

# CIVIL CODE OF THE REPUBLIC OF ARMENIA

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## **DIVISION 1.GENERAL PROVISIONS**

### **CHAPTER 1. CIVIL LEGISLATION AND OTHER LEGAL ACTS CONTAINING NORMS OF CIVIL LAW**

#### **Article 1. Relations Regulated by Civil Legislation and by Other Legal Acts Containing Norms of Civil Law**

1.The civil legislation of the Republic of Armenia consists of the present Code and other statutes containing norms of civil law.

Norms of civil law contained in other statutes must correspond to the present Code.

2.Civil legislation and also edicts of the President of the Republic of Armenia and decrees of the Government of the Republic of Armenia containing norms of civil law (hereinafter – other legal acts) determine the legal status of the participants in civil commerce, the bases for the origin and the procedure for the exercise of the right of ownership and other property rights, of exclusive rights to the results of intellectual activity (intellectual property), regulate contractual and other obligations and also other property relations and personal non-property relations related to them.

The participants in relations regulated by civil legislation and other legal acts are physical persons (hereinafter—citizens) and legal persons and also the Republic of Armenia and communes (Art. 128).

The rules established by civil legislation and other legal acts shall be applied to relations with the participation of foreign citizens, persons without citizenship and foreign legal persons, unless otherwise provided by a statute.

3.Civil legislation and other legal acts regulate relations among persons, conducting entrepreneurial activity or with their participation.

4.Family and labor relations, relations for the use of natural resources and for the preservation of the environment are regulated by civil legislation and other legal acts unless family, labor, land, nature preservation, or other specialized legislation provides otherwise.

5.Relations connected with the exercise and protection of the inalienable rights and freedoms of man and other nonmaterial values are regulated by civil legislation and other legal acts, unless it otherwise follows from the nature of these relations.

6.Civil legislation and other legal acts are not applied to property relations based on administrative or other authoritative subordination of one party to another, including tax, finance, and administrative relations, unless otherwise provided by legislation.

#### **Article 2. Entrepreneurial Activity**

Entrepreneurial activity is independent activity by a person conducted at its own risk pursuing as a basic purpose the extraction of profit from the use of property, sale of goods, doing work, or rendering of services.

#### **Article 3. Basic Principles of Civil Legislation**

1.Civil legislation is based on the principles of equality, autonomy of will, and property independence of the participants in the relations regulated by it, the inviolability of ownership, freedom of contract, impermissibility of arbitrary interference by anyone in private affairs, the necessity of the unhindered exercise of civil law rights, the guaranty of restoration of violated rights and their judicial protection.

2.Citizens and legal persons acquire and exercise their civil law rights by their own will and in their own interest. They are free in the establishment of their rights and duties on the basis of contract and in determining any conditions of contract not contradictory to legislation.

Civil law rights may be limited only by statute, if this is necessary for the purpose of defending state and societal security, social order, the health and morals of society, the protection of the rights and freedoms, honor and good name of other persons.

3.Goods, services and financial assets may be freely moved about on the whole territory of Republic of Armenia. Limitations of the movement of goods and services may be introduced in accordance with statute if this is necessary to guaranty safety, protection of the life and health of people, preservation of nature and of cultural values.

#### **Article 4. Other Legal Acts**

1.In accordance with Article 78 of the Constitution of the Republic of Armenia, within the time period established by the National Assembly of the Republic of Armenia, the relations indicated in Article 1 of the present Code may also be regulated by decrees of the Government of the Republic of Armenia having the force of a statute.

2.On the basis of and in the performance of the present Code and other statutes, the President of the Republic of Armenia has the right to adopt edicts containing norms of civil law.

3. On the basis of and in performance of the present Code and other statutes and edicts of the President of the Republic of Armenia, the Government of the Republic of Armenia has the right to adopt decrees containing norms of civil law.

4. In case of contradiction between an edict of the President of the Republic of Armenia or a decree of the Government of the Republic of Armenia and the present Code or other statute, the present Code or respective statute shall be applied.

5. The effectiveness and application of norms of civil law contained in edicts of the President of the Republic of Armenia and decrees of the Government of the Republic of Armenia shall be determined by the rules of the present Chapter.

6. Ministries and other agencies of executive authority and also bodies of local self-government may issue acts containing norms of civil law only in the cases and within the limits provided by the present Code, other statutes and legal acts.

#### **Article 5. The Effect of Civil Legislation and Other Legal Acts in Time**

1. Acts of civil legislation and other legal acts do not have retroactive force and are applied to relations that have arisen after they were put into effect.

The effect of a statute extends to relations that arose before it was put into effect only in the cases when this is directly provided by statute.

2. With respect to relations that arose before the putting into effect of an act of civil legislation or other legal act, it is applied to rights and duties that arose after it was put into effect. Relations of parties under a contract concluded before an act of civil legislation or other legal act was put into effect are regulated in accordance with Article 438 of the present Code.

#### **Article 6. Civil Legislation, Other Legal Acts and International Treaties**

1. International treaties of the Republic of Armenia are applied to relations indicated in Article 1 of the present Code directly, except in cases when, from the international treaty, it follows that the issuance of an internal state act is required for its application.

2. If an international treaty of the Republic of Armenia establishes norms other than those that are provided by civil legislation and legal acts, the norms of the international treaty are applied.

#### **Article 7. Customs of Commerce**

1. A custom of commerce is a rule of conduct in any area of entrepreneurial activity that has taken form and is widely applied, and that is not provided by legislation, regardless of whether or not it has been fixed in any document.

2. Customs of commerce contradicting obligatory provisions of legislation or contract shall not be applied.

#### **Article 8. Interpretation of Civil Law**

Civil law norms must be interpreted in accordance with the literal sense of the words and expressions contained therein.

In case of differing meaning of words and expressions used in the text of legal norms, preference shall be given to the meaning corresponding to the principles of civil legislation stated in Paragraph 1 of Article 3 of the present Code.

#### **Article 9. Application of Civil Law Norms by Analogy**

1. In cases when the relations provided by Article 1 of the present Code are not directly regulated by statute or agreement of the parties and there is no custom of commerce applicable to them, then, to such relations, if it does not contradict their nature, norms of civil legislation regulating similar relations (analogy of statute) shall be applied.

2. In case of impossibility of use of analogy of statute, the rights and duties of the parties shall be determined proceeding from the principles of civil legislation (analogy of law).

3. It is not allowed to apply by analogy norms limiting civil law rights or establishing liability.

## **CHAPTER 2. THE ORIGIN OF CIVIL LAW RIGHTS AND DUTIES. EXERCISING CIVIL LAW RIGHTS**

#### **Article 10. Bases for the Origin of Civil Law Rights and Duties**

1. Civil law rights and duties arise from bases provided by statute and other legal acts, and also from the activities of citizens and legal persons, which although not provided by statute or other legal acts, but by the effect of the principles of civil legislation engender civil law rights and duties.

In accordance with this, civil law rights and duties arise:

- 1) from contracts and other transactions provided for by statute and also from contracts and other transactions that, although not provided for by statute, do not contradict it;
  - 2) from acts of state bodies, and bodies of local self-government that are provided for by statute as a basis for the origin of civil law rights and duties;
  - 3) from a judicial act that has established civil law rights and duties;
  - 4) as the result of acquiring property on bases allowed by statute;
  - 5) as the result of the creation of works of scholarship, literature, or art, of inventions, and of other results of intellectual activity;
  - 6) as the result of causing harm to another person;
  - 7) as the result of unjust enrichment;
  - 8) as the result of other activities of citizens and legal persons;
  - 9) as the result of events with which a statute or other legal act connects the occurrence of civil-law consequences.
2. Property rights subject to state registration arise from the time of their registration.

#### **Article 11. Exercise of Civil Law Rights**

1. Citizens and legal persons at their discretion exercise the civil law rights belonging to them, including the right to their protection.
2. Refusal by citizens or legal persons to exercise rights belonging to them shall not entail termination of these rights, with the exception of cases provided for by statute.

#### **Article 12. Limits of Exercise of Civil Law Rights**

1. Actions of citizens and legal persons exercised exclusively with the intention to cause harm to another person are not allowed, nor is abuse of a legal right allowed in other forms.  
Use of civil law rights for the purpose of restricting competition is not allowed, nor is abuse of a dominant position in the market.
2. In case of failure to observe the requirements provided by Paragraph 1 of the present Article, the court, commercial court, or arbitration tribunal (hereinafter—court) may refuse the person protection of the right belonging to it.

### **CHAPTER 3. PROTECTION OF CIVIL LAW RIGHTS**

#### **Article 13. General Provisions**

1. Protection of civil law rights shall be conducted by a court, in accordance with the jurisdiction over cases established by the Civil Procedure Code of the Republic of Armenia.
2. A contract may provide for regulation of a dispute among the parties before going to a court.
3. Protection of civil law rights by an administrative procedure shall be conducted only in cases provided for by statute. A decision adopted by an administrative procedure may be protested in court.

#### **Article 14. Means of Protection of Civil Law Rights**

The protection of civil law rights shall be conducted by way of:

- 1) recognition of a right;
- 2) reinstating the situation that existed before the violation of the right,
- 3) stopping the activities that violated the right or created a threat of its violation;
- 4) applying the consequences of the invalidity of a void transaction;
- 5) recognizing an avoidable transaction as invalid and application of the consequences of its invalidity;
- 6) declaration of an act of a state body or of a body of local self-government as invalid;
- 7) non-application by the court of an act of a state body or of a body of local self-government that contradicts a statute;
- 8) self-protection of a right;
- 9) a judgment for specific performance of an obligation;
- 10) compensation for losses;
- 11) award of a penalty;
- 12) termination or alteration of a legal relation;
- 13) by other means provided by statute.

#### **Article 15. Declaration of the Invalidity of an Act of a State Body or of a Body of Local Self-government**

1. An act of a state body or of a body of local self-government not corresponding to a statute or other legal acts and violating civil law rights or other interests protected by statute of a citizen or legal person may be declared invalid by a court.

In case of declaration by a court of an act as invalid, the violated right is subject to protection by means provided by Article 14 of the present Code.

2.The Constitutional Court of the Republic of Armenia, in accordance with Article 100 of the Constitution of the Republic of Armenia, shall determine the correspondence of statutes, resolutions of the National Assembly of the Republic of Armenia, edicts and orders of the President of the Republic of Armenia, and decrees of the Government of the Republic of Armenia to the Constitution of the Republic of Armenia.

#### **Article 16. Self-Protection of Civil Law Rights**

A person has the right to self-protection of civil law rights by all means not forbidden by statute.

The means of self-protection must be proportional to the violation and not go outside the bounds of the actions necessary for stopping the violation.

#### **Article 17. Compensation for Losses**

1.A person whose right has been violated may demand full compensation for the losses caused to it unless statute or contract provides for compensation for losses in a lesser amount.

2.Losses means the expenses that the person whose right was violated made or must make to reinstate the right that was violated, the loss of or injury to his property (actual damage), and also income not received that this person would have received under the usual conditions of civil commerce if his right had not been violated (forgone benefit).

If the person who has violated a right has received income as thereby, the person whose right has been violated has the right to demand compensation along with other losses for forgone benefit in a measure not less than such income.

#### **Article 18.Compensation for Losses Caused by State Bodies and Bodies of Local Self-Government**

Losses caused to a citizen or legal person as the result of illegal actions (or non-actions) of state bodies, bodies of local self-government, or officials of these bodies, including the promulgation of an act of a state body or body of local self-government that does not correspond to statute or other legal act, are subject to compensation by the Republic of Armenia or the respective commune.

#### **Article 19. Protection of Honor, Dignity, and Business Reputation**

1.A citizen has the right to demand in court the retraction of communications impugning on his honor, dignity, or business reputation, unless the person who disseminated such communications proves that they correspond to reality.

On demand of interested persons, the protection of honor and dignity of a citizen is allowed also after his death.

2.If the communications impugning the honor, dignity, or business reputation of a citizen were distributed in media of mass information, they must be retracted in the same media of mass information.

If the aforementioned communications are contained in a document emanating from an organization, such a document is subject to replacement or recall.

The procedure for retraction in other cases shall be established by the court.

3.A citizen with respect to whom a medium of mass information has published communications infringing on his rights or interests protected by statute has the right to publication of his answer in the same medium of mass information.

4.A citizen with respect to whom communications have been disseminated impugning his honor, dignity, or business reputation, has the right together with the retraction of such information also to demand compensation for losses caused by their dissemination.

5.If it is impossible to identify the person who disseminated communications impugning the honor, dignity, or business reputation of a citizen, the person with respect to whom such communications was disseminated has the right to apply to court with a request for the recognition of the communications that were disseminated as not corresponding to reality.

6.The rules of the present article on the protection of the business reputation of a citizen shall be applied correspondingly to the protection of the legal reputation of a legal person.

## **DIVISION 2. PERSONS (SUBJECTS OF CIVIL LAW RIGHTS)**

### **CHAPTER 4. CITIZENS**

#### **Article 20. The Legal Capacity of a Citizen**

- 1.The ability to have civil rights and bear duties (civil legal capacity) is recognized in equal measure for all citizens.
- 2.The legal capability of a citizen arises from the time of his birth and is terminated by death.

#### **Article 21. The Content of the Legal Capacity of Citizens**

Citizens may:

- 1) have property by right of ownership;
- 2) inherit and will property;
- 3) conduct entrepreneurial and any other activity not forbidden by statute;
- 4) create a legal person independently or jointly with other citizens and legal persons;
- 5) conclude transactions not contrary to statute and participate in obligations;
- 6) select a place of residence;
- 7) have the rights of the creator of works of science, literature, and art, inventions, and other results of intellectual activity protected by statute;
- 8) have other property and personal non-property rights.

#### **Article 22. The Name of a Citizen**

1.A citizen acquires and exercises rights and duties under his own name, including his family name and given name, and also, if he wishes, a patronymic.

In cases and by the procedure provided by statute, a citizen may use a pseudonym (made-up name).

2.A citizen has the right to change his name by the procedure established by statute. Change of name by a citizen is not a basis for terminating or changing his rights and duties acquired under the previous name.

A citizen has the duty to notify his debtors and creditors of the change of his name and bears the risk of consequences caused if these persons lack information on his change of name.

A citizen who has changed his name has the right to demand the entry, at his expense, of the respective changes in documents formalized in his former name.

3.The name acquired by a citizen at birth and also a change of name are subject to registration by the procedure established for registration of acts of civil status.

4.Acquiring rights and duties under the name of another person is not allowed.

5.Harm caused to a citizen as the result of improper use of his name is subject to compensation in accordance with the present Code.

In case of distortion or use of the name of a citizen by means or in a form that impinges upon his honor, dignity, or business reputation, the rules provided by Article 19 of the present Code shall be applied.

#### **Article 23. Place of Residence of a Citizen**

1.The place of residence is the place where a citizen permanently or primarily lives.

2.The place of residence of minors who have not attained the age of fourteen years or of citizens who are under guardianship is the place of residence of their legal representatives—parents, adoptive parents or guardians.

#### **Article 24. The Dispositive Capacity of a Citizen**

1.The capacity of a citizen by his actions to acquire and exercise civil law rights, to create for himself civil law duties and to fulfill them (civil law dispositive capacity) arises in full with the attainment of majority, i.e., on the attainment of the age of eighteen.

2.A minor who has attained the age of sixteen may be declared of full dispositive capacity if he works under a labor contract or, with the agreement of his parents, adoptive parents, or curator, conducts entrepreneurial activity.

The declaration of a minor as of full dispositive capacity (emancipation) is made by decision of the agency of guardianship and curatorship – with the consent of both parents, the adoptive parents, or the curator or, in the absence of such consent, by decision of the court.

The parents, adoptive parents, and curator do not bear liability for the obligations of a minor declared of full dispositive capacity, in particular for obligations arising as the result of his causing harm.

3.In the case when a statute allows entry into marriage before attaining the age of eighteen, a citizen, who has not attained the age of eighteen, acquires dispositive capacity in full from the time of entry into marriage.

Dispositive capacity acquired as the result of conclusion of marriage is retained in full also in case of dissolution of the marriage before attaining the age of eighteen.



In case of declaration of a marriage as invalid, the court may adopt a decision on the loss by the minor spouse of full dispositive capacity from a time determined by the court.

#### **Article 25. Non-allowance of Deprivation or Limitation of the Legal Capability and Dispositive Capacity of a Citizen**

1. A citizen may not be limited in legal capacity or dispositive capacity other than in the cases and by the procedure established by statute.
2. Nonobservance of the conditions and procedure established by statute for the limitation of the dispositive capacity of citizens or of their right to conduct entrepreneurial or other activity shall entail the invalidity of the act of the state or other body that has established the respective limitation.
3. A full or partial renunciation by a citizen of legal capability or dispositive capacity, or other transactions directed at the limitation of legal capability or dispositive capacity, are void.

#### **Article 26. Entrepreneurial Activity of a Citizen**

1. A citizen has the right to create business organizations or to be a participant in them for the conduct of entrepreneurial activity.
2. A citizen has the right to conduct entrepreneurial activity without the formation of a legal person from the time of state registration as an individual entrepreneur.
3. The rules of the present Code that regulate the activity of legal persons that are commercial organizations shall be applied to entrepreneurial activity of citizens conducted without the formation of a legal person, unless it otherwise follows from a statute, other legal acts or the nature of the legal relationship.
4. A court may apply the rules of the present Code on obligations connected with the conduct of entrepreneurial activity to transactions of a citizen who is conducting entrepreneurial activity in violation of the requirements of Paragraphs 1 and 2 of the present Article.

#### **Article 27. Property Liability of a Citizen**

A citizen is liable for his obligations with all property belonging to him, with the exception of property upon which, in accordance with statute, execution cannot be levied.

#### **Article 28. Bankruptcy of a Citizen**

1. A citizen, including an individual entrepreneur, by decision of a court may be declared bankrupt if he is not in a position to satisfy the demands of creditors.
2. The bases and procedure for declaration by a court of a citizen bankrupt shall be established by the Civil Procedure Code of the Republic of Armenia.
3. In case of declaration of a citizen as bankrupt, the claims of creditors not satisfied because of the absence or insufficiency of his property shall remain in effect until their full satisfaction.

#### **Article 29. Dispositive Capacity of Minors up to the Age of fourteen**

1. For minors who have not attained the age of fourteen years (infants), transactions with the exclusion of those indicated in Paragraph 2 of the present Article may be conducted in their name only by their parents, adoptive parents, or guardians.
2. Infants of the age of six to fourteen years have the right to independently conduct:
  - 1) very small everyday transactions;
  - 2) transactions directed at acquiring a cost-free benefit requiring neither notarial certification nor state registration of rights arising from these transactions;
  - 3) transactions for disposition of assets provided by the legal representative or, with the consent of the latter, by a third person, for a particular purpose or for free disposition.
3. Property liability under transactions of an infant, including for transactions conducted by him independently is borne by his parents, adoptive parents, or guardian, unless they prove that the obligation was violated without their fault. These persons, in accordance with statute, also are liable for harm caused by infants.

#### **Article 30. Dispositive Capacity of Minors of the Age of Fourteen to Eighteen Years**

1. Minors of the age of fourteen to eighteen years, conduct transactions, with the exception of those listed in Paragraph 2 of the present Article with the written consent of their legal representatives—parents, adoptive parents, or curator.

A transaction conducted by such a minor also is valid in case of its later written approval by his parents, adoptive parents, or curator.
2. Minors of the age of fourteen to eighteen years have the right, independently, without the consent of parents, adoptive parents, or curator:
  - to dispose of their wages, scholarship, and other income;
  - to exercise the rights of a creator of a work of scholarship, literature, or art, of invention, or of other result of intellectual activity protected by statute;
  - 3) in accordance with statute, to make contributions in credit institutions and to dispose of them;

4)to conduct small everyday transactions and other transactions provided by Paragraph 2 of Article 29 of the present Code.

Upon attaining sixteen years, minors also have the right to be a member of a cooperative in accordance with the statutes on cooperatives.

3.Minors of the age of fourteen to eighteen years independently bear property liability for transactions conducted by them in accordance with Paragraphs 1 and 2 of the present Article. For harm caused by them, the minors also bear liability in accordance with the present Code.

4.Where sufficient bases are present, a court on petition of parents, adoptive parents, or a curator or of an agency of guardianship and curatorship may limit or deprive a minor of the age of fourteen to eighteen years of the right to independently dispose of his wages, scholarship, or other income, with the exception of cases when such minor acquired dispositive capacity in full scope in accordance with Paragraphs 2 and 3 of Article 24 of the present Code.

### **Article 31. Declaration of a Citizen as Lacking Dispositive Capacity**

1.A citizen who as the result of mental disorder cannot understand the significance of his actions or control them may be recognized by a court as lacking dispositive capacity by the procedure established by the Civil Procedure Code of the Republic of Armenia. Guardianship shall be established over him.

2.Transactions in the name of a citizen who has been declared lacking dispositive capacity shall be concluded by his guardian.

3.If the bases by virtue of which a citizen was declared lacking dispositive capacity have ceased to exist, the court shall recognize him as having dispositive capacity. On the basis of the decision of the court the guardianship established over him shall be terminated.

### **Article 32. Limitation of the Dispositive Capacity of a Citizen**

1.A citizen who, as the result of abuse of liquor or narcotic substances or engaging in games of chance, puts his family in a difficult financial situation, may be limited by a court in dispositive capacity by the procedure established by the Civil Procedure Code of the Republic of Armenia. Curatorship shall be established over him. He has the right to conduct small everyday transactions independently.

He may conduct other transactions and also receive wages, a pension, and other income and dispose of them only with the consent of the curator. However, such a citizen independently bears property liability for transactions conducted by him and for harm caused by him.

2.If the bases, by virtue of which the citizen was limited in dispositive capacity no longer exist, the court shall terminate the limitation of his dispositive capacity. On the basis of a decision of the court, the curatorship established over the citizen shall be terminated.

### **Article 33. Guardianship and Curatorship**

1.Guardianship and curatorship are established for the protection of the rights and interests of citizens lacking dispositive capacity or not of full dispositive capacity. Guardianship and curatorship over minors is established also for the purpose of their upbringing. The corresponding rights and duties of guardians and curators are established by the Family Code of the Republic of Armenia.

2.Guardians and curators act in protection of the rights and interests of their wards in relations with any persons, including in courts, without special authorization.

3.Guardianship and curatorship over minors shall be established if they lack parents or adoptive parents, if a court has deprived the parents of parental rights, and also in cases when such citizens for other reasons have been left without parental curatorship, in particular when parents avoid their upbringing or the protection of their rights and interests.

### **Article 34. Guardianship**

1.Guardianship is established over minors who have not attained fourteen years and also over citizens recognized by a court as lacking dispositive capacity as the result of mental disorder.

2.Guardians are representatives of the wards by force of statute and conduct all necessary transactions in their names and in their interests.

### **Article 35. Curatorship**

1.Curatorship is established over minors of the age of fourteen to eighteen years, and also over citizens limited by a court in dispositive capacity as the result of abuse of liquor or narcotic substances, or engaging in games of chance.

2.Curators give consent to the making of those transactions that citizens who are under curatorship do not have the right to conclude independently.

Curators render aid to wards in their exercise of their rights and the performance of duties and also defend them from abuses on the part of third persons.

### **Article 36. Agencies of Guardianship and Curatorship**

1. Agencies of guardianship and curatorship are established by statute.
2. A court is obligated within three days from the day of entry into legal force of a decision on the declaration of a citizen as lacking dispositive capacity or of limiting his dispositive capacity to report this to the agency of guardianship and curatorship at the place of residence of such a citizen for the establishment of guardianship or curatorship over him.
3. The agency of guardianship and curatorship at the place of residence of the wards shall conduct supervision of the activity of their guardians and curators.

### **Article 37. Guardians and Curators**

1. A guardian or curator is appointed by the agency of guardianship and curatorship at the place of residence of the persons needing guardianship or curatorship within a month from the time when the aforesaid agency became aware of the necessity of establishment of guardianship or curatorship over a citizen. Until the appointment of a guardian or curator for the person needing guardianship or curatorship, the performance of the obligations of the guardian or curator shall be conducted by the agency of guardianship or curatorship.  
The appointment of a guardian or curator may be protested in court by interested persons.
2. Adult citizens with dispositive capacity may be appointed as guardians and curators. Citizens deprived of parental rights may not be appointed as guardians and curators.
3. A guardian or curator shall be appointed with his consent. His moral and other personal qualities, ability for fulfillment the duties of guardian or curator, the relations existing between him and the person needing guardianship or curatorship, and if this is possible—also the wish of the ward must be considered.
4. The guardians and curators of citizens needing guardianship or curatorship and being located or placed in respective educational or therapeutic institutions, institutions of social protection of the public, or other analogous institutions, are these institutions.

### **Article 38. Performance by Guardians and Curators of Their Duties**

1. Duties for guardianship and curatorship are performed without compensation, except in cases provided by statute.
2. Guardians and curators of minor citizens are obligated to live together with their wards. Separate residence of a curator from a ward who has attained the age of sixteen is permitted with the consent of the agency of guardianship and curatorship on the condition that this is not reflected unfavorably on the upbringing and protection of the rights and interests of the ward.  
The guardians and curators are obligated to notify the agencies of guardianship and curatorship on change of place of residence.
3. Guardians and curators are obligated to take care for the support of their wards, on ensuring their care and medical treatment, their education and upbringing, protection of their rights and interests.
4. The duties indicated in Paragraph 3 of the present Article are not imposed upon curators of adult citizens limited by a court in dispositive capacity.
5. If the bases by virtue of which a citizen has been declared lacking dispositive capacity or of limited dispositive have ceased to exist, the guardian or curator has the duty to petition a court for the declaration of the ward as having dispositive capacity and of the removal of guardianship or curatorship from him.

### **Article 39. Disposition of the Property of the Ward**

1. Income of the citizen under wardship including income due the ward from the management of his property, with the exception of the income that the ward has the right to dispose of independently is expended by the guardian or curator exclusively in the interests of the ward and with the preliminary permission of the agency of guardianship and curatorship.  
The guardian or curator has the right to make the expenses necessary for the support of the ward at the expense of sums due the ward as his income, without the prior permission of the agency of guardianship and curatorship.
2. The guardian does not have the right, without the prior permission of the agency of guardianship and curatorship to conclude, nor a curator—to give consent to the making of, transactions for the alienation, including the exchange or gift of property of the ward, to give it out in lease, for uncompensated use, in pledge, nor of transactions involving a waiver of rights belonging to the ward, nor the division of his property nor separation of ownership shares from it, nor to any other transactions involving the reduction of the property of the ward.  
The procedure for management of the property of the ward shall be determined by statute.
3. The guardian, the curator, their spouses, and their close relatives do not have the right to conclude transactions with a ward, with the exception of the transfer of property to the ward as a gift or for cost-free use, nor to represent the ward in the conclusion of transactions or the conduct of judicial proceedings between the ward and spouse of the guardian or curator and their close relatives.

#### **Article 40. Entrusted Management of the Property of the Ward**

1. In case of necessity of permanent management of immovable or valuable movable property of the ward, the agency of guardianship and curatorship concludes with an administrator, designated by this agency, a contract on entrusted management of this property. In this case the guardian or curator retains his powers with respect to the property of the ward that was not given to entrusted management.

In the exercise of powers for the entrusted management of the property of the ward, the effect of the rules provided by Paragraphs 2 and 3 of Article 39 of the present Code extend to the administrator.

2. Entrusted management of the property of the ward shall be terminated on the bases provided by statute for termination of a contract for entrusted management of property and also in case of termination of guardianship or curatorship.

#### **Article 41. Freeing and Removing Guardians and Curators From the Performance by them of Their Duties**

1. An agency of guardianship and curatorship shall free a guardian or curator from performing his duties in cases of return of the minor to his parents or his adoption.

2. In case of placement of the ward in a respective educational or therapeutic institution, institution of social protection of the public, or other analogous institution, the agency of guardianship and curatorship shall free an earlier appointed guardian or curator from performing his duties, unless this contradicts the interests of the ward.

3. If there are compelling reasons (illness, change in financial status, absence of mutual understanding with the ward, etc.), the guardian or curator may be freed from performing his duties on his request.

4. In cases of improper fulfillment by the guardian or curator of the obligations imposed upon him, including in case of his use of guardianship or curatorship for selfish reasons or in case of leaving the ward without supervision or the necessary help, the agency of guardianship and curatorship may remove the guardian or curator from performing these duties and take the necessary measures for bringing the guilty citizen to the responsibility established by statute.

