the entitled party in case if it is necessary to separate the parcel from other shipment.

409.7. The consignor shall bear responsibility for any damage resulting from its failure to comply to Items 409.5. and 409.6. of this Law except for the case when the forwarding agent failed to report on parcel without or missing or improper packaging or marking.

409.8. The consignor has the right to charge the forwarding agent with the task of inspecting the parcel for additional payment.

409.9. The consignor shall pay the service fee to the forwarding agent only after the delivery.

## **CHAPTER THIRTY NINE**

### **Brokerage**

#### **Subchapter One.**

#### **Common provisions**

#### **Article 410. Brokerage contract**

410.1. Under the brokerage contract a broker undertakes, by the authority given and in the interests of the principal, to connect latter with person to conclude transactions, and the principal undertakes to pay the service fees and reward unless specified otherwise in the contract.

410.2. If the amount of award or fee is not agreed upon the commonly accepted rates shall apply.

410.3. If the term of the contract is not specified it can be terminated at any time.

## **Article 411. Exclusive brokerage right**

411.1. Under the exclusive brokerage contract the principal undertakes to refrain from contracting other broker's service, and the broker undertakes to assist in signing a contract within this period.

411.2. The broker shall have the right to demand compensation for the damage caused by the principal's decision to hire another broker within the period specified in Item 411.1. of this Law In case of being contracted for brokering a purchase and sale contract, the compensation shall not exceed two percent of the amount involved.

411.3. The principal shall retain the right to sign deals with the third party directly and in this case a fees or award can be agreed upon. In case of brokering a purchase and sale contract such reward shall not exceed five percent of the amount involved.

411.4. The exclusive brokerage contract shall be made in written form.

411.5. The exclusive brokerage contract can be terminated only in the case of special circumstances.

411.6. Irrespective of the result the contract can be terminated after six months since the date of issuing the brokerage order if not specified otherwise by the contract.

411.7. If the contracted item belonged to the broker the principal shall pay no brokering commission, award or reimburse the expenses. This provision shall apply even this fact is revealed afterwards in the following cases:

411.7.1. the broker is the third party

411.7.2. the third party has legal involvement with the broker

411.7.3. the broker has legal involvement in the third party

411.7.4. the broker and the third party had official or business relations

411.7.5. the broker is the family member of the third party

411.8. The broker shall have the right to demand commission, award or compensation of expenses in case it has informed the principal about the Item 411.7, of this Law before concluding the contract with the third party.

411.9. The broker shall loose the right for commission, award or compensation if working in the interest of the third party violating brokerage contract.

411.10. Any agreement contradicting Items 411.7 and 411.8 of this Law, shall not be deemed valid.



## **Article 412. Credit brokerage**

412.1. Unless specified otherwise by law, the general provisions of the brokerage contract shall apply to credit brokering.

412.2. Credit brokering contract shall be made in written form.

412.3. The contract shall specify the remuneration or commission, the credit amount, repayment schedule, exchange rate, additional expenses, the creditor's name, address.

412.4. The principal shall pay agreed remuneration or commission to the broker in case of securing a credit.

### **Sub-chapter two.**

#### **Trading brokerage and commission**

## **Article 413. Trading broker**

413.1. A broker specializing in purchase and sale, insurance, transportation, assets rent or other none trading sectors shall have rights and obligations of a trading broker.

413.2. In cases other than specified in Item 413.1. of this Law brokering services involving agreements and real estate property with the assistance of a trading broker they shall not be deemed as trading brokerage.

413.3. If the parties to the contract do not prohibit or release from the duty, the broker shall provide the parties after concluding the contract with signed a document specifying the contract terms and conditions, parties to, goods and type, number, size, contract price and term if it involves securities.

413.4. In cases not requiring immediate action, the parties shall sign all documents as specified in Item 413.3.

413.5. If one party to agreement refuses to sign or accept the documents, the broker shall immediately notify the other party.

413.6. If one party accepted the brokerage document without specifying the other party and does not file a complaint against the other party such a documents shall be deemed as an official agreement.

413.7. The broker serving one party shall inform in possible or most suitable time the other party.

413.8. In case one party files a complaint on good grounds against the party not identified in the agreement document, the other party can demands the broker to held responsible for the consequences of signing such document.

413.9. In case the agreement signed based on samples it should be marked clearly as such, and keep it until the purchasing side consigns the goods without complaints.

413.10. The trading broker shall not have the right to receive any payment or profit from the agreement signed as the result of brokerage.

413.11. Trading broker shall be liable for the damage caused by its fault.

413.12. If no agreement was reached on which party shall pay the brokering commission, the parties shall share the agreed amount between themselves.

#### **Article 414. Trading broker records**

414.1. The trading broker shall maintain records and regularly enter and sign each agreement made.

414.2. The trading broker shall supply upon request from the parties to agreement a signed in person document with all information in regard of the agreement.

#### **Article 415. Trading agent and commission**

415.1. The citizen or legal entity concluding a contract or brokering the sale of goods, rights and services on the behalf and at expenses of the client shall be deemed as trading agent.

415.2. The citizen or legal entity selling good or acting on its own but at others expense shall be deemed as commissioned agent

415.3. The trading agent or commission shall undertake its fulfill the instructions of the customer and the latter's best interest and general standards of conduct, provide the principal with necessary information.

415.4. At the end of each month the principal shall pay to the agent due fees and commission, and to the commission proceeds from the profit.

415.5. If the principal does not fulfill its obligations under the contract or failed to secure a agreement already brokered by the agent the trading agent or commission shall have the right to demand due fees and commission.

415.6. If the agreement was not secured because of the other party this will nullify the right to demand fee and commission.

415.7. If the other party found incapable of meeting its obligations under the agreement, the trading agent/ commission shall lose its right for commission and return the received funds back to the principal.

415.8. If the commission sells the customer's goods for different price it shall inform promptly the customer and if no response came it shall be deemed as granting permission.

415.9. If goods are sold at higher price the customer shall retain the difference.

#### **Article 416. Volume of remuneration, bonus and due payments**

416.1. If no amount of remuneration, bonus or percentage was agreed the commonly accepted rates and tariffs shall apply.

416.2. Fee and commission shall be calculated on the basis of the amount due from the paying party, and such additional expenses as ready cash payment discount, accounting, packaging, custom duty, taxes can be deducted.

416.3. If additional expenses are paid by the third party Item 416.2 shall not apply.

416.4. Fees and commission for a insurance contract shall be calculated based on the overall amount, and if the contract does not specify the amount, it can be based on the insurance payments.

#### **Article 417. Trading brokerage contract term**

417.1. If not agreed otherwise, a trading agent contract term shall be one year. Unless any party expresses a wish to terminate it within three months prior to its expiration, the contract shall be deemed extended for one more year.

#### **Article 418. Compensation for agent**

418.1. The trading agent has the right to demands compensation after the expiry of the contract in the following cases:

418.1.1. the principal obtained exclusive rights with new customers because of the brokering services of the trading agent.

418.1.2. the trading agent lost the right for fees and commission due the extension of the agreement with new customers by the principal.

418.2. Attracting new customers shall mean the principal establishing business relations that can bring in bigger profits.

418.3. The compensation shall not exceed the average of the trading agent's revenue for last five years of operation or annual revenue. If the contract is signed for less than one year, the compensation shall be calculated based on the average revenue the trading agent can earn within the specified period.

418.4. It is prohibited to demand compensation before the contract expires or the trading agent refuses from the right to demand compensation.

418.5. The complaint shall not be deemed valid in the following cases:

418.5.1. in cases other than termination of the contract due to default production operation, the trading agent terminates the contract on its own initiative, or its age or disease prevents from continuing to perform obligations.

418.5.2. the principal cancels the contract due to the trading agents default actions.

418.5.3. a third party enters into the contract concluded between the principal and the trading agent on the behalf of the latter.

418.6. Such an agreement specified in Item 418.3 shall not be concluded before the expiry of the brokering service contract.

418.7. The liability term for compensation shall be one year after the expiration of the contract.

## **Article 419. Liability**

419.1. The trading commission shall compensate for the damage caused by its deviation from the principal's instructions under circumstances limiting its right to power to withdraw or failed to transfer all the revenue to the customer.

419.2. The trading commission shall compensate for the damage caused by the loss, incomplete or damaged assets entrusted by the principal except cases when such damage was caused by force majeure.

419.3. The trading commission or agent can receive additional bonus in case of producing a written guarantee to the client to undertake full responsibility for the agreement participants to which are identified.

419.4. The trading commission or agent are prohibited to represent interests of the client's competitors without the latter's consent, and such consent shall be deemed granted if the client knew, at the time of signing a brokerage service contract that the trading agency or agent represents the client's competitor.

419.5. The client has the right to demand compensation for the caused damage if the trading agent violates Item 419.4.

419.6. If the contract contains a prohibition for the trading agent to serve the competing company after the contract expiration, such a provision shall be valid only if the client pays compensation amount of which shall be calculated according to Article 418.

419.7. The contract containing prohibition to serve the competing company after the contract expiration shall not have more than one year term.

## **CHAPTER FORTY**

### **Public promise of award and competition**

#### **Article 420. Announcing public promise of award**

420.1. A citizen who or legal entity that makes a public promise of award for specific action or result shall undertake to issue the award.

420.2. The citizen or legal entity shall the right to receive the award in case it met the announced conditions even without performing action or securing result as specified in Item 420.1.

420.3. The party, which promised the award, may alter the award before the actual performance or result carried out through publicising by the same means, method, procedure and other ways of communication as the initial public announcement.

420.4. It is allowed to include into the public announcement a reference to a possible cancellation of award in case conditions will be met within the announced period are doubted.

420.5. If several citizens or legal entities met the conditions for the award, the first to perform the task or secure result shall be given the award.

420.6. If several citizens or legal entities met the conditions simultaneously, the award shall be divided between them.

420.7. If it is not possible to divide the award or according to the announced condition there will only one winner, the award shall be given by drawing lots.

### **Article 421. Competition**

421.1. The citizen or legal entity that announced a public competition and promised an award to a winner who performed the required task undertakes to issue the award or the right as specified by the conditions of the competition.

421.2. The competition conditions shall specify the task to perform, time frame, number and amount of awards, selection procedure and time and other conditions.

421.3. If it is necessary to change the conditions for the competition for reasons beyond the control of the announcing party, they can be amended within the submission period.

421.4. The party announcing the competition has the right to extend the competition terms in case if requirements to the task change significantly.

421.5. The notice on change of conditions should be made in the same way the competition was announced, and without such the initial conditions shall remain valid.

421.6. The party announcing of competition shall not revoke the competition after receiving the consent of participants to take part or relevant materials and the winner has the right to claim the award in case of such cancellation.

421.7. If the party announcing a competition breaches the procedure set out in this article, it shall compensate for the damages to participants as a result.

421.8. If a work subject to copyright regulation is created as the result of the competition and receives the award, the competition announcer shall have the right to it in accordance with the conditions for the competition. Unless specified otherwise by the terms of competition, the author shall be entitled to receive fees and award for use of the work.

421.9. Unless specified otherwise by law and the competition terms, works not awarded or granted a right or which received award or granted a right but will not be used, according to the competition terms, afterward shall be returned immediately after the end of competition.

421.10. If several citizens or legal entities performed the announced task the award shall be issued in accordance to Items 420.5, 420.6.

## **CHAPTER FORTY ONE**

### **Storage**

#### **Article 422. Storage contract**

422.1. Under a storage contract the agent undertakes to store items assigned by the client.

422.2. Unless specified otherwise by the contract the storage shall be free. If the agent specializes in storing services then it will be assumed to be for charge even without preliminary agreement.

422.3. The storage agent has the following rights and obligations:

422.3.1. to store and maintain the assigned assets on equal terms if rendering free service;

422.3.2. not to transfer the stored assets to the third party without the consent of the client;

422.3.3. not to use the stored assets unless the circumstances force to;

422.3.4. to change the storing terms and conditions after notifying the client about the necessity;

422.3.5. to notify the client about the third party's claims;

422.3.6. to take all necessary measures to maintain the stored assets in proper conditions;

422.3.7. to transfer the proceeds resulting from the stored assets during the storage period;

422.3.8. to retain the stored assets until the payment of storage fee, reward or storage expenses;

422.4. The client has the following rights and obligations:

422.4.1. to pay to the agent the storage costs;

422.4.2. to pay, if paid service, the storage fees after the contract expiration;

422.4.3. to compensate the damage resulting from the stored assets except the cases it was impossible to know about the dangerous nature of the goods.

422.5. The client shall bear responsibility for the consequences of transferring the stored assets to the third party with the consent

422.6. The keeper shall bear responsibility for the damage caused deliberately or on negligence after the expiration of the contract and the time of handing over the stored items.

422.7. Unless agreed otherwise the stored items shall be delivered to a place specified in the contract and the client shall bear transportation costs.

#### **Article 423. Storage contract term**

423.1. Storage contracts can be made for definite and indefinite term.

424.3. The parties to the contract concluded for indefinite term shall have the right to terminate it at any time but allow sufficient time for the other party to fulfill the obligations.

#### **Article 424. Storage contract liabilities**

424.1. Unless specified otherwise the keeper shall compensate the damage to the client caused by lost, incomplete or damaged assets.

424.2. The client shall be responsible for the damage caused by the failure to inform the keeper about the known or could be known quality defects, and in case the both parties did not know about or did have no possibility to know about;

424.3. The party responsible for the failure to store and assign the storage item shall pay penalty fee.

#### **Article 425. The right to demand claim stored items**

425.1. Irrespective of the storage contract terms the client has the right to claim the stored items at any time.

#### **Article 426. Special storage contract**

426.1. The general procedure for a loan contract shall apply to a special storage contract under which the clients assigns to a custody of the keeper an item that can be replaced and on the condition that same amount and number items of equal quality will be returned.

#### **Article 427. Storing at hotels**

427.1. Hotel, resort, sanatorium or legal person engaged in similar services shall bear responsibility for the preservance of the property in the clients room but other than money, valuables that are required to be stored under special procedure. If



the hotel fails to fulfill its obligations it shall be responsible for the loss, shortage or damage caused to the client.

## **CHAPTER FORTY TWO**

### **Warehouse storage**

#### **Article 428. Warehousing contract**

428.1. Unless specified otherwise by law the keeper shall not be responsible for checking the quality, type, weights and measures, number and other properties of the items assigned for warehouse storage

428.2. If at the time of assignment of property for storage the keeper finds apparent defects it shall immediately notify the client and bear responsibility for the damage caused to the client from the failure to fulfill this obligation.

428.3. The agent shall bear responsibility for the damage in case it fails to inform the last bearer of the storage documents on the change of the properties of the stored goods in time of their transfer to another warehouse or the threat of such change.

428.4. The client shall store at the warehouse goods of similar type together only with the consent of the client. In such case the goods shall become a joint property and the due share of goods shall be determined based on the amount submitted to the storage.

428.5. The agent has the right to transfer to the client its goods without permission of other clients.

428.6. The agent shall inform the relevant bodies in case of damage or deterioration of the stored goods significantly affecting its value and to sell if there is no sufficient time or possibility.

428.7. The general procedures for storage contract shall apply to warehouse storage if not specified otherwise in this chapter.

#### **Article 429. Warehousing documentation**

429.1. The agent shall provide the client with storage documents upon the assignment of the goods.

429.2. The storage documents shall include the following information:

- 429.2.1. date of issuance and registration number;
- 429.2.2. the names and addresses of the parties to contract;
- 429.2.3. the place of storage;
- 429.2.4. number of pieces, measurements, weight, color, quality, packaging;
- 429.2.5. storage fee and other necessary expenses;
- 429.2.6. insurance fee in case of insuring is involved
- 429.2.7. contract term
- 429.2.8. sign, seal and stamp of the agent

429.3. The parties can enter additional conditions other than specified in Item 429.2.

429.4. The parties shall not be released from responsibility for failing to include information as required by Item 429.2.

429.5. The owner of the storage documentation can produce a confirmation of not withdrawing the goods from the storage for other purposes and to put the stored goods on pledge.

429.6. The client can transfer the stored goods to the third party with the consent of the agent and respective registration in the storage documents.

429.7. The agent shall bear responsibility for the accurate maintenance of records to the documents' owner but shall be relieved from such responsibility if records are marked as "according to information submitted by the client or the third party."

429.8. The agent shall bear responsibility according to Item 429.7 in case of entering the false information into records despite knowing about its falsehood.

429.9. The agent shall not enter the records under Item 429.7. if similar goods are stored together.

429.10. The agent that issued the storage documents shall release the stored goods only to the lawful owner of the storage documents.

429.11. The agent has the right to demand a pledge document in case such was issued.

429.12. The agent shall not check the accuracy of the transferred documents but to secure the entrance of such transfer in the warehouse records.

429.13. In case storage or pledge documents are lost or destroyed the lawful owner shall appeal to the court and the agent shall issue the new documents based on the court's ruling.

429.14. If the stored goods are being pledged, the owner shall appropriate note in the pledge document before transferring the goods.

429.15. The pledge document shall contain information on the client and the creditor and their obligations.

429.16. Before transfer of the document the client shall be notified and enter a notice of consent.

429.17. The agent shall have the right to retain the stored goods until the payment of the storage fees.

429.18. If the storage documents are transferred with all necessary notes entered the new owner shall have the pledging right.

#### **Article 430. Expiration of storage term**

430.1. The client shall have no right to demand back the stored goods before the expiry of the storing contract or if the storage term was not specified –during three months since the date of the assigning the goods for storage.

430.2. In case the owner of the storage documents fails to remove the stored goods after the expiry of the storage contract, the agent shall extend the storage term for another two weeks and thereafter have the right to sell the stored goods.

430.3. The storage fees and other costs of the storage shall be deducted from the proceeds of the sale and the remaining amount be transferred to the owner of the documents.

### **CHAPTER FORTY THREE**

#### **Insurance**

##### **Article 431. Insurance policy**

431.1. Under an insurance policy, an insurer shall undertake to compensate fully or agreed amount for any damage caused to the insured party in case the occurrence of insurance cause, and the insured shall undertake to pay the insurance premium.

431.2. The subject of the insurance contract can be property, citizen's life, health and other non material interests not contradicting the law.

431.3. The insurance contract shall be made in writing

431.4. The insurance contract shall contain the following information:

431.4.1. object of insurance;

431.4.2. insurance risks;

431.4.3. insurance sum;

431.4.4. the term of insurance, conditions for extension;

431.4.5. insurance premium, payment schedule;

431.4.6. rights and obligations, responsibility of the insurer and insured;

431.4.7. conditions for appraising, terminating or amending the contract

### **Article 432. Types and forms of insurance**

432.1. Insurance shall be voluntary or mandatory.

432.2. Types of mandatory insurance shall be specified by law.

432.3. All types of insurance except specified in Item 432.2. shall be voluntary

.

### **Article 433. Insurance guarantees**

433.1. The insurer shall provide the insured party with a signed insurance certificate.

433.2. The insurer shall have the right to demand the owner of the insurance certificate to fulfill all obligations under the contract in cases the insurance policy was made on the behalf of other party or based on an application. This provision shall not apply in case of the insured party notification of the insurer about the transfer of the insurance certificate or the assignee promptly claimed its rights.

433.3. The insured party shall demand the insurer to fulfill its obligations under the contract

only after presenting the insurance certificate as specified in the contract or announcing the loss of the certificate according to established procedure.

433.4. The client shall have the right to demand a copy of the insurance certificate in case of announcing the loss of the document according to the Item 433.3 and the insured party shall cover the related expenses.

#### **Article 434. Ground for contract close up**

434.1. The insurance contract term shall be agreed upon by the insurer and the client.

434.2. The insurance contract shall be deemed closed in the following cases:

- 434.2.1. the expiration of the term as specified by contract or law;
- 434.2.2. the bankruptcy or dissolution of either insurer or the client;
- 434.2.3. a court ruling announcing the contract not valid;
- 434.2.4. confiscation of the insured property by a court ruling;
- 434.2.5. cancellation of the contract with the consent of the parties
- 434.2.6. the insurer fulfilled its obligations under the contract;

#### **Article 435. Termination of insurance contract**

435.1. The contract concluded for more than five years shall be terminated after three months since the date either party notified about the contract termination.

435.2. Agreements to conclude insurance contract on condition of automatic extension for more than one year in case the parties' inaction or not to terminate contract before its expiration shall be deemed not valid. The client shall observe the procedure specified in Item 435.1. for contract termination.

435.3. The client can terminate the contract within one month in case the insurer increased the assurance collection.

#### **Article 436. Exceptional circumstances for contract termination**

436.1. The client shall inform the insurer in time of signing the contract about potential threats, exceptional circumstances that may cause insurance case as well as notifying about these after the conclusion of the contract.

436.2. Cases when the insurer disavows the contract, or a situation arises that may result in the alteration of the contract conditions and if the insurer asks a direct, straightforward question in written form shall be considered as exceptional circumstance.

436.3. If the client fails to fulfill its obligations under Item 436.1. the insurer shall have the right to denounce or to terminate the contract within one month since the date of learning of or to demand to increase the insurance payment respectively. The insurer can terminate the contract at any time in case the client exaggerated the potential threat.

436.4. Item 436.3 shall not apply in cases when the client attempted to inform the insurer about the exceptional circumstances but the latter deliberately evaded or knew about the situation.

436.5. The insurer may disavow the contract in case if the report on exceptional circumstances contains false facts but shall not exercise this right in case it knew about the false facts or the client is not responsible for submission of such report.

436.6. The insurer has the right to terminate the contract in case the client deliberately failed to report on the threats to the insurer.

436.7. In the cases the insurer informed about the insurance contract termination after the occurrence of insurance case or the failure of the client to report on the threat lead to an insurance case but did not affect the implementation of the insurer's obligations these shall not release the insurer from its obligations.

### **Article 437. Liability for insurance premium**

437.1. If the client fails to pay the insurance premium in time, the insurer can extend the period for 15 more days, and, if the client fails again, to inform in writing on the consequences.

437.2. If an insurance case occurs in time when the client failed to pay the insurance premium, the insurer shall not be responsible to fulfill its obligations under the contract.

437.3. If the client denounced the contract before the insurance case the insurer has the right to demand the insurance premium due for the duration it was responsible for the risks and the fees due for services rendered under of the contract.

437.4. If the financial situation of the insurer deteriorates leading to the failure to meet its obligations under the contract, the client has the right to refuse to pay the insurance premium.

### **Article 438. Insurance appraisal**

438.1. The parties shall agree on the insurance sum.

438.2. The insurer has the right to check the insured property and evaluate an insurance sum.

438.3. The insurance shall not exceed the total value of the insured property.

438.4. If the value of the property insured is higher than a reasonable valuation of the property, the insurance policy shall be void in respect of the excess value of the property.