#### **Article 42. Termination of Guardianship and Curatorship**

1. Guardianship and curatorship over adult citizens shall be terminated in case a court has rendered a decision to recognize the ward as having dispositive capacity or to terminate limitations upon his dispositive capacity upon petition of the guardian, curator, or agency of guardianship and curatorship.

2. Upon attainment by an infant of the age of fourteen years, guardianship over him shall be terminated, and the citizen conducting the duties of guardian becomes curator of the minor without a further decision to this effect.

3. Curatorship over a minor shall be terminated without a special decision upon the minor ward attaining the age of eighteen years, and also upon his entry into marriage and in other cases of his acquiring full dispositive capacity before attaining majority (Paragraph 2 and 3 of Article 24).

#### **Article 43. Patronage Over a Citizen With Dispositive Capacity**

1. On the request of an adult citizen with dispositive capacity, who due to the condition of health cannot independently exercise and protect his rights and perform his duties, patronage may be established over him. The establishment of patronage does not entail limitation of the rights of the citizen.

2. The patron (helper) of the adult citizen with dispositive capacity shall be appointed by the agency of curatorship and curatorship with the consent of the citizen.

3. Disposition of the property belonging to an adult citizen with dispositive capacity shall be conducted by the patron (helper) on the bases of a contract of agency or entrusted management concluded with the ward. The making of everyday and other transactions directed at the support and the satisfaction of everyday needs shall be conducted by the patron (helper) with the consent of the citizen.

4. Patronage established in accordance with Paragraph 1 of the present Article over an adult citizen with dispositive capacity shall be terminated upon demand of the citizen who is under patronage.

The patron (helper) of the citizen who is under patronage, shall be freed from fulfillment of his duties in the cases provided by Article 41 of the present Code.

#### **Article 44. Declaration of a Citizen as Missing**

A citizen may, upon request of interested persons, be recognized by a court as missing, if in the course of a year, at the place of his residence, there is no information on the place where he is.

In case it is impossible to determine the day of receipt of the last information on the missing person, the start of the calculation of the time period for declaration as missing is considered the first day of the month after that in which the last information on the missing person was received, and in case it is impossible to determine this month—the first of January of the following year.

#### **Article 45. Consequences of Declaration of a Citizen as Missing**

1. The property of a citizen declared missing, in case of the necessity of constant management of it shall be transferred on the basis of a decision of the court to a person who shall be determined by the agency of

guardianship and curatorship and who shall act on the basis of contract of entrusted management concluded with this agency.

2.The administrator of the property of the person declared missing shall pay his debts at the expense of the property of the absent person, shall administer the property in the interests of this person, and shall provide support for the citizens whom the missing person was obligated to support.

3.The agency of guardianship and curatorship may even before the expiration of a year from the day of receipt of the last information on the place of location of the missing citizen on the basis of a decision by the court appoint an administrator for his property.

4.If upon the expiration of three years from the day of appointment of an administrator the decision of a court on the declaration of a person as missing has not been vacated and there has not been an application to the court for the declaration of the citizen as dead, the agency of guardianship and curatorship has the duty to apply to court with a request for the declaration of the citizen as dead.

5.The consequences of declaration of a person as missing not provided by the present Article are determined by statute.

#### **Article 46. Consequences of Vacating a Decision to Recognize a Citizen as Missing**

In case of the appearance or of the discovery of the place of location of a citizen who has been declared missing, the court shall vacate a decision on declaration of him as missing. On the basis of the decision of the court, the entrusted management of the property of this citizen is terminated.

#### **Article 47. Declaration of a Citizen as Dead**

1.A citizen may be declared dead by a court, if at the place of his residence there is no information on the place of his location during three years or, if he disappeared under circumstances threatening death or giving a basis to assume his loss from a specific accident, during six months.

2.A military serviceman or other citizen who has disappeared in connection with military actions may be declared dead by a court not earlier than after the expiration of two years from the day of the end of the military actions.

3.The day of the death of the citizen who is declared dead shall be considered to be the day of entry into legal force of the decision of the court recognizing him as dead. In case of declaration of a citizen as dead who disappeared under circumstances threatening death or giving a basis to assume his loss from a specific accident, the court may recognize as the day of death of this citizen the day of his supposed loss.

#### **Article 48. Consequences of the Appearance of a Citizen Who has been Declared Dead**

1.In case of the appearance or of the discovery of the place of location of a citizen who has been declared dead, the court shall vacate the decision on recognizing him as dead.

2.Regardless of the time of his appearance, the citizen may demand from any person the return of property still preserved, which passed without compensation to this person after the declaration of the citizen as dead, with the exception of the cases provided by Paragraph 3 of Article 275 of the present Code.

3.Persons to whom the property of a citizen who has been declared dead has passed under compensated transactions are obligated to return this property to him if it is proved that, in acquiring this property they knew that the citizen who was declared dead was among the living. In case of impossibility of the physical return of such property, its value shall be compensated for.

4.If the property of a citizen who has been declared dead has passed by right of inheritance to the commune and has been vended with observance of the conditions provided by the present Article, then after the vacating of the decision on the declaration of the citizen as dead, the sum received from the vending of the property shall be returned to him.

#### **Article 49. Registration of Acts of Civil Status**

1.The following acts of civil status are subject to state registration:

- 1) birth;
- 2) concluding of marriage
- 3) dissolution of marriage;
- 4) adoption of a son (or daughter)
- 5) establishment of paternity
- 6) change of name
- 7) death of a citizen.

2.Registration of acts of civil status shall be done by the agencies of registration of acts of civil status by entry of the respective records in the books of registration of acts of civil status (the books of acts) and issuance to citizens of certificates on the basis of these records.

3.The correction and change of records of acts of civil status shall be made by the agencies of registration of acts of civil status if there are sufficient bases and there is no dispute among interested persons.

If there is a dispute among interested persons or a refusal of an agency of registration acts of civil status to correct or change a record, the dispute shall be permitted by a court.

The annulment and reinstatement of records of acts of civil status shall be done by the agency of registration of acts of civil status on the basis of a decision of a court.

4. The agencies conducting registration of acts of civil status, the procedure for registration of these acts, the procedure for change, reinstatement and annulling of records of acts of civil status, the forms of the books of acts and the certificates and also the procedures and the time periods for keeping the books of acts shall be determined by the statute on acts of civil status.

## **CHAPTER 5. LEGAL PERSONS**

### **§ 1. BASIC PROVISIONS**

#### **Article 50. Definition of a Legal Person**

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

A legal person must have an independent balance sheet.

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

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

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

#### **Article 51. Types of Legal Persons**

1. Organizations pursuing the extraction of profit as the basic purpose of their activity (commercial organizations) or not having the extraction of profit as such a purpose and not distributing profit received among their participants (noncommercial organizations) may be legal persons.

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

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

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

Noncommercial organizations may conduct entrepreneurial activity only in the cases when this serves the attainment of the purposes for which they are created and corresponds to these purposes. For the conduction of entrepreneurial activity, noncommercial organizations have the right to create business companies or to participate in them.

#### **Article 52. Legal Capacity of a Legal Person**

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

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

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

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

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

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

#### **Article 53. Creation of a Legal Person**

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

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

#### **Article 54. Liability of the Founders of the Legal Person**

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

#### **Article 55. Founding Document of a Legal Person**

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

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

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

In the charter of a noncommercial organization the subject and purposes of its activity shall be established.

In the charter of a commercial organization, the subject and purposes of its activity may be established.

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

#### **Article 56. State Registration of Legal Persons**

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

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

Refusal of registration on bases of the inexpediency of creating the legal person is not allowed.

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

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

4. A legal person shall be subject to reregistration only in cases established by statute.

#### **Article 57. Bodies of a Legal Person**

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

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

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

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

#### **Article 58. The Name of a Legal Person**

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

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

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

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

3. Acquiring rights and duties under the firm name of another legal person is not allowed.

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

#### **Article 59. Place of Location of a Legal Person**

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

#### **Article 60. Liability of a Legal Person**

1. A legal person shall be liable for its obligations with all property belonging to it.

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

#### **Article 61. Representative Offices and Branches**

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

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

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

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

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

#### **Article 62. Institution**

1. An institution is an organization created by a legal person for the conduct of administrative, cultural and societal, or other functions of a noncommercial character.

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

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

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

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

#### **Article 63. Reorganization of a Legal Person**

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

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

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

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

4. Upon the reorganization of a legal person in the form of accession of another legal person to it, the first of them shall be considered reorganized from the time of making in the state register of legal persons of an entry on the termination of activity of the legal person that has acceded.

#### **Article 64. Legal Succession Upon the Reorganization of Legal Persons**

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

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

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

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

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

#### **Article 65. The Transfer Document and the Division Balance Sheet**

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

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

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



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

1. The founders of (or participants in) the legal person or the body of the legal person empowered thereto by the charter that has adopted a decision to reorganize the legal person, and in the cases provided by Paragraph 2 of Article 63 of the present Code, the outside manager, are obligated to notify the creditors of the reorganized legal person of this in writing.
2. A creditor of the reorganized legal person shall have the right to demand termination or early performance of an obligation for which the reorganized legal person is a debtor and compensation for losses.
3. If the division balance sheet does not provide the possibility of determining the legal successor of the reorganized legal person, the newly arisen legal persons bear joint and several liability for the obligations of the reorganized legal person to its creditors.

### **Article 67. Liquidation of a Legal Person**

1. Liquidation of a legal person shall entail its termination without transfer of rights and duties by way of legal succession to other persons.
2. A legal person may be liquidated:
  - 1) by a decision of its founders (or participants) or of the body of the legal person empowered thereto by the charter, including in connection with the expiration of the time period for which the legal person was created or with the achievement of the purpose for which it was created;
  - 2) in case of declaration by a court that the registration of a legal person is invalid in connection with violations of a statute or other legal acts committed at its creation;
  - 3) by a decision of a court in case of conduct of activity without appropriate permission (or license) or of activity prohibited by a statute, or with other multiple or gross violations of a statute or other legal acts, or in case of systematic conduct by a societal organization or fund of activity contradicting its charter purposes, and also in other cases provided by the present Code.
3. A demand for the liquidation of a legal person on the bases indicated in Paragraph 2 of the present Article may be presented in court by a state body or an agency body of local self-government to whom the right for presenting such a demand has been given by a statute.

A decision of a court for the liquidation of a legal person may impose duties for the conduct of the liquidation of the legal person on its founders (or participants) or the body empowered for the liquidation of the legal person by its charter.
4. A legal person also may be liquidated as the result of bankruptcy.
5. If the value of the property of a liquidated legal person is insufficient for satisfaction of the claims of creditors, it may be liquidated only as the result of bankruptcy.

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

1. The founders of (or participants in) a legal person or the body of a legal person empowered thereto by the charter that has adopted a decision to liquidate a legal person are obligated to report promptly about this to the agency that conducts state registration of legal persons, which shall enter in the state register of legal persons information to the effect that the legal person is in the process of liquidation.
2. The founders of (or participants in) the legal person or the body of a legal person empowered thereto by the charter that has taken the decision to liquidate the legal person shall appoint a liquidation commission (or liquidator) and shall establish, in accordance with the present Code, the procedure and time periods for liquidation.
3. From the time of appointment of a liquidation commission, the powers for the management of the affairs of the legal person shall pass to it. The liquidation commission may appear in court in the name of the legal person being liquidated.

### **Article 69. The Procedure for Liquidation of a Legal Person**

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

The liquidation commission shall take measures for the discovery of creditors and for the receipt of debtor indebtedness and also shall inform creditors about the liquidation of the legal person.
2. After the end of the time period for the presentation of claims by creditors, the liquidation commission shall compile an intermediate liquidation balance sheet, which shall contain information on the composition of the property of the legal person being liquidated, on a list of the claims presented by creditors, and also about the results of their consideration.

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

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

4.Payment of monetary sums to creditors of the legal person being liquidated shall be made by the liquidation commission in the order of priority established by Article 70 of the present Code, in accordance with the intermediate liquidation balance sheet, beginning from the day of its approval.

5.After settlement with creditors, the liquidation commission shall compile a liquidation balance sheet, which shall be approved by the founders of (or participants in) the legal person or by the body of the legal person empowered thereto by the charter that adopted the decision for the liquidation of the legal person.

The liquidation commission shall, in an appropriate manner, send the approved liquidation balance to the agency conducting state registration of legal persons.

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

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

#### **Article 70. Satisfaction of the Claims of Creditors**

1.Upon the liquidation of a legal person, the claims of its creditors shall be satisfied in the following order: in the first order, claims of creditors secured by pledge of property of the legal person being liquidated shall be satisfied;

in the second order, claims of citizens to whom the legal person being liquidated is liable for causing of harm to life or health shall be satisfied by capitalization of the respective periodic payments;

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

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

in the fifth order, settlements shall be made with other creditors.

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

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

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

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

#### **Article 71. Bankruptcy of a Legal Person**

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

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

## **§ 2. COMMERCIAL ORGANIZATIONS**

### **1. General Provisions on Business Partnerships and Companies**

#### **Article 72.Basic Provisions on Business Partnerships and Companies**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3) to take part in the distribution of profit;

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

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

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

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

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

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

#### **Article 74. Transformation of Business Partnerships and Companies**

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

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

#### **Article 75. Subsidiary Business Company**

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

2. A subsidiary company is not liable for the debts of the principal partnership or company.

3. A principal partnership or company that has the right to give the subsidiary company instructions obligatory for it shall be jointly and severally liable with the subsidiary company for transactions concluded by the latter in the performance of such instructions. A principal partnership or company shall be considered to have the right to give a subsidiary company instructions obligatory for it only in the case when this right is provided in a contract with the subsidiary company.

4. The participants (or stockholders) of a subsidiary company shall have the right to claim compensation by the principal partnership or company for losses caused by its fault to the subsidiary company. Losses shall be considered caused due to the fault of the principal partnership or company only in the case when they have occurred as the result of the performance by the subsidiary company of instructions obligatory for it of the principal partnership or company.

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

#### **Article 76. Dependent Business Company**

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

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

## **2. Full Partnership**

### **Article 77. Basic Provisions on a Full Partnership**

1. A full partnership is one whose participants (general partners), in accordance with the charter are conducting entrepreneurial activity in the name of the partnership and bear liability for its obligations with the property belonging to them.
2. A person may be a participant in only one full partnership.
3. The firm name of a full partnership must contain the names (or designations) of all its participants and the words “full partnership” or the name (or designation) of one or more participants with the addition of the words “and partners” and the words “full partnership.”

### **Article 78. The Charter of a Full Partnership**

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

### **Article 79. Management in a Full Partnership**

1. Management of the activity of a full partnership shall be conducted by the general agreement of all the participants. The charter of the full partnership may provide for cases when a decision may be taken by a majority of votes of the participants.
2. Each participant in a full partnership shall have one vote, unless the charter provides a different procedure for determining the number of votes of its participants.
3. Each participant in a partnership, regardless of whether he is empowered to conduct the affairs of the partnership, shall have the right to be acquainted with all documentation for the conduct of affairs. A renunciation of this right or a limitation of it, including by agreement of the participants in the partnership, shall be void.

### **Article 80. Conduct of the Affairs of a Full Partnership**

1. Each participant in a full partnership has the right to act in the name of the partnership unless the charter establishes that all its participants conduct affairs jointly or the conduct of affairs is delegated to individual participants.  
In the joint conduct of the affairs of a partnership by its participants, the consent of all the participants in the partnership is required for the making of each transaction.  
If the conduct of the affairs of a partnership has been delegated by its participants to one or more of them, then the remaining participants, to making transactions in the name of the partnership, must have a power of attorney from the participant (or participants) to whom the conduct of the affairs of the partnership is assigned.  
In relations with third persons the partnership does not have the right to rely upon terms of the charter limiting the powers of participants in the partnership with the exception of cases when the partnership proves that the third person at the time of making a transaction knew or obviously should have known of the absence for a participant in the partnership of the right to act in the name of the partnership.
2. Powers for the conduct of the affairs of a partnership given to one or several participants may be terminated by a court on demand of one or several of the other participants in the partnership in case of serious bases therefore, in particular as the consequence of a gross violation by the empowered person (or persons) of his duties or of his revealed inability for the sensible conduct of affairs. On the basis of the judicial decision, the appropriate changes shall be made in the charter of the partnership.

### **Article 81. Duties of a Participant in a Full Partnership**

1. A participant in a full partnership has the duty to participate in its activity in accordance with the conditions of the charter.
2. A participant in a full partnership has the duty to make his contributions to the contributed capital of the partnership before its registration.
3. A participant in a full partnership does not have the right, without the consent of the remaining participants, to conduct in his own name in his own interests or in the interests of third persons transactions of the same type as those that constitute the subject of activity of the partnership.  
In case of violation of this rule the partnership shall have the right at its choice to demand from such a participant compensation for the losses caused to the partnership or to transfer to the partnership of all benefits acquired from such transactions.

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

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

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

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

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

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

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

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

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

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

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

#### **Article 85. Exit of a Participant from a Full Partnership**

1.A participant in a full partnership has the right to exit from it, by announcing his renunciation of participation in the partnership.

A renunciation of participation in a full partnership must be announced by the participant not less than six months before actual exit from the partnership.

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

#### **Article 86.Consequences of a Participant's Leaving a Full Partnership**

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

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

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

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

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

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

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

A participant in a full partnership has the right, with the consent of its remaining participants, to transfer his ownership share in the contributed capital or part of it to another participant in the partnership or to a third person. In case of transfer of a ownership share (or part of a ownership share) to another person, the rights belonging to the participant who transferred the ownership share (or part of a ownership share) pass to it in full or in corresponding part. The person to whom a ownership share (or part of a ownership share) passes shall bear liability for the

obligations of the partnership by the procedure established by subparagraph 1 of Paragraph 2 of Article 83 of the present Code.

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

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

Levy of execution on a participant's ownership share in the property of a full partnership for its debts not connected with participation in the partnership (personal debts) shall be allowed only in case of insufficiency of his other property to cover the debts. Creditors of such a participant have the right to demand from the full partnership the separation of a part of the property of the partnership proportional to the ownership share of the debtor in the contributed capital with the purpose of levying execution on this property. The part of the property of the partnership or its value subject to separation shall be determined according to a balance sheet compiled at the time of presentation by creditors of demands for separation.

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

#### **Article 89. Liquidation of a Full Partnership**

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

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

### **3. Limited Partnership**

#### **Article 90. Basic Provisions on Limited Partnership**

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

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

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

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

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

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

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

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

#### **Article 91. The Charter of a Limited Partnership**

The charter of a limited partnership must contain, besides the information indicated in Paragraph 2 of Article 55 of the present Code, terms on the amount and composition of the contributed capital of the partnership; on the amount of and procedure for change of the ownership shares of each of the general partners in the contributed capital; on the composition of and procedure for their making their contributions; on their liability for the violation of duties for the making of contributions; and on the total amount of contributions made by the contributors.

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

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

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

#### **Article 93. Rights and Duties of a Contributor in a Limited Partnership**

1. A contributor in a limited partnership has the obligation to make its contribution in the contributed capital. The making of the contribution shall be certified by a certificate of participation issued to the contributor by the partnership.

2. A contributor in a limited partnership has the right:

- 1) to receive the part of profit of the partnership due for its ownership share in the contributed capital by the procedure provided by the charter;
- 2) to be acquainted with the annual reports and balance sheets of the partnership;
- 3) at the end of the financial year to leave the partnership and receive its contribution by the procedure provided by the charter;
- 4) to transfer its ownership share in the contributed capital or part of it to another contributor or a third person.

The contributors shall enjoy a priority right before third persons for the purchase of a ownership share (or parts of it) in conformance with the conditions and procedure provided by Paragraph 2 of Article 101 of the present Code. The transfer by a contributor of the whole ownership share to another person shall terminate its participation in the partnership.

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

#### **Article 94. Liquidation of a Limited Partnership**

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

A limited partnership shall also be liquidated on the bases for liquidation of a full partnership (Article 89).

However, a limited partnership shall be maintained if at least one general partner and one contributor remains in it.

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

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

### **4. Limited Liability Company**

#### **Article 95. Basic Provisions on the Limited Liability Company**

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

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

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

#### **Article 96. Participants in a Limited Liability Company**

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

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

#### **Article 97. Charter of a Limited Liability Company**

The charter of a limited liability company must contain, besides the information listed in Paragraph 2 of Article 55 of the present Code, terms on the amount of the charter capital of the company; on the amount of ownership shares of each of the participants; on the composition of and procedure for the making by them of contributions; on the liability of participants for violation of the duty to making contributions; on the composition and competence of the management bodies of the company and the procedure for their making decisions, including on questions decisions on which are taken unanimously or by a qualified majority of votes; and also other information provided by the statute on limited liability companies.

### **Article 98. The Charter Capital of a Limited Liability Company**

1. The charter capital of a limited liability company consists of the value of the contributions of its participants. The charter capital determines the minimum amount of the property of the company guarantying the interests of its creditors. The amount of charter capital cannot be less than the sum determined by the statute on limited liability companies.
2. The founders of a limited liability company are obligated before registration of the company to fully pay in the charter capital.
3. It is not allowed to free a participant in a limited liability company from liability for the duty to making a contribution to the charter capital of the company. This prohibition includes setoff of claims against the company.
4. If at the end of the second or each following financial year the value of the net assets of a limited liability company is less than the charter capital, the company has the duty to report the reduction of its charter capital and to register its reduction by the established procedure. If the value of these assets of the company is less than the minimum amount of charter capital determined by a statute, the company is subject to liquidation.
5. A reduction of the charter capital of a limited liability company is allowed only after notification of all of its creditors. The latter have the right in this case to demand early performance or termination of the respective obligations of the company and compensation by it for losses.

### **Article 99. Management of a Limited Liability Company**

1. The highest body of a limited liability company is the general meeting of its participants. In a limited liability company an executive body (collegial and/or one-individual) shall be created that conducts the current guidance of its activity and reports to the general meeting of its participants. A one-individual body of management may also be elected from among non-participants.
2. The competence of the bodies of management of the company and also the procedure for their making decisions and acting in the name of the company shall be determined in accordance with the present Code, the statute on limited liability companies, and the charter of the company.
3. The following are in the exclusive competence of the general meeting of participants in a limited liability company:
  - 1) changing the charter of the company and the amount of its charter capital;
  - 2) forming executive bodies of the company and terminating their powers early;
  - 3) approving annual reports and accounting balance sheets of the company and distributing its profits and losses;
  - 4) deciding on the reorganization or liquidation of the company;
  - 5) electing the comptrol commission (or the comptroller) of the company.The statute on limited liability companies may also assign the decision of other questions to the exclusive competence of the general meeting. Questions assigned by statute to the exclusive competence of the general meeting of participants in the company may not be transferred by it for decision by the executive body of the company.
4. For review of the correctness of the annual financial reporting of a limited liability company, the company has the right to engage each year a professional auditor not connected by property interests with the company or its founders (an outside audit). Audit review of the annual financial reporting of the company may also be conducted on demand of any of its participants. In this case the audit review shall be made at the expense of the participant who has demanded such a review. The procedure for conducting audit reviews of the activity of the company shall be determined by a statute and the charter of the company.
5. Publication by the company of information on the results of conducting its affairs (or a public report) is not required with the exception of cases provided by the statute on limited liability companies.

### **Article 100. Reorganization and Liquidation of a Limited Liability Company**

1. A limited liability company may be voluntarily reorganized or liquidated by unanimous decision of its participants. Other bases for reorganization and liquidation of the company and also the procedure for its reorganization and liquidation are determined by the present Code and other statutes.
2. A limited liability company has the right to transform itself into a joint-stock company.

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

1. A participant in a limited liability company has the right to sell or otherwise assign its ownership share in the charter capital of the company or part of it to one or several participants in the given company.
2. Alienation by a participant in the company of its ownership share (or part of it) to third persons is allowed unless otherwise provided by the charter of the company. The participants in the company enjoy a priority right to buy of the ownership share of a participant (or part of it) in proportion to the amounts of their ownership shares, unless the charter of the company or an agreement of its



participants has provided another procedure for exercising this right. In case the participants in the company do not use their priority right within one month from the day of notice or within another time period provided by the charter of the company or agreement of its participants, the ownership share of the participant may be alienated to a third person.

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

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

5.Ownership shares in the charter capital of a limited liability company pass to the heirs of citizens and to the legal successors of legal persons that were participants in the company, unless the charter of the company provides that such transfer is allowed only with the consent of the remaining participants in the company. A refusal of consent to the transfer of the ownership share shall entail the duty of the company to pay the heirs (or legal successors) of the participant its actual value or to give them property physically of such value by the procedure and on the conditions provided by the statute on limited liability companies and the charter of the company.

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

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

2.Levy of execution on the whole ownership share of a participant in the property of a limited liability company shall terminate its participation in the company.

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

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

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

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

By agreement of the exiting participant with the company, payment of the value of the property may be replaced by giving property physically.

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

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

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

### **5. Company With Supplementary Liability**

#### **Article 105.Basic Provisions on Companies With Supplementary Liability**

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

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

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

## **Joint-Stock Company**

### **Article 106. Basic Provisions on the Joint-Stock Company**

1. A joint-stock company is a company whose charter capital is divided into defined number of shares of stock.
2. Only joint-stock companies have the right to issue shares of stock.
3. The participants in a joint-stock company (the stockholders) are not liable for its obligations and bear the risk of losses connected with the activity of the company within the limits of the value of the shares of stock belonging to them.
4. A joint-stock company may be created by one person or may consist of one person in case of acquiring by one person of all the shares of stock of the company. Information on this should be contained in the charter of the company, be registered, and be published for general information.  
A joint-stock company may not have as a sole participant another business company consisting of one person.
5. The firm name of a joint-stock company must contain its name and also the words "open joint-stock company" or "closed joint-stock company."
6. The legal status of a joint-stock company and the rights and duties of the stockholders shall be determined in accordance with the present Code and the statute on joint-stock companies.
7. The peculiarities of creation of joint-stock companies upon the privatization of state enterprises are determined by statutes and other legal acts on the privatization of these enterprises.

### **Article 107. Open Joint-Stock Company**

1. A joint-stock company whose participants can the shares of stock belonging to them without the consent of the other stockholders is an open joint-stock company. Such a joint-stock company has the right to conduct open subscription to shares of stock issued by it and to their free sale on the conditions established by a statute and other legal acts.
2. An open joint-stock company must each year publish for general information an annual report and an accounting balance sheet.

### **Article 108. Closed Joint-stock Company**

1. A joint-stock company whose shares of stock are distributed only among its founders or other previously determined group of persons is a closed joint-stock company. Such a company does not have the right to conduct open subscription to shares of stock issued by it nor otherwise to propose them for acquisition to an unlimited group of persons.
2. The number of participants in a closed joint-stock company must not exceed the limit established by the statute on joint-stock companies; otherwise the company will be subject to transformation into an open joint-stock company within a year, and on the expiration of this time period, to liquidation by judicial procedure, if their number is not reduced to the limit established by the statute.
3. In cases provided by the statute on joint-stock companies, a closed joint-stock company may be obligated to publish for general information the documents indicated in Article 107 of the present Code.

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

1. Stockholders of a closed joint-stock company have a priority right to acquire shares of stock, sold by other stockholders of this company.  
If none of these stockholders uses his priority right in the time period provided by the charter of the company, the joint-stock company has the right to itself acquire these shares of stock at a price agreed with their owner. In case the joint-stock company refuses to acquire the shares of stock or if there is a failure to achieve an agreement on their price, the shares of stock may be alienated to a third person.
2. In case of pledge of the shares of stock of a closed joint-stock company and the subsequent levy of execution on them, the rules of Paragraph 1 of the present Article shall be applied to the pledgee.
3. Shares of stock of a closed joint-stock company pass to the heirs of a citizen or the legal successor of a legal person that was a stockholder unless the charter of the company provides otherwise.  
In case of refusal of the company to consent to transfer of shares of stock to heirs of a citizen or to the legal successor of a legal person that was a stockholder, the rules of Paragraph 1 of the present Article shall be applied.