438.5. If the insurance is less than the total value of property, in insurance case the damage compensation shall cover the insured portion only.

438.6. It is possible to include into the contract insurance payments higher than specified in Item 438.5. but this shall not exceed the total value of the insured property.

438.7. Loss of potential profit due to insurance case can be covered into the insurance payment if reflected in the insurance policy

438.8. If the insurance payment is higher than the total value of the insured property, the insurer has the right to demand to reduce the insurance amount, and the client to demand to lower the insurance payments.

438.9. The insurance policy shall be considered void if found that the client deliberately increased the insurance sum and the insurer did not know about this in the time of concluding the contract. The insurance payments made until the moment of denouncing the contract shall be retained by the insurer.

#### **Article 439. Liabilities of the parties in insurance case**

439.1. The client shall promptly inform the insurer about the insurance case.

439.2. The insurer has the right to demand all relevant information on the insurance case or for establishing the insurance compensation sum.

439.3. If the client failed to inform about the insurance case but this caused no substantial damage to the insurer this does not release the insurer from its obligations.

439.4. The insurer has to fulfill its obligations under the contract once the insurance case occurs and the insurance compensation is specified.

439.5. The client shall undertake actions according to the insurer's instructions aimed at repelling the threat or reducing the damage and the insurer shall reimburse the expenses involved.

#### **Article 440. Insurance agent rights**

440.1. The insurance agent shall have the right to conclude insurance contracts.

440.2. The insurance agent having the powers to conclude insurance contracts shall also have the right to change the contract conditions, to extend or terminate the contract.

#### **Article 441. Insurance on behalf of third party**

441.1. The client has the right on its own behalf to conclude insurance contract for the benefit of the third party (thereafter “interested party”) and the latter shall enjoy all rights associated with insurance policy except the right to demand from the insurer an insurance policy.

441.2. The interested party can exercise its rights without the client’s consent only in case of possessing the insurance policy and appeal to court to protect own rights.

441.3. If the insurer issued a indemnity guarantee to the client the latter shall exercise the related rights without the consent of the interested party, to receive the insurance compensation or to transfer own rights to the interested party in case of passing over the insurance policy.

441.4. If the client can provide proof of the third party’s consent to the insurance contract the insurer shall be obliged to issue compensation to the interested party.

#### **Article 442. Social insurance**

442.1. Types and forms of social insurance shall be specified by law.

442.2. The relations arising from social insurance shall be regulated by law.

#### **Article 443. Insurance against loss or damage**

443.1. Under the insurance against loss or damage the insurer shall undertake the responsibility to issue a compensation in proportion to the insured sum for loss or damage to the life, health, property or non tangible interests.

443.2. If a compound property has been insured the insurance policy will cover equally all its components.

443.3. Irrespective of whether the amount of paid insurance premium exceeds the insurance costs, the insurer shall compensate the client insurance payment appropriate for the incurred damage.



443.4. If the client concluded insurance contract for one type of risk with several insurers simultaneously, it shall immediately notify each insurer.

443.5. If in case specified in Item 443.4. the combined insurance sum far exceeds the value of the insured property or the compensation exceeds the actual cost of incurred damage the insurers shall fulfill their obligation jointly and the client will not have the right to demand insurance payment exceeding the damage.

443.6. The insurer shall be responsibility for loss or damage during war in case of concluding special contract.

443.7. In case the client claims compensation for damage from the third party the insurer can transfer the claim right but paying out the compensation to the client. In this case insurer shall be relieved from its obligations to the client in the amount it claims from the third party or underwrites.

443.8. If the insurance policy provides the right of claim for the client family members, it shall not be allowed to transfer this right without the consent of the insurance policy principal owner in cases if the family member caused damage deliberately.

443.9. If the insured property has been transferred to the other possession, the insurance rights shall also be assigned to. The client shall immediately notify the insurer in case of such a transfer.

443.10. The insurer shall be relieved from its obligations in case an insurance case occurs within one month since the date of transfer of which the client and the new owner failed to report to the insurer according to Item 443.9.

443.11. The insurer has the right to terminate the insurance with the new owner within one month.

443.12. The insurer it shall lose the right to terminate the insurance contract with the new owner if it fails to exercise it within one month since receiving a notification on property transfer according to the Item 443.9.

443.13. The party assigned insurance along with the property has the right to terminate the contract immediately or after the expiry of the contract term.

443.14. The new owner shall lose the right to terminate the contract if it did not know about the insurance in time of transfer or did not exercise its right within one month since the property transfer.

443.15. In case the insurance contract was terminated on grounds specified by Items 443.11, 443.13, the client shall be obliged to pay due insurance fees but not

exceeding the total for the term the contract was valid and inclusive of the period of termination.

443.16. In case a life insurance contract concluded on the behalf of the third party a written consent from that person or its legal representative shall be obtained.

443.17. The insurer shall be relieved from obligations under contract in case the person that concluded the life insurance contract committed a suicide.

443.18. The person for the benefit of which the life insurance contract was drawn shall lose the right for compensation if murdered as the result of unlawful action by other legal person.

443.19. In case of forced execution of court ruling on insurance claim or bankruptcy of the insurer the legal person entitled by the insurance policy to receive the payment shall have the right to participate in the court trial on the behalf of the client. In case of the insurer's bankruptcy the legal person entitled by the contract for the compensation shall participate in the distribution of indemnification funds to claim from the insurer the due amount of insurance payment.

443.20. The legal successor of the client shall have the claim right in case the legal person entitled to receive the compensation is not interested in exercising its rights under Item 443.19 or no legal person specified in the insurance contract.

#### **Article 444. Liability insurance**

444.1. Under the liabilities contract the insurer undertakes to relieve the client from any liability that may arise during the term of contract.

444.2. The insurer shall compensate the damage in the amount of the insurance contract in case the third party presents a compensation claim directly to the insurer.

444.3. Legal and other expenses that may be issued in order to protect against the third party claim or necessitated by an outcome of a court trial shall be included into the insurance policy as well.

444.4. The insurer shall be relieved from its obligations under the contract in case the client deliberately created circumstances under which the insurer was forced to fulfill its obligations to the third party.

444.5. Even if the insurer is fully or partially relieved from its obligations to the client, its responsibility to the third party for the minimum insurance payment shall remain valid.

444.6. In case the insurer satisfied the third party claim according to Item 444.5, the right to claim shall transfer to the insurer.

## **CHAPTER FORTY FOUR**

### **Accounting**

#### **Subchapter One**

#### **Payments**

##### **Article 445. Payment contract**

445.1. Under the payment contract a bank or other legal person (hereinafter "office of payment") undertakes the obligation to execute cashless settlements of citizens and legal persons (hereinafter "customer")

445.2. Cash settlements can be executed through banks and legal entity if not specified otherwise by law.

445.3. Cashless settlements can be made by money order, letter of credit, collection, check, bill of exchange, debit card, electronic transaction, account credit, loan and other means of financial settlements.

445.4. The office of payment shall execute a money settlement on the customer's instruction and with consent in accordance to the payment contract.

445.5. The office of payment shall not limit the customer's right to dispose the financial assets deposited on an account unless specified otherwise by law.

445.6. Bank or legal entity have the right to check the payment documents.

445.7. The parties can agree to pay a service fee for settling payments under the contract.

445.8. The payment settlements by bank or entitled legal person shall be regulated by law.

##### **Article 446. Obligations of the office of payment**

446.1. The office of payments shall have the following obligations:

446.1.1. to maintain a book keeping records on cash and non-cash settlements;

446.1.2. to issue the customer a bank account statement as specified in the contract;

446.1.3. to execute bank transfers from the customer's account according to instructions and with the consent of the customer;

446.1.4. to maintain confidentiality of accounts and transactions in cases other than specified by law;

446.1.5. to amend the transfers made by fault and compensate the damage to customer;

446.1.6. to secure normal operations for the customer;

446.1.7. other obligations specified by law;

#### **Article 447. The customer's rights**

447.1. The customer has the following rights:

447.1.1. to receive information about the account balance at any time;

447.1.2. to cancel the payment order before it is executed;

447.1.3. other rights specified by law;

447.1. In circumstances according to Item 447.1.2. the customer shall promptly notify the office of payments and the latter shall transfer the amount specified in the payment order back into the account.

#### **Article 448. Termination of the payment contract**

448.1. The parties shall have the right to terminate the payment contract at any time upon the mutual agreement and if not specified otherwise by law or the contract.

#### **Article 449. Letter of credit**

449.1. The bank which issued a letter of credit shall receive from the third party ("thereafter "recipient") financial documents on the wish, order and instruction of the customer and to execute a payment to the assigned party; to issue or to acknowledge the payment according to the recipient's bill of exchange or to transfer the obligation to execute the payment to other bank.

449.2. The customer shall pay agreed service fees to the bank.

449.3. International standards and business practice shall be applied when settling payments by letter of credit.

#### **Article 450. Payment collection**

450.1. Under payment collection service the office of payment shall collect from a payer and to make payments on the customer's order and at the latter's expense.

450.2. The Law, international standards and business practice shall apply for executing the payments with order of collection.

## **Subchapter Two**

### **Bank loan**

#### **Article 451. Bank and credit agency loan contract**

451.1. Under a loan contract a bank or credit agency (hereafter "creditor") shall undertake to transfer to the borrower financial assets for certain period of time and according to grounds and procedures set out in law; and the borrower shall undertake to return that sum within the agreed time and to pay interest if specified in the loan contract.

451.2. The loan contract shall be concluded in writing.

451.3. The lending operations by banks and credit agencies shall be regulated by law.

#### **Article 452. Interest on a loan**

452.1. The loan from lender may have interest or no interest.

452.2. It can be specified in the contract that the borrower shall pay an additional interest but not exceeding 20 percent of the main interest in case of failure to repay the loan in contract period. The bank or credit agency shall not impose fines for issued loans.

452.3. The lender shall make public its interest on loan.

#### **Article 453. The borrower's obligations**

453.1. The borrower shall pay interest and, if provided by the contract, additional interest in case of failure to repay the loan on time.

453.2. In case the borrower fails to fulfill its obligations under the loan contract and if the contract provides that the pledge will be transferred to the lender without

dispute, the lender shall exercise the right of disposal over the pledged assets on the next day after the contract expiration.

### **Subchapter Three**

#### **Deposit**

##### **Article 454. Bank deposit contract**

454.1. Under a deposit contract a bank or credit agency shall undertake to hold the funds of the client on deposit and to issue back in cash together with accrued interest.

454.2. The deposit contract shall state the period of deposit, the interest rate or the method of its calculation and the liability of parties in case of the failure to fulfil its obligations.

454.3. The deposit contract shall be concluded in writing, by issuing a check book or deposit certificate or other means defined by law.

454.4. The client has the right to terminate the contract at any time and withdraw the deposited money together with the interest.

454.5. The bank or credit agency shall maintain the confidentiality of the client deposit and transactions if not specified otherwise by law.

454.6. The bank or credit agency can insure the deposits.

454.7. The deposit operations by banks and credit agencies shall be regulated bylaw.

454.8. No claim period shall apply for funds held under deposit contract.

##### **Article 455. Deposit contract term**

455.1. The bank deposit contract shall be concluded for a definite or indefinite period.

455.2. If the bank deposit contract is concluded for an indefinite period, the bank shall return the deposited funds to the client on demand and pay interest.

455.3. If the bank deposit contract is concluded for a definite period, the bank must return the money and pay interest on first demand after the expiry of the contract. If the client does not demanded the deposited funds the contract shall be considered extended for indefinite period.