### **Article 110. Charter of a Joint-Stock Company**

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

### **Article 111. Charter Capital of a Joint-stock Company**

- 1.The charter capital of a joint-stock company consists of the stated value of the shares of stock of the company acquired by the stockholders.
- 2.The charter capital of the company determines the minimal amount of the property of the company guarantying the interests of its creditors. It may not be less than the amount provided by the statute on joint-stock companies.
- 3.The founders of a joint-stock company are obligated before registration of the company to fully pay in the charter capital. Upon the founding of a joint-stock company all its shares of stock must be distributed among the founders.
4. It not allowed to free a stockholder from the duty to pay for shares of stock of a company including by way of setoff of claims against the company.
- 5.If upon the ending of the second and each subsequent financial year, the value of the net assets of the company is less than the charter capital, the company has the duty to report and to register by the established procedure a reduction of its charter capital. If the value of these assets of the company becomes less than the minimum amount of charter capital determined by statute (Paragraph 1 of the present Article), the company is subject to liquidation.
- 6.A statute or the charter of the company may establish limitations on the number, the total stated value of shares of stock or the maximum number of votes belonging to one stockholder.

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

- 1.A joint-stock company has the right, by decision of the general meeting of stockholders, to increase the charter capital by increasing the stated value of shares of stock or by issuing additional shares of stock.
- 2.In cases provided by the statute on joint-stock companies, the charter of a company may establish a priority right of stockholders possessing simple (or common) or other voting shares of stock to buy additional shares of stock issued by the company.

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

- 1.A joint-stock company has the right, by decision of the general meeting of stockholders, to reduce the charter capital by reducing the stated value of shares of stock or by buying part of the shares of stock for the purposes of reducing their total number.
- 2.The reduction of the charter capital of a company is allowed after notification to all of its creditors by the procedure determined by the statute on joint-stock companies. In such a case the creditors of the company have the right to demand early performance or termination of the respective obligations of the company and compensation for their losses.
- 3.A reduction of the charter capital of a joint-stock company by buying and cancellation of part of the shares of stock is allowed if such a possibility is provided in the charter of the company.
- 4.Reduction of the charter capital of the joint-stock company below the minimum amount set by statute (Paragraph 1 of Article 111 of the present Code) shall entail liquidation of the company.

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

- 1.A joint-stock company has the right to issue preferred shares of stock that guaranty their holders the receipt of dividends, as a rule, in fixed percentages of the stated value of a share of stock regardless of the results of commercial activity of the joint-stock company and also giving them a priority right before other stockholders to receipt of part of the property left after liquidation of the joint-stock company and other rights provided by the conditions of the issuance of such shares of stock. Preferred shares of stock do not give their holders the right to participate in the management of the affairs of the joint-stock company unless otherwise provided by its charter. The proportion of preferred ownership shares of stock in the overall amount of the charter capital of the joint-stock company may not exceed twenty-five percent.
- 2.A joint-stock company has the right to issue bonds in a sum not exceeding the amount of the charter capital or the volume of security provided to the company for these purposes by third persons.
- 3.A joint-stock company does not have the right to declare and pay dividends if the value of the net assets of the joint-stock company is less than its charter capital or would become less as the result of the payment dividends.

### **Article 115. Management in a Joint-Stock Company**

- 1.The highest body of management of a joint-stock company is the general meeting of its stockholders. The following are in the exclusive competence of the general meeting of stockholders:
  - 1) a change in the charter of the company and the amount of its charter capital;
  - 2) election of members of the board of directors (or of the supervisory board) and the comptrol commission (or the comptroller) of the company and the early termination of their powers;
  - 3) formation of the executive bodies of the company and the early termination of their powers, unless the charter of the company has assigned the decision of these questions to the competence of the board of directors (or supervisory board);

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

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

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

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

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

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

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

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

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

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

5. In the publication of the documents indicated in Article 107 of the present Code a joint-stock company shall be obligated, for review of the correctness of the annual financial reporting, to involve a professional auditor not connected by property interests with the company or its participants.

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

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

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

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

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

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

### **§3. COOPERATIVES**

#### **Article 117. Basic Provisions on Cooperatives**

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

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

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

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

#### **Article 118. Property of a Cooperative**

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

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

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

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

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

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

5.Property remaining after the liquidation of a cooperative shall be divided among its members in accordance with the charter of the cooperative.

#### **Article 119.Management in the Cooperative**

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

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

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

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

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

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

1) changing the charter of the cooperative;

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

3) accepting and excluding members of the cooperative;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **Article 121. Reorganization and Liquidation of Cooperatives**

A cooperative may be voluntarily reorganized or liquidated by decision of the general meeting of its members. Other bases for and the procedure for reorganization and liquidation of a cooperative are established by the present Code and other statutes.

### **§4. NONCOMMERCIAL ORGANIZATIONS**

#### **1. Societal Amalgamations**

##### **Article 122. Basic Provisions on Societal Amalgamations**

1. Societal amalgamations are voluntary amalgamations of citizens who have joined in the manner provided by a statute on the basis of communality of their interests to satisfy spiritual or other non-material needs.
2. Property transferred to a societal amalgamation by its founders (or participants) is the property of the societal amalgamation. A societal amalgamation shall use this property for the purposes defined in its charter.
3. Participants in societal amalgamations do not retain the right to property transferred by them to these amalgamations in ownership, nor to membership contributions. They are not liable for the obligations of the societal amalgamations and these amalgamations are not liable for the obligations of their participants.
4. In case of liquidation of a societal amalgamation, its property shall be directed to the purposes indicated in the charter of the societal amalgamation and if this is impossible, to the state fisc.
5. The peculiarities and legal status of individual types of societal amalgamations are established by the present Code and other statutes.

#### **2. Funds**

##### **Article 123. Basic Provisions on Funds**

1. A fund is an organization not having membership, founded by citizens and/or legal persons on the basis of voluntary property contributions, pursuing social, charitable, cultural, educational, and other socially-useful purposes.
2. Property transferred to the fund by its founders (or founder) is in the ownership of the fund. A fund shall use this property for the purposes defined in its charter.
3. A fund has the duty to publish reports annually on the use of its property.
4. The founders are not responsible for the obligations of a fund created by them and the fund is not responsible for the obligations of its founders.
5. The procedure for managing a fund and the procedure for forming its bodies are determined by its charter, which is to be approved by the founders.
6. The charter of a fund, besides the information indicated in Paragraph 2 of Article 55 of the present Code, must contain: the name of the fund, including the word "fund," information on the purpose of the fund; indication of the bodies of the fund, including the trusteeship board exercising supervision over the activity of the fund, on the procedure for appointing officers of the fund and discharging them, on the procedure for disposition of the property of the fund in case of its liquidation.
7. The peculiarities and legal status of individual types of funds, in particular of charitable organizations are established by the present Code and other statutes.

##### **Article 124. Changing the Charter and Liquidation of a Fund**

1. The charter of the fund may be changed by the bodies of the fund, if the charter provides the possibility of changing it by such a procedure.  
If the preservation of the charter in unchanged form entails consequences that would have been impossible to foresee at the founding of the fund, and the possibility of changing the charter is not provided in it, or the charter is not changed by the empowered persons, the right of making changes shall belong to a court upon request of bodies of the fund or of the body empowered by the charter of the fund to exercise supervision of its activity.
2. A decision on the liquidation of a fund may be taken only by a court upon request of interested persons.  
A fund may be liquidated:
  - 1) if the property of the fund is insufficient for conducting its purposes and an expectation of receiving the necessary property is unrealistic;

- 2) if the purposes of the fund may not be attained, and the necessary changes of purposes of the fund may not be made;
  - 3) in case of deviation of the fund in its activities from the purposes provided in the charter;
  - 4) in other cases provided by a statute.
3. In case of liquidation of the fund, its property shall be directed to the purposes indicated in the charter of the fund and, if this is impossible, to the state fisc.

### **3. Unions of Legal Persons**

#### **Article 125. Basic Provisions on Unions of Legal Persons**

1. Commercial organizations for the purposes of coordination of their entrepreneurial activity and also the representation and protection of common property interests may create unions. If by decision of the participants, the implementation of entrepreneurial activity is assigned to a union, the union shall be transformed into a business partnership or company by the procedure provided by the present Code or it may create a business company for the conduct of the entrepreneurial activity or participate in such a company.
2. Noncommercial organizations, for the purposes of coordination of their activity and also representation and protection of their common interests, may create unions.
3. Participants in a union retain their independence and the rights of a legal person.
4. Property transferred to a union by its founders (or participants) is in the ownership of the union. The union shall use this property for the purposes indicated in its charter.
5. A union is not liable for the obligations of its participants. Participants in a union bear subsidiary liability for its obligations in the amount and by the procedure provided by the charter.
6. The name of a union must contain an indication of the basic subject of activity of its participants and also the word "union."
7. In case of liquidation of a union, its property shall be directed to the purposes indicated in the charter of the union and, if this is impossible, to the state fisc.
8. The peculiarities and legal status of individual types of unions are established by the present Code and other statutes.

#### **Article 126. Charter of a Union**

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

#### **Article 127. Rights and Duties of Participants in a Union**

1. Participants in a union have the right to use its services free of charge unless otherwise provided by its charter.
2. A participant in a union has the right to exit from the union at the end of the financial year. In this case, it bears subsidiary liability for obligations of the union proportional to its contribution for one year from the date of exit, unless a different time period is provided by the charter of the union. A participant in a union may be excluded from it by decision of the remaining participants in the cases and by the procedure established by the charter of the union. The rules applicable to exit from a union shall be applied with respect to the liability of an excluded participant in the union.
3. With the consent of participants in the union, a new participant can enter the union. Entry into a union of a new participant may be conditioned on its subsidiary liability for the obligations of the union that arose before its entry.

## **CHAPTER 6. PARTICIPATION OF THE REPUBLIC OF ARMENIA AND COMMUNES IN RELATIONS REGULATED BY CIVIL LEGISLATION AND OTHER LEGAL ACTS**

#### **Article 128. The Republic of Armenia and Communes are Subjects of Civil Law**

1. The Republic of Armenia and communes enter into relations regulated by civil legislation and other legal acts on equal principles with other participants in these relations—citizens and legal persons.
2. The norms determining the participation of legal persons in relations regulated by civil legislation and other legal acts shall be applied to the subjects of civil law indicated in Paragraph 1 of the present Article, unless otherwise follows from a statute or the peculiarities of the given subjects.

**Article 129. The Procedure for Participation by the Republic of Armenia and Communes in Relations Regulated by Civil Legislation and Other Legal Acts**

1. State bodies, within the limits of their competence, may, in the name of the Republic of Armenia, acquire and exercise property and personal non-property rights and duties and also appear in court.
2. Bodies of local self-government, within the limits of their competence may, in the name of communes, by their actions, acquire and exercise the rights and duties indicated in Paragraph 1 of the present Article.
3. In the cases and by the procedure provided by statutes, edicts of the President of the Republic of Armenia, and decrees of the Government of the Republic of Armenia, legal acts of communes, legal persons and citizens may act by their special delegation and in their names.

**Article 130. Liability for Obligations of the Republic of Armenia or of a Commune**

1. The Republic of Armenia or a commune shall be liable for its obligations with property belonging to it by right of ownership.
2. Levy of execution on land and other natural resources that are in state ownership or the ownership of a commune is allowed in cases provided by a statute.

**Article 131. Peculiarities of the Liability of the Republic of Armenia in Relations Regulated by Civil Legislation and Other Legal Acts**

The peculiarities of liability of the Republic of Armenia in relations regulated by civil legislation and other legal acts with the participation of foreign legal persons, citizens, or states shall be determined by the statute.



## **DIVISION 3. OBJECTS OF CIVIL LAW RIGHTS**

### **CHAPTER 7. GENERAL PROVISIONS**

#### **Article 132. Types of Objects of Civil Law Rights**

Objects of civil law rights include:

- 1) property, including money, commercial paper and securities, and property rights;
- 2) work and services;
- 3) information;
- 4) results of intellectual activity, including exclusive rights to them (intellectual property);
- 5) non-material values.

#### **Article 133. Circulability of Objects of Civil Law Rights**

1. Objects of civil law rights may be freely alienated or transferred from one person to another by the procedure for universal legal succession (inheritance, reorganization of a legal person) or in another manner unless they are removed from circulation or a limited in circulation.
2. The types of objects of civil law rights whose presence in circulation is not allowed (objects removed from circulation), must be directly indicated in a statute.
3. Types of objects of civil law rights that may belong only to defined participants in circulation or whose presence in circulation is allowed by special permission (objects with limited circulation), shall be determined by a procedure established by statute.

#### **Article 134. Immovable and Movable Property**

1. Immovable property (immovables) are land parcels, subsoil parcels, separate water objects, forests, perennial plantings, buildings, structures, and other property firmly connected with land, i.e., objects whose movement without disproportionate damage to their use is impossible.
- Movable property is property not classified as immovables.

#### **Article 135. State Registration of Property Rights**

1. The right of ownership and other property rights to immovable property, limitations on these rights, their arising, transfer, and termination are subject to state registration.  
Subject to registration are: the right of ownership, the right of use, mortgage, servitudes, and also other rights to immovable property in cases provided by the present Code and other statutes.
2. Rights to movable property are subject to state registration only in cases provided by statute.
3. The procedure for state registration of rights to property and the bases for refusal of registration shall be established by the statute on state registration of rights to property.

#### **Article 136. Divisible and Indivisible Property**

1. Property may be divisible or indivisible.  
Property is indivisible if it may not be divided without change in its use or is not subject to division by force of a requirement of statute.
2. The procedure for separation of a ownership share in the right of ownership to indivisible property is determined by the rules of Article 197 of the present Code.

#### **Article 137. Complex Property**

1. If property of different types form one whole that entails its use for a common purpose, it shall be considered as one property (a complex property).
2. The effect of a transaction concluded with respect to a complex property extends to all its constituent parts unless a contract has provided otherwise.

#### **Article 138. Main Property and Appurtenance**

Property meant for serving another (main) property and connected with it by common use (appurtenance), follows the fate of the main property, unless a contract establishes otherwise.

#### **Article 139. Individually Defined Property and Property Determined by Generic Characteristics**

1. Individually defined property is property separated from other property by characteristics belonging only to it. Individually defined property is nonsubstitutable.
2. Property determined by generic characteristics is property having characteristics belonging to all property of the same type and determined by number, weight, and measure. Property determined by generic characteristics is substitutable.

#### **Article 140. Intellectual Property**

In cases and by the procedure established by the present Code and other statutes, an exclusive right (intellectual property) of a citizen or legal person is recognized to objectively expressed results of intellectual activity and to means equated to them of individualization of a legal person, of individualization of production, of work or services fulfilled (firm name, trade mark, service mark, etc.).

#### **Article 141. Information Constituting an Employment, Commercial, or Banking Secret**

1. Information constitutes an employment, commercial, or banking secret in case when the information has an actual or potential commercial value by virtue of its being unknown to third persons, there is not free access to it on a legal basis, and the holder of the information takes measures for the defense of its confidentiality.
2. Information that cannot constitute an employment, commercial, or banking secret is determined by statute.
3. Information constituting an employment, commercial, or banking secret is protected by the means provided by the present Code and other statutes.
4. Persons who by illegal means have received information that constitutes an employment, commercial, or banking secret are obligated to compensate for losses caused. The same obligation is imposed on contract partners who have divulged an employment, or commercial or banking secret in violation of a civil-law contract or a labor contract.

#### **Article 142. Money (Currency)**

1. The monetary unit in the Republic of Armenia is the dram.
2. The dram is the legal means of payment obligatory for acceptance at face value on the whole territory of the Republic of Armenia.
3. Payments on the territory of the Republic of Armenia shall be made by way of cash and non-cash settlements.
4. The cases, procedure and conditions for use of foreign currency on the territory of the Republic of Armenia shall be determined by statute.

#### **Article 143. Currency Valuables**

The types of property that are recognized as currency valuables and the procedure for making transactions with them are determined by the statute on currency regulation and currency control.  
The right of ownership to currency valuables is protected in the Republic of Armenia on general bases.

#### **Article 144. Fruits, Products, and Incomes**

Receipts acquired as the result of use of property (fruits, production, incomes) belong to the person using this property on a legal basis unless otherwise provided by statute, other legal acts, or a contract on the use of this property.

#### **Article 145. Animals**

The general rules on property are applied to animals unless a statute or other legal acts have established otherwise.

### **CHAPTER 8. COMMERCIAL PAPER AND SECURITIES**

#### **Article 146. Commercial Paper and Securities**

1. Commercial paper and securities are documents evidencing, with the observation of the established form and obligatory requisites, property rights, the exercise or transfer of which are possible only upon their presentation. With the transfer of commercial paper and securities all rights evidenced by it pass.
2. In the cases and by the procedure provided by a statute, for exercise or transfer of the rights evidenced by commercial paper and securities, proof of their confirmation in a special register (ordinary or computerized) is sufficient.

#### **Article 147. Requirements for Commercial Paper and Securities**

1. The types of rights that are evidenced by commercial paper and securities, the obligatory requisites for commercial paper and securities, the requirements for the form of commercial paper and securities, and other necessary requirements shall be determined by the statutes on commercial paper and securities or by a procedure established by them.
2. The absence of the obligatory requisites of a commercial paper and security or the failure of a commercial paper and security to correspond to the form established for it shall entail its voidness.

#### **Article 148. Subjects of the Rights Evidenced by Commercial Paper and Securities**

1. The rights evidenced by a commercial paper and security may belong:
  - 1) to the bearer of the commercial paper and security (a bearer commercial paper and security);
  - 2) to a person named in the commercial paper and security (named commercial paper and security);

- 3) to a person named in the commercial paper and security who may itself exercise these rights or may designate by his instruction (or order) another empowered person (an order commercial paper and security).
2. A statute may exclude the possibility of the issuance of commercial paper and securities of a specific type as bearer, named, or order.

#### **Article 149. Transfer of Rights Under Commercial Paper and Securities**

1. For the transfer to another person of the rights evidenced by bearer commercial paper and securities, handing the commercial paper and securities to this person is sufficient.
2. The rights evidenced by named commercial paper and securities may be transferred by the procedure established for assignment of claims (cession). In accordance with Article 405 of the present Code, the person who has transferred a right under the commercial paper and securities bears liability for the invalidity of the respective claim, but not for its nonperformance.
3. Rights under order commercial paper and securities may be transferred by making upon this paper and security a transfer notation (an indorsement). A person transferring rights under an order commercial paper and securities (an indorser) bears liability not only for the existence of the right but for its exercise.  
An indorsement made on commercial paper and a security transfers all rights evidenced by the commercial paper and security to the person to whom or to whose order the rights on the commercial paper and the security are transferred (the indorsee). An indorsement may be blank (without an indication of the person to whom performance should be made) or order (with an indication of the person to whom or to the order of whom performance should be made).  
An indorsement may be limited only to a delegation to exercise the rights evidenced by the commercial paper and security without the transfer of these rights to the indorsee (a delegation indorsement). In this case the indorsee shall act as a representative.

#### **Article 150. Performance on Commercial Paper and Securities**

1. A person who has issued a commercial paper and security and all persons who have indorsed it are liable jointly and severally to its legal holder. In case of satisfaction of a claim of the lawful holder of the commercial paper and security by one or several persons from among those who were obligated on the commercial paper and security, it acquires (or they acquire) the right of claim back (subrogation) against the remaining persons who are obligated under the commercial paper and security.
2. A refusal to perform an obligation evidenced by a commercial paper and security with reliance on the absence of a basis of the obligation or its invalidity is not allowed.  
A holder of commercial paper and security who has discovered a counterfeiting or forgery of the commercial paper and security shall have the right to make, to the person who transferred the paper and security to it, a demand for proper performance of the obligation evidenced by the commercial paper and security and for compensation of losses.

#### **Article 151. Reinstatement of a Commercial Paper and a Security**

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

#### **Article 152. Undocumented Commercial Paper and Securities**

1. In cases provided by a statute or by a procedure established by a statute, a person who has received a special license may make a fixation of the rights evidenced by a named or order commercial paper and security, including in undocumented form (with the aid of means of computer technology, etc.). The rules established for commercial paper and securities shall be applied to such a form of fixation of rights unless otherwise follows from the peculiarities of fixation.  
A person who has conducted the fixation of a right in an undocumented form is obligated upon demand of the holder of the right to issue to it a document evidencing the protected right.  
The rights evidenced by means of such fixation, the procedure for official fixation of rights and of rightholders, the procedure for documentary confirmation of records and the procedure for making operations with undocumented commercial paper and securities shall be determined by a statute or by a procedure established by a statute.
2. Operations with undocumented commercial paper and securities may be made only by application to the person who makes recordings of rights. Transfer, giving, and limitation of rights must be fixed officially by this person, who shall bear liability for the safekeeping of official records, ensuring their confidentiality, providing correct data on such records, and making of official records of operations conducted.

## **§2. TYPES OF COMMERCIAL PAPER AND SECURITIES**

#### **Article 153. General Provisions**

1. Commercial paper and securities includes: a bond, check, simple bill of exchange, transfer bill of exchange, share of stock, bill of lading, bank record (bank book or bank certificate of deposit), double warehouse certificate,

simple warehouse certificate, and other documents that the statutes on commercial paper and securities have classified as commercial paper and securities.

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

3. A check, a simple bill of exchange, and a transferable bill of exchange is a payment commercial paper.

4. A bill of lading, a double warehouse certificate, and a single warehouse certificate is a title commercial paper.

#### **Article 154. Bond**

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

Bonds may be bearer or named.

#### **Article 155. Check**

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

#### **Article 156. Bill of Exchange**

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

#### **Article 157. Share of Stock**

A share of stock is a security evidencing the right of its possessor (stockholder) to receipt of part of the profit of a joint-stock company in the form of dividends, to participation in the management of the affairs of the joint-stock company, and to part of the property remaining after its liquidation.

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

#### **Article 158. Bill of Lading**

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

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

#### **Article 159. Bank Record**

A bank record (bank book or bank certificate) is a commercial paper evidencing the sum of a contribution and the right of the contributor to receipt on the expiration of a time period the sum of the contribution and interest on at the bank that issued the record or in any branch of this bank.

A bank record may be bearer or named.

#### **Article 160. Double Warehouse Certificate**

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

A double warehouse certificate consists of two parts—a warehouse certificate and a pledge certificate (warrant), each of which is a commercial paper.

#### **Article 161. Simple Warehouse Certificate**

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

## **CHAPTER 9. NONMATERIAL VALUES**

#### **Article 162. Definition of Nonmaterial Values**

1. Life and health, dignity of personality, personal inviolability, honor and good name, business reputation, inviolability of private life, a secret of personal and family life, the right of freedom of movement, of choice of place of abode and residence, right to one's name, right of authorship, other personal nonproperty rights, and other nonmaterial values belonging to a citizen from birth or by virtue of a statute are inalienable and nontransferable. In cases and by the procedure provided by a statute, personal nonproperty rights and other nonmaterial values belonging to a decedent may be exercised and protected by other persons including heirs of the rightholder.

2. Nonmaterial values shall be protected in accordance with the present Code and other statutes in cases and by the procedure provided by them and also in those cases and within those limits in which the use of means of protection of civil law rights (Article 14) follows from the nature of the violated nonmaterial right and the nature of the consequences of this violation.

## **DIVISION 4. THE RIGHT OF OWNERSHIP AND OTHER PROPERTY RIGHTS**

### **CHAPTER 10. GENERAL PROVISIONS**

#### **Article 163. Definition and Content of the Right of Ownership**

1. The right of ownership is the right recognized and protected by statute and other legal acts of a subject at its discretion to possess, use, and dispose of property belonging to it.

The right of possession is the legally supported possibility to exercise actual control of the property.

The right of use is the legally supported possibility to extract from the property its natural useful characteristics and to also use the benefits from it. The benefits may occur in the form of income, growth, fruits, offspring, and in other forms.

The right of disposition is the legally supported possibility of determining the legal fate of the property.

2. The owner has the right at its discretion to make in connection with the property belonging to it any actions not contradicting a statute and not violating the rights and interests protected by statute of other persons, including alienating its property to the ownership of other persons, transferring to them the rights of possession, use, and disposition of the property, to give the property in pledge or to dispose of it in another way.

3. The owner may transfer its property in entrusted management to another person (an entrusted manager). The transfer of property in entrusted management does not entail the transfer of the right of ownership to the entrusted manager, who undertakes the duty to conduct the entrusted management of the property in the interests of the owner or of a third person indicated by the owner.

#### **Article 164. Burden of Maintaining Property**

The owner shall bear the burden of maintaining property belonging to it unless otherwise provided by a statute or contract.

#### **Article 165. Risk of Accidental Loss of Property**

The risk of accidental loss of or accidental injury to property shall be borne by its owner unless otherwise provided by a statute or contract.

#### **Article 166. Subjects of the Right of Ownership**

1. Property may be in the ownership of citizens, legal persons, and also of the Republic of Armenia and or communes.

2. The peculiarities of acquiring and terminating the right of ownership to property, the possession, use, and disposition of it, depending upon whether the property is in the ownership of a citizen or legal person, in the ownership of the Republic of Armenia or communes may be established only by statute.

The types of property that may only be in state ownership or in the ownership of communes are defined by statute.

3. The rights of all owners are protected in the same manner.

#### **Article 167. The Right of Ownership by Citizens and Legal Persons**

1. Any property may be owned by citizens and legal persons, with the exception of individual types of property that, in accordance with a statute, may not belong to citizens or legal persons.

2. The quantity and value of property that is owned by citizens and legal persons is not limited, except when such limitations are established by a statute for the purposes provided by Paragraph 2 of Article 3 of the present Code.

3. Commercial and noncommercial organizations are the owners of property transferred to them as contributions or investments of their founders (or participants or members) and also of property acquired by these legal persons on other bases.

#### **Article 168. The Right of State Ownership**

1. Property belonging by right of ownership to the Republic of Armenia is in state ownership.

2. Land and other natural resources that are not in the ownership of citizens, legal persons, or a commune are in state ownership.

3. The bodies and persons indicated in Article 129 of the present Code exercise the rights of the owner in the name of the Republic of Armenia.

4. The funds of the state fisc are in the ownership of the Republic of Armenia.

#### **Article 169. The Right of Ownership by Communes**

1. Property belonging by right of ownership to city, rural, and district communes is in ownership by communes.

- 2.The bodies and persons indicated in Article 129 of the present Code exercise the rights of an owner in the name of communes.
- 3.The funds of the local budget are in ownership by the commune.

#### **Article 170. Property Rights of Persons who are Not Owners**

- 1.Property rights, alongside the right of ownership are:
  - 1) the right of pledge,
  - 2) the right of use of property,
  - 3) servitudes.
- 2.Property rights may belong to persons who are not the owners of this property.
- 3.The transfer of the right of ownership to property to another person shall not be a basis for the termination of other property rights to this property.
- 4.Property rights of a person who is not an owner shall be protected by the procedure provided by Article 278 of the present Code from violation of them by any person, including the owner.

#### **Article 171. Privatization of State Property**

The state may transfer property that is in state ownership to ownership by citizens and legal persons by the procedure provided by the statutes on the privatization of state property.

### **CHAPTER 11. ACQUISITION OF THE RIGHT OF OWNERSHIP**

#### **Article 172. Bases for Acquiring the Right of Ownership**

- 1.The right of ownership to new property made or created by a person for itself with an observance of a statute and other legal acts is acquired by this person.  
The right of ownership to fruits, products, and incomes received as the result of the use of property may be acquired on the bases provided by Article 144 of the present Code.
- 2.The right of ownership to property that has an owner may be acquired by another person on the basis of a contract of purchase and sale, of barter, of gift, or on the basis of another transaction for the alienation of this property.
- 3.In case of the death of a citizen the right of ownership to property belonging to him shall pass by inheritance to other persons in accordance with a will or by a statute.
- 4.In case of reorganization of a legal person the right of ownership to property belonging to it shall pass to the legal person (or legal persons) that is the legal successor of the reorganized legal person.
- 5.In cases and by the procedure provided by the present Code, a person may acquire the right of ownership to property that does not have an owner, to property, the owner of which is unknown, or to property that the owner has abandoned or to which he has lost the right of ownership on other bases provided by a statute.
- 6.A member of a housing, vacation-home, garage, or other cooperative, and other persons having the right to share accumulation, who have fully made their participatory share contribution for an apartment, vacation-home, garage, or other structure, provided to these persons by the cooperative acquire the right of ownership to this property.

#### **Article 173.Origin of the Right of Ownership to Newly Created Immovable Property**

The right of ownership to newly created immovable property subject to state registration shall arise from the time of such registration.