455.4. The bank or credit agency shall not terminate the deposit contract concluded for a definite period on its own initiative.

#### **Article 456. Information on bank and credit agencies**

456.1. Banks and credit agencies shall make public their annual report, balance statements and related information in time period specified by law.

456.2. Banks and credit agencies are obliged to provide clients with information on their financial stability and credibility.

456.3. The bank or credit agency shall bear responsibility for the damage if the information released in accordance with Item 456.2. is not true and accurate.

### **Subchapter Four**

#### **Bank guarantee**

##### **Article 457. Bank guarantee contract**

457.1. Under the bank guarantee contract a bank undertakes to settle payments on the behalf of the principal and the latter's written order, and the principal undertakes to pay service fees to the bank.

457.2. The bank issuing a guarantee shall fulfill its obligations under the general contract irrespective of the principal's obligations.

457.3. The bank issuing a guarantee shall not have the right to terminate the contract on its own imitative.

457.4. The principal shall have not transfer the right for bank guarantee to others except it is specified by contract.

457.5. In case the agent's failure to fulfill its obligations to principal in time, the latter has the right to demand the payment from the bank in writing.

457.6. Such a claim under Item 457.5. shall be presented within the valid contract term.

457.7. The bank shall promptly notify the agent upon receiving the principal's claim and forward to him/her the claim with attached documents.

457.8. The bank that issued guarantee shall check out within reasonable period of time if the claim and attached documents correspond to the contract terms.

457.9. The bank shall have the right to refuse to satisfy the principal's claim if found that the documents do not correspond with conditions of the contract or the claim not raised within the period specified in the contract, and promptly inform the principal about the findings.

457.10. Before satisfying the claim the bank shall check if the agent fulfilled its obligations, and to inform promptly the principal in case the obligations expired or become invalid. The principal has the right after receiving such a notification to demand the payment again and the bank shall fulfill its obligations and satisfy the claim.

457.11. The responsibility of the bank issuing a guarantee shall be limited by the contract conditions.

457.12. Item 457.11 shall not apply to the responsibility of the bank resulting from its failure to fulfill its obligations to the principal or poor performance.

457.13. The responsibility of the bank issuing a guarantee to the principal shall be terminated in the following cases:

457.13.1. The bank fulfilled its obligations to the principal;

457.13.2. the expiration of the contract term;

457.13.3. the principal relinquishes the rights under the contract

457.14. The bank issuing a guarantee shall notify the principal about the expiration of its obligations on grounds specified by Item 457.13

457.15. The bank shall raise a counter claim to the agent demanding reimbursement of the funds issued by the bank to satisfy the principal's claim and conclude a contract on repayment.

457.16. The bank shall not exercise the right to demand compensation from the agent in case it issued payment to the principal's claim in violation of the contract terms or failed to meet its obligations as specified in Item 457.12.

457.17. Bank guarantee relations not covered by this Law shall be regulated according to the international standards and business practice.



## CHAPTER FORTY FIVE

### Warranty

#### **Article 458. Warranty contract**

458.1. Under a warranty contract the warrantor undertakes to guarantee to the principal that the agent shall fulfill its obligations, and to accept the responsibility in case of failure.

458.2. The warranty contract shall cover conditional or future responsibilities.

458.3. Under the warranty contract the warrantor's responsibilities shall relate to that of the agent to the principal.

458.4. In case of expiration of general obligations the warranty contract shall lose its validity.

458.5. The warrantor shall not be held responsible for the consequences of the agent's agreements reached after the issuance of the warranty.

#### **Article 459. Warranty contract form**

459.1. The warranty contract shall be concluded in writing.

459.2. If the warranty issued as part of regular business arrangement it is not necessary to issue in writing.

459.3. The warranty contract shall specify the limit of the warrantor's responsibility for the failure of the agent to fulfill its obligations.

#### **Article 460. Responsibility of the warrantor**

460.1. Under the warranty contract the warrantor shall undertake full responsibility for the agent.

460.2. The principal has the right to demand the fulfillment of the obligations under the contract if it specifies the shared responsibility of the warrantor and the agent in case of the latter's failure to meet its obligations or its inability to perform the duties becomes apparent.

460.3. If several legal persons issued a warranty they will share the responsibility irrespective of their degree of involvement.

460.4. The warrantor shall undertake responsibility as defined by the warranty contract.

460.5. The warrantor shall bear the following expenses in accordance to Item 460.4.

460.5.1. principal debt;

460.5.2. the damage and penalties if specified in the contract;

460.5.3. expenses related to the contract termination;

460.5.4. legal expenses;

460.5.5. interest on the agent's contract if not specified otherwise in the contract

### **Article 461. The warrantor rights and liabilities**

461.1. If the principal raises a claim to the warrantor, the latter shall represent the agent and to file a counter claim on its behalf.

461.2. In case of the agent's death, the legal successor shall bear responsibility in the amount of inherited property and the warrantor shall cover the remaining part of the liabilities.

461.3. The warrantor shall retain the right to counter action even in case the agent relinquishes its right to raise a claim.

461.4. If the agent has the right to appeal to the court to denounce the main contract, the warrantor shall exercise the right to reject the principal's claim.

### **Article 462. Obligation of the principal to report**

462.1. The principal shall inform the warrantor incase of the failure of the agent to perform its duties in time.

462.2. The principal shall provide true information about the obligations of the agent under the main contract upon the warrantor's request.

462.3. The principal shall loose its right to raise a claim against the warrantor in case of failing to provide information in accordance to Item 462.2.

### **Article 463. Termination of warranty contract**

463.1. The warrantor shall notify about the termination of the contract three months in advance incase the contract concluded for indefinite period.

463.2. Contracts concluded for more than five years term shall be terminated in accordance with the procedure specified in Item 463.1.

463.3. The warrantor shall be obliged to fulfill its obligations due before the termination of the contract on any party's initiative.

#### **Article 464. Withdrawal of the warrantor**

464.1. The warrantor shall have the right to withdraw from its responsibility on the following ground in case it assumed obligations in the agent's instruction or acting as representative without other party's order

464.1.1. serious deterioration of the agent's financial situation;

464.1.2. the relocation of the agent's residence restricts the call to perform duties;

464.1.3. the agent fails to meet its obligations in time;

464.2. The agent can propose to the warrantor to secure the implementation of obligations before the contract term expires.

#### **Article 465. Transfer of all principal's rights to the warrantor**

465.1. If the warrantor implements fully its obligations, it shall take over all the rights of the principal related to the warranty contract only.

465.2. The agent shall have the right to present compensation claims to the warrantor in case the latter takes over the rights of the principal.

## **CHAPTER FORTY SIX**

### **Clearing**

#### **Article 466. Clearing contract**

466.1. Under a clearing contract the parties agree to settle the claims arising in the business transactions through settlement of accounts within the term specified in the contract and to refrain from raising a claim until the moment of clearing off.

466.2. The remainder of the clearing shall be paid at the end of the contract the expiration of which lays down the ground for raising a claim.

466.3. The contract shall be deemed implemented with the clearing off payments made.

466.4. If not specified otherwise by the contract the clearing shall be done once a year.

466.5. It is allowed to charge interest on the payments due under the clearing contract.

466.6. If the claims under the clearing contract are settled by other means, the principal shall have the right to demand from the clearing difference a compensation in the amount issued to satisfy the claim.

## **CHAPTER FORTY SEVEN**

### **Securities**

#### **Article 467. Types of securities**

467.1. Securities shall be tangible and intangible.

467.2. In accordance to the set out procedure, the printed securities shall be considered tangible and securities those requisites are registered in a separate record (balance or computer) shall be considered book entry.

467.3. Securities shall comply to prescribed type and registration requirements.

467.4. Securities with faulted sign or registration shall be considered void.

467.5. Securities shall have the form of registered, bearer and inscribed.

467.6. Certain legal persons shall be prohibited to issue some types of securities.

467.7. The following legal persons shall exercise the rights certified by securities:

467.7.1. person who legally acquired the bearer securities;

467.7.2. person name of whom is stated in the registered securities;

467.7.3. holder of inscribed securities or a legal person that took over the inherent rights with appropriate registration of;

#### **Article 468. Bearer securities**

468.1. The holder of the bearer securities has the right to demand the payment from the person who issued a bearer security acknowledging the consent to pay the amount entered.

468.2. The sign on the bearer security can be executed by all possible means and tools.

#### **Article 469. The rights and duties of the securities issuer**

469.1. The holder of the security who acquired the right through others deliberate or apparent negligence or illegally shall be considered fraudulent owner.

469.2. The issuer has the right to claim any securities related demands to the securities holder;

469.3. The issuer shall not have the right to raise a claim against the holder on the ground of using the similar technical means as the issuer to reproduce the sign except the cases of the holder knowing about fraudulent sign or its negligence.

469.4. Unless deliberate damage has been caused, the issuer shall not have the right to raise a claim against a new owner after the securities were transferred.

469.5. Evasion from obligations on the side of the issuer can be applied only in case the holder acquired the securities through deliberate damage to others or their negligence.

469.6. The issuer shall fulfill its obligations only in case the securities are transferred to its custody.

#### **Article 470. Inscribed securities**

470.1. The issuer, owner of rights certified by the securities and the previous holder shall bear, in accordance to law, shared responsibility to the owner of the securities.

470.2. The owner of the securities shall have the right to hold the parties in the Item 470.1 responsible and to demand compensation in case of discovering fraud or amended securities.

#### **Article 471. Agent duties**

471.1. The agent shall be relieved from its responsibility in cases other than deliberate failure or through reckless negligence to prove fraudulent ownership of the securities.

## **Article 472. Assigning registered securities**

472.1. Only the issuer of the securities has the right to assign them registered status.

472.2. The issuer shall not undertake the obligation to change the securities types.

## **Article 473. Damage or destruction of securities**

473.1. The owner of the security shall have the right to demand the replacement in case the bearer security cannot be floated due to damage but their sign and marks are cognizable. In this case, the owner shall bear the costs related to the replacement.

473.2. Irrespective of the compensation claim, the owner of securities whose rights are declared void by court ruling shall have the right to demand from the issuer to replace the void security and to bear the replacement costs.

## **Article 474. Inscribed securities**

474.1. Article 469 shall apply to the ownership of inscribed security in case of acquiring it and registering.

474.2. Unless specified otherwise by law, the owner of the inscribed security has the right to demand due payment by the right certified in the security in case of acquiring and registering it on own name.

474.3. The agent who transferred the due payment to the legal holder of inscribed security shall be deemed as completing its obligation except the cases of deliberate or reckless negligence.

474.4. The agent who transferred the due payment to the holder shall the right to own the inscribed security.

## **Article 475. Registered securities**

475.1. The registered security issued on specific person's name can be transferred to an agent on the precondition of making payments.

475.2. Unless specified otherwise the rights certified by the security shall be transferred according to the established procedures for transfer of rights.

475.3. In case of loss or destruction, the registered security shall be deemed void in accordance to the special settlement procedure.

475.4. In case the registered security contain an instruction to issue the payment to the presenter of the security, any agreement between the agent and the owner shall be deemed valid irrespective of deliberate or reckless negligence on the part of the agent.

## **CHAPTER FORTY EIGHT**

### **Cooperation**

#### **Article 476. Joint action contract**

476.1. Under a cooperative contract two or more parties shall undertake to act jointly in order to make profits or other specific purpose without creating a legal entity.

476.1. The joint action contract shall be concluded in writing.

476.3. The joint action contract shall contain the following conditions:

476.3.1. requisites of the parties;

476.3.2. cooperation avenue and the purpose;

476.3.3. rights and obligations of the parties;

476.3.4. management structure, rights and duties;

476.3.5. procedure for distribution of revenue and losses;

476.3.6. procedure for withdrawal from the contract

476.3.7. contract

476.3.8. grounds for terminating the contract ad distribution of the joint assets

#### **Article 477. Contribution of the parties**

477.1. Parties to the contract shall pay assessed contribution. In case its amount is not specified by the contract it shall be shared by the parties.

477.2. The contributions can be made in form of cash, assets or in-kind service.

477.3. Unless specified otherwise by the contract the contributions shall make joint property.

477.4. The proceeds and revenues accrued from the use of pooled resources shall be joint property.

477.5. The parties shall be prohibited to transfer their share to the third party, and the permission shall be granted only on solid grounds.

477.6. The parties shall have priority right to acquire the share to be transferred to the third party.

#### **Article 478. Joint action**

478.1. Unless specified otherwise by the contract, the parties shall cooperate in joint action and to obtain consent of other parties in case of entering into any agreement

478.2. If the contract decision making based on simple majority each party to the contract shall have one vote irrespective of the share of the contribution made.

478.3. If the parties agree to act independently from each other this shall be reflected in the contract and it is not allowed to conclude the contract in the absence of consent.

478.4. If the parties agree that one party will direct joint actions, that person shall be given powers of attorney to sign contracts and mediate disputes on their behalf.

478.5. The party seriously neglecting its obligations under the contract can be removed from the contract in case of unanimous consent.

478.6. The parties to the contract shall have the right to withdraw from the implementing the joint action contract and in this case can demand necessary information from the managers.

478.7. Unless specified otherwise by the contract the rights and duties of the attorney shall be defined in accordance to the contract terms and conditions.

478.8. Unless the contract specifies otherwise, the profits shall be distributed in proportion to the share of the contribution.

478.9. The parties to the contract shall have the right to demand from other participants proper performance of their duties.

478.10. The parties shall not be allowed to transfer to the third party any compensation claims.



478.11. The parties shall share the losses resulting from the joint actions.

478.12. Unless the contract specifies otherwise the parties shall spread the responsibility according to the share of the contribution.

478.13. The parties shall be responsible for maintaining the confidentiality of information they received in the course of implementing their obligations under joint action contract.

#### **Article 479. Withdrawal from the contract**

479.1. The parties shall have the right to withdraw from the contract at any time in case if the contract does not specify the term and such an action does not pose harm the joint action.

479.2. If the contract does specifies the term, withdrawal before its expiration shall be allowed only on solid grounds.

479.3. Unless specified by the contract, withdrawal of any party shall serve as ground for discontinuance of the joint action.

479.4. If the remaining parties agree to continue the joint action despite the withdrawal of one party, the latter shall be awarded money in the amount of its share but its obligations shall be considered before issuing the payment.

479.5. If the joint property of the parties shall not be sufficient to cover their debts under their combined obligations the withdrawing party shall pay to other the amount equal to its share.

479.6. The withdrawing party shall retain its obligations to the agent.

479.7. Any agreement limiting or prohibiting the right to withdraw from the joint action contract shall not be legal.

#### **Article 480. Termination of joint action contract**

480.1. The joint action contract can be terminated on the following grounds:

480.1.1. the expiration of the contract term;

480.1.2. decision of the parties to the contract

480.1.3. the joint property is pledged for auctioning in accordance to the bankruptcy procedure;

480.1.4. the purpose of the joint action can not be attained;

480.2. Unless it is specified otherwise, the contract shall be deemed terminated if on any of the following grounds:

480.2.1. contract cancellation;

480.2.2. bankruptcy and dissolution of any party based on court ruling;

480.2.3. death of any party;

480.3. In case of termination of the contract the parties shall settle on their agreements, make an inventory of assets and distribute among the parties.

480.4. The parties shall finalize the remaining obligations accumulated in the course of the joint action by spreading among themselves in accordance to owned share.

#### **Article 481. Unregistered union and partnership**

481.1. No registration is needed for unions and partnerships formed by several parties based on a joint action contract, and the participants shall decide their structure and management by mutual agreement.

481.2. Unregistered unions and partnerships shall participate in the civil legal relationships through appointed representative or one of the members.

#### **Article 482. Joint property of unregistered union and partnership**

482.1. Property comprised of a union members contribution, donations and operational revenues shall form the joint property.

482.2. The amount of contributions and charter fund shall be agreed by participants and they can comprise of money, assets and active service.

482.3. Appointed attorney shall exercise the power of disposal over the joint property.

482.4. Compensation claims shall be satisfied from the joint property except apartments under joint ownership.

482.5. Unless members agreed otherwise, the legal parties entitled to conduct activities on the behalf of the union or partnership shall bear the shared and equal responsibility in case the joint property is insufficient to satisfy the claims.

## **CHAPTER FORTY SIX**

### **Guardianship**

### **Article 483. Guardianship contract**

483.1. Under the contract of guardianship undertakes the obligation to take care of the person under charge if not specified otherwise in the contract.

483.2. Guardian can provide care in material (accommodation, food, clothes) or monetary form.

483.3. The parties can agree on changing the care form from material to monetary.

483.4. The contract shall be made in writing.

483.5. Term of the guardianship shall be set by the contract with consideration of its purpose and nature.

483.6. The guardian has no right to sell, to pledge or to transfer in other way the property trusted to him or her by the ward.

483.7. It is prohibited to dispose the ward's property specified in Item 483.6 to meet the obligations of the guardian to others.

483.8. In case the ward transferred immovable property to the guardian, the latter shall have the right to pledge it against his or her own claim right.

483.9. The destruction or damage to the transferred property shall not form the basis for exempting the guardian trustee from liability.

### **Article 483. Termination of contract**

484.1. Both the guardian and the ward have the right to terminate the contract in case of deterioration of the relations or impossibility to observe the contract due for serious reasons.

484.2. At the termination the contract the expenses of the guardian shall be reimbursed if not specified otherwise by the contract.

484.3. In case of the contract termination the property shall be returned to the ward.

### **484. Death of guardian**

485.1. In case of death of the guardian the successor to the transferred property shall take over the tutorship obligations.

485.2. In case the successor refuses to take over the guardian obligations, the property shall be returned to the ward and the contract terminated.

## **CHAPTER FIFTY**

### **Hazard games and betting**

#### **Article 486. Hazard games and betting**

486.1. Hazard games and betting shall not create the right to demand any payment.

486.2. Item 486.1 shall apply to any stock exchange or similar transactions of betting nature loans, advance payments for gambling and betting

486.3. No claims shall be raised in regard of payments, assigned property and other things transferred for games and bets other than prohibited by law.

486.4. The claim right arises only for lottery and similar games permitted by the state.

### **Part IV**

#### **NON-CONTRACTUAL LIABILITY**

##### **Sub- part one.**

#### **LIABILITIES SPECIFIED BY LAW**

## **CHAPTER FIFTY ONE**

### **Legal grounds for liabilities**

#### **Sub- chapter 1.**

### **Common property liabilities**

#### **Article 487. Communal property ownership**

487.1. Unless the owners of communal property agreed otherwise, they have the equal right of ownership over their respective share of the communal property.

487.2. Unless the law stipulates otherwise the procedures and requirements of this chapter shall apply to the property owned by several legal persons as a joint asset.

#### **Article 488. Management and disposal of communal property**

488.1. The management of joint property shall be decided based on the majority of the owners with each having the voting right in proportion to the share of property.

488.2. Unless the common vote or agreement provides otherwise, each owner shall have the fair right to demand to manage the property in the best interest of the owners.

488.3. Any restriction of the ownership right without the consent of the owner shall be prohibited.

488.4. Parties that take over the property rights shall comply with the management and disposal requirements over the communal property established by the owners.

#### **Article 489. Annulment of the communal property right**

489.1. Each of the owners shall have the right to demand to annul the communal property right.

489.2. The right to annul the communal property specified in Item 489.1. can be exercised for significant reason and despite the common agreement of not to conclude a formal contract or there is a limitation by contract term.

489.3. There shall be no other limitation of the right to annul or not to exercise the joint property ownership right except as stipulated in Item 490.2.

489.4. Unless specified otherwise by the contract, an agreement to suspend the annulment of the joint property ownership right shall be void in case of death of any ownership.

489.5. If it is possible to divide the joint property without depreciating its value, the joint property right shall be deemed void and the property divided physically.

489.6. If it is impossible to divide the joint property, the joint ownership right can be ended through the sale of the assets according to the procedure provided in Article 159, the auctioning of the property and immovable and distribution of the proceeds.

489.7. If it is impossible to transfer the property to the third party, an auction shall be held among the partial owners.

489.8. The partial owners shall have the right to demand to conduct an auction again in case the property was not sold at the first auction according to the Item 489.6, 489.7. If the second auction does not result in the sale of the property, the owner that initiated the auction shall bear the auction related expense.

#### **Article 490. Liabilities of partial owners**

490.1. In case the partial owners assigned their respective part of property for liabilities, with the termination of the joint property they can demand to cover liabilities from that property in proportion to each owner's share.

490.2. If it s necessary to sell the property to serve the liabilities, the procedure in Items 489.6.-489.8. shall be applied.

490.3. The procedure 490.1., 490.2. of this law shall apply in case it is necessary to serve the liabilities among the partial owners

490.5. No liability period shall apply for joint property right nullification.

#### **Sub-chapter two.**

#### **Article 491. Taking on others' liability without order**

491.1. A party that takes on others liability without order shall perform its obligation fairly.

491.2. The party that acted in order to prevent the threat to others' property and interests shall bear liability only for actions of deliberate or apparent negligence.

491.3. If damage caused to the party that acted in order to prevent the threat to others' property and interests, the latter shall compensate for the damage and, in case they fail to agree on the amount, the court will determined.

491.4. The party that undertook to take on others liability without order shall notify the party whose interests are being protected and to continue to act until the latter assumes the liability or relinquishes its right.

491.5. The party that undertook other liability without order shall produce a report to the party whose interest are being protected and to transfer all the results of the liability to the latter.

491.6. The party that undertook other liability without order shall have the right to demand compensation for direct expenses involved from the party whose interests were protected.

491.7. If the party whose interests were protected is not satisfied with the result it shall have the right to refuse to accept and in this case the party which acted can not demand compensation. It shall bear responsibility for compensation in case it knew that the results will not be accepted.

### **Sub-chapter three**

#### **Possession without legal justification**

##### **492. Liability for property acquired without legal justification**

492.1. The party that transferred property to the third party in the course of performing its obligations shall have the right to claim back that property in the following cases:

492.1.1. If no liability arises between the recipient of the property and executor of the obligations, term of the obligation has expired or obligation becomes void;

492.1.2. The principal has a serious dispute and not able to compensate the claim;

492.2. The property transferred to other party cannot be claimed in the following cases:

492.2.1. if the execution of the obligations is conventional and corresponds to moral norms;

492.2.2. the term of liability has expired;

492.2.3. as for the for void obligations, the claim for transferred property in the course of performing the contract about compensation on the debt contradicts the law;

492.2.4. if one party has transferred property to another in the course of performing its obligations without knowing about the expiration of liability.

492.3. The party that transferred property to third party with the purpose of compelling the latter action or inaction shall have the right to claim property in case the other party's action or inaction does not satisfy the expectations.