#### **Article 174. Processing**

- 1.Unless otherwise provided by contract, the right of ownership to new movable property made by a person by processing materials not belonging to it shall be acquired by the owner of the materials. If the value of the processing substantially exceeds the value of the materials the right of ownership to the new property shall be acquired by the person who, acting in good faith, conducted the processing for itself.
- 2.Unless otherwise provided by contract, the owner of materials who has acquired the right of ownership to property made from them has the duty to compensate for the value of the processing to the person who conducted it and in the case of acquiring the right of ownership to new property by this person, the latter has the duty to compensate the owner of the materials for their value.
- 3.The owner of materials who has lost them as the result of the bad faith actions of the person who conducted the processing has the right to demand the transfer of the new property to his ownership and compensation for the losses caused to it.

#### **Article 175.Bringing of Property Generally Accessible for Gathering Into Ownership**

In cases when, in accordance with a statute, general permission given by the owner, or in accordance with local custom in forests, bodies of water, or on other territory the gathering of fruit, the catching of fish, the capture of

animals or the gathering of other generally accessible property is allowed, the right of ownership to the respective property shall be acquired by the person who conducted their gathering or capture.

#### **Article 176. Time of Origin of the Right of Ownership for an Acquirer of Property Under a Contract**

1. The right of ownership for an acquirer of property by contract arises from the time of its transfer unless otherwise provided by statute or contract.
2. In cases when the right to property is subject to state registration, the right of ownership for the acquiring party arises from the time of its registration.

#### **Article 177. Transfer of Property**

1. Transfer is the handing over of property to the acquirer and also submission to a carrier for sending to the acquirer or submission to a courier organization for transfer to the acquirer of property alienated without the obligation of delivery.

Property shall be considered handed over to the acquirer from the time of its actually reaching the possession of the acquirer or of a person indicated by it.

2. If at the time of concluding a contract for the alienation of a property, the property already was in the possession of the acquirer, the property shall be recognized as transferred to it from this time.

3. The transfer of a bill of lading or other goods-disposing document for the property shall be equated to the transfer of the property.

#### **Article 178. Ownerless Property**

1. Property is ownerless if it does not have an owner or if its owner is unknown or if its owner has renounced the right of ownership for it.

2. The right of ownership to ownerless movable property may be acquired according to the rules of Articles 179-186 of the present Code.

3. The right of ownership to ownerless immovable property may be acquired by virtue of acquisitive prescription (Article 187).

4. The bases and procedure for declaration of the right of ownership to ownerless property is established by the Civil Procedure Code of the Republic of Armenia.

#### **Article 179. Movable Property that the Owner Has Renounced**

1. Movable property abandoned by the owner or otherwise left by it with the purpose of renouncing the right of ownership to it (abandoned property) may be brought by other persons into their ownership in by the procedure provided by Paragraph 2 of the present Article.

2. A person, in the whose ownership, possession, or use there is a land parcel, body of water, or other object, where there is an abandoned property whose value is clearly less than a sum corresponding to fifty times the minimum monthly wage or discarded scrap metal, defective products, waste formed in the acquiring of useful minerals, production scrap and other scrap shall have the right to bring this property into its ownership by having started to use it or having taken other actions evidencing the bringing of the property into ownership.

Other discarded property enters into ownership by the person who has gone into possession of it if, on request by this person, is declared ownerless by a court.

#### **Article 180. Found Property**

1. The finder of lost property is obligated immediately to inform the person who lost it, or the owner of the property, or someone else of persons known to it that have the right to receive it and to return the found property. If property is found in premises or on a means of transportation, it is subject to submission to the owner or possessor of the premises or means of transport. In this case the person to whom the property found is submitted shall acquire the rights and bears the duties of the person who found the property.

2. If a person who has the right to demand the return of a found property or the place of its whereabouts is unknown, the finder of the property has the duty to report about the found property to the police or to a body of local self-government.

3. The finder of a property has the right to keep it at the finder's own place or to submit it for storage at the police, a body of local self-government, or to a person indicated by them.

Highly perishable property, or a property for which the costs of storage are incommensurably high in comparison with its value may be vended by the person who found the property, with the receipt of written proofs evidencing the sum received. Money received from the sale of a found property shall be subject to return to the person empowered to receive the property.

4. The finder of property shall be liable for loss of or injury to it only in the case of fault and within the limits of the value of the property.

### **Article 181. Acquiring the Right of Ownership to Found Property**

- 1.If in the course of six months from the time of reporting a found property to the police or to a body of local self-government (Paragraph 2 of Article 180), the person empowered to receive the found property is not established or does not himself report its right to the found property to the person who found it nor to the police nor to the body of local self-government, the finder of the property acquires the right of ownership to it.
- 2.If the finder of property declines to acquire the found property in ownership it goes into ownership by the commune.

### **Article 182.Compensation for Expenses Connected With a Found Property and Remuneration to the Finder of Property**

- 1.One who has found and returned property to a person empowered to receive it has the right to acquire from this person, and in cases of transfer of the property to ownership by a commune, from the respective body of local self-government compensation for necessary expenses connected with the storage, submission, or vending of the property and also expenditures for finding the person empowered to receive the property.
- 2.The finder of the property has the right to demand from the person empowered to receive the property a remuneration for finding the property in an amount of up to twenty percent of the cost of the property. If the found property is of value only for the person empowered to receive it, the amount of the remuneration shall be determined by agreement with this person, and in case of failure to reach agreement, by a court. In the case when a person empowered to demand the return of found property has publicly promised a remuneration for finding it, remuneration shall be paid on the conditions of the public announced reward.  
The finder of the property has the right until payment of remuneration to hold the found property.
- 3.The right to remuneration does not arise, if the finder of the property has not declared about the found property or has tried to hide it.

### **Article 183. Unsupervised Animals**

- 1.A person who has caught unsupervised or straying livestock or other unsupervised animals has the duty to return them to the owner, and if the owner of the animals or the place of its location is unknown then not later than three days from the time of catching to report about the found animals to the police or to a body of local self-government, which will take measures to search for the owner.
- 2.During the time of search for the owner of the animals, they may be left with the person who caught them, at his place for maintenance and use or they may be submitted for maintenance and use to another person.  
On the request of the person who has caught unsupervised animals, the finding of a person having the necessary conditions for their maintenance and the transfer to it of the animals may be conducted by the police or a body of local self-government.
- 3.The person who has caught unsupervised animals and the person to whom they have been given for maintenance and use are obligated to keep them properly and in case of fault are liable for the perishing of or harm to the animals within the limit of their value.

### **Article 184.Acquiring the Right of Ownership to Unsupervised Animals**

- 1.If in the course of six months from the day of report of catching unsupervised domestic animals their owner has not been found or has not itself declared its right to them, the person who has the animals for maintenance and for use shall acquire the right of ownership to them.  
In case of refusal by this person to acquire the animals maintained at its place in ownership, they shall go into ownership by the commune and shall be used by the procedure determined by the body of local self-government.
- 2.In case of appearance of the previous owner of the animals after their transfer to ownership to another person, the previous owner has the right, in the presence of circumstances evidencing the continuation of attraction to him on the part of these animals, to demand their return on conditions defined by an agreement with the new owner and, in case of nonachievement of agreement, by a court.

### **Article 185.Compensation for Expenses for Maintaining Unsupervised Animals and Remuneration for Them**

In case of return of unsupervised animals to the owner, the person at whose place they were located for maintenance has the right to compensation by their owner for necessary expenses connected with the maintenance of the animals, less the benefit extracted from the use of them.  
The person who has caught unsupervised animals has the right to a remuneration in accordance with Paragraph 2 of Article 182 of the present Code.

### **Article 186. Treasure Trove**

- 1.Treasure trove, i.e. money or valuable objects buried in the ground or in other property or hidden in another manner whose owner cannot be established or by virtue of a statute has lost the right of ownership to them, shall go into the ownership of the person to whom the property (land parcel, structure, etc.) belongs, where the treasure trove was hidden and the person who found the treasure trove in equal ownership shares unless an agreement between them provides otherwise.



2. In case of discovery of a treasure trove by a person who has made excavations or a search for valuables without the consent of the owner of the land parcel or other property where the treasure trove was hidden, the treasure trove shall be subject to transfer to the owner of the land parcel or other property where the treasure trove was discovered.

3. In case of discovery of a treasure trove containing property that classified as items of historical or cultural value, it shall be subject to transfer into state ownership. In such a case the owner of the land parcel or other property where the treasure trove was hidden and the person who have found the treasure trove have the right to receive jointly a remuneration in the amount of fifty percent of the value of the treasure trove. The remuneration shall be distributed among these persons in equal ownership shares unless an agreement between them has established otherwise.

In case of discovery of such a treasure trove by a person who has made excavations or searches for valuables without the consent of the owner of the property where the treasure trove was hidden, the remuneration shall go entirely to the owner of the property.

4. The rules of the present Article shall not be applied to persons in the scope of whose labor and employment duties were included the conduct of excavations and search directed at finding treasure trove.

#### **Article 187. Acquisitive Prescription**

1. A citizen or legal person who is not the owner of immovable property but who has in good faith, openly, and uninterruptedly possessed property as its own for ten years, shall acquire ownership of this property (acquisitive prescription).

2. A person relying on prescription by possession may join to the time of its possession all the time during which the property was possessed by the one to whom this person is a legal successor.

3. Until acquiring of the right of ownership to the property by virtue of acquisitive prescription, a person possessing property as its own has the right to protection of its possession against third persons who are neither owners of the property nor have the right of possession by virtue of another basis provided by a statute or contract.

4. The right of ownership to immovable property arises from the time of state registration for a person who has acquired this property by virtue of acquisitive prescription.

#### **Article 188. Unsanctioned Building and its Consequences**

1. An unsanctioned building is a dwelling house, other structure, construction, or other immovable property made on a land parcel not allocated for these purposes by the procedure established by a statute and other legal acts or made without receipt of the necessary permissions thereto or with substantial violation of city planning and construction norms and rules.

2. A person who has made an unsanctioned building does not acquire the right of ownership to it. It does not have the right to dispose of the building—to sell, give, lease out, or make other transactions.

3. The right of ownership to an unsanctioned building may be recognized by a court for the person in whose ownership is the land parcel where the building was made. In this case the person for whom the right of ownership to the building is recognized shall compensate the person who made it for the building expenses in an amount determined by the court.

The right of ownership to an unsanctioned building may not be recognized for this person if the keeping of the building violates the rights and interests protected by a statute of other persons or creates a threat to the life and health of citizens.

## **CHAPTER 12. COMMON OWNERSHIP**

#### **Article 189. Definition of and Bases for the Origin of Common Ownership**

1. Property that is owned by two or more persons belongs to them by right of common ownership.

2. Property may be in common ownership with a definition of the ownership share of each of the owners in the right of ownership (share ownership) or without the definition of such ownership shares (joint ownership).

3. Common ownership of property is share ownership with the exception of cases when a statute provides for the formation of joint ownership to this property.

4. Common ownership shall arise when property that cannot be divided without changing its purpose (indivisible property) or is not subject to division by force of a statute enters into ownership by two or several persons. Common ownership of divisible property shall arise in cases provided by a statute or contract.

5. By agreement of the participants in joint ownership and in case of failure to achieve agreement, by decision of a court, share ownership of these persons may be established to the common property.

#### **Article 190. Determination of Ownership Shares in the Right of Share Ownership**

1. Ownership shares shall be considered equal, if the ownership shares of the participants in share ownership cannot be determined on the basis of a statute and have not been established by agreement of all of its participants.

2. By agreement of all the participants in share ownership a procedure may be established for determining and changing their ownership shares depending upon the contribution of each of them to forming and developing the common property.

3. A participant in share ownership who has made at its own expense, with observance of the established procedure for use of the common property, inseparable improvements to this property shall have the right to a corresponding increase in its ownership share in the right to the common property.

Separable improvements to the common property, unless otherwise provided by agreement of the participants in share ownership, shall go into the ownership of the one of the participants who made them.

#### **Article 191. Possession and Use of Property that is in Share Ownership**

1. Possession and use of property that is in share ownership shall be conducted by agreement of all its participants, and, in case of failure to achieve agreement, by a procedure established by a court.

2. A participant in share ownership has the right to the giving for its possession and use of a part of the common property corresponding to its ownership share, and in case of impossibility of this has the right to demand corresponding compensation from the other participants who are possessing and using property related to its ownership share.

#### **Article 192. Disposition of Property that is in Share Ownership**

1. Disposition of property that is in share ownership shall be made by agreement of all its participants.

2. A participant in share ownership has the right to sell, give, will, or pledge its ownership share or to dispose of it in another manner with an observance in case of its compensated alienation of the rules provided by Article 195 of the present Code.

#### **Article 193. Fruits, Products, and Income from the Use of Property that is in Share Ownership**

The fruits, products, and income from the use of property that is in share ownership shall go into the composition of common property and shall be distributed among the participants in share ownership in proportion to their ownership shares unless otherwise provided by agreement among them.

#### **Article 194. Expenses for the Maintenance of Property that is in Share Ownership**

1. Each participant in share ownership is obligated, in proportion to its ownership share, to participate in the payment of taxes, fees, and other payments related to the common property and also in the costs of its maintenance and preservation.

2. Expenses that are not necessary and are made by one of the owners without the consent of the others are not subject to compensation on the part of the other owners. Disputes arising in this connection shall be permitted by judicial procedure.

#### **Article 195. Priority Right of Purchase**

1. In case of sale of a ownership share in the right of common ownership to a third person, the remaining participants in share ownership have a priority right of purchase of the ownership share sold at the price at which it is being sold and on other equal conditions except for the case of sale at public auction.

In the absence of consent of all the participants in share ownership, a public auction for the sale of a ownership share in the right of common ownership may be conducted in the cases provided by the second part of Article 200 of the present Code and in other cases provided by a statute.

2. The seller of a ownership share has the duty to inform the remaining participants in the share ownership in written form of the intent to sell its share to a third person with an indication of the price and of the other conditions on which it is selling its share. If the remaining participants in the share ownership refuse to purchase or do not acquire the ownership share sold in the right of ownership to movable property within a month or in the right of ownership to movable property within ten days from the date of notice, the seller shall have the right to sell its ownership share to any person.

3. In case of the sale of a ownership share with a violation of the priority right of purchase, any other participant in the share ownership has the right within three months to demand by judicial procedure the transfer to it of the rights and duties of the purchaser.

4. Assignment of the priority right to purchase a ownership share is not allowed.

5. The rules of the present Article shall also be applied in case of alienation of a ownership share under a contract of barter.

#### **Article 196. Time of Transfer of a Ownership Share in the Right of Common Ownership to an Acquirer Under a Contract**

A ownership share in the right of common ownership shall pass to an acquirer under a contract from the time of conclusion of the contract unless an agreement of the parties provides otherwise.

The time of transfer of a ownership share in the right of common ownership under a contract of a right for which state registration is required shall be determined in accordance with Paragraph 2 of Article 176 of the present Code.

**Article 197.Division of Property that is in Share Ownership and Separation of a Ownership Share from It**

1.Property that is in share ownership may be divided among its participants by agreement among them.  
2.A participant in share ownership has the right to demand the separation of its ownership share from the common property.

3.In case the participants in share ownership fail to achieve an agreement on the method and conditions of division of the common property or the separation of the ownership share of one of them, a participant in share ownership shall have the right, by court procedure, to demand the physical separation of its ownership share from the common property.

If the physical separation of a ownership share is not allowed by a statute or is impossible without disproportionate damage to the property that is in common ownership, the separating owner shall have the right to payment to itself of the value of its ownership share by the other participants in the share ownership.

4.Disproportionality of property physically separated for a participant in ownership share property on the basis of the present Article to its ownership share in the right of ownership shall be eliminated by the payment of the corresponding monetary sum or other compensation.

Payment to a participant in share ownership by the remaining owners of compensation instead of physical separation of its ownership share shall be allowed with its consent. In cases when the ownership share of an owner is insignificant, cannot actually be separated, and the owner does not have a substantial interest in the use of the common property, a court may even in the absence of the consent of the owner obligate the remaining participants in share ownership to pay compensation to it.

5.With the receipt of compensation in accordance with the present Article the owner shall lose the right to a ownership share in the common property.

6.In case of the clear inexpediency of making a division of common property or of the separation of a ownership share from it according to the rules established in Paragraphs 3-5 of the present Article, the court has the right to take a decision on the sale of the property at public auction with the subsequent distribution of the sum acquired among the participants in common ownership proportionally to their ownership shares.

**Article 198.Possession, Use, and Disposition of Property that is in Joint Ownership**

1.Participants in joint ownership, unless otherwise provided by an agreement among them, possess and use the common property in common.

2.Disposition of property that is in joint ownership shall be conducted by agreement of all the participants which shall be presumed regardless of which of the participants conducts a transaction for disposition of the property.

3.Each of the participants in joint ownership has the right to conduct transactions for the disposition of the common property unless otherwise follows from an agreement of all the participants. A transaction made by one of the participants in the joint property connected with the disposition of the common property may be declared invalid on demand of the remaining participants on motives of the absence for the participant who made the transaction of the necessary powers only in the case if it is proved that the other party to the transaction knew or clearly should have known of this.

**Article 199.Division of Property That is in Joint Ownership and Separation of a Ownership Share from It**

1.Division of common property among participants in joint ownership and also separation of the ownership share of one of them may be made after a preliminary determination of the ownership share of each of the participants in the right to the common property.

2.In division of common property and separation of a ownership share from it, unless otherwise provided by a statute or agreement of the participants, their ownership shares are considered equal.

3.The bases for and the procedure of division of common property and the separation of a ownership share from it shall be determined by the rules of Article 197 of the present Code.

**Article 200.Levying of Execution on a Ownership Share in Common Property**

A creditor of a participant in share or joint ownership in case of insufficiency of the other property of the owner shall have the right to make a claim for separation of the ownership share of the debtor in the common property in order to levy execution on it.

If in such cases the physical separation of a ownership share is impossible or if the remaining participants in share or joint ownership object to this, the creditor shall have the right to demand the sale by the debtor of its ownership share to the remaining participants in common ownership at the market price, with the use of the funds received from the sale in payment of the debt. In case of refusal of the remaining participants in common ownership to acquire the ownership share of the debtor, the creditor shall have the right to demand in court the levying of execution on the ownership share of the debtor in the right of common ownership by the sale of this ownership share at public auction.

### **Article 201. Common Ownership by Spouses**

1. Property gotten by spouses during marriage is in their joint ownership unless a contract between them establishes otherwise.
2. Property that belonged to each of the spouses before entry into marriage and also property acquired by one of the spouses during marriage by gift or by way of inheritance is in this spouse's ownership. Property for individual use (clothing, shoes, etc.), with the exception of jewelry and other items of luxury, although acquired during marriage at the expense of the general assets of the spouses, shall be recognized as owned by the spouse that used them. The property of each of the spouses may be recognized as in their joint ownership if it is established that during marriage, at the expense of the common property of the spouses or the personal property of the other spouse investments were made that significantly increased the value of this property (major repair, reconstruction, reequipment, etc.). The present rule shall not be applied if a contract between the spouses provides otherwise.
3. For obligations of one of the spouses execution may be levied on property that is in his ownership and also on his ownership share in the common property of the spouses.

## **CHAPTER 13. RIGHT OF OWNERSHIP AND OTHER PROPERTY RIGHTS IN LAND**

### **Article 202. A Land Parcel as an Object of the Right of Ownership**

1. The territorial boundaries of a land parcel shall be defined by the procedure established by statute, on the basis of documents issued to the owner by an empowered state body.
2. Unless otherwise established by a statute, the right of ownership to a land parcel extends to the surface (or soil) layer and closed bodies of water located within the boundaries of this parcel, forest and plants located on it.
3. The owner of a land parcel has the right to use all that is located above and below the surface of this parcel unless otherwise provided by a statute or it violates the rights of other persons.
4. Land parcels of agricultural and other use whose use for other purposes is not allowed or is limited shall be designated by statute.

### **Article 203. Access to a Land Parcel**

1. Citizens have the right freely, without any permission to be on land parcels open to general access that are in state ownership or in ownership by a commune and to use the natural objects present on these parcels within the limits allowed by a statute, other legal acts, and also by the owner of the respective land parcel.
2. Access to a land parcel that is in the ownership of a citizen or legal person without permission of its owner is not allowed unless a statute has provided otherwise.

### **Article 204. Construction on a Land Parcel**

1. The owner of a land parcel, on condition of observance of city planning and construction norms and rules and also requirements on the use of the land parcel (Paragraph 4 of Article 202) may erect buildings and structures on it, may conduct their reconstruction or removal, and permit construction on its parcel by other persons.
2. Unless otherwise provided by a statute or contract, the owner of a land parcel shall acquire the right of ownership to a building, structure, or other immovable property erected or created by the owner on a parcel belonging to the owner.

The consequences of unauthorized building done by an owner on a land parcel belonging to it shall be determined by Article 188 of the present Code.

### **Article 205. Bases for Acquiring the Right of Use of a Land Parcel**

1. A land parcel may be given by its owner to other persons in use, including in lease.
2. The right of use of a land parcel that is in state ownership or in ownership by a commune shall be given to citizens and legal persons on the basis of a decision of the state body or body of local self-government empowered to give land parcels for such use by the procedure established by statute.
3. The right of use of a land parcel also may be acquired by the owner of a building, structure, or other immovable property in the cases provided by Paragraph 1 of Article 207 of the present Code.
4. In case of the reorganization of a legal person the right of use of a land parcel belonging to it shall pass to the legal successor.

### **Article 206. Possession and Use of a Land Parcel**

1. A person who is not the owner of a land parcel shall exercise rights belonging to it of possession and use of the parcel on the conditions and within the limits established by statute or by contract with the owner.
2. A person to whom a land parcel is given for use has the right to transfer this parcel by lease or into uncompensated use only with the consent of the owner of the parcel.

**Article 207. The Right of Use of a Land Parcel by the Owner of an Immovable**

1. The owner of an immovable located on a land parcel belonging to another person has the right of use of the part of the land parcel upon which this immovable is located.

2. Upon transfer of the right of ownership to an immovable located on another's land parcel to another person, it acquires the right of use of the respective part of the land parcel on the same conditions and in the same scope as the previous owner of the immovable.

The transfer of the right of ownership to the land parcel to another person is not a basis for the termination or change of the right of use of the parcel by the owner of an immovable located on this land parcel.

3. The owner of an immovable located on another's land parcel has the right to possess, use, and dispose of this immovable, including to remove the respective buildings and structures unless this contradicts the conditions of use of the given parcel established by a statute or contract.

**Article 208. Consequences of Termination of the Right of Use of a Land Parcel**

Unless otherwise provided by contract between the owner of a land parcel and a land user, then after the termination of the right of use of the land parcel, the right of ownership to buildings, structures, and other immovable property built by the land user on this land parcel pass to the owner of the land parcel.

**Article 209. Transfer of the Right to a Land Parcel Upon the Alienation of Buildings or Structures Located on It**

Upon transfer of the right of ownership to a building or structure belonging to the owner of the land parcel on which it is located, the rights to the land parcel determined by agreement of the parties shall pass to the acquirer of the building (or structure). Unless otherwise provided by the contract on alienation of the building or structure, the right of ownership to that part of the land parcel that is occupied by the building (or structure) and is necessary for its use shall pass to the acquirer.

**Article 210. The Right of Limited Use of Another's Land Parcel (Servitude)**

1. The owner of a land parcel has the right to demand from the owner of a neighboring land parcel the grant of the right of limited use of this parcel (a servitude).

2. A servitude may be established to provide for walking and riding through the neighboring land parcel, installation and exploitation of lines of electric transmission, communications and pipelines, provision of water supply and melioration and also other needs of the owner of the immovable property that cannot be ensured without establishment of the servitude.

3. The burdening of a land parcel with a servitude does not deprive the owner of the parcel of the right of possession, use, and disposition of this parcel.

4. A servitude may not be an independent subject of purchase and sale, pledge, or lease.

5. A servitude may be voluntary or compulsory.

**Article 211. Voluntary Servitude**

1. A voluntary servitude is established by a written agreement, certified by notarial procedure, between the person requesting establishment of the servitude and the owner of a neighboring parcel.

2. In the contract on establishing a voluntary servitude, the time period of effectiveness and the conditions of the servitude must be indicated. A diagram of the immovable property burdened by the servitude with an indication of the location of the servitude shall be attached to contract.

**Article 212. Compulsory Servitude**

1. A compulsory servitude shall be established by a court on suit by a person requesting establishment of the servitude in the case of failure to achieve agreement on the establishment or conditions of a voluntary servitude.

2. The decision of the court on the establishment of a compulsory servitude must contain the conditions indicated in Paragraph 2 of Article 211 of the present Code.

**Article 213. State Registration of a Servitude**

A servitude is subject to state registration by the procedure established by the statute on state registration of rights to property.

*Article 214. Payment for a Servitude*

The owner of a parcel burdened with a servitude has the right, unless otherwise provided by statute or contract, to demand payment for the use of the parcel from the persons in whose interest the servitude was established.

In case of a voluntary servitude the amount of payment shall be determined by agreement of the parties, and in the case of a compulsory servitude by decision of a court.

**Article 215. Preservation of a Servitude Upon Transfer of Rights to a Land Parcel**

A servitude shall remain in force in case of transfer of rights to a land parcel that is burdened by this servitude to another person.

**Article 216. Termination of a Servitude**

1. On demand of the owner of a land parcel burdened by a servitude, the servitude may be terminated in view of the lapse of the bases on which it was established.
2. In cases when a land parcel belonging to a citizen or legal person, as a result of a burden by a servitude, may not be used in accordance with the designation of the parcel, the owner has the right to demand termination of the servitude in court.

**Article 217. Burdening Buildings and Structures With a Servitude**

With respect to the rules provided in Articles 210-216 of the present Code, buildings, structures and other immovable property, the limited use of which is necessary can be burdened with a servitude.

**Article 218. Compulsory Taking of a Land Parcel for State or Needs of a Commune**

1. A land parcel may be taken from an owner for state or municipal needs by way of buyout. Depending upon for whose needs the land is being taken, the compulsory purchase shall be made by the Republic of Armenia or a commune.
2. A decision on the taking of a land parcel for state needs or needs of a commune shall be made by a state agency. The state agency empowered to make decisions for the taking of land parcels for state needs or needs of a commune, and also the procedure for preparation and making of this decision shall be determined by a statute.
3. A decision of a state agency on the taking of a land parcel for state needs or needs of a commune is subject to registration in the agency conducting state registration of rights to property.
4. The state agency that has made the decision to take a land parcel is obligated, to give notice of this to the owner of the land parcel.

**Article 219. Buyout Purchase Price of a Land Parcel Taken for State Needs or Needs of a Commune**

1. The buyout price for a land parcel taken for state needs or needs of a commune, the time periods and other conditions for buyout shall be determined by agreement with the owner of the property. The agreement shall include the obligation of the Republic of Armenia or the commune to pay the buyout price for the parcel taken.
2. In the determination of the buyout price, the market value of the land parcel and of the immovable property located on it shall be included in it and also all losses caused to the owner by the taking of the land parcel, including losses that he bears in connection with the early termination of obligations to third persons, including lost profit.
3. By agreement with the owner, it may be given, in exchange for the parcel taken for state needs or needs of a commune, another land parcel, with the subtraction of its value from the buyout price.

**Article 220. Compulsory Taking a Land Parcel for State Needs or Needs of a Commune by Decision of a Court**

1. If an owner does not agree with a decision on the taking of its land parcel for state needs or needs of a commune or agreement has not been achieved with the owner on a buyout price or other conditions of buyout, the state agency that has made such a decision may bring a suit in court for the taking of the land parcel.
2. A suit for the taking of a land parcel for state needs or municipal needs may be brought within one year from the day of sending to the owner of the parcel of the notification provided by Paragraph 4 of Article 218 of the present Code.

**Article 221. Rights of the Owner of a Land Parcel Subject to Taking for State Needs or Needs of a Commune**

The owner of a land parcel subject to taking for state needs or needs of a commune, from the time of making of the decision on taking the parcel until the achievement of agreement or the adoption by a court of a decision on the compulsory purchase of the parcel, may possess, use, and dispose of it and make the necessary expenditures ensuring the use of the parcel in accordance with its designation. The owner bears the risk of placement upon itself, in the determination of the buyout price of the land parcel, of expenses and losses connected with new construction, expansion, and reconstruction of buildings and structures on the land parcel during this term.

**CHAPTER 14. RIGHT OF OWNERSHIP AND OTHER PROPERTY RIGHTS IN HOUSING PREMISES**

**Article 222. Ownership of Housing Premises**

1. The owner shall exercise the rights of possession, use, and disposition of housing premises belonging to it in accordance with its designation.
2. Housing premises may be given out by their owners in lease on the basis of a contract.
3. The location of industrial production in housing premises is not allowed.