492.4. It is not allowed to demand return of property in the following cases:

492.4.1. If the party that transferred property knew in advance about impossibility to achieve the purpose;

492.4.2. If the party that transferred property acts unfairly or restricting the other party actions;

492.5. the party that transferred property shall have the right to claim it back if the transfer was forced through by application of violence or threat except the lawful right of the party in possession of the property to own it.

### **Article 493. Requirements to property claim**

493.1. The claim for property transferred to other person shall include the property, all revenues and benefits from it, a compensation for damage caused to property, destruction or confiscation.

491.2. In case it is impossible to return the property because of its deterioration or for other reasons, the party that acquired the property without grounds shall be obliged to compensate the cost of property.

493.3. If the party that acquired the property without grounds does not made any revenue or profit from the property used or passed over to others, lost or destroyed the property or it deteriorated or for any other reason, it shall not be held liable for lost potential revenue, profits and benefits.

493.4. In case the party that acquired the property under the contract is not capable to return property in its natural condition or its money equivalent because of the termination of the contract and this did not serve as a ground for the contract termination or affects consequences of, it shall not be obliged to return the property.

493.5. The party that acquired property without legal justification spent money for its maintenance believing that it owns the property legally shall return that property after the reimbursement of direct expenses and damage. This procedure shall not apply in case if the property is deteriorated to such condition that the owner neglect is apparent.

493.6. The party which acquired property in dishonest way or the party that acquired in legal way but learned about the lack of ground to own, it shall return the property, all the revenues earned and potential profits lost from the moment one acquired or learned about the legal default of the property.

493.7. The party which acquired the property without justification shall compensate only case of the property lost or damaged in the course of returning to the legal owner due to its own fault.

493.8. The party that acquired the property in the course of action in others' interest has the right to demand reimbursement of expenses related to this property and the party whose interest were protected shall not held responsible for expenses other than direct and necessitated.

493.9. The provision of Article 232 of this Code shall not apply for compensation claim.



#### **Article 494. Obligation of the third party to return property**

494.1. If the party that acquired the property without grounds passes it on to the third party o free-of-charge, the latter shall be obliged to return the property to its legal owners.

494.2. Respective provisions of Articles 492, 493 shall apply in this case.

#### **Article 495. Liability for illegal disposal of other property**

495.1. The party which infringed the other rights by using their property without the consent of legal owners and disposed it by mixing it with other substances, consolidating, reprocessing, it shall compensate the damage to the entitled owners.

495.2. If the lawful owners rights are infringed as specified in Item 495.1.1, they shall have the right to demand immediate compensation of damage from the violator.

495.3. If the property was disposed of on the precondition of back payments, the proceeds shall comprise a part of the compensation for damage to the lawful owner.

495.4. The person infringing others rights shall be released from liability in case of his or her apparently negligent action or without knowing about the lack of the rights and if there are no reasons to deem him or her as owning property without legal justification.

495.5. The expenses borne by the violator during the use of others' property do not form the basis for reduction of the amount of the property held without legal justification.

495.6. In case the violator was aware of others rights but deliberately violated them, the legal owner shall have the right to demand compensation exceeding the damage put to the property.

495. 7. The violator shall be obliged to provide truthful information on the incomes derived from the use of others' property without legal justification.

#### **Article 496. Benefits from saving own or using others' property**

496.1. If any legal person paid the debts of another party knowingly or by mistake leading to the exemption of the latter from liability, it shall have the right to demand reimbursement from the person exempted from liability.

496.2. The party that expended on the other party property on its own will or by a mistake and to the benefit of the latter, it shall have the right to demand compensation.

496.3. No compensation shall be allowed in the following cases:

- 496.3.1. if the liable party has a counter claim and deducts the due amount from the liability;
- 496.3.2. if the party raising a claim failed on its own fault to inform the liable person in reasonable time period.
- 496.3.3. if the liable party disputes the reimbursement before payment is made.

## **Sub-part 2**

### **Liabilities**

## **CHAPTER FIFTY TWO**

### **Liability for damage**

#### **Article 497. Liability grounds for caused damage**

497.1. A legal person who caused damage to others' rights, life, health, dignity, business reputation or property deliberately or due to negligent action (inaction) shall compensate for that damage.

497.2. If the legal person proves that that damage did not occur as a result of his/her own fault, he or she shall be released from liability for the damage except as provided by law.

497.3. If several person caused damage, persons who wrought direct damage, urged to, assisted, and benefited shall share the responsibility.

#### **Article 498. Liability for damage caused by legal entities and government officials**

498.1. If an employee causes damage to other party in the course of discharging his or her duties under a labour contract and as a result of fault action (inaction), the employer shall be liable for that damage.

498.2. If a government official causes damage to other party as a result of a wrongful decision or other form of misconduct (inaction), the administrative bodies that employs the officer or the state shall be liable for the damage unless otherwise provided by law.

498.3. The legal entities specified in Items 498.1, 498.2. shall be exempted from liability if the damage results from deliberate or negligent action of the sufferer or the latter failed to undertake preventive measures by legal means against possible damage.

498.4. The state shall compensate for the damage to legal persons who were taken to court as defendant, sentenced, arrested, detained or gave a written notice not to leave the place without legal grounds and those right were restored after, and irrespective of the degree of fault by investigator, police officer, prosecutor or judge.

498.5. The agency that issued compensation shall have the right to claim from the legal entities specified in Items 498.1, 498.2, 498.4 compensation for damage resulting from their deliberate or by neglect actions.

#### **Article 499. Liability for damage caused by use of transportation means**

499.1. An owner of the transportation means shall bear responsibility of the harm to others life, health and damage, loss or destruction of their property in the course of using a passenger or freight forwarding transportation mean.

499.2. No liability specified in Item 499.1. shall be imposed in case damage caused as a result of force majeure during the use of the transportation mean other than aircraft.

499.3. The owner or possessor of the transportation mean shall be liable for the damage caused by another party by using the transpiration mean without the consent of the owner or possessor which will be not released from the responsibility for allowing to use the transportation mean by own default.

499.4. The owner or possessor of the transportation mean shall be held liable on equal basis for the damage to others if they assigned or transferred the transportation mean to the violator.

#### **Article 500. Liability for damage during use of buildings**

500.1. An owner of a building shall be liable for the damage caused from partial or complete collapse in case other than if the building was not properly maintained or contained defects.

500.2. The owner or possessor of the building shall be exempted from liability in cases the damage caused by force majeure or items dropped from the building as a result of fault action of the sufferer or damage caused by items falling, thrown or leaked.

#### **Article 501. Liability for damage from animals**

500.1. An owner of an animal shall be liable for the damage caused to others life, health by the animal.

500.2. The owner or possessor shall be exempted from liability for the damage caused by domestic or other animals used for professional services except resulting from the owner's deliberate or negligent action.

### **Article 502. Liability for damage to environment**

502.1. A legal person, owner or possessor of dangerous stuff shall be liable for the damage to others life, health and property caused by the change of the buildings construction and design without permission, electricity installations inside and going into the building, dangerous stuffs with fire, explosive or poisonous effect.

502.2. The owner or possessor of buildings and construction that pose special danger shall be liable as specified by Item 502.1. irrespective of their degree of fault.

502.3. The owner of the building shall be exempted from liability for damage caused to other inside or at the vicinity of the owned building in case he or she are not guilty for.

### **Article 503. Liability for damage by minors and legally incapable**

503.1. Legal representative, parents or guardians shall be liable for that damage caused by minors of 7-14 years of age.

503.2. If minors cause damage while they are under direct supervision at schools, kindergartens or health organisations those organisations shall be liable for that damage.

503.3. If a person deprived of legal capacity due to mental disorder causes damage to others, his or her guardian or the legal person responsible for continuous supervision shall be liable for that damage.

503.4 If parents or guardians can prove that they fulfilled their duties properly they can be exempted from the liability for the compensation.

503.5. Minors shall be personally liable for the damage they caused to others but if their remuneration, income or property under their disposal is not sufficient to compensate for the damage, their parents or guardians shall be obliged to pay for the unpaid portions.

503.6. Procedure provided in Item 503.4 shall apply to the damage compensation specified in Item 503.4.

#### **Article 504. Liability for damage by persons with mental disorder**

504.1. A citizen with legal capacity shall be expected from liability in case it for caused damage while incapable to understand the consequences of or control own actions.

504.1. Persons who were in such a state as a result of consuming drugs or alcohol shall not be exempted from liability specified in Item 540.1.

#### **Article 505. Compensation for damage to others health**

505.1. A person who causes damage to other's health shall pay wages and income or their equivalent which the injured person loses as a result of not being able to work, and such necessary expenses as medical treatment, additional food, cost of artificial limb production, recovery stay in sanatorium.

505.2. If the injured person does not have salary or income at the time the damage was caused, he or she may claim compensation no less than the minimum wage provided by law.

#### **Article 506. Compensation for damage to minors**

506.1. If damage is caused to the health of a minor of less than 16 years of age or who does not receive salary or income, the wrongdoer must compensate that minor for expenses as specified in Item 506.1.

506.2. If a minor reaches 16 years of age and his or her health has not improved, parents or guardian may raise a compensation claim in the amount of no less than the minimum wage provided by law.

506.3. If a minor aged less than 16 years was employed and received salary, remuneration or income at the time that damage is caused, it shall be compensated according to the amount of not received salary or income.

#### **Article 507. Alteration of compensation amount**

507.1. If the health of a citizen who partly lost work ability as a result of damage to his or her health continues to deteriorate or if the amount of allowances is reduced, he or she may demand to increase the amount of compensation.

507.2. If the amount of wages or income of the injured person increases as the result of improvement of his or her ability to work, the debtor may demand to reduce the amount of compensation for damage.

#### **Article 508. Compensation for the death of the victim**

508.1. The heir of the person who deceased after receiving injuries shall have the right to demand reimbursement for the expenses related to the funeral and a compensation for the damage.

508.2. The parents, spouses who take care of children, sisters and brothers, grandchildren of less than eight years of age of the person deceased after receiving an injury or children born after the death, disabled citizens who received an allowance or were taken care by the deceased person shall have the right to receive compensation.

508.3. The amount of compensation shall be set at the average monthly salary or income of deceased person after deducting the amount due to person at the sufferer's custody but able to work. The allowance for losing a bread-winner shall also be deducted from the compensation due to entitled persons.

508.4. The compensation for damage shall be issued for the following periods:

508.4.1. to children of the victim until they reach age of 16 and if they study, until they reach age of 18;

508.4.2. to women over 55 years of age and men over 60 years of age until their death;

508.4.3. to disabled citizens for the duration of their disability;

508.4.4. to the parents or spouses of the deceased person without regular income source and who take care of the children, sisters and brothers, grandchildren of the deceased person until they reach age of eight;

## **Article 509. Payments of compensation for death or injury**

509.1 Payments for death or the loss of work ability by injured person shall be made monthly.

509.2. If the operations of a legal entity liable for the compensation terminate with no legal successor, the liabilities of that legal entity of compensation for the death or loss of work ability by an injured person shall be collected as a first priority according to Item 32.5 and transferred to social insurance institutions to be regularly issued.

509.3. Based on the compensation recipient's request a court can change the amount of compensation depending on the inflation rate.

## **Article 510. Compensation for damage to property**

510.1. The liable party shall restore the damaged property (provide similar assets of equal quality, repair the property, etc) to the state it was before the damage was wrought or pay an equivalent in money.

## **Article 511. Compensation for non material damage**

511.1. If the party responsible to distributing information damaging the good name, dignity and business reputation of others fails to prove that it is true, it shall be liable to compensate the non material damage in monetary or other form separately from the material damage.