### **Article 223. Peculiarity of the Right of Ownership of an Apartment in a Multi-Apartment Building**

To the owner of an apartment in a multi-apartment building also belongs a ownership share in the right of ownership to the common property of the building (Article 224).

### **Article 224. Common Property of the Owners of Apartments in a Multi-Apartment Building**

1. To the owners of apartments in a multi-apartment building belong, by right of common share ownership, the common premises of the building, the load-bearing construction of the building, the mechanical, electrical, technical and sanitary, and other equipment outside or within the apartment that serve more than one apartment.
2. The owner of an apartment does not have the right to alienate its ownership share in the right of ownership to the common property of the dwelling building nor to take other actions entailing transfer of this ownership share separately from the right of ownership to the apartment.

### **Article 225. Rights of Use of Housing Premises**

1. Members of the family of the owner of housing premises and other persons have the right to use the housing premises if this right is registered by the procedure established by the statute on state registration of rights to property.
2. The arising, conditions of exercise, and termination of the right of use of housing premises shall be established by a written agreement with the owner certified by notarial procedure.  
In case of the absence of an agreement on the termination of the right of use of housing premises, this right may be terminated upon demand of the owner by judicial procedure by the giving by the owner of appropriate compensation at market prices.
3. The right of use of housing premises may not be an independent subject of purchase and sale, pledge, or lease.
4. A person having the right to use of housing premises may demand the elimination of violations of his right to these housing premises from any person, including the owner.
5. A transfer of the right of ownership to a dwelling house or an apartment to another person is not a basis for the termination of the right of use of housing premises with exception of the case when before the transfer of the right of ownership the person having the right of use of housing premises gave a notarially certified promise to waive this right.

## **CHAPTER 15. RIGHT OF PLEDGE**

### **§1. GENERAL PROVISIONS ON PLEDGE**

#### **Article 226. Definition of the Right of Pledge**

1. The right of pledge (hereinafter—pledge) is a property right of a pledgee with respect to property of the pledgor, which simultaneously is a means of ensuring the performance of a monetary or other obligation of the debtor to the pledgee.
2. A pledge is a supplementary (accessory) obligation of ensuring the performance of a basic obligation of the pledgor (or debtor) to the pledgee (or creditor).
3. A creditor under an obligation secured by a pledge (a pledgee) has the right in case of nonperformance by a debtor of this obligation to acquire satisfaction from the value of the pledged property with priority ahead of other creditors of the person to whom this property belongs (the pledgor).
4. The pledgee has the right on the basis of the principle established by Paragraph 3 of the present Article to receive satisfaction from insurance compensation for the loss of or injury to the pledged property regardless of for whose benefit it is insured, provided only that the loss or injury did not happen for reasons for which the pledgee is liable.
5. The general rules on pledge contained in the present Section shall be applied to mortgage in those cases when other rules have not been established by the Section on mortgage of the present Chapter.

#### **Article 227. Bases for Arising of a Pledge**

1. A pledge arises by virtue of a contract. A pledge also may arise on the basis of a statute upon the occurrence of the circumstances indicated in it if the statute provides what property is recognized as being in pledge and for securing the performance of what obligation.
2. The rules of the present Code on pledge that arising by virtue of a contract shall be applied respectively to a pledge that arising on the basis of a statute, unless the statute provides otherwise.

#### **Article 228. The Pledgor**

1. The pledgor of property may be only its owner.
2. The pledgor may be the debtor itself or a third person.
3. The pledgor of a right may be a person to whom the pledged right belongs.

#### **Article 229. The Pledgee**

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

#### **Article 230. Subject of a Pledge**

- 1.The subject of a pledge may be any property, including a property right (or claim) with the exception of property excluded from commerce, of claims inseparably connected with the personality of the creditor, in particular claims for support payments, for compensation for harm caused to life or health and other rights whose assignment to another person is prohibited by a statute.
- 2.Pledge of property which may not be divided without changing its use (indivisible property) may not be given in pledge in parts.
- 3.Pledge of a right of lease is not allowed without the consent of the owner of the property.
- 4.Pledge of individual types of property, in particular of property of citizens on which levy of execution is not allowed, may be prohibited or limited by a statute.

#### **Article 231. Pledge of Property that is in Common Ownership**

- 1.Property that is in common ownership may be transferred in pledge only with the written consent of all the owners.
  - 2.A participant in common share ownership may pledge his ownership share in the right to common ownership without the consent of the other owners.
- In case of levy of execution on demand of the pledgee against this ownership share, for its sale the rules established by Article 195 of the present Code on priority right of purchase shall be applied.

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

- 1.The rights of the pledgee (the right of pledge) to the property that is the subject of a pledge shall extend to its accessories unless otherwise provided by the contract.  
In cases provided by the contract, the right of pledge extends to fruits, products, and incomes received as the result of the use of the pledged property.
- 2.A contract of pledge, and with respect to a pledge arising on the basis of a statute, the statute may provide for a pledge of property and property rights that the pledgor will acquire in the future.

#### **Article 233. The Claim Secured by a Pledge**

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

#### **Article 234. The Contract of Pledge and Its Form**

- 1.A contract of pledge must be concluded in written form.
- 2.A contract of pledge must indicate the name (or designation) and place of residence (or place of location) of the parties, the subject of the pledge, the nature, amount, and time period for performance of the obligation secured by the pledge.
- 3.In the cases provided by the present Code, a contract of pledge is subject to notarial certification and a right of pledge to state registration.
- 4.Nonobservance of the rules of the present Article shall entail the invalidity of the contract of pledge. Such a contract is considered void.

#### **Article 235. Arising of the Right of Pledge**

- 1.The right of pledge arises from the time of conclusion of the contract of pledge, and in cases when the right of pledge is subject to state registration, from the time of its registration.
- 2.If the subject of the pledge in accordance with a statute or contract must be with the pledgee, the right of pledge arises from the time of transfer to it of the subject of the pledge and if such transfer was made before the conclusion of the contract from the time of its conclusion.

#### **Article 236. Subsequent Pledge**

- 1.Property that is under pledge may become the subject of another pledge (a subsequent pledge).
- 2.A subsequent pledge is allowed if it is not forbidden by prior contracts of pledge.
- 3.In case of a subsequent pledge, the claims of the subsequent pledgee shall be satisfied from the value of the subject of pledge after the satisfaction of the claims of the prior pledgee.



### **Article 237. Maintenance and Safekeeping of the Pledged Property**

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

- 1) to insure the pledged property for its full value from the risks of loss and injury, and if the full value of property exceeds the scope of the claim secured by the pledge, for a sum not less than the sum of the claim;
- 2) to take the measures necessary for ensuring the safekeeping of the pledged property, including the protection of it from encroachments and claims on the part of third persons;
- 3) to immediately inform the other party of the arising of a threat of loss of or injury to the pledged property.

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

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

### **Article 238. Use and Disposition of the Subject of Pledge**

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

2. Unless otherwise provided by a statute or contract, the pledgor has the right to alienate the subject of the pledge, to transfer it by lease or uncompensated use to another person or in another manner to dispose of it only with the consent of the pledgee.

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

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

### **Article 239. Consequences of Perishing of, Loss of, or Injury to the Pledged Property**

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

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

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

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

A contract may provide for a duty of the pledgee to compensate the pledgor also for other losses caused by loss of or injury to the subject of the pledge.

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

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

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

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

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

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

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

### **Article 242. Preservation of a Pledge Upon Transfer of the Right of Ownership to Pledged Property to Another Person**

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

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

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

#### **Article 243. Consequences of Compulsory Taking of Pledged Property**

1.In cases when the right of ownership of the pledgor to the property that is the subject of the pledge is terminated on the bases and by the procedure established by statute as a result of a buyout for state needs or needs of a commune, requisition or nationalization, and the pledgor is given other property and/or corresponding compensation, the right of pledge shall extend to the property given as a substitute or respectively, the pledgee shall acquire the right of priority satisfaction from the sum of compensation due to the pledgor.

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

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

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

#### **Article 244. Assignment of Rights Under the Contract of Pledge**

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

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

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

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

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

1.The pledgee shall have the right to demand early performance of the obligation secured by the pledge in cases:  
1) if the subject of the pledge left the possession of the pledgor with whom it was left, not in accordance with the terms of the contract on pledge;

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

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

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

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

2) nonfulfillment by the pledgor of the duties provided by Paragraphs 1 and 2 of Article 237 of the present Code;

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

#### **Article 247. Termination of a Pledge**

1.A pledge shall be terminated:

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

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

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

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

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

#### **Article 248. Bases for Levy of Execution on the Pledged Property**

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

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

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

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

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

- 1) the agreement or permission of another person was required for concluding the contract of pledge;
- 2) the subject of the pledge is property having a significant historical, artistic, or other cultural value for society.

#### **Article 250. Vending (Sale) of Pledged Property**

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

#### **Article 251. Distribution of the Sum Received from the Vending of the Pledged Property**

1. The claims of the pledgee shall be satisfied from the sum obtained as the result of vending of the pledged property, after the deduction from it of the sums necessary to cover the expenses for levying execution on the property and for its vending, and the remaining sum is transferred to the pledgor.

2. If the sum obtained on the vending of the pledged property is insufficient to cover the claim of the pledgor, he has the right to receive the short sum from other property of the debtor, unless otherwise provided by the contract.

In this case the pledgee does not enjoy the priority right based on the pledge.

#### **Article 252. Termination of Levy of Execution on Pledge Property and of Its Vending**

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

An agreement limiting this right is void.

2. The person demanding the termination of the levying of execution on the pledged property or of its vending has the duty to compensate the pledgee for expenses borne in connection with the levy of execution on the property and vending it.

#### **Article 253. Types of Pledge**

A pledge may take the form of:

- 1) a deposit;
- 2) a pledge of goods in a pawnshop;
- 3) a pledge of rights;
- 4) a pledge of monetary assets;
- 5) a firm pledge;
- 6) a pledge of goods in commerce;
- 7) a mortgage.

#### **Article 254. Deposit**

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

#### **Article 255. Pledge of Property in a Pawnshop**

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

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

3. Pledged property is transferred to the pawnshop.

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

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

5. The pawnshop bears liability for loss of or injury to the pledged property.

6. In case of failure to return in the established time period the sum of the credit secured by the pledge of property in the pawnshop, the pawnshop shall have the right to vend (sell) this property at public auction. After this the demands of the pawnshop against the pledgor (debtor) are paid off, even if the sum received on the vending of the pledged property is insufficient for their full satisfaction.

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

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

#### **Article 256. Pledge of a Right**

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

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

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

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

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

#### **Article 257. Pledge of Monetary Assets**

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

#### **Article 258. Firm Pledge**

A firm pledge is a pledge whose subject remains with under lock of the pledgee or with the addition of symbols evidencing the pledge.

#### **Article 259. Pledge of Goods in Commerce**

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

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

2. Goods in commerce alienated by the pledgor cease to be the subject of a pledge from the time of their transfer to the ownership of the acquirer and goods acquired by the pledgor indicated in the contract of pledge become the subject of a pledge from the time of arising of a right of ownership to them for the pledgor.

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

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

## **§ 2. MORTGAGE**

### **1. General Provisions on Mortgage**

#### **Article 260. Definition of Mortgage**

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

#### **Article 261. Contract of Mortgage**

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

#### **Article 262. Content of the Contract of Mortgage**

1. In a contract of mortgage there must be indicated the name (or designation) and place of residence (or place of location) of the parties, the subject of the mortgage, the nature, amount, and time period of performance of the obligation secured by the mortgage.

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

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

3. In the contract of mortgage, there must be indicated the right, by virtue of which the property that is the subject of the mortgage belongs to the mortgagor and the state agency that has registered this right of the mortgagor.

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

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

#### **Article 263. Form of the Contract of Mortgage**

1. The contract of mortgage must be concluded in written form, by the compilation of one document signed by the pledgor and pledgee, and also by the debtor if the pledgor is not the debtor (property surety).

2. A contract of mortgage is subject to notarial certification.

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

1. The right of pledge under a contract of mortgage of immovable property is subject to state registration.

2. The right of pledge under a contract of mortgage of movable property is subject to state registration in the cases when a statute provides for state registration of rights to movable property (Paragraph 2 of Article 135).

3. The procedure for state registration of the right of pledge under a contract of mortgage shall be established by the statute on state registration of rights to property.

## **2. Mortgage of Land Parcels**

#### **Article 265. Land Parcels that May be the Subject of Mortgage**

1. By contract of mortgage only land parcels that are in the ownership of citizens and legal persons may be pledged.

2. In case of common ownership of a land parcel, a mortgage may be established only on a land parcel belonging to a citizen or legal person physically separated from the land parcel.

#### **Article 266. Mortgage of a Land Parcel on Which There are Buildings or Structures of the Pledgor**

1. In case of mortgage of a land parcel the right of mortgage does not extend to existing or already erected buildings and structures of the pledgor unless a different condition is provided in the contract on mortgage.

In the absence in the contract of such a condition, the pledgor in case of levy of execution on the land parcel retains the right to such building or structure and acquires the right of limited use (a servitude) of that part of the parcel that is necessary for the use of the building or structure in accordance with its purpose. The conditions of use of this part of the parcel shall be determined by agreement of the pledgor with the pledgee and in case of dispute, by a court.

2. The pledgor of a land parcel has the right without the consent of the pledgee to dispose of his buildings and structures on this parcel to which, in accordance with Paragraph 1 of the present Article the right of pledge does not extend.

In case of alienation of such a building or structure to another person and the absence of an agreement with the pledgee to the contrary, the rights that this person may acquire to the pledged land parcel are limited by the conditions provided in the second subparagraph of Paragraph 1 of the present Article.

3. If a building or structure of the pledgor of land parcel that is on or erected on the same parcel is pledged to the same pledgee, the pledgor has the right to dispose of this building or structure only with the agreement of the pledgee.

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

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

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

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

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

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

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

1. The mortgage of multi-apartment buildings and individual dwelling houses and apartments that are in state ownership or ownership by a commune is not allowed.
2. Hotels, dormitories, rest homes, vacation homes, garden houses, and other buildings and structures not meant for permanent residence may be the subject of mortgage on the regular bases.

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

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

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

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

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

1. Levy of execution on a mortgaged dwelling building or apartment and vending this property is not a basis for the eviction of persons having the right of use of the housing premises, with the exception of the cases provided in Paragraph 2 of the present Article.
2. After levy of execution on a mortgaged dwelling house or apartment and vending of this property, the pledgor and persons having the right of use of the housing premises are obligated on demand of the owner of the house (or apartment) not later than in the course of a month to free the living premises on the condition that:
  - 1) the house (or apartment) was pledged under a contract of mortgage to secure the return of credit provided for the acquisition or construction of this house (or apartment);
  - 2) the persons having the right of use of the housing premises gave before the conclusion of the contract of mortgage, a notarially certified obligation to waive this right.
3. Persons living in pledged dwelling houses or apartments on conditions of a contract of lease of housing premises before the conclusion of the contract of mortgage are not subject to eviction on the vending of the pledged house or apartment unless otherwise provided by the contract.

## **CHAPTER 16. PROTECTION OF THE RIGHT OF OWNERSHIP AND OTHER PROPERTY RIGHTS**

#### **Article 273. Declaration of the Right of Ownership**

The owner has the right to demand declaration of the right of ownership.

#### **Article 274. Recovery of Property from Another's Unlawful Possession**

The owner has the right to recover its property from another's unlawful possession.

#### **Article 275. Recovery of Property from a Good Faith Acquirer**

1. If property has been acquired for compensation from a person who did not have the right to alienate it, of which the acquirer did not know and could not have known (a good-faith acquirer), then the owner has the right to recover this property from the acquirer only in the case when the property was lost by the owner or by a person to whom the property was transferred by the owner for possession or was stolen from one or the other, or left their possession in another manner against their will.
2. If the property was acquired without compensation from a person who did not have the right to alienate it, the owner has the right to recover the property in all cases.
3. Money and also bearer commercial paper and securities may not be recovered from a good-faith acquirer.

#### **Article 276. Settlements in Case of Return of Property from Unlawful Possession**

In case of recovery of property from another's unlawful possession, the owner also has the right to demand from a person who knew or should have known that its possession was illegal (a bad faith possessor), the return of or compensation for all income that this person extracted or should have extracted during the whole time of possession; from a good faith purchaser the return of or compensation for all income that he realized or should have realized from the time when he knew or should have known of the unlawfulness of its possession or received notice by the lawsuit of the owner for the return of the property.

A possessor, either good faith or bad faith, in turn has the right to demand from the owner compensation for necessary expenditures made by it on the property from the time from which the owner was due income from the property.

A good faith purchaser has the right to retain improvements made by it if they can be separated without injury to the property. If such a separation of improvements is impossible, a good faith purchaser has the right to demand compensation for expenses made for improvement but not more than the amount of increase of the value of the property.

#### **Article 277. Protection of the Right of an Owner from Violations Not Connected With Deprivation of Possession**

An owner may demand the elimination of all violations of its right even though these violations were not connected with the deprivation of possession.

#### **Article 278. Protection of the Rights of a Possessor Who is Not an Owner**

The rights provided by Articles 274-277 of the present Code also belong to a person who, although not the owner, is the possessor on a basis provided by a statute or contract. This person shall have the right to protection of its possession also against the owner.

### **CHAPTER 17. TERMINATION OF THE RIGHT OF OWNERSHIP AND OTHER PROPERTY RIGHTS**

#### **Article 279. Bases for Termination of the Right of Ownership**

1. The right of ownership shall be terminated upon the alienation by the owner of its property, renunciation by the owner of the right of ownership, destruction of property, and in case of the loss of the right of ownership in other cases provided by a statute.

2. Compulsory taking of property from the owner is not allowed except for cases when on bases provided by a statute there is conducted:

- 1) the levy of execution on property for obligations (Article 281);
- 2) alienation of property that by force of a statute may not belong to the given person (Article 282);
- 3) alienation of immovable property in connection with the taking of a parcel (Article 283);
- 4) buyout of improperly maintained cultural valuables (Article 284);
- 5) requisition (Article 285);
- 6) confiscation (Article 286);
- 7) reorganization or liquidation of a legal person by decision of a court (Articles 63 and 67);
- 8) alienation of property in the cases provided by Paragraph 4 of Article 197 and Articles 208 and 220 of the present Code.

3. Property that is in state ownership may be alienated into the ownership by citizens and legal persons by the procedure provided by the statutes on privatization.

4. Converting into state ownership of property that is owned by citizens and legal persons (nationalization) shall be done on the basis of a statute with compensation for the value of this property and other losses by the procedure established by Article 286 of the present Code.

5. Property rights shall be terminated in the cases provided by Articles 216 and 247 of the present Code and also in other cases provided by statute or contract.

#### **Article 280. Renunciation of the Right of Ownership**

A citizen or legal person may renounce the right of ownership to property belonging to it, having declared in writing about this or having taken other actions definitely evidencing its removal from the possession, use, and disposition of the property without the intention to retain any rights to this property.

Renunciation of the right of ownership does not entail the termination of the rights and duties of the owner with respect to the corresponding property involved until the acquiring of the right of ownership to it by another person.

#### **Article 281. Levying Execution on Property for Obligations of the Owner**

1. The taking of property by the levying of execution on it for obligations of the owner shall be done on the basis of a decision of a court, unless another procedure for levying execution is provided by a statute or contract.
2. The right of ownership to property upon which execution is levied shall be terminated for the owner from the time when the right of ownership arises on the property taken for the person to whom this property passes.

#### **Article 282. Termination of the Right of Ownership by a Person to Property That May Not Belong to It**

1. If on bases allowed by a statute, property has come into ownership by a person to whom by virtue of a statute the property may not belong, this property must be alienated by the owner within the course of a year from the time of arising of the right of ownership to the property, unless a statute has established another time period.
2. In cases when the property has not been alienated by the owner within the time periods indicated in Paragraph 1 of the present Article, such property, taking account of its nature and use, on decision of a court rendered on request of a state body shall be subject to compulsory sale with transfer to the former owner of the amount obtained or transfer into state ownership with compensation to the former owner of the value of the property. In such a case the expenditures on the alienation of the property shall be also subtracted.
3. If property, for acquiring which special permission is necessary, has come into ownership by a citizen or legal person on bases allowed by a statute, and the owner is refused issuance of such permission, this property is subject to alienation by the procedure established for property that may not belong to the given owner.

#### **Article 283. Alienation of Immovable Property in Connection With the Taking of the Land Parcel on Which It is Located**

1. In cases when the taking of a land parcel for state needs or needs of a commune is impossible without termination of the right of ownership to buildings, structures, or other immovable property located on the given parcel, this property may be taken from the owner by buyout by the state.
2. A demand for the taking of immovable property is subject to satisfaction if the state body or body of local self-government that has gone to court with this requirement proves that the use of the land parcel for the purposes for which it is being taken is impossible without termination of the right of ownership to the given immovable property.

#### **Article 284. Compulsory Purchase of Improperly Maintained Cultural Valuables**

1. In cases when the owner of cultural valuables categorized in accordance with a statute as particularly valuable and protected by the state maintains these valuables improperly so as to threaten the loss by them of their significance, such valuables, by decision of a court may be taken from the owner by buyout by the state.
2. In case of buyout of cultural valuables compensation shall be made to the owner for their value in an amount established by agreement of the parties and in case of dispute, by a court.

#### **Article 285. Requisition**

1. In cases of natural disasters, technological accidents, epidemics, and in other circumstances having an extraordinary nature, property, in the interests of society, on decision of the appropriate state bodies, may be taken from the owner by the procedure and on the conditions established by a statute, with payment to it of the value of the property (requisition).
2. The valuation at which the owner is compensated for the value of the requisitioned property may be disputed by it in court.
3. A person whose property has been requisitioned shall have the right, upon termination of the effect of circumstances in connection with which the requisition was made, to demand in court the return to it of the remaining property.

#### **Article 286. Consequences of Termination of the Right of Ownership by Force of a Statute**

In case of adoption by the Republic of Armenia of a statute terminating the right of ownership, losses caused to the owner as the result of adoption of this act, including the value of the property shall be compensated by the state. Disputes over compensation for losses shall be permitted by a court.

#### **Article 287. Valuation of Property Upon Termination of Ownership**

Upon termination of ownership property shall be valued proceeding from its market price.

#### **Article 288. Confiscation**

In cases provided by a statute, property may be taken without compensation from an owner by sentence of a court as a sanction for the commission of a crime (confiscation).



## **DIVISION 5. TRANSACTIONS. REPRESENTATION. TIME PERIODS. LIMITATION OF ACTIONS**

### **CHAPTER 18. TRANSACTIONS**

#### **§ 1.DEFINITION, TYPES, AND FORM OF TRANSACTIONS**

##### **Article 289. Definition of a Transaction**

Transactions are actions of citizens and legal persons directed at the establishment, change, or termination of civil law rights and duties.

##### **Article 290. Types of Transactions**

1. Transactions may be bilateral or multilateral (contracts) and unilateral.
2. For the conclusion of a contract, an expression of the agreed will of two parties (a bilateral transaction) or of three or more parties (a multilateral transaction) is necessary.
3. A unilateral transaction is one for the making of which, in accordance with a statute, other legal acts, or agreement of the parties, an expression of will of one party is necessary and sufficient.

##### **Article 291. Obligations Under a Unilateral Transaction**

A unilateral transaction creates obligations for the person who made the transaction. It may create obligations for other persons only in cases established by a statute or by agreement with these persons.

##### **Article 292. Legal Regulation of Unilateral Transactions**

The general provisions on obligations and on contracts shall be applied correspondingly to unilateral transactions unless this contradicts a statute, the unilateral character of the transaction, or the nature of the transaction.

##### **Article 293. Transactions Made on a Condition**

1. A transaction shall be considered made on a condition precedent, if the parties have placed the arising of rights and duties in dependence upon a circumstance with respect to which it is unknown whether it will occur or not occur.
2. A transaction shall be considered made on a condition subsequent, if the parties have placed the termination of rights and duties in dependence upon a circumstance with respect to which it is unknown whether it will occur or not occur.
3. If the occurrence of a condition is hindered in bad faith by a party to whom the occurrence of the condition is disadvantageous, then the condition shall be considered as having occurred.
4. If the occurrence of the condition is aided in bad faith by a party for whom the occurrence of the condition is advantageous, then the condition shall be considered as not having occurred.

##### **Article 294. Form of Transactions**

1. Transactions may be made orally or in written (simple or notarial) form.
2. A transaction that may be made orally shall be considered concluded in the case when from the conduct of a person his will to conclude the transaction is apparent.
3. Silence shall be recognized as an expression of will to conclude a transaction in cases provided by a statute or agreement of the parties.

##### **Article 295. Oral Transaction**

1. A transaction for which a statute or agreement of the parties has not established a written (simple or notarial) form, may be made orally.
2. Unless otherwise established by agreement of the parties, all transactions that are performed upon their concluding may be made orally, with the exception of transactions for which notarial form is established and transactions for which nonobservance of simple written form entails their invalidity.
3. Transactions in performance of a contract concluded in written form, may by agreement of the parties be made orally, if this does not contradict a statute, other legal acts, or the contract.

##### **Article 296. Written Transaction**

1. A written transaction must be concluded by the compilation of a document expressing its content and signed by the person or persons concluding the transaction or persons properly empowered by them. Bilateral (or multilateral) transactions may be concluded by the means provided by Paragraphs 2 and 3 of Article 450 of the present Code.

2. A statute, other legal acts, or an agreement of the parties may establish additional requirements that the form of a transaction must meet (making on a defined printed form, confirmation by a seal, etc.), and may provide the consequences of the nonobservance of these requirements. If such consequences are not provided, the consequences of nonobservance of simple written form of a transaction (Paragraph 1 of Article 298) shall be applied.

3. The use in the concluding a transaction of facsimile reproduction of a signature with the assistance of means of mechanical or other copying, electronic-digital signature, or other analogue of an actual handwritten signature is allowed in cases and by the procedure provided by a statute, other legal acts, or agreement of the parties.

4. If a citizen as the result of physical defect, illness, or illiteracy cannot sign in his own handwriting, then at his request the transaction may be signed by another citizen. The signature of the latter must be certified by a notary or other official having the right to take such notarial action, with an indication of the reasons because of which the person making the transaction could not sign it in his own handwriting.

#### **Article 297. Transactions Concluded in Simple Written Form**

1. The following must be concluded in simple written form, with the exception of transactions requiring notarial certification:

1) transactions of legal persons with one another and with citizens;  
2) transactions of citizens with one another for a sum over twenty times the minimum monthly wage established by a statute and, in cases provided by a statute, regardless of the sum of the transaction.

2. Observance of simple written form is not required for transactions that, in accordance with Article 295 of the present Code, may be concluded orally.

#### **Article 298. Consequences of Nonobservance of the Simple Written Form for a Transaction**

1. Nonobservance of the simple written form of a transaction shall deprive the parties of the right, in case of a dispute, to rely for confirmation of the transaction and its terms upon the testimony of witnesses, but shall not deprive them of the right to adduce written and other evidence.

2. In cases directly indicated by a statute or in an agreement of the parties, nonobservance of the simple written form of a transaction shall entail its invalidity.

3. Nonobservance of the simple written form of a foreign commercial transaction shall entail the invalidity of the transaction.

#### **Article 299. Notarially Certified Transactions**

1. Notarial certification of a transaction shall be conducted by making on a document meeting the requirements of Article 296 of the present Code, an authenticating notation by a notary or other official having the right to take such notarial action.

2. The procedure for notarial certification of a transaction shall be established by the statute on the notary system.

3. Notarial certification of transactions is obligatory:

1) in cases indicated in the present Code;  
2) on demand of either of the parties even though by a statute, this form was not required for transactions of the given type.

#### **Article 300. Consequences of Nonobservance of Notarial Form for a Transaction**

1. Nonobservance of notarial form of a transaction shall entail its invalidity. Such a transaction is considered void.

2. If one of the parties has performed a transaction in full or in part that requires notarial certification and the other party avoids notarial certification of the transaction, the court has the right on demand of a party who has performed the transaction to recognize the transaction as valid. In this case subsequent notarial certification of the transaction is not required.

3. A party that has unjustifiably avoided notarial certification of a transaction must compensate the other party for the losses caused by delay in the making of the transaction.

#### **Article 301. State Registration of Rights Arising from Transactions**

1. Rights arising from transactions with immovable property are subject to state registration.

2. Rights arising from transactions with movable property are subject to state registration in cases provided by the present Code and other statutes.

3. The procedure for state registration and the bases for refusal of registration shall be established by the statute on state registration of rights to property.

#### **Article 302. Consequences of Nonobservance of a Requirement for the Registration of Rights Arising from a Transaction**

1. Nonobservance of a requirement of state registration of rights arising from a transaction shall entail its invalidity. Such a transaction is considered void.

2. If a transaction has been concluded in proper form, but one of the parties refuses to register the rights arising from the transaction, the court has the right on demand of the other party to adopt a decision on the registration of

these rights. In this case, the rights arising from the transaction shall be registered in accordance with the decision of the court.

3. A party that unjustifiably avoiding state registration of rights arising from the transaction must compensate the other party for the losses caused by delay in the registration of these rights.

## **§ 2. INVALIDITY OF TRANSACTIONS**

### **Article 303. Avoidable and Void Transactions**

1. A transaction is invalid on the bases established by the present Code by virtue of its declaration as such by a court (an avoidable transaction) or independent of such declaration (a void transaction).

2. A claim for the declaration of an avoidable transaction to be invalid may be brought by the persons indicated in the present Code.

3. A claim for the application of the consequences of the invalidity of a void transaction may be brought by any interested person. The court has the right to apply such consequences on its own initiative.

### **Article 304. General Provisions on the Consequences of Invalidity of a Transaction**

1. An invalid transaction does not entail legal consequences except for those that are connected with its invalidity. Such a transaction is invalid from the time of its making.

2. In case of the invalidity of a transaction, each of the parties has the duty to return to the other everything received under the transaction and in case of the impossibility of physically returning what was received (including when what was received consisted of the use of property, work done, or services provided) to compensate for its value in money, unless other consequences of the invalidity of the transaction are provided by a statute.

3. If from the content of an avoidable transaction it follows that it may only be terminated for the future, the court, declaring the transaction to be invalid, shall terminate its effect for the future.

### **Article 305. Invalidity of a Transaction Not Corresponding to the Requirements of a Statute or to Other Legal Acts**

A transaction not corresponding to the requirements of a statute or of other legal acts is invalid, unless the statute establishes that such a transaction is void or provides other consequences for the violation.

### **Article 306. Invalidity of Mock and Sham Transactions**

1. A mock transaction, i.e., a transaction concluded only for appearances without an intent to create the legal consequences corresponding to it, is void.

2. A sham transaction, i.e., a transaction that is concluded for the purpose of hiding another transaction, is void. The rules relating to the transaction that the parties actually had in mind in concluding the sham transaction, shall be applied to this transaction, taking into account the nature of the case.

### **Article 307. Invalidity of a Transaction Made by a Citizen Who Has Been Declared Lacking Dispositive Capacity**

1. A transaction made by a citizen who has been declared lacking dispositive capacity as the result of a mental disturbance is void.

Each of the parties to such a transaction has the duty to return physically to the other everything that was received and, in case of impossibility of returning physically what was received, to return its value in money.

The competent party is obligated, in addition, to compensate the other side for the actual damage borne by him, if the competent party knew or should have known of the incompetence of the other party.

2. In the interests of a citizen who has been declared lacking dispositive capacity as the result of a mental disturbance, a transaction made by him may, on request by his guardian, be declared valid by a court, if it was concluded to the advantage of this citizen.

### **Article 308. Invalidity of a Transaction Made by a Citizen Limited in Dispositive Capacity**

1. A transaction for the disposition of property made without the consent of the curator by a citizen limited by a court in dispositive capacity as the result of abuse of alcoholic beverages or narcotic substances may be declared invalid by a court on suit of the curator.

If such a transaction is declared invalid, the rules provided by the second and third subparagraphs of Paragraph 1 of Article 307 of the present Code shall be applied correspondingly.

2. The rules of the present Code do not apply to minor everyday transactions that a citizen limited in dispositive capacity has the right to conclude independently in accordance with Article 32 of the present Code.

### **Article 309. Invalidity of a Transaction Concluded by a Minor Who Has Not Attained the Age of Fourteen**

1. A transaction made by a minor who has not attained the age of fourteen (an infant) is void. The rules provided by the second and third subparagraphs of Paragraph 1 of Article 307 of the present Code shall be applied to such a transaction.

2. In the interests of an infant a transaction made by him, on request of his parents, adoptive parents, or guardian, may be declared valid by a court, if it was concluded to the advantage of the infant.
3. The rules of the present Article do not extend to minor everyday and other transactions of infants that they have the right to conclude independently in accordance with Article 29 of the present Code.

**Article 310. Invalidity of a Transaction Made by a Minor of the Age of Fourteen to Eighteen**

1. A transaction made by a minor of the age of fourteen to eighteen without the consent of his parents, adoptive parents, or curator, in cases when such consent is required in accordance with Article 30 of the present Code may be declared invalid by a court on suit by the parents, adoptive parents or curator. If such a transaction is declared invalid, the rules provided by the second and third subparagraphs of Paragraph 1 of Article 307 of the present Code shall be applied correspondingly.
2. The rules of the present Article do not extend to transactions of minors who have become of full dispositive capacity in accordance with the rules of Article 24 of the present Code.

**Article 311. Invalidity of a Transaction Made by a Citizen Incapable of Understanding the Significance of His Actions or of Controlling Them**

1. A transaction made by a citizen having dispositive capacity, but being at the time of making it in a condition in which he was not capable of understanding the significance of his actions or of controlling them may be declared invalid by a court on suit of this citizen or of other persons whose rights or interests protected by a statute have been violated as the result of making the transaction.
2. A transaction made by a citizen later declared lacking dispositive capacity may be declared invalid by a court on suit of his guardian if it is proved that at the time of making the transaction the citizen was not capable of understanding the significance of his actions or of controlling them.
3. If a transaction is declared invalid on the basis of the present Article, the rules provided by the second and third subparagraphs of Paragraphs 2 and 3 of Article 307 of the present Code shall be applied correspondingly.

**Article 312. Invalidity of a Transaction Made Under the Influence of a Misapprehension Having Substantial Significance**

1. A transaction made under the influence of a misapprehension having a substantial significance may be declared invalid by a court on suit by the party who acted under the influence of the mistake. A misapprehension has a substantial significance if it is with respect to the nature of a transaction or qualities of its subject that significantly reduce the possibility of its normal use. A misapprehension concerning the motives of the transaction does not have a substantial significance.
2. If a transaction is declared invalid as made under the influence of a misapprehension take, the rules provided by Paragraph 2 of Article 304 of the present Code shall be applied correspondingly. In addition, the party on whose suit the transaction was declared invalid shall have the right to claim from the other party compensation for the actual damage caused to it if it proves that the misapprehension take arose due to the fault of the other party. If this is not proved, the party, on whose suit the transaction was declared invalid, shall be obligated to compensate the other party on its demand for the actual damage caused to it, even if the misapprehension take arose due to circumstances not depending upon the misapprehended party.

**Article 313. Invalidity of a Transaction Made Under the Influence of Fraud, Duress, Threat, of a Bad-Faith Agreement of the Representative of One Party With Another Party or the Confluence of Harsh Circumstances**

1. A transaction made under the influence of fraud, duress, threat, a bad-faith agreement of the representative of one party with another party, and also a transaction that a person was compelled to make as the result of the confluence of harsh circumstances on conditions extremely unfavorable for itself that the other party used (an oppressive transaction) may be declared invalid by a court on suit of the victim.
2. If a transaction is declared invalid by a court on one of the bases indicated in Paragraph 1 of the present Article, then the other party shall return to the victim everything it received under the transaction and, if it is impossible to return it physically, its value in money shall be compensated. Property received under the transaction by the victim from the other party and also due to it in compensation for that transferred to the other party shall be transferred to the income of the Republic of Armenia. If it is impossible to transfer the property to the income of the state physically, its value in money shall be taken. In addition the victim shall be compensated by the other party for the actual damage caused to it.

**Article 314. Invalidity of a Transaction by a Legal Person Exceeding the Limits of Its Legal Capacity**

A transaction made by a legal person in contradiction with the purposes of activity specifically limited in its charter or by a legal person not having a license to engage in the respective activity may be declared invalid by a court on suit by this legal person, its founder (or participant) or a state body exercising checking or supervision of the activity of the legal person, if it is proved that the other party to the transaction knew or clearly should have known of its illegality.

### **Article 315. Consequences of Limitation of Power to Making a Transaction**

If the power of a person to making a transaction is limited by contract or the power of a body of a legal person is limited by its charter in comparison with how they are defined in a power of attorney, in a statute, or how they could be considered obvious from the situation in which the transaction is made, and if at its making such a person or body went beyond these limits, the transaction may be declared invalid by a court on suit of a person in whose interests the limitations were established only in the cases when it is proved that the other party to the transaction knew or clearly should have known of these limitations.

### **Article 316. Consequences of Invalidity of Part of a Transaction**

The invalidity of part of a transaction shall not entail the invalidity of the other parts of it if the transaction would have been made without the inclusion of its invalid part.

### **Article 317. Time Periods of Limitation of Actions Under Invalid Transactions**

1. A suit for the application of the consequences of the invalidity of a void transaction may be brought within ten years from the day when performance of the transaction began.
2. A suit for the declaration of an avoidable transaction as invalid and for application of the consequences of its invalidity may be brought within a year from the day of the termination of the duress or threat under the influence of which the transaction was made (Paragraph 1 of Article 313) or from the day when the plaintiff knew or should have known of other circumstances that are the basis for the declaration of the transaction as invalid.

## **CHAPTER 19. REPRESENTATION**

### **Article 318. Representation**

1. A transaction made by one person (a representative) in the name of another person (the person represented) by virtue of a power based upon a power of attorney, a provision of a statute or an act of a state body or body of local self-government empowered thereto directly creates, changes, or terminates the civil law rights and duties of the person represented.

The power may also appear from the circumstances in which the representative acts (a sales clerk in retail trade, a cashier, etc.).

2. Persons are not representatives who act, although in the interests of another but in their own name (commercial intermediaries, bankruptcy claims administrators, executors of a will in inheritance, etc.) and also persons empowered to enter into negotiations with respect to transactions possible in the future.

3. A representative may not make transactions with itself personally in the name of the person represented. It also may not conclude such transactions with respect to another person whose representative it is simultaneously, with the exception of cases of commercial representation.

4. It is not allowed making through a representative a transaction that by its nature may be made only personally nor to conclude other transactions indicated in a statute.

### **Article 319. Conclusion of a Transaction by a Non-empowered Person**

1. In case of the absence of power to act in the name of another person or in case of exceeding such power a transaction shall be considered concluded in the name and in the interest of the person who concluded it unless the other person (the represented person) later directly ratifies this transaction.

2. The later ratification of a transaction by the represented person shall create, change, or terminate for it the civil law rights and duties under the given transaction from the time of its making.

### **Article 320. Commercial Representation**

1. A commercial representative is a person constantly and independently acting as representative in the name of entrepreneurs in the conclusion by them of contracts in the sphere of entrepreneurial activity.

2. Simultaneous commercial representation of different parties to a transaction is allowed with the consent of these parties and in other cases provided by a statute.

A commercial representative has the right to demand payment of the agreed remuneration and compensation for costs borne by it in the performance of the delegation from the parties to the contract in equal ownership shares, unless otherwise provided by an agreement among them.

3. Commercial representation shall be conducted on the basis of a contract concluded in a written form and containing indications of the powers of the representative and, in the absence of such indications, alternatively on the basis of a power of attorney.

A commercial representative has the duty to keep in secret information that has become known to it on trade transactions even after the performance of the delegation given to it.

4. The peculiarities of commercial representation in specific areas of entrepreneurial activity shall be established by a statute and other legal acts.

### **Article 321. Power of Attorney**

1. A power of attorney is a written power issued by one person to another person for representation before third persons.

The written power for making a transaction by a representative may be presented by the person represented directly to the respective third person.

2. A power of attorney for making transactions requiring notarial form must be notarially certified with the exception of cases provided by a statute.

3. The following are equated to notarially certified powers of attorney:

1) powers of attorney of military service personnel and of other persons who are being treated in military hospitals, sanatoria, and other military therapeutic institutions certified by the head of such an institution, by his deputy for the medical section, or by a senior or duty physician;

2) powers of attorney of military service personnel and, in locations of stationing of military units, groups, institutions, and military training schools, where there are no notarial offices nor other agencies conducting notarial operations, also powers of attorney of workers and employees, members of their family, and members of the families of military service personnel certified by the commander (or head) of this unit, group, institution, or school;

3) powers of attorney of persons who are in places of deprivation of freedom authenticated by the head of the respective place of deprivation of freedom;

4) powers of attorney of adult citizens with dispositive capacity who are in institutions for social protection of the public, certified by the management of this institution or the head (or his deputy) of the respective agency for social protection of the public.

4. A power of attorney for the receipt of wages and other payments connected with labor relations, for the receipt of remuneration to authors and inventors, pensions, allowances, and scholarships, contributions of citizens in banks, and for the receipt of correspondence, including monetary and parcel correspondence may also be certified by the organization in which the authorizing party works or studies, a body of local self-government at the place of his residence, or the management of the inpatient medical treatment institution in which he is located for treatment.

5. A power of attorney in the name of a legal person shall be issued under the signature of its head or other person empowered for this by the charter, and sealed with the seal of this organization.

6. A power of attorney sent by telegraph and also by other forms of communication, when the sending of the document is conducted by the communications employee shall be confirmed by the agencies of communications.

### **Article 322. Period of Time of a Power of Attorney**

1. The time period of a power of attorney may not exceed three years. If a time period is not indicated in the power of attorney, it shall remain in force for a year from the day of its making.

A power of attorney in which the date of its making is not indicated is void.

2. A power of attorney certified by a notary and meant for the conduct of actions abroad and not containing an indication of the time period of its effectiveness remains in force until its revocation by the person who gave the power of attorney.

### **Article 323. Delegation of Power of Attorney**

1. The person to whom a power of attorney was issued must personally take those actions for which it was empowered. It may delegate their making to another person if so empowered by the power of attorney or compelled by force of circumstances, for the protection of the interests of the one who issued the power of attorney.

2. One who has delegated powers to another person must notify of this the one who issued the power of attorney and report to it the necessary information on the person to whom the powers was transferred. Nonperformance of this duty imposes upon the one who transferred the powers liability for the actions of the person to whom he transferred the authority as for his own actions.

3. A power of attorney issued by way of delegation of power of attorney must be notarially certified, with the exception of the cases provided by Paragraph 4 of Article 321 of the present Code.

4. The time period of effectiveness of a power of attorney issued by way of delegation of power of attorney may not exceed the time period of effectiveness the power of attorney on the basis of which it was issued.

### **Article 324. Termination of a Power of Attorney**

1. The effect of a power of attorney shall be terminated as the result of:

1) expiration of the time period of the power of attorney;

2) conducting the actions provided by the power of attorney;

3) revocation of the power of attorney by the person who issued it;

4) renunciation by the persons to whom the power of attorney was issued;

5) termination of the legal person in whose name the power of attorney was issued;

6) termination of the legal person to whom the power of attorney was issued;

- 7) death of the citizen who issued the power of attorney, declaration of him as lacking dispositive capacity, of limited dispositive capacity, or missing;
  - 8) death of the citizen to whom the power of attorney was issued, declaration of him as lacking dispositive capacity, of limited dispositive capacity, or missing.
2. The person who has issued a power of attorney may at any time revoke the power of attorney or delegation of the power and the person to whom the power of attorney was given may at any time renounce it. An agreement renouncing these rights is void.

#### **Article 325. Consequences of Termination of a Power of Attorney**

1. A person who has issued a power of attorney and thereafter revokes it has the duty to notify the person to whom the power of attorney was issued about the revocation and also to notify third persons known to him for representation before whom the power of attorney was issued. The same obligation is imposed upon the legal successors of the person who issued the power of attorney, in cases of its termination on the bases provided in numbered subparagraphs 5 and 7 of Paragraph 1 of Article 324 of the present Code.
2. The rights and duties that have arisen as the result of actions of the person to whom a power of attorney was issued, before this person knew or should have known of its termination remain in force for the one who issued the power of attorney and his legal successors with respect to third persons. This rule is not applied if the third person knew or should have known that the effect of the power of attorney was terminated.
3. Upon the termination of the power of attorney, the person to whom it was issued is or its legal successors are obligated to return the power of attorney immediately.
4. With the termination of a power of attorney a delegation of the power of attorney loses its force.

### **CHAPTER 20. TIME PERIODS**

#### **Article 326. Determination of a Time Period**

A time period established by a statute, other legal acts, or a transaction or designated by a court shall be determined by a calendar date or the expiration of a time interval that is calculated in years, months, weeks, days, or hours. A time period may also be determined by an indication of an event that must inevitably occur.

#### **Article 327. Start of a Time Period Defined by a Time Interval**

The running of a time period defined by a time interval starts on the day after the calendar date or the occurrence of the event that defines its beginning.

#### **Article 328. End of a Time Period Defined by a Time Interval**

1. A time period calculated in years shall expire on the corresponding month and day of the last year of the time period.  
The rules for time periods calculated in months shall be applied to a time period defined as a half-year.
2. The rules for time periods calculated in months shall be applied to a time period calculated by quarters of a year. In such a case a quarter shall be considered as equal to three months and counting of quarters shall be done from the start of the year.
3. A time period calculated in months shall expire on the corresponding date of the last month of the time period. If the end of a time period calculated in months falls in a month in which there is no corresponding date, then the time period expires on the last day of this month.
4. A time period defined as a half-month is considered as a time period calculated by days and is considered equal to fifteen days.
5. A time period calculated in weeks expires on the corresponding day of the last week of the time period.

#### **Article 329. End of a Time Period on a Non-Work Day**

If the last day of a time period falls on a non-work day, the day of ending of the time period is considered to be the next work day following it.

#### **Article 330. Procedure for Making Actions on the Last Day of the Time Period**

1. If a time period is established for making some action it may be fulfilled until 12:00 p.m. on the last day of the time period.  
However if this action must be taken at an organization, then the time period shall expire at the hour when, in this organization, by the established rules, the respective operations are come to a close.
2. Written statements and notifications submitted to a communications organization before 12:00 p.m. of the last day of the time period shall be considered made within the time period.

## CHAPTER 21. LIMITATION OF ACTIONS

### **Article 331. Definition of Limitation of Actions**

Limitation of actions is the time period for protection of a right on suit of the person whose right has been violated.

### **Article 332. General Time Period of Limitation of Actions**

The general time period of limitation of actions is established at three years.

### **Article 333. Special Time Periods of Limitation of Actions**

1. For individual types of claims a statute may establish special time periods of limitation of actions reduced or longer in comparison with the general time period.
2. The rules of Articles 331 and 334-343 of the present Code extend also to special time periods of limitation unless a statute establishes otherwise.

### **Article 334. Invalidity of an Agreement on Changing the Time Periods of Limitation of Actions**

The time periods of limitation of actions and the procedure for calculating them is provided by statute and may not be changed by agreement of the parties.

The bases for suspending and interrupting the running of the time periods of limitation of actions are established by the present Code and other statutes.

### **Article 335. Application of the Limitation of Actions**

1. A claim for the protection of a right shall be taken for consideration by a court regardless of the expiration of the time period of limitation of actions.
  2. The limitation of actions shall be applied by a court only on request of a party to the dispute, made before the rendering of a decision by the court.
- The expiration of a time period of limitation of actions, that a party has requested be applied, is a basis for the rendering of a decision by the court to dismiss an action.

### **Article 336. Application of Limitation of Actions to Supplementary Claims**

With the expiration of the time period of limitation of actions on the principal claim, the time period of limitation of actions also expires on supplementary claims (pledge, penalty, withholding, surety, earnest money).

### **Article 337. Calculation of the Time Period of Limitation of Actions**

1. The running of the time period of limitation of actions starts from the day when the person knew or should have known of the violation of his right. Exceptions from this rule are established by the Code and other statutes.
2. On obligations with a defined time period for performance, the running of limitation of actions starts at the end of the time period for performance.  
For obligations for which the time period of performance is not defined or is defined as the time of demand, the running of the limitation of actions starts from the time when the right arises for the creditor to make a demand for performance of the obligation, and, if the debtor is given a grace time period for the performance of such a demand, then the calculation of the limitation of actions starts at the end of this time period.
3. On subrogation obligations, the running of limitation of actions starts from the time of performance of the principal obligation.

### **Article 338. Time Period of Limitation of Actions on Change of Persons in an Obligation**

The change of persons in an obligation does not entail a change in the time period of limitation of actions nor the procedure for calculating it.

### **Article 339. Suspension of the Running of the Time Period of Limitation of Actions**

1. The running of the time period of limitation of actions shall be suspended:
  - 1) if the filing of the action was prevented by an extraordinary circumstance unavoidable under the given conditions (force majeure);
  - 2) if the plaintiff or defendant were in the Armed Forces put in a war status;
  - 3) by virtue of an postponement of performance of obligations (a moratorium) established on the basis of a statute by the Government of the Republic of Armenia;
  - 4) if a person without legal capacity lacks a legal representative;
  - 5) by virtue of the suspension of the effect of a statute or other legal act regulating the respective relation.
2. On suits for compensation for harm caused to the life or health of a citizen, the running of the time period of limitation of actions is also suspended in connection with the application by the citizen to the appropriate agency for the award of a pension or support payment—until the award of the pension or support payment or of a refusal to award them.



3. The running of the time period of limitation of actions shall be suspended on the condition that the circumstances indicated in the present Article arose or continued to exist in the last six months of the time period of limitation and if the time period is equal to six months or less than six months, during the time period of limitation.

4. The running of the period of time of limitation shall continue from the day of termination of the circumstance that served as the basis for its suspension. The remaining part of the time period shall be extended to six months, or, if the time period of the limitation of actions is equal to six months or less than six months, to the time period of limitations.

#### **Article 340. Interruption of the Time Period of Limitation of Actions**

The time period of limitation of actions shall be interrupted by the filing of an action by the established procedure and also by the making by the obligated person of actions evidencing the acknowledgment of a debt.

After the interruption, the running of the time period of limitation of actions shall start anew; the time that passed before the interruption shall not be counted in the new time period.

#### **Article 341. Running of the Time Period of Limitation of Actions in the Case of Leaving a Claim Without Consideration**

If a claim is left by a court without consideration, then the running of a time period of limitation of actions that began before the filing of the action shall continue in the regular manner.

If the claim that was left by the court without consideration was presented in a criminal case, then the running of a time period of limitation of actions that began before filing the action shall be suspended until the judgment by which the action was left without consideration goes into legal force. The time during which the limitation was suspended shall not be calculated in the time period of limitation of actions. In such a case if the remaining part of the time period is less than six months, it shall be extended to six months.

#### **Article 342. Reinstatement of a Time Period of Limitation of Actions**

In exceptional cases, when a court recognizes a compelling reason for letting a time period of limitations of actions pass due to circumstances connected with the person of the plaintiff (serious illness, helpless condition, illiteracy, etc.), a violated right of a citizen shall be subject to protection. The reasons for letting a period of time of limitation of actions pass may be recognized as compelling if they took place in the last six months of the time period of limitations or, if the time period is equal to six months or less than six months, during the time period of limitations.

#### **Article 343. Performance of an Obligation After Expiration of the Time Period of Limitation of Actions**

A debtor or other obligated person who has performed an obligation after the expiration of the time period of limitation of actions shall not have the right to demand the performance back, even if at the time of performance this person did not know of the expiration of the limitation.

#### **Article 344. Demands to Which the Limitation of Actions Does Not Apply**

Limitation of actions does not apply to:

- 1) claims for the protection of personal nonproperty rights and other nonmaterial values with the exception of cases provided by a statute;
- 2) claims of contributors to a bank to give out contributions;
- 3) claims for compensation for harm caused to the life or health of a citizen. However claims presented after the expiration of three years from the time of arising of the right to compensation for such harm shall be satisfied for not more than three years previous to the time of bringing suit;
- 4) claims of an owner or other possessor for elimination of any kind of violation of its rights, even if these violations were not connected with the deprivation of possession (Article 277);
- 5) claims of an owner for declaration as invalid of an act of a state body or a body of local self-government or their officials that has violated the rights of the owner for the possession, use, or disposition of property.
- 6) other claims in cases provided by a statute.

## **DIVISION 6. GENERAL PROVISIONS ON OBLIGATIONS**

### **CHAPTER 22. DEFINITION OF AND PARTIES TO AN OBLIGATION**

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

1. By virtue of an obligation one person (the debtor) undertakes the duty to take for the benefit of another person (the creditor) a defined action, such as: to pay money, to transfer property, to do work, render services, etc., or refrain from a defined action, and the creditor has the right to demand from the debtor the performance of its obligation.
2. Obligations arise from contract, from the causing of harm, and from other bases indicated in the present Code.

#### **Article 346. Parties to an Obligation**

1. One or simultaneously several persons may participate in an obligation as either of the parties—creditor or debtor. The invalidity of claims of a creditor against one of the persons participating in an obligation on the side of the debtor and likewise the expiration of the time period of limitation of actions with respect to such a person, in and of itself does not affect its claims against the remaining persons.
2. If each of the parties to a contract bears an obligation for the benefit of the other party, it is considered a debtor of the other party as to what it has the duty to do for its benefit and simultaneously its creditor for what it has the right to demand from it.
3. An obligation does not create duties for persons who are not participants in it as parties (for third persons). In cases provided by a statute, other legal acts, or by agreement of the parties, an obligation may create rights for third persons with respect to one or both of the parties to an obligation.

### **CHAPTER 23. PERFORMANCE OF OBLIGATIONS**

#### **Article 347. General Provisions**

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

#### **Article 348. Impermissibility of Unilateral Refusal to Perform an Obligation**

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

#### **Article 349. Performance of an Obligation in Parts**

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

#### **Article 350. Performance of an Obligation to the Proper Person**

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

#### **Article 351. Performance of an Obligation by a Third Person**

1. Performance of an obligation may be placed by the debtor on a third person, unless a duty of the debtor to perform the obligation personally follows from a statute, other legal acts, the terms of the obligation, or its nature. In this case, the creditor has the duty to accept the performance tendered for the debtor by the third person.
2. A third person who is under the risk of losing its right to the property of the debtor (right of lease, etc.) as the result of the levying by a creditor of execution on this property may with the consent of the debtor satisfy at its own expense claim of a creditor and acquire the rights of a creditor under the obligation in accordance with Articles 397-405 of the present Code.

### **Article 352. Time Period for Performance of the Obligation**

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

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

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

### **Article 353. Early Performance of an Obligation**

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

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

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

### **Article 355. The Place of Performance of an Obligation**

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

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

- 1) on an obligation to transfer a land parcel, building, structure, or other immovable property—at the place of location of the property;
- 2) on an obligation to transfer goods or other property envisioning its carriage—at the place of submission of the property to the first carrier for its delivery to the creditor;
- 3) on other obligations of an entrepreneur to transfer goods or other property—at the place of manufacture or storage of the property if this place was known to the creditor at the time the obligation arose;
- 4) on a monetary obligation—at the place of residence of a creditor at the time the obligation arises and if the creditor is a legal person—at its place of location at the time the obligation arises. If the creditor by the time of performance of the obligation changed its place of residence or place of location and notified the debtor of this—at the new place of residence or place of location of the creditor with the creditor bearing the expenses connected with the change of the place of performance;
- 5) on all other obligations—at the place of residence of the debtor and if the debtor is a legal person—at its place of location.

### **Article 356. Currency for Monetary Obligations**

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

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

3.In long-term obligations indexation of payments may be specified in terms agreed by the parties.

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

### **Article 357. Increase of the Sums Paid for Support of a Citizen**

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

### **Article 358.Order of Satisfaction of Claims Under a Monetary Obligation**

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

### **Article 359. Performance of an Alternative Obligation**

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

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

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

### **Article 361. Joint and Several Obligations**

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

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

### **Article 362. The Rights of a Creditor In Case of Joint and Several Obligation**

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

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

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

### **Article 363. Defenses Against Claims of a Creditor Under a Joint and Several Obligation**

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

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

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

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

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

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

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

### **Article 365. Joint and Several Claims**

1. Under a joint and several claim, any of the joint and several creditors may present the claim to the debtor in full. Before the presentation of a claim by one of the joint and several creditors, the debtor has the right to perform the obligation to any of them at its discretion.