511.2. A court shall determine the amount of monetary compensation for non-material damage within the amount of the plaintiff's claim taking into account the way and the scope the information was disseminated, the psychological consequences to the affected person, and shall order to disseminate a correction in ways and methods by which the information was initially disseminated.

511.3. The procedures specified in Items 21.4, 21.5, 21.6 shall apply.

## **Article 512. Compensation for damage by defect products, goods, works and services**

512.1. The producer of products, goods with defects shall compensate the damage resulting from that products or goods irrespective of whether it concluded a contract with the affected party.

512.2. The producer of the defects shall be released from paying compensation in the following cases:

- 512.2.1. goods and products were not made for commercial purpose;
- 512.2.2. proven by documents that goods and products were not defected at the time of production to a degree to cause damage;
- 512.2.3. though defected the goods and products were meeting respective standards and norms at the time of production;

512.3. The party that inflicted damage as specified in Item 512.2.5. the be liable for the compensation.

512.4. The article provisions shall apply to case compensation for damage due to defect works and services.

## **Article 513. Claim for reimbursement of compensation**

513.1. The social insurance and welfare institutions or authorized agencies that made payments related to damage to life or health shall have the right to claim the compensation from the liable person or legal entity.

513.2. The liable person or legal entity shall be obliged to compensate a claim from the involved institution.

513.3. If the amount of compensation will reduce in accordance to Article 507, the amount of counter claims shall also be reduced.

#### **Article 514. Consideration of the liable person's financial situation**

514.1. The amount of the compensation can be reduced if affected person's own negligence or inaction contributed into increasing the degree of damage.

514.2. The court can reduce the amount of the compensation for damage taking into consideration the financial situation of the liable legal person except such damage was inflicted deliberately.

### **Part V**

## **CHAPTER FIFTY THREE**

### **Inheritance**

#### **Common provisions**

#### **Article 515. Grounds for inheritance**

515.1. Property and rights of a testator shall be inherited.

515.2. A successor shall take over the duties of an heir in the size of the inheritance.

515.3. A will shall be shall be executed in accordance to the law or by a testament.

515.4. Under the law only testator has the right to amend the testament.

515.5. If the right of succession by law or the testament is lost and, in absence of the lawful successor, the heritage shall be transferred to the state ownership.

515.6. If only part of the heritage is bequeathed, the remaining part of property in the absence of lawful successor shall be transferred to the state ownership.

#### **Article 516. Inheritance of the intellectual property**

516.1. The inheritance of intellectual property relates only to rights over property. The right on inheritance of the intellectual property is executed by law or the will.

516.2. The inheritance right over intellectual property shall be preserved for the period of 50 years.



516.3. Other personal rights except those specified in Item 516.1. shall be passed to the state.

### **Article 517. Revoking the inheritance right**

517.1. In case a person found guilty of deliberate murder or other unlawful actions leading to the death of the testator, any of lawful successors or resulting in their death by the court decision, he or she shall lose the inheritance right under the law and the will.

517.2. The transfer of the inheritance shall be suspended until the end of a court trial establishing guilt or innocence of the legal person on grounds specified Item 517.1. and measures shall be taken in accordance to Article 537 to protect the respective share of the inheritance due to him or her.

### **Article 518. Date of opening will**

518.1. In accordance to Article 24 the date of opening a will shall be the day of the testator's death or the announcement of his/her death.

### **Article 519. Place of opening will**

519.1. The last place of residence and, if it is unknown, the place where the bequeathed property is located shall be called the place of opening the will.

## **CHAPTER FIFTY FOUR**

### **Inheritance by law**

#### **Article 520. Lawful successor**

520.1. The following persons shall be lawful successors with equal right for inheritance:

520.1.1 The testator's spouses, children born from before or after the death of testator or adopted, parents or foster parents.

520.1.2. In the absence of lawful successor specified in Item 520.1.1. or in case they relinquished their inheritance right or their right was revoked, the inheritance right shall pass to the grandparents, brothers and sisters, grandchildren of the deceased.

520.2. In the absence of lawful successor specified in Item 520.1.1. or in case they relinquished their inheritance right or their right was revoked, the right on inheritance under the law passes to the great-grandchildren who shall inherit after transferring a share due to their parents.

520.3. If aside from successors specified in Items 520.1, 520.2, there is a disabled person who stayed under the testator's care for no less than one year before the death, he or she shall claim an equal share of inheritance.

520.4. Household belongings, irrespective of hereditary sequence or condition, shall be passed on to the lawful successor who lived together with testator prior to his or her death.

520.5. The share of property due to spouses shall be inherited according to Items 520.1- 520.3.

520.6. Only person specified in Item 520.1.1. shall have the right to inherit due part of the property bequeathed for joint ownership.

### **Article 521. Inheritance of property parts not covered by will**

521.1. If parts of property pass on to the successor under the will, the remaining property shall be transferred to the lawful successor under the law.

## **CHAPTER FIFTY FIVE**

### **Inheritance under testament**

#### **Article 522. Content of testament**

522.1. Citizen have the right to bequeath at own discretion all or part of own property or rights to one or several persons with or without inheritance rights or to the state.

522.2. The testator can leave instructions to the entitled person or the state on the use of the inheritance.

522.3. In case a citizen bequeathed his or her property to the lawful successor, children, disabled or born after the death or adopted, disabled spouses, parents (foster parents) and other lawful successors shall receive no less than two thirds of the inheritance. In determining the total amount of the inheritance parts designed for personal and common ownership shall be included.

522.4. Item 522.3 shall not apply if the inheritance rights of the successor or several or all successors' right of inheritance is revoked under law.

522.5. Testator can name in the will other successor in case the successor nominated in the previous testament died or relinquished his or her inheritance right.

#### **Article 523. Form of testament and its attestation**

523.1. The will should be made in writing with the indication of the place and time its was drawn and certified by a notary. In case no notary service is available, the testament shall be certified by soum or бага governor.

523.2. The testament without notary note shall be deemed valid in the following cases

523.2.1. testament of a military serviceman certified by the commander of a military unit;

523.2.2. testament of a prisoner or a prison employee certified by the warden;

523.2.3. testament of a passenger or flight crewmember certified by the aircraft captain;

523.3. The testament not meeting requirements specified in Items 523.1, 523.2 shall not be valid.

#### **Article 524. Obligations under testament**

524.1. The testator has the right to assign to successor any obligations for the benefit of the successor under the law or other persons or the public.

524.2. The successor shall implement the obligation only within the limit of the property or rights inherited.

524.3. In case of death of the successor or refusal to accept the inheritance, the assigned obligation shall pass on to other successors who receive the inheritance.

#### **Article 525. Amendment or revocation of testament**

525.1. The testator has the right to amend or to revoke the testament at any time.

525.2. The testator can revoke previous or draw a new testament, and the will shall be considered amended or revoked by producing an appropriate document and certifying it according to Article 523.

#### **Article 526. Execution of testament**

526.1. The execution of the testament shall be assigned to the successor named in the will.

526.2. The testator can nominate the testament execution to other person.

526.3. The executor of the testament shall accept the obligation by expressing his or her consent in writing on the will or producing a separate document attached to the testament.

526.4. The executor of the testament shall undertake all actions necessary for execution of the will and exercise the right for compensation from the inheritance property for all expenses issued in the course of executing, managing or protecting the inheritance.

526.5. The executor of the testament shall is obliged to present the successors a report on execution of the will.

## **CHAPTER FIFTY SIX**

### **Acceptance or refusal of inheritance**

#### **Article 527. Acceptance of inheritance**

527.1. The successor shall admit the inheritance by accepting the bequeathed inheritance.

527.2. The successor shall not have the right for temporary and conditional acceptance.

527.3. The inheritance shall belong to the successor from the date of opening the testament or acceptance of the inheritance.

#### **Article 528. Procedure for accepting or refusing inheritance**

528.1. The inheritance shall be deemed accepted if the successor who lived with the testator prior to his or her death fails to produce within three months after the date of opening the testament a document certified by notary or, in the absence of such, by soum or бага governor and expressing his or her refusal to accept the inheritance.

528.2. The inheritance shall be deemed accepted by other successors beside those specified in Item 528.1 if, within one year from the date of opening of the inheritance, they have submitted a document confirming the take over or disposal of the inheritance or placing a request to a notary office, soum or бага governor for a certificate of acceptance or right of acceptance.

528.3. In case the successors not have declared to authorized agencies or person the acceptance note or report on failure to take over the inheritance within period specified in Items 528.1, 528.2 their right for inheritance shall be deemed relinquished.

528.4. The period of the inheritance acceptance can be extended by court for respected grounds. In case the period is extended the successor who failed to claim the inheritance in time shall have the right to the share of property accepted by other successors or passed on to the state and to receive due part of the inheritance if readily available or its money equivalent if the property was sold.

528.5. The successor has the right to transfer the inheritance right to other successors or to refuse to accept the inheritance.

#### **Article 529. Transfer of the inheritance right**

529.1. If the successor under the law or will has died after the date of opening the testament but before accepting the inheritance, the right for a share of the inheritance due shall pass onto his or her successors.

529.2. This right of the deceased successor can be executed in accordance to general provisions but if the remaining time is less than three months, it shall be deemed valid for three months.

### **Article 530. Acceptance of inheritance before other successors**

530.1. The successor can take over the inheritance before other successors appear but he or she shall not to sell, to give as a gift or to pledge, or to bequeath within one year from the date of opening the inheritance or before receiving a certificate about the right to the inheritance.

530.2. The successor which accepted the inheritance according to Item 530.1 has the right to withdraw the following expenses:

530.2.1. expenses spent on medical treatment and funeral of the deceased;

530.2.2. expenses on the persons under the custody or those with the right to receive allowance from the deceased;

530.2.3. to satisfy claims for salary or other similar expenses;

530.2.4. expenses spent on the protection of the inheritance;

### **Article 531. Issuance of inheritance right certificate**

531.1. The direct or named successor shall submit an application for the certificate on the right of inheritance to a notary office or, in the absence of such, to the soum or бага governor in a place of opening of the testament.

531.2. The certificate on the inheritance right shall be issued to the successor after one year since the date of opening the testament.

531.3. The certificate can be issued before the expiration of the term specified by Item 531.2, if is proven that there are no successors other than the one who requested a certificate or accepted the inheritance.

531.4. The certificate on the inheritance right can be issued to the successor within one year from date of opening the testament upon presentation of the testament in the absence of other successors as specified in Item of 522.2.

531.5. The certificate on the inheritance right shall be issued to the respective government agency after one year since the date of opening the testament in case there are not successors to the inheritance and it was transferred to the state.

### **Article 532. Distribution of inheritance**

532.1. The corresponding portions of the inheritance shall be distributed to all lawful direct and named successors in the case of their mutual consent. In case of a dispute arises it shall be settled by the court.

532.2. Part of the inheritance due to the successor conceived when the testator was alive but not yet born shall be allocated separately.

532.3. To protect the interests of not yet born successor a representative of a tutelary body shall be present at the distribution of the inheritance.

## **CHAPTER FIFTY SEVEN**

### **Increase of inheritance**

#### **Article 533. Increase of inheritance**

533.1. If one of the successors under the law refuses from a share due without assigning a successor or his or her inheritance right has been revoked, the share of the inheritance shall be distributed to other successors on equal basis.

533.2. In case the testator bequeathed all his or her property but one of successors under the will refuses from a share due without assigning a successor or his or her inheritance right has been revoked, the share of the inheritance due shall be distributed to other successors under the law on equal basis according to Item 522.3.