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

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

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

### **Article 366. Performance of an Obligation by the Placing of a Debt on Deposit**

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

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

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

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

4) avoidance by the creditor of accepting performance or other delay on its part.

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

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

#### **Article 367. Reciprocal Performance of Obligations**

- 1.Performance of an obligation of one of the parties is reciprocal if, in accordance with the contract, it depends upon performance of its obligations by the other party.
- 2.In case of failure of the obligated party to make the performance of the obligation provided by the contract or the presence of other circumstances obviously indicating that such performance will not be made within the established time period, the party upon whom the reciprocal performance lies has the right to suspend performance of its obligation or to refuse to perform this obligation and to demand compensation for losses.  
If the performance provided by the contract for an obligation is not made in full, the party upon whom the reciprocal performance lies has the right to suspend performance of its obligation or to refuse performance in the part corresponding to the performance not made.
- 3.If reciprocal performance of the obligation is made despite the failure of the other party to make the performance of its own obligation provided by the contract, this party has the duty to provide such a performance.
- 4.The rules provided by Paragraphs 2 and 3 of the present Article shall be applied unless a contract or a statute provides otherwise.

### **CHAPTER 24. SECURITY FOR PERFORMANCE OF OBLIGATIONS**

#### **§ 1. GENERAL PROVISIONS**

##### **Article 368. Means of Security for Performance of Obligations**

- 1.The performance of obligations may be secured by a pledge (Chapter 15), penalty, retention of property of the debtor, surety, guaranty, earnest money, and other means provided by a statute or contract.
- 2.The invalidity of an agreement on security for performance of the obligation does not entail the invalidity of this obligation (of the principal obligation).
- 3.The invalidity of the principal obligation shall entail the invalidity of the obligation securing it unless otherwise provided by a statute.

#### **§ 2. PENALTY**

##### **Article 369. Definition of a Penalty**

- 1.A penalty (or forfeiture or fine) is a monetary sum determined by a statute or contract that a debtor must pay to the creditor in case of nonperformance or improper performance of an obligation, in particular in case of a delay in performance. In demanding payment of a penalty, the creditor is not obligated to prove that losses were caused to it.
- 2.A penalty secures only a valid claim.
- 3.The creditor does not have the right to demand payment of a penalty if the debtor does not bear liability for the nonperformance or improper performance of the obligation.

##### **Article 370. Form of Agreement on a Penalty**

An agreement on a penalty must be made in written form regardless of the form of the principal obligation. Nonobservance of the written form shall entail the invalidity of the agreement on the penalty.

##### **Article 371. Statutory Penalty**

- 1.The creditor has the right to demand payment of a penalty defined by a statute (a statutory penalty) regardless of whether or not the obligation to pay it is provided by an agreement of the parties.
- 2.The amount of a statutory penalty may be increased by agreement of the parties unless a statute forbids this.

##### **Article 372. Reduction of a Penalty**

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

#### **§ 3. RETENTION**

##### **Article 373. Bases for Retention**

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

the creditor for the costs and other losses connected with it to retain it until the corresponding obligation is performed.

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

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

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

#### **Article 374. Satisfaction of Claims at the Expense of the Retained Property**

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

### **§ 4. SURETY**

#### **Article 375. The Contract of Suretyship**

Under the contract of suretyship, the surety undertakes the duty to the creditor of another person to be liable for the performance by the latter of its obligation in full or in part.

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

#### **Article 376. Form of the Contract of Suretyship**

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

#### **Article 377. Liability of the Surety**

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

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

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

#### **Article 378. Remuneration for the Services of the Surety**

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

#### **Article 379. Right of the Surety to a Defense Against a Claim of the Creditor**

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

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

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

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

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

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

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

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

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

### **Article 382. Termination of a Surety**

1. A surety shall be terminated:

- 1) with the termination of the obligation secured by it and also in case of a change without permission of the surety in this obligation entailing an increase in liability or other unfavorable consequences for it;
- 2) with a transfer to another person of a debt under an obligation secured by the surety if the surety did not give the creditor consent to be liable for the new debtor;
- 3) if the creditor has refused to accept proper performance offered by the debtor or the surety;
- 4) at the expiration of the time period for which it was given indicated in the contract. If such a time period was not established, the surety shall be terminated unless the creditor brings suit against the surety within a year from the day of occurrence of the time for performance of the obligation secured by the surety. When the time period for performance of the principal obligation is not indicated and cannot be determined or is determined by the time of demand, the surety shall be terminated unless the creditor brings a suit against the surety within two years from the day of conclusion of the contract of suretyship.

## **§ 5. GUARANTY**

### **Article 383. Definition of Guaranty**

By virtue of a guaranty the guarantor (a bank, other credit institution, or an insurance organization) issues at the request of another person (the principal) a written obligation to pay a monetary sum to a creditor of the principal (the beneficiary) in accordance with the terms of an obligation given by the guarantor, upon presentation by the beneficiary of a written demand for its payment.

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

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

### **Article 385. Independence of a Guaranty from the Basic Obligation**

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

### **Article 386. Irrevocability of a Guaranty**

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

### **Article 387. Nontransferability of Rights Under a Guaranty**

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

### **Article 388. Entry of a Guaranty into Force**

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

### **Article 389. Making a Demand Under a Guaranty**

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

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

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

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

1. A guarantor shall refuse a beneficiary in the satisfaction of his demand if this demand or the documents attached to it do not correspond to the terms of the guaranty or are presented to the guarantor after the end of the time period defined in the guaranty.
- A guarantor must immediately inform the beneficiary of a refusal to satisfy its demand.

2.If it became known to the guarantor before satisfying a demand by a beneficiary that the principal on secured by the guaranty has already been performed in full or in a corresponding part, has been terminated on other bases or is invalid it must immediately notify the beneficiary and the principal of this.  
A repeated demand of the beneficiary received by the guarantor after such notice shall be subject to satisfaction by the guarantor.

#### **Article 392. Limits of the Obligation of the Guarantor**

1.The obligation provided by a guaranty of the guarantor to the beneficiary is limited to payment of the sum for which the guaranty was issued.  
2.The liability of the guarantor to the beneficiary for nonfulfillment or improper fulfillment by the guarantor of the obligation under the guaranty is not limited to the sum for which the guaranty was issued, unless otherwise provided in the guaranty.

#### **Article 393. Termination of a Guaranty**

1.The obligation of the guarantor to the beneficiary under the guaranty shall be terminated:  
1) by payment to the beneficiary of the sum for which the guaranty was issued;  
2) by the ending of the time period defined in the guaranty;  
3) as the result of renunciation by the beneficiary of its rights under the guaranty and the return of it to the guarantor;  
4) as the result of renunciation by the beneficiary of its rights under the guaranty by written declaration on freeing the guarantor from its obligations.

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

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

#### **Article 394. Subrogation Claims of the Guarantor Against the Principal**

1.The right of the guarantor to claim from the principal by way of subrogation the compensation for sums paid to the beneficiary under a guaranty shall be determined by the agreement of the guarantor with the principal, in performance of which the guaranty was issued.  
2.The guarantor shall not have the right to demand compensation from the principal for sums paid to the beneficiary not in accordance with the terms of the guaranty or for violation of the obligation of the guarantor to the beneficiary unless an agreement of the guarantor with the principal provides otherwise.

### **§ 6. EARNEST MONEY**

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

1.Earnest money is a monetary sum given by one of the contracting parties toward payments due from it under the contract to the other party, as proof of conclusion of the contract and to secure its performance.  
2.An agreement on earnest money, regardless of the sum of the earnest money, must be conclude in written form.  
3.In case of doubt with respect to whether the sum paid toward the payments due from the party under the contract is earnest money, in particular as the result of nonobservance of the rule established by Paragraph 2 of the present Article, this sum shall be considered paid as an advance, unless proved otherwise.

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

1.In case of termination of an obligation before the beginning of its performance by agreement of the parties or as the result of impossibility of performance (Article 432) the earnest money must be returned.  
2.If the party who gave the earnest money is liable for nonperformance of the contract, the earnest money remains with the other party. If the party who received the earnest money is liable for nonperformance of the contract, it has the duty to pay the other party twice the sum of the earnest money.  
In addition, the party liable for nonperformance of the contract has the duty to compensate the other party for losses less the sum of the earnest money, unless otherwise provided by the contract.

## **CHAPTER 25. CHANGING PERSONS IN AN OBLIGATION**

### **§ 1. TRANSFER OF THE RIGHTS OF A CREDITOR TO ANOTHER PERSON**

#### **Article 397.Bases and Procedure for Transfer of the Rights of a Creditor to Another Person**

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



The rules on transfer of rights of a creditor to another person shall not be applied to subrogation claims.  
2.The consent of the debtor is not required for transfer to another person of the rights of the creditor, unless otherwise provided by a statute or contract.

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

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

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

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

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

#### **Article 400. Proof of the Rights of the New Creditor**

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

2.A creditor who has assigned a claim to another person has the duty to transfer to it documents confirming the right of claim and to report information having significance for the exercise of the claim.

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

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

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

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

- 1) as the result of universal legal succession to the rights of the creditor;
- 2) by decision of a court on transfer of the rights of a creditor to another person, when the possibility of such a transfer is provided by a statute;
- 3) as the result of performance of the obligation of a debtor by its surety or pledgor who is not the debtor under this obligation;
- 4) in case of subrogation to an insurer of the rights of a creditor against a debtor liable for the occurrence of the insured event;
- 5) in other cases provided by a statute.

#### **Article 403. Conditions of Assignment of a Claim**

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

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

#### **Article 404. Form of Assignment of Claim**

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

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

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

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

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

## **§ 2. TRANSFER OF A DEBT**

#### **Article 406. Conditions and Form of Transfer of a Debt**

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

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

#### **Article 407. Defenses of the New Debtor Against a Claim of the Creditor**

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

### **CHAPTER 26. LIABILITY FOR VIOLATION OF OBLIGATIONS**

#### **Article 408. Definition of Violation of an Obligation**

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

#### **Article 409. Compensation for Losses Caused by Violation of an Obligation**

- 1.A debtor who has violated obligations has the duty to compensate the creditor for losses caused.
- 2.Losses shall be determined in accordance with the rules provided by Article 17 of the present Code.
- 3.Unless otherwise provided by a statute, other legal acts, or the contract, in determining losses, the prices shall be taken into account that existed at the place where the obligation was to be performed on the day of voluntary satisfaction by the debtor of the claim of the creditor or if the claim was not satisfied, on the day of the making by the court a decision.
- 4.In determination of lost profit, the measures taken by the creditor to receive it and the preparations made for this purpose shall be considered.

#### **Article 410. Losses and Penalty**

- 1.If a penalty is provided for nonperformance or improper performance of an obligation, then losses shall be compensated in the part not covered by the penalty.  
A statute or contract may provide cases:
  - 1) when recovery only of a penalty but not of losses is allowed;
  - 2) when losses may be recovered in full sum above a penalty;
  - 3) when at the choice of the creditor either losses or a penalty may be recovered.
- 2.In cases when limited liability is established (Article 416) for nonperformance or improper performance of an obligation, losses subject to compensation for the part not covered by the penalty or in addition to it or instead of it may be recovered up to the bounds established by such limitation.

#### **Article 411. Liability for Nonperformance of a Monetary Obligation**

- 1.For the use of another's monetary assets as the result of their unlawful retention, avoiding returning them, or delay in their payment, or unjustified receipt or saving at the expense of another person, interest is subject to payment on the sum of these assets. The rate of interest shall be determined by the accounting rate of bank interest existing on the day of performance of the monetary obligation or the corresponding part of it.  
In case of recovery of a debt by judicial proceedings a court may satisfy a claim of a creditor, proceeding from the accounting rate of bank interest on the day of making a decision.
- 2.The accounting rate of bank interest shall be established by the Central Bank of the Republic of Armenia.
- 3.If the losses caused to a creditor by the unlawful use of its monetary assets exceed the sum of interest due to it on the basis of Paragraph 1 of the present Article, it shall have the right to demand from the debtor compensation for losses in the part exceeding this sum.
- 4.Interest for the use of another's assets shall be recovered through the day of payment of the sum of these assets to the creditor unless the contract has established a shorter time period for the computation of interest.

#### **Article 412. Liability and Performance of an Obligation physically**

- 1.Payment of a penalty and compensation for losses in case of improper performance of an obligation shall not free the debtor from the performance of the obligation physically unless otherwise provided by a statute or contract.
- 2.Compensation for losses in case of nonperformance of an obligation and payment of a penalty for its nonperformance shall free a debtor from performance of the obligation physically, unless otherwise provided by a statute or contract.
- 3.Refusal by a creditor to accept performance that as the result of delay has become no longer of interest for it (Paragraph 2 of Article 421) and also payment of a penalty established as a cancellation penalty (Article 425) shall free the debtor from performance of the obligation physically.

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

In case of nonperformance by the debtor of an obligation to make and transfer property in ownership or to transfer property for the use of the creditor or to do defined work for it or to render a service to it, the creditor shall have the

right, in a reasonable time period, to entrust the fulfillment of the obligation to third persons for a reasonable price or to fulfill it within its own efforts unless otherwise follows from a statute, other legal acts, contract, or the nature of the obligation, and to demand from the debtor compensation for the necessary expenses and other losses borne.

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

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

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

#### **Article 415. Subsidiary Liability**

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

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

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

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

#### **Article 416. Limitation of the Amount of Liability Under Obligations**

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

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

#### **Article 417. Bases of Liability for the Violation of an Obligation**

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

A debtor is recognized as not at fault, if it proves that it took all measures depending upon it for the proper performance of the obligation.

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

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

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

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

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

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

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

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

1. If nonperformance or improper performance of an obligation occurred by fault of both parties, the court shall accordingly reduce the amount of liability of the debtor. The court also shall have the right to reduce the amount of liability of the debtor if the creditor intentionally or by negligence facilitated an increase in the amount of losses caused by the nonperformance or improper performance, or did not take reasonable measures to reduce it.
2. The rules of Paragraph 1 of the present Article shall be applied accordingly also in cases when the debtor by force of a statute or contract bears liability for nonperformance or improper performance of an obligation regardless of its fault.

#### **Article 421. Delay by the Debtor**

1. A debtor who has delayed performance shall be liable to the creditor for the losses caused by the delay and for the consequences of an impossibility of performance that accidentally occurred during the delay.
2. If, as the result of delay by the debtor, performance is no longer of interest for the creditor, the creditor may refuse to accept performance and demand compensation for losses.
3. A debtor is not considered to have delayed so long as an obligation cannot be performed as the result of delay by the creditor.

#### **Article 422. Delay by the Creditor**

1. A creditor shall be considered to have delayed if it has refused to accept proper performance offered by the debtor or has not taken actions provided by a statute, other legal acts, or contract or deriving from the customs of trade or from the nature of the obligation until the making of which the debtor cannot perform its obligation. A creditor also shall be considered to have delayed in the cases indicated in Paragraph 2 of Article 424 of the present Code.
2. Delay by a creditor shall give the debtor the right to compensation for the losses caused by the delay, unless the creditor proves that the delay occurred due to circumstances for which neither it itself nor the persons upon whom by force of a statute, other legal acts, or delegation of the creditor the acceptance of performance was placed, is liable.
3. Under a monetary obligation, the debtor is not obligated to pay interest for the time of delay by the creditor.

### **CHAPTER 27. TERMINATION OF OBLIGATIONS**

#### **Article 423. Bases for Termination of Obligations**

1. An obligation shall be terminated in full or in part on the bases provided by a statute, other legal acts, or contract.
2. Termination of an obligation on demand of one of the parties is allowed only in cases provided by a statute or contract.

#### **Article 424. Termination of an Obligation by Performance**

1. Proper performance terminates an obligation.
2. A creditor accepting performance is obligated upon demand of the debtor to issue it a receipt for having acquired performance in full or in the respective part.  
If the debtor has issued a creditor a document of indebtedness in confirmation of an obligation, then a creditor accepting performance must return this document and, if it is impossible to return it, must so indicate in a receipt issued by it. The receipt may be replaced by a notation on the returned document of indebtedness.  
The fact that the debtor has the document of indebtedness confirms, until proven otherwise, the termination of the obligation.  
In case of refusal of the creditor to give a receipt, to return the document of indebtedness or to note in the receipt the impossibility of its return, the debtor has the right to suspend performance. In such cases the creditor is considered to have delayed.

#### **Article 425. Cancellation Compensation**

By agreement of the parties an obligation may be terminated by the presentation, instead of performance, of cancellation compensation (payment of money, transfer of property, etc.). The amount of the cancellation compensation, and also the time periods and procedure for making it shall be established by the parties.

#### **Article 426. Termination of an Obligation by Setoff**

An obligation is terminated in full or in part by setoff of an identical counterclaim whose period of time has matured or whose time period is not indicated or is defined as the time period of demand. For setoff, the declaration of one party is sufficient.

#### **Article 427. Cases of Non-allowance of Setoff**

Setoff of claims is not allowed:

- 1) if, on declaration of one party, the time period of limitation of actions is applicable to a claim and this time period has expired;
  - 2) for compensation for harm caused to life or health;
  - 3) for recovery of support.
- Setoff of claims is not allowed also in other cases provided by a statute or contract.

#### **Article 428. Setoff in Case of Assignment of a Claim**

1. In case of assignment of a claim, the debtor has the right to setoff against the claim of the new creditor its counterclaim against the initial creditor.
2. The setoff is made if the claim arose on a basis existing at the time of receipt by the debtor of notice of assignment of the claim and the time for making a claim occurred before receiving it or this time period was not indicated or was defined as the time period of demand.

#### **Article 429. Termination of an Obligation by the Coinciding of the Debtor and the Creditor in One Person**

An obligation is terminated by the coinciding of the debtor and the creditor in one person.

#### **Article 430. Termination of an Obligation by a Substitution**

1. An obligation is terminated by an agreement of the parties on the replacement of the initial obligation existing between them by another obligation between the same persons providing for another subject or another means of performance (a substitution).
2. A substitution is not allowed with respect to obligations for compensation for harm caused to life or health or for payment of support.
3. A substitution terminates supplementary obligations connected with the initial obligation, unless otherwise provided by agreement of the parties.

#### **Article 431. Forgiving Debt**

An obligation is terminated by freeing by the creditor of the debtor of the obligation resting upon it (forgiving a debt), unless this violates the rights of other persons with respect to the property of the creditor.

#### **Article 432. Termination of an Obligation by Impossibility of Performance**

1. An obligation is terminated by impossibility of performance if the impossibility was caused by a circumstance for which none of the parties is liable. In this case the creditor does not have the right to demand performance of the obligation from the debtor.
2. In case of impossibility of performance by a debtor of an obligation caused by actions for which the creditor was at fault, the latter does not have the right to demand return of what was performed under the obligation.

#### **Article 433. Termination of an Obligation on the Basis of an Act of a State Body or a Body of Local Self-Government**

1. If as the result of the issuance of an act of a state body or body of local self government the performance of an obligation becomes impossible in full or in part, the obligation is terminated in full or for the respective part. Parties who have suffered losses as the result of this have the right to claim compensation for them in accordance with Articles 15 and 18 of the present Code.
2. In case the act of the state body or of the body of local self-government on the basis of which the obligation was terminated is declared invalid by the established procedure, the obligation shall be reinstated unless otherwise follows from the agreement of the parties or the nature of the obligation and the performance has not lost interest for the creditor.

#### **Article 434. Termination of an Obligation by the Death of a Citizen**

1. An obligation shall be terminated by the death of the debtor, if performance may not be made without the personal participation of the debtor or the obligation in another manner is inseparably connected with the personality of the debtor.
2. An obligation shall be terminated by the death of the creditor, if performance is meant personally for the creditor or the obligation in another manner is inseparably connected with the personality of the creditor.

#### **Article 435. Termination of an Obligation by the Liquidation of a Legal Person**

An obligation shall be terminated by liquidation of a legal person (debtor or creditor).

## **DIVISION 7. OBLIGATIONS ARISING FROM CONTRACTS**

### **SUBDIVISION 1. GENERAL PROVISIONS ON CONTRACT**

#### **CHAPTER 28. DEFINITION AND TERMS OF A CONTRACT**

##### **Article 436. Definition of a Contract**

1. A contract is an agreement of two or several persons on establishing, changing, or terminating civil law rights and duties.
2. The rules on bilateral and multilateral transactions provided by Chapter 18 of the present Code shall be applied to contracts.
3. The general provisions on obligations shall be applied to obligations arising from contract, unless otherwise provided by the rules of the present Chapter or the rules on individual types of contracts contained in the present Code.
4. The general provisions on contract shall be applied to contracts concluded by more than two parties unless this contradicts the multilateral nature of these contracts.

##### **Article 437. Freedom of Contract**

1. Citizens and legal persons are free in the conclusion of a contract. Compulsion to conclusion of a contract is not allowed with the exception of cases when the obligation to conclude a contract is provided by the present Code, a statute, or a voluntarily accepted obligation.
2. The parties may conclude a contract provided for or not provided for by a statute or other legal acts.
3. The parties may conclude a contract that contains elements of various contracts provided for by a statute or other legal acts (a mixed contract). The rules on contracts whose elements are contained in the mixed contract shall be applied to the relations of parties under the mixed contract unless otherwise follows from an agreement of the parties or the nature of the mixed contract.
4. The terms of the contract shall be determined at the discretion of the parties except for cases when the content of the respective term is prescribed by a statute or other legal acts (Article 438). In cases when a term of a contract is provided by a norm that is applied unless an agreement of the parties has established otherwise (a dispositive norm), the parties may by their agreement exclude its application or establish a term different from that provided in it. In the absence of such an agreement the term of the contract shall be determined by the dispositive norm.
5. If a term of a contract is not determined by the parties or a dispositive norm, the respective terms shall be determined by the customs of trade applicable to the relations of the parties.

##### **Article 438. Contract and Statute**

1. A contract must comply with rules obligatory for the parties established by a statute and other legal acts (imperative norms) in effect at the time of its conclusion.
2. If after the conclusion of a contract a statute is adopted establishing rules obligatory for the parties other than those that were in effect upon conclusion of the contract, the terms of the concluded contract shall remain in force except in cases when it was established in the statute that its effect extends to relations arising from previously concluded contracts.

##### **Article 439. Compensated and Uncompensated Contracts**

1. A contract under which a party must receive payment or other counterperformance in return for the performance of its duties is a compensated contract.
2. A contract is uncompensated under which one party undertakes the duty to provide something to the other party without receiving payment or anything else in return.
3. A contract is presumed to be compensated unless it follows otherwise from a statute, other legal acts, the content or the nature of the contract.

##### **Article 440. Price**

1. Performance of a contract is paid for at a price established by agreement of the parties. In cases provided by a statute, prices (tariffs, valuations, rates, etc.) are applied that are established or regulated by state bodies empowered for this.
2. Change of price after conclusion of a contract is allowed in cases and on conditions provided by contract or statute.

3. In cases when in a compensated contract a price is not provided and may not be determined proceeding from the terms of the contract, performance of the contract must be paid for at the price that, under comparable conditions, usually is taken for analogous goods, work, or services.

#### **Article 441. Effect of the Contract**

1. A contract shall enter into effect and become obligatory for the parties from the time of its conclusion.

2. The parties have the right to establish that the terms of a contract concluded by them shall be applied to their relations that arose before the conclusion of the contract.

3. A statute or contract may provide that the ending of the time period of effectiveness of the contract shall entail the termination of the obligations of the parties under the contract.

A contract in which such a period of time is absent shall be recognized as in effect until the time defined in it of the termination of performance of the obligation.

4. Ending of the time period of effectiveness of a contract shall not free the parties from liability for a violation of it that occurred before the expiration of this time period.

#### **Article 442. Public Contract**

1. A public contract is a contract concluded by a commercial organization and establishing its obligations for the sale of goods, doing work, or rendering of services that this organization by the nature of its activity must make with respect to everyone who applies to it (retail trade, carriage by transport for common use, communications services, energy supply, medicine, hotel service, etc.).

A commercial organization does not have the right to provide priority to one person before another with respect to conclusion of a public contract.

2. The price of goods, work, and services, and also other terms of a public contract shall be established equally for all consumers.

3. A refusal of a commercial organization to conclude a public contract if there is the possibility of providing the consumer with the respective goods or services, or to do for it respective work, is not allowed.

In case of an unjustified avoidance by a commercial organization of concluding a public contract, the rules provided by Article 461 of the present Code shall be applied.

4. In cases provided by a statute, the Government may issue rules obligatory for parties in the conclusion and performance of public contracts (standard contracts, etc.).

5. Terms of a public contract not meeting the requirements established by Paragraphs 2 and 4 of the present Article are void.

#### **Article 443. Standard Terms of a Contract**

1. It may be provided in a contract that its individual terms are determined by standard terms developed for contracts of the respective type and published in the press.

2. In cases when there is no reference to standard terms in a contract, such standard terms shall be applied to the relations of the parties as customs of trade if they meet the requirements established by Article 7 and Paragraph 5 of Article 437 of the present Code.

3. Standard terms may be stated in the form of a standard contract or of another document containing these terms.

#### **Article 444. Contract of Adhesion**

1. A contract of adhesion is a contract whose terms are determined by one of the parties in printed forms or other standard forms and that may be accepted by the other party not otherwise than by adhering to the proposed contract as a whole.

2. The party adhering to the contract has the right to demand the rescission or change of the contract if the contract of adhesion, although does not contradict a statute or other legal acts, deprives this party of rights usually given under contracts of such type, excludes or limits the liability of the other party for the violation of obligations or contains other terms clearly burdensome for the adhering party, that it, on the basis of its reasonably understood interests, would not have accepted if it had the possibility of participating in the determination of the terms of the contract.

3. In the presence of the circumstances provided by Paragraph 2 of the present Article a demand for the rescission or change of the contract made by the party that adhered to the contract in connection with the conduct of its entrepreneurial activity is not subject to satisfaction if the adhering party knew or should have known on what terms it was concluding the contract.

#### **Article 445. Preliminary Contract**

1. Under a preliminary contract, the parties undertake the duty to conclude in the future a contract on the transfer of property, doing work, or the rendering of services (the basic contract) on the terms provided by the preliminary contract.

2. A preliminary contract shall be concluded in the form established for the basic contract and if the form of the basic contract is not established, then in written form. Nonobservance of the rules on the form of a preliminary contract shall entail its voidness.

3. A preliminary contract must contain terms making possible the establishment of a subject and also other substantial terms of the basic contract.

4. In the preliminary contract the time period shall be indicated in which the parties are obligated to conclude the basic contract.

If such a time period is not defined in the preliminary contract, the basic contract is subject to conclusion within one year from the time of conclusion of the preliminary contract.

5. In cases when a party that has concluded a preliminary contract avoids concluding the basic contract, the rules provided by Article 461 of the present Code shall be applied.

6. The obligations provided by the preliminary contract shall be terminated if by the end of the time period in which the parties must conclude the basic contract it is not concluded or one of the parties does not send the other party a proposal to conclude this contract.

7. An agreement on intentions (letter of intent, etc.) does not create civil law consequences unless in it there is directly indicated the will of the parties to give it the effect of a preliminary contract.

#### **Article 446. Contract for the Benefit of a Third Person**

1. A contract for the benefit of a third person is a contract in which the parties have established that the debtor undertakes the duty to make performance not to the creditor but to a third person indicated or not indicated in the contract, having the right to demand performance of the obligation in its benefit from the debtor.

2. Unless otherwise provided by a statute, other legal acts, or contract, from the time of expression by the third person to the debtor of an intent to use its right under the contract, the parties may not rescind or change the contract concluded by them without the consent of the third person.

3. The debtor under the contract has the right to raise against claims of the third person the defenses that he could raise against the creditor.

4. In the case when the third person has renounced the right provided to it by the contract, the creditor may enjoy this right if this does not contradict a statute, other legal acts, and the contract.

#### **Article 447. Interpretation of a Contract**

In the interpretation of the terms of a contract a court shall take into account the literal meaning of the words and expressions contained in it. The literal meaning of a term of a contract, in case the term is not clear, shall be established by comparison with the other terms and the sense of the contract as a whole.

If the rules contained in the first part of the present Article do not allow the determination of the content of the contract, the real common will of the parties must be ascertained, taking into account the purpose of the contract. In such a case all surrounding circumstances shall be taken into account including negotiations and correspondence preceding the contract, the practice established in the mutual relations of the parties, the customs of trade, and the subsequent conduct of the parties.

## **CHAPTER 29. CONCLUSION OF A CONTRACT**

#### **Article 448. Basic Provisions on the Conclusion of a Contract**

1. A contract shall be considered concluded if an agreement has been reached on all the essential terms of the contract among the parties in the required form.

The essential terms are those on the subject of the contract, terms that are named in a statute or other legal acts as essential or necessary for contracts of the given type, and also all those terms with respect to which by declaration of one of the parties an agreement must be reached.

2. A contract may be concluded by the sending of an offer (a proposal to conclude a contract) by one of the parties and its acceptance (acceptance of the proposal) by the other party.

#### **Article 449. Time of Conclusion of the Contract**

1. A contract shall be considered concluded from the time of receipt by the person who has sent an offer of its acceptance.

2. If, in accordance with a statute, the transfer of property is also necessary for the conclusion of a contract, the contract shall be considered concluded from the time of transfer of the respective property (Article 177).

3. A contract rights under which are subject to state registration shall be considered concluded from the time of the registration of these rights.

#### **Article 450. Form of a Contract**

1. A contract may be concluded in any form provided for the making of transactions unless a defined form for a contract of the given type has been established by a statute.

If the parties have agreed to conclude a contract in a defined form, it shall be considered concluded after giving it the agreed form although this form was not required by a statute for a contract of the given type.



2. A contract in written form may be concluded by the compilation of one document signed by the parties and also by the exchange of documents by mail, telegraph, teletype, telephone, electronic or other communications that allow the reliable establishment that the document proceeds from a party to the contract.
3. The written form of a contract shall be considered observed if a written proposal to conclude a contract has been accepted by the procedure provided by Paragraph 3 of Article 454 of the present Code.

#### **Article 451. Offer**

1. An offer is a proposal addressed to one or several concrete persons that definitely expresses the intent of the person who has made the proposal to consider itself having concluded a contract with the addressee by whom the proposal will be accepted.

The offer must contain the essential terms of the contract.

2. The offer shall bind the person who sent it from the time of its receipt by the addressee.

If a notice on the revocation of the offer has arrived earlier than or simultaneously with the offer, the offer shall be considered not to have been submitted.

#### **Article 452. Irrevocability of an Offer**

An offer received by an addressee cannot be revoked during the time period established for its acceptance unless otherwise provided in the offer itself or follows from the nature of the proposal or the situation in which it was made.

#### **Article 453. Invitation to Make Offers. Public Offer**

1. Advertising and other proposals addressed to an indeterminate group of persons are considered as an invitation to make offers unless otherwise directly indicated in the proposal.

2. A proposal containing all essential terms of the contract from which there is perceived the will of the person who made the proposal to conclude a contract on the terms indicated in the proposal with anyone who responds shall be considered a public offer.

#### **Article 454. Acceptance**

1. An acceptance is the response of a person to whom an offer is addressed on its acceptance.

An acceptance must be full and unconditional.

2. Silence is not acceptance, unless otherwise follows from a statute, custom of trade, or from prior business relations of the parties.

3. The making by a person who has received an offer, within the time period established for its acceptance, of actions in the fulfillment of the terms of a contract indicated in it (shipment of goods, provision of services, doing work, payment of the appropriate sum, etc.) shall be considered an acceptance unless otherwise provided by a statute, other legal acts, or indicated in the offer.

#### **Article 455. Revocation of an Acceptance**

If a notice on the revocation of an acceptance has reached the person who has made the offer earlier than the acceptance or simultaneous with it, the acceptance shall be considered not to have been received.

#### **Article 456. Conclusion of a Contract on the Basis of an Offer Defining a Time Period for Acceptance**

When a time period for acceptance is defined in an offer, the contract is considered concluded if the acceptance is received by the person who has sent the offer within the time period indicated in it.

#### **Article 457. Conclusion of a Contract on the Basis of an Offer Not Defining a Time Period for Acceptance**

1. When a time period for acceptance is not defined in a written offer, the contract is considered concluded if the acceptance is received by the person who has sent the offer before the end of the time period established by a statute or other legal acts, or if such a time period has not been established—in the course of time necessary for this.

2. When an offer has been made orally without an indication of the time period for acceptance, the contract is considered concluded if the other party has immediately declared its acceptance.

#### **Article 458. An Acceptance Received Late**

In cases when a timely dispatched notification of acceptance has been received late, the acceptance shall not be considered late unless the party who has sent the offer has immediately informed the other party of the late receipt of the acceptance. If the party who has sent the offer immediately notifies the other party of the receipt of its acceptance received late, the contract is considered concluded.

#### **Article 459. Acceptance on Other Terms**

A reply of consent to conclude a contract on terms proposed in the offer is not an acceptance. Such a reply is recognized as refusal to accept and at the same time a new offer.

#### **Article 460. Place of Conclusion of the Contract**

If the place of conclusion of a contract is not indicated in it the contract shall be recognized as concluded in the place of residence of the citizen or the place of location of the legal person who sent the offer.

#### **Article 461. Avoidance by a Party of Concluding a Contract**

If a party for whom in accordance with the a statute the conclusion of a contract is obligatory has avoided concluding it, the other party shall have the right to go to a court with a demand for compulsion to conclude a contract.

A party unjustifiably avoiding concluding a contract must compensate the other party for the losses caused by this.

#### **Article 462. Precontract Disputes**

In cases of bringing of disagreements that have arisen in the conclusion of a contract for consideration by a court on the basis of Article 461 of the present Code or by agreement of the parties, the terms of the contract on which there were disagreements among the parties shall be defined in accordance with a decision of the court.

#### **Article 463. Conclusion of a Contract at an Auction**

1.A contract, unless otherwise follows from its nature, may be concluded by the conduct of an auction. The contract is concluded with the person who has won the auction.

2.The organizer of the auction may be the owner of property or the possessor of a property right or a specialized organization. A specialized organization shall act on the basis of a contract with the owner of the property or the possessor of a property right and shall act in their name or in its own name.

3.In the cases indicated in the present Code or other statute contracts on the sale of property or of a property right may be concluded only by the holding an auction.

4.An auction shall be held in the form of an auction by bidding or a competition.

The winner of an auction conducted as an auction by bidding is the person who has proposed the highest price and in a competition, the person who, by conclusion of a competition commission appointed in advance by the organizer of the auction, has proposed the best terms.

The form of an auction shall be determined by the owner of the property sold or the holder of the property right being vended, unless otherwise provided by a statute.

#### **Article 464. Organization of and Procedure for Conduct of Auctions**

1.Auctions by bidding and competitions may be open or closed.

Any person may participate in an open auction by bidding or in an open competition. Only persons invited for this purpose may participate in a closed auction by bidding or a closed competition.

2.Unless otherwise provided by a statute, a notice on the conduct of an auction shall be made by the organizer not less than thirty days before conducting it. The notice must contain information on the time, place and form of the auction, its subject, and procedure for conducting it, including for formalization of participation in the auction, determination of the person who has won the auction and also information on the starting price.

In the case the subject of the auction is the right to conclude a contract, in the notification on the planned auction the time period provided for this must be indicated.

3.Unless otherwise provided in a statute or in the notice on the conduct of the auction the organizer of an open auction who has made a notification has the right to cancel the conduct of the auction by bidding at any time but not later than three days before occurrence of the day on which it is to be held, and for a competition not later than thirty days before the holding of the competition.

In cases when the organizer of an open auction cancels the holding of the auction in violation of the above time periods, it shall be obligated to compensate the participants for the actual damage borne by them.

The organizer of a closed auction by bidding or of a closed competition has the duty to compensate the participants invited by it for their actual harm regardless of how long after the sending of the notice the cancellation of the auction occurred.

4.The participants in an auction shall pay earnest money in the amount, within the time periods, and by the procedure that are indicated in the notice on the conduct of the auction. If the auction did not take place, the earnest money shall be subject to return. Earnest money shall also be returned to persons who participated in the auction but did not win it.

Upon conclusion of a contract with a person who has won an auction, the sum of earnest money contributed by it shall be counted toward performance of obligations for the contract concluded.

5.A person who has won an auction and the organizer of the auction shall sign, on the day of the conduct of the auction by bidding or of the competition, a memorandum of the results of the auction, which shall have the force of a contract. The person who has won an auction, in case of avoiding signing the memorandum, shall lose the earnest money contributed by it. An organizer of an auction who avoided signing the memorandum shall be obligated to return the earnest money in double amount and also to compensate the person who has won the auction for the losses caused by participation in the auction.

If the subject of an auction was only the right to conclusion of a contract, such a contract must be signed by the parties not later than twenty days, or other time period indicated in the notice, after the completion of the auction and the formalization of the memorandum.

In case of avoidance by one of them of concluding the contract, the other party has the right to go to a court with a demand for compulsion to conclude the contract and also for compensation for the losses caused by avoidance of concluding it.

#### **Article 465. Consequences of Violation of the Rules for the Conduct of Auctions**

1. An auction conducted in violation of the rules established by a statute may be declared invalid by a court upon suit by an interested person.

2. Declaration of an auction as invalid shall entail the invalidity of the contract concluded with the person who has won the auction.

### **CHAPTER 30. CHANGE AND RESCISSION OF A CONTRACT**

#### **Article 466. Bases for Change and Rescission of a Contract**

1. Change and rescission of a contract are possible by agreement of the parties, unless otherwise provided by a statute or contract.

2. Upon demand of one of the parties a contract may be changed or rescinded by decision of a court only in case of a substantial breach of the contract by the other party or in other cases provided by a statute or contract.

A breach of a contract by one party shall be recognized as substantial if it entails for another party such damage that it to a significant degree is deprived of that which it had the right to expect at the conclusion of the contract.

3. In case of unilateral refusal to perform a contract in whole or in part, when such a refusal is allowed by a statute or agreement of the parties, the contract shall be considered respectively rescinded or changed.

#### **Article 467. Change and Rescission of a Contract in Connection With a Substantial Change of Circumstances**

1. A substantial change of circumstances from which the parties proceeded in the conclusion of the contract is a basis for its change or rescission unless otherwise provided by the contract or follows from its nature.

A change of circumstances shall be recognized as substantial when they have changed to the extent that, if the parties could have reasonably foreseen this, the contract would have been concluded on significantly different terms or would not have been concluded by them at all.

2. If the parties have not attained agreement on bringing a contract in accordance with substantially changed circumstances or on its rescission, the contract may be rescinded or, upon the bases provided by Paragraph 4 of the present Article, changed by a court on demand of an interested party if the following conditions are present simultaneously:

1) at the time of the conclusion of the contract the parties proceeded on the basis that such a change of circumstances would not occur;

2) the change of circumstances was brought about by causes that the interested party could not overcome after they arose with the degree of care and caution that was demanded of it by the nature of the contract and the conditions of trade;

3) performance of a contract without change of its terms would so disturb the correlation of the contract-related property interests of the parties and would entail such harm for the interested party that it to a significant degree would be deprived of that which it had the right to expect upon conclusion of the contract;

4) it does not follow from the customs of trade or the nature of the contract that the risk of change of circumstances is borne by the interested party.

3. In case of rescission of a contract as the result of substantially changed circumstances, a court, on demand of one of the parties, shall determine the consequences of rescission of the contract proceeding from the necessity of just distribution among the parties of the expenses borne by them in connection with the performance of this contract.

4. A change in the contract in connection with a substantial change in circumstances shall be allowed by decision of a court in exceptional cases when the rescission of the contract would contradict societal interests or cause damage to the parties significantly exceeding the expenditures necessary for performance of the contract on the terms as changed by the court.

#### **Article 468. Procedure for Changing and Rescinding a Contract**

1. An agreement to change or rescind a contract shall be made in the same form as the contract unless it follows otherwise from a statute, other legal acts, contract, or customs of trade.

2. A demand for change or rescission of a contract may be made by a party to the court only after receipt of a refusal of the other party to a proposal to change or rescind the contract or the failure to receive an answer within the time period indicated in the proposal or, in its absence, in a thirty-day time period.

#### **Article 469. Consequences of Change and Rescission of a Contract**

1. Upon a change of a contract, the obligations of the parties shall be maintained in the changed form.
2. Upon rescission of a contract, the obligations of the parties shall be terminated.
3. In case of change or rescission of a contract, the obligations shall be considered changed or terminated from the time of conclusion of an agreement of the parties to change or rescind the contract, unless otherwise follows from the agreement or the nature of the change of the contract, and upon change or rescission of the contract by judicial procedure—from the time of entry into legal force of a decision of the court on changing or rescinding the contract.
4. The parties do not have the right to demand the return of what was performed by them under an obligation before the time of change or rescission of a contract, unless otherwise provided by a statute or agreement of the parties.
5. If a substantial breach of the contract by one of the parties was the basis for change or rescission of the contract, the other party has the right to demand compensation for the losses caused by the change or rescission of the contract.

## **SUBDIVISION 2. CONTRACTS OF ALIENATION OF PROPERTY**

### **CHAPTER 31. PURCHASE AND SALE**

#### **§ 1. GENERAL PROVISIONS ON PURCHASE AND SALE**

##### **Article 470. The Contract of Purchase and Sale**

1. Under the contract of purchase and sale, one party (the seller) undertakes an obligation to transfer property (the goods) to the ownership of the other party (the buyer), and the buyer undertakes an obligation to accept these goods and to pay a defined monetary sum (the price) for them.
2. The provisions provided by the present Section shall be applied to the sale of commercial paper and securities, and currency valuables unless special rules for their purchase and sale have been established by a statute.
3. In cases provided by the present Code or another statute, the peculiarities of the purchase and sale of goods of individual types shall be determined by statutes and other legal acts.
4. The provisions provided by the present Section shall be applied to the sale of property rights unless it follows otherwise from the content or nature of these rights.
5. The provisions provided by the present Section shall be applied to individual types of the contract of purchase and sale (retail purchase and sale, supply of goods, supply of goods for state needs, energy supply, sale of immovables) unless otherwise provided by the rules of the present Code for these types of contracts.

##### **Article 471. Term of the Contract on the Goods**

1. The goods under the contract of purchase and sale may be any property, with the observance of the rules provided by Article 133 of the present Code.
2. A contract may be concluded for the purchase and sale of goods that the seller has on hand at the time of concluding the contract and also of goods which will be made or acquired by the seller in the future, unless otherwise provided by a statute or follows from the character of the goods.
3. The terms of a contract of purchase and sale on the goods shall be considered agreed if the contract makes possible the determination of the name and quantity of the goods.

##### **Article 472. Duties of the Seller to Transfer the Goods**

1. The seller has the duty to transfer to the buyer the goods provided by the contract of purchase and sale.
2. Unless otherwise provided by the contract of purchase and sale, the seller shall have the duty, simultaneously with the transfer of the property to transfer to the buyer its accessories and also the documents relating to it (plan documentation, certificate of quality, instruction for use, etc.), provided by a statute, other legal acts, or contract.

##### **Article 473. Period of Time for Performance of the Duty to Transfer the Goods**

1. The period of time for performance by the seller of the duty to transfer the goods to the buyer shall be determined by the contract of purchase and sale and, if the contract does not make possible the determination of this time, in accordance with the rules provided by Article 352 of the present Code.
2. A contract of purchase and sale shall be recognized as concluded with the condition of its performance at a strictly defined time if from the contract it clearly follows that in case of breach of the period of time for performance the buyer will lose interest in the contract.  
The seller shall have the right to perform such a contract before the occurrence or after the expiration of the period of time defined in it only with the consent of the buyer.

#### **Article 474. The Period of Time for Performance of the Duty of the Seller to Transfer the Goods**

1. Unless otherwise provided by the contract of purchase and sale, the duty of the seller to transfer the goods to the buyer shall be considered performed at the time:

- 1) of handing over the goods to the buyer or to a person designated by it if the contract provides for a duty of the seller to deliver the goods;
- 2) of the placing of the goods at the disposition of the buyer if the goods are to be transferred to the buyer or to a person designated by it at the place where the goods are located. Goods shall be considered placed at the disposition of the buyer if in the period of time provided by the contract the goods are ready for transfer at an appropriate place and the buyer in accordance with the terms of the contract has information about the readiness of the goods for transfer. Goods are not considered ready for transfer if they are not identified for the purposes of the given contract by marking or in another manner.

2. In cases when the duty of the seller for the delivery of the goods or the transfer of the goods to the buyer at the place of their location does not follow from the contract of purchase and sale, the duty of the seller to transfer the goods to the buyer shall be considered performed from the time of giving the goods to a carrier or courier organization for transfer to the buyer, if the contract does not provide otherwise.

#### **Article 475. Passage of Risk of Accidental Loss of and of Accidental Injury to the Goods to the Buyer**

1. Unless otherwise provided by the contract of purchase and sale, the risk of accidental loss of or accidental harm to the goods shall pass to the buyer from the time when in accordance with a statute or the contract the seller is considered to have performed its duty for the transfer of the goods to the buyer.

2. The risk of accidental loss of or accidental harm to goods sold while they are in transit passes to the buyer at the time of concluding the contract of purchase and sale unless otherwise provided by such contract or customs of trade.

3. A term of the contract that the risk of accidental loss of or accidental harm to the goods shall pass to the buyer from the time of giving the goods to the first carrier may be recognized by a court as invalid, on demand of the buyer, if at the time of concluding the contract the seller knew or should have known that the goods were lost or harmed and did not inform the buyer of this.

#### **Article 476. Duty of the Seller to Transfer the Goods Free from the Rights of Third Persons**

1. The seller has the duty to transfer the goods to the buyer free from rights of third persons, with the exception of the case when the buyer agreed to accept the goods burdened by the rights of third persons.

Nonperformance by the seller of this duty shall give the buyer the right to demand reduction of the price of the goods or rescission of the contract of purchase and sale, unless it is proved that the buyer knew or should have known of the rights of third persons to these goods.

2. The rules provided by Paragraph 1 of the present Article shall be applied likewise in the case when there were claims of third persons with respect to the goods at the time of their transfer to the buyer about which the seller knew, if these claims subsequently have been found by the established procedure to be lawful.

#### **Article 477. Liability of the Seller in Case of Taking of the Goods from the Buyer**

1. In case of taking of the goods from the buyer by third persons on bases that arose before the performance of the contract of purchase and sale, the seller shall be obligated to compensate the buyer for the losses suffered by it, unless it proves that the buyer knew or should have known of the presence of these bases.

2. An agreement of the parties to free the seller from liability or on limitation of liability in case of taking of the goods acquired from the buyer by third persons is void.

#### **Article 478. Duties of the Buyer and Seller in the Case of Bringing of a Suit for Taking of the Goods**

1. If a third person, on a basis that arose before the performance of the contract of purchase and sale, brings suit against the buyer for the taking of the goods, the buyer must bring the seller into participation in the case and the seller has the duty to enter the case on the side of the buyer.

2. Failure by the buyer to bring the seller into participation in the case shall free the seller from liability to the buyer if the seller proves that if it had taken part in the case it could have prevented the taking of the goods sold from the buyer.

3. A seller brought by the buyer into participation in the case but who did not take part in the case shall be deprived of the right to prove that the buyer conducted the case improperly.

#### **Article 479. Consequences of Nonperformance of the Duty to Transfer the Goods**

1. If the seller refuses to transfer to the buyer goods that have been sold, the buyer shall have the right to refuse to perform the contract of purchase and sale.

2. Upon refusal of the seller to transfer an individually defined property, the buyer shall have the right to make to the seller the demands provided by Article 414 of the present Code.

#### **Article 480. Consequences of Nonperformance of the Duty to Transfer Accessories and Documents Relating to the Goods**

If the seller does not transfer or refuses to transfer to the buyer accessories and documents relating to the goods that it must transfer in accordance with a statute, other legal acts, or the contract of purchase and sale, the buyer shall have the right to designate to it a reasonable period of time for their transfer.

In the case when the accessories or documents relating to the goods are not transferred by the seller in the designated period of time, the buyer shall have the right to refuse the goods unless otherwise provided by the contract.

#### **Article 481. The Quantity of the Goods**

1. The quantity of the goods subject to transfer to the buyer shall be provided by the contract of purchase and sale in appropriate units of measurement or as a monetary expression. The term on the quantity of the goods can be agreed by means of establishing in the contract a procedure for determining it.

2. If the contract of purchase and sale does not make possible the determination of the quantity of the goods subject to transfer, the contract shall not be considered to have been concluded.

#### **Article 482. Consequences of Breach of the Term of the Contract on the Quantity of the Goods**

1. If the seller has transferred to the buyer, in breach of the contract of purchase and sale, a smaller quantity of the goods than defined by the contract, the buyer shall have the right, unless otherwise provided by the contract, either to demand the transfer of the lacking quantity of the goods or to refuse the goods transferred and to refuse to pay for them, or—if the goods have been paid for—to demand the return of the monetary sum paid.

2. If the seller has transferred the goods to the buyer in a quantity exceeding that indicated in the contract of purchase and sale, the buyer has the duty to inform the seller about this by the procedure provided by Paragraph 1 of Article 499 of the present Code. In the case when, within a reasonable period time after the receipt of notice from the buyer, the seller does not dispose of the excess part of the goods, the buyer shall have the right, unless otherwise provided by the contract, to accept all the goods.

3. In case of acceptance by a buyer of the goods in a quantity exceeding that indicated in the contract of purchase and sale (Paragraph 2 of the present Article), the additionally accepted goods must be paid for in accordance with the price defined for the goods accepted under the contract, unless another price is defined by agreement of the parties.

#### **Article 483. Assortment of Goods**

1. If under a contract of purchase and sale, goods are to be transferred in a defined relationship by types, models, measures, colors, or other features (assortment), the seller has the duty to transfer to the buyer goods in the assortment agreed upon by the parties.

2. If the assortment is not defined in the contract of purchase and sale and no procedure is established in the contract for defining, but from the nature of the obligation it follows that the goods must be transferred to the buyer in an assortment, the seller shall have the right to transfer to the buyer goods in an assortment based on the needs of the buyer that were known to the seller at the time of concluding the contract or to refuse to perform the contract.

#### **Article 484. Consequences of Breach of the Term of the Contract on Assortment**

1. In case of transfer by the seller of the goods provided by the contract of purchase and sale in an assortment not corresponding to the contract, the buyer shall have the right to refuse to accept and pay for them or, if they have been paid for, to demand the return of the monetary sum that has been paid.

2. If the seller has transferred to the buyer, along with goods whose assortment corresponds to the contract of purchase and sale, goods in breach of the term on assortment, the buyer shall have the right at its choice:

1) to accept the goods corresponding to the term on assortment and to refuse the remaining goods;

2) to refuse all the goods transferred;

3) to demand the replacement of the goods not corresponding to the term on assortment with the goods in the assortment provided by the contract;

4) to accept all the goods transferred.

3. Upon rejection of the goods whose assortment does not correspond to the term of the contract of purchase and sale or upon making a demand for replacement of the goods not corresponding to the term of the contract on assortment, the buyer shall have the right also to refuse payment for these goods and, if they have been paid for, to demand the return of the monetary sum that has been paid.

4. Goods not corresponding to the term of the contract of purchase and sale on assortment shall be considered accepted unless the buyer, within a reasonable period of time after receiving them, notifies the seller of its rejection of the goods.

5. If the buyer does not reject the goods whose assortment does not correspond to the contract of purchase and sale, it has the duty to pay for them at the price agreed with the seller. In the case when the seller has not taken the necessary measures for agreeing on a price within a reasonable period of time, the buyer shall pay for the goods at

the price that at the time of concluding the contract usually was taken for analogous goods in comparable circumstances.

6. The rules of the present Article shall be applied unless otherwise provided by the contract of purchase and sale.

#### **Article 485. The Quality of the Goods**

1. The seller has the duty to transfer to the buyer the goods whose quality corresponds to the contract of purchase and sale.

2. In case of the absence in the contract of purchase and sale of terms on the quality of the goods, the seller had the duty to transfer to the buyer goods suitable for the purposes for which goods of such type are usually used.

If the seller at the concluding the contract was made aware by the buyer of the concrete purposes for acquiring the goods, the seller has the duty to transfer to the buyer goods suitable for use in accordance with these purposes.

3. In case of sale of goods by sample and/or by description, the seller has the duty to transfer to the buyer goods that correspond to the sample and/or description.

4. If, in accordance with a procedure established by a statute, obligatory requirements are provided for the quality of goods sold, then a seller conducting entrepreneurial activity has the duty to transfer to the buyer goods corresponding to these obligatory requirements.

By agreement between the seller and the buyer goods may be transferred that correspond to higher quality requirements than the obligatory requirements established by the procedure provided by a statute.

#### **Article 486. Guaranty of Quality of the Goods**

1. Goods that the seller has the duty to transfer to the buyer must correspond to the requirements provided by Article 485 of the present Code at the time of their transfer to the buyer, unless another time of determining the correspondence of the goods to these requirements is provided by contract of purchase and sale, and during the limits of a reasonable period of time they must be suitable for the purpose for which goods of such a type are usually used.

2. In the case when the contract of purchase and sale provides for making by the seller of a guaranty of the quality of the goods, the seller has the duty to transfer to the buyer goods that must correspond to the requirements provided by Article 485 of the present Code for the course of a determined period of time established by the contract (guaranty time period).

3. A guaranty of quality of goods extends also to all its component parts (or constituent manufactures) unless otherwise provided by the contract of purchase and sale.

#### **Article 487. Calculation of the Guaranty Time Period**

1. The guaranty time period begins to run from the time of transfer of the goods to the buyer (Article 474) unless otherwise provided by the contract of purchase and sale.

2. If the buyer, due to circumstances depending upon the seller, is deprived of the possibility to use the goods with respect to which a guaranty time period established by the contract, the guaranty time period starts to run after the elimination of these circumstances by the seller.

Unless otherwise provided by the contract, the guaranty time period shall be extended for the time during which the goods cannot be used because of defects discovered in them, on the condition of notification of the seller of defects in the goods by the procedure established by Article 499 of the present Code.

3. Unless otherwise provided by the contract of purchase and sale, the guaranty time period for a constituent manufacture is considered equal to the guaranty time period for the basic manufacture and starts to run simultaneously with the guaranty time period for the basic manufacture.

4. For goods (or a constituent manufacture) transferred by the seller in place of the goods (or a constituent manufacture) in which defects were discovered during the guaranty time period (Article 492), a guaranty time period of the same length is established as for those for which they were exchanged, unless otherwise provided by the contract of purchase and sale.

#### **Article 488. Suitability Time Period of the Goods**

1. A statute, other legal acts, obligatory requirements of State Standards, or other obligatory requirements may define the time period at the expiration of which the goods are considered unsuitable for use for their regular purpose (suitability time period).

2. Goods for which a suitability time period is established must be transferred by the seller to the buyer in a manner so calculated that they can be used for their regular use before the expiration of the suitability time period.

#### **Article 489. Calculation of the Suitability Time Period of the Goods**

The suitability time period of the goods is defined as the time period calculated from the day of their manufacture during which the goods are suitable for use or the date until the occurrence of which the goods are suitable for use.

#### **Article 490. Checking the Quality of the Goods**

1. Checking the quality of the goods may be provided for by a statute, other legal acts, obligatory requirements of State Standards, or the contract of purchase and sale.

In cases when the procedure for checking is provided by a statute, other legal acts, or the obligatory requirements of State Standards, the procedure for checking the quality of the goods defined by the contract must correspond to these requirements.

2.If the procedure for checking the quality of the goods is not established in accordance with Paragraph 1 of the present Article, then checking the quality of the goods must be made in accordance with the customs of trade or by other usually applied conditions of checking goods subject to transfer under the contract of purchase and sale.

3.If a statute, other legal acts, obligatory requirements of State Standards, or the contract of purchase and sale provide for the duty of the seller to check the quality of the goods transferred to the buyer (testing, analysis, inspection, etc.), the seller must provide the buyer with proof of the conduct of checking the quality of the goods.

4.The procedure and also other terms of checking the quality of the goods done both by the buyer and by the seller must be one and the same.

#### **Article 491. Consequences of Transfer of the Goods of Improper Quality**

1.If defects of the goods were not stipulated by the seller, the buyer to whom the goods of improper quality were transferred shall have the right, at its choice, to demand of the seller:

1)a proportionate reduction of the purchase price;

2)uncompensated elimination of the defects of the goods within a reasonable period of time;

3)compensation for its expenses for elimination of the defects of the goods.

2.In case of substantial breach of the requirements for quality of the goods (discovery of defects that cannot be eliminated, defects that cannot be eliminated without incommensurate expenses or expenditures of time, or defects that appear repeatedly or that appear again after their elimination, and other such defects), the buyer shall have the right at its choice:

1)to refuse to perform the contract of purchase