533.3. In case the testator bequeathed parts of his or her property but one of successors is removed according to grounds specified in Item 533.2. the share of inheritance due to him or her shall be distributed among other successor under the law on equal basis.

533.4. If there are no successors to the due part of the inheritance as specified to Items 533.1- 533.3 it will be passed on to the state.

Article 534. Consequences of changing successor under the will

534.1. Items 533.2, 533.3 shall not apply in case the successor the inheritance right of whom has been revoked in accordance to Article 517 assigned his or her part of due inheritance to another successor.

## **CHAPTER FIFTY EIGHT**

### **Responsibility of successor on testator's obligations**

#### **Article 535. Responsibility of successor**

535.1. The successor or government agency which accepted the inheritance according to this chapter provisions shall take over the obligations of the testator within the limits of the total value of inheritance.

535.2. At presence of several successors specified in Item 535.1, they shall be responsible for the testator's obligation equally within the limits of respective share due him or her.

#### **Article 536. Order of claim presentation by will executor**

536.1. The principal executor of the testament has the right, within one year from the date of opening the testament, to raise claims to the successors, agents executing the will, notary office or the government agency which accepted the inheritance.

536.2. The executor of the will who raised a claim according to Item 536.1 has the right to appeal to court within one year since the date of receiving an response on the claim or the date of the expiry of the liability term.

### **CHAPTER FIFTY NINE**

#### **Protection of inheritance**

#### **Article 537. Order and term of inheritance protection**

537.1. The notary office in a place of opening of the testament or, in the absence of such, the soum or бага governor shall take, if deemed necessary, measures to protect the inheritance in the interests of the successor, executor of the testament and the state.

537.2. The inheritance shall be protected until of its acceptance by all successors or its transfer to by the state.

#### **Article 538. Assigning administrator**

538.1. Local administrative bodies shall appoint an inheritance administrator in case creditors of the testator raise a claim or other necessary cases. The costs of administration shall be deducted from the inheritance.

### **PART IV**

#### **INTERNATIONAL CIVIL LEGISLATION**

#### **Chapter Sixty**

#### **Common provisions**

### **Article 539. International treaty**

539.1. Mongolia shall conclude international treaties on the basis of the general principles of the Civil Code of Mongolia.

539.2. Unless an international treaty to which Mongolia is signatory contains provisions providing otherwise than those of the Civil Law and they do not contradict the Constitution of Mongolia, the provisions of the international treaty shall prevail.

### **Article 540. Grounds for application of foreign law**

540.1. Foreign laws, legislative acts and or internationally accepted practice not contradicting Mongolian law or the international treaties to which Mongolia is signatory may apply to civil litigations, disputes and for regulating other civil legal relations.

540.2. If the foreign laws stipulate the prevalence of Mongolian law the Mongolian legislation shall be applied.

540.3. Foreign laws and acts can be considered for establishing the legal framework in case Mongolian law does not specify clearly the civil relation's aspect or defines it under different legal context or it is impossible to clear the case through interpretation of Mongolian law.

### **Article 541. Ascertaining foreign law**

541.1. When applying foreign law, courts and arbitration bodies shall ascertain their legal framework within the context of their official interpretation and practice.

541.2. Courts and arbitration bodies may request the central governmental agency in charge of legal affairs, other competent authorities in Mongolia or abroad to provide legal assistance and interpretations as well as to invite experts in order to ascertain the contents of foreign law.

541.3. Parties shall have the right to issue documents defining the respective content of foreign law.

541.4. Mongolian law shall be applied in case it is impossible to ascertain foreign law content despite the best effort in accordance to this provision.

### **Article 542. Liability period**



542.1. Liability period shall be determined in accordance with Mongolian law or the international treaties to which Mongolia is a signatory.

## **CHAPTER SIXTY ONE**

### **Participants to international civil legal relations**

#### **Article 543. Civil legal capacity of foreign citizens and stateless persons**

543.1. The civil legal capacity of foreign citizens and stateless persons shall be equal to that of citizens of Mongolia but it can be restricted by Mongolian law.

543.2. The legal capacity of foreign nationals shall be determined by the law of the state they hold citizenship.

543.3. The legal capacity of stateless persons shall be determined by the law of the country where they reside.

543.4. The emigrants legal status shall be determined by law of the country that provided asylum.

543.5. The legal capacity of foreign citizens and stateless persons in respect of their contractual obligations and torts occurring on the territory of Mongolia shall be determined by Mongolian law.

543.6. The deprivation or restriction of legal capacity any person on the territory of Mongolia shall be determined by Mongolian law.

543.7. The declaration of any person to be missing or dead on the territory of Mongolia shall be made in accordance with Mongolian law.

#### **Article 544. Legal capacity of foreign entities**

544.1. The determination of the legal capacity of foreign entities under the law of the state where such entities are registered shall be recognised by Mongolia.

544.2. A foreign legal entity entering into agreements shall not apply restrictions that are not specified by Mongolian law.

#### **Article 545. State participation to international civil relations**

545.1. Unless law provides otherwise, this law shall apply in cases where the state enters into civil relations.

#### **Article 546. Announcing a citizen to be missing or dead**

546.1. In announcing a citizen to be missing or dead the applicable law of respective state he or she held the citizenship while alive or where seen last shall be considered.

546.2. In announcing a stateless person to be missing or dead the law of the country of his her permanent residence shall be considered. In case if he or she has no country of residence the Mongolian law shall apply.

### **CHAPTER SIXTY TWO**

#### **Ownership and liabilities legislation**

#### **Article 547. Ownership right**

547.1. The right of property ownership shall be determined as follows:

547.1.1. the property - by the law of the country it is located;

547.1.2. the property subject to registration- by the law of the country it is registered;

547.1.3. relations pertaining to the creation and termination of the property ownership rights – by respective documents, and in other case - by the law of the country where such rights were first created, unless the Mongolian law provides otherwise;

547.1.4. property under question- by the applicable law on the rights of ownership, unless the parties agreed otherwise.

547.1.5. over the goods transported under international contracts - by the law of the country from where the shipment's was dispatched, unless the parties agreed otherwise;

547.1.6. the legal entity raising a compensation claim to protect its ownership right shall choose from the law of the country property is located or registered or where the claim was initially placed;

547.1.7. as for the intangible, non-economic rights- by law of the country where these rights are being used;

#### **Article 548. Business transactions**

548.1. Respective laws shall be observed in recognising transactions lawful and defining the validity of transactions being made, as a whole or one of its provision.

548.2. The form for an transaction shall be determined by the law of the country where it was made or depending the content.

548.3. If the parties to the transaction live in different countries and the agreed to follow the law of one country governing the form of transaction while signing one, it shall be deemed valid.

548.4. It shall be prohibited to revoke a transaction made abroad and meeting the standards of Mongolian laws on the ground of violating the standard form.

548.5. The form of transaction related to real estate situated on the territory of Mongolia shall be determined by Mongolian law.

548.6. If the transaction was made by a representative and in accordance to Item 548.2. the respective law of the country of the representative's origin shall apply.

548.7. The place of transaction shall be regulated by Mongolian law.

548.8. The authorisation form and term shall be determined by the law of the country where the authorisation was issued, and it is not allowed be considered void on the basis of the form if it meets the requirements of Mongolian law.

#### **Article 549. Law preference**

549.1. The of rights and obligations of parties to contract, content of contract, fulfilment of obligations, termination or revocation, implementation of duties under contract or the failure shall be regulated by the law of any country designated by the parties to the contract.

549.2. The parties can change upon mutual consent their preference for country's legislation for the regulation of the contract even after signing the contract.

549.3. In case parties preferred the legislation of country other than noted in the contract, the latter provision shall be void.

549.4. If the parties did not designate a governing law as provided in Item 549.1, then the following guidelines for the legislation preference of the parties to contract shall apply:

- 1) sale contract - by the law of the seller;
- 2) leasing contract - by the law of the lesser;
- 3) deposit contract - by the law of the depository;
- 4) commission contract - by the law of the commission agent;
- 5) agency contract - by the law of the agent;
- 6) transportation contract - by the law of the transportation agent;
- 7) insurance contract - by the law of the insured;

- 8) loan contract - by the law of the lender;
- 9) gift contract - by the law of the donor;
- 10) warranty - by the law of the guarantor;
- 11) pledge contract - by the law of the pledgor.

549.5. Contracts for joint production, specialised training, co-operation, construction, assembling and other works shall be governed the law of the country where those activities are being carried out or where the results of those contracts occur, unless otherwise agreed by the parties.

549.6. A joint venture agreement involving foreign legal entities and citizens shall be governed the law of the country where the joint venture has its place of business.

549.7. A contract concluded as a result of stock exchange transaction or an auction sale shall be governed by the law of the country where the transaction took place or where the auction sales were conducted.

549.8. The rights and obligations of parties to contracts not provided for in Items 549.1.- 549.4. shall be determined by the law of the country where the party performing the principal obligations under contract has its place of residence or carries out its core business activities.

549.9. Unless otherwise agreed by the parties, the results of implemented obligations shall be accepted or appraised in accordance to the law of the country where such acceptance is made.

#### **Article 550. Transfer of claim right**

550.1. The transfer of the claim right shall be governed by the law of the country where previous the principal and the agent made a contract.

550.2. The right and obligations of the new agent to the previous agent shall be governed by the law of the country where the right of claim was transferred.

#### **Article 551. Liability for damage**

551.1. The rights and obligations of the parties for the caused damage shall be governed by the laws of the country where the damage occurred or the compensation claim was originally raised and where documents are held.

551.2. The right and responsibilities of the citizen or legal entity of Mongolia held liable for damage wrought abroad shall be determined by laws of Mongolia.

## **CHAPTER SIXTY THREE**

### **Inheritance**

#### **Article 552. Laws on inheritance**

552.1. The inheritance relations shall be regulated by the laws of the country of permanent residence of the successor.

552.2. The questions of legal capacity of testator, form of the will, drafting and amendment shall be regulated by the laws of the country of the permanent residence of the testator at the time of drafting or amending the will.

552.3. It is prohibited to void the will only on the basis of its form inconsistency, if the will was drafted and amended according to the requirements of the laws of the country where it was made or laws of Mongolia.

552.4. Inheritance and bequeathing, change of successors of immovable property located on territory of Mongolia shall be are governed by laws of Mongolia.

Sign

### **Decree on Observance of the Civil Code of Mongolia**

#### **Article 1.**

1.1. The Civil Code of Mongolian comes into effect on September 1, 2002.

#### **Article 2.**

2.1. Relations specified in the Item 20.2 of Article 20, Item 25.5 of Article 25, Item 26.2 of Article 26, Item 27.5 of Article 27, Item 34.2 Article 34, Item 35.2 of Article 35, Items 36.3, 36.5 of Article 36, Item 143.6 Article 143, Items 182.1, 182.3 of Article 182, Item 189.2 of Article 182, Item 432.2 of Article 432, Item 445.8 of Article 445, Item 451.3 of Article 451, Item 454.7 of Article 454 of the Civil Code will be regulated by the existing laws, legal acts until acceptance of the new law regulating the respective relations.

Chairman of the Ikh Khural  
of the Republic of Mongolia

S. Tumor- Ochir

### **ON THE REVOCATION OF THE LAW**

Article 1. To consider void the Civil Code of the Mongolia adopted on November 1, 1994 (in a new wording).

Article 2. To observe this Civil Code from the date of its entrance into force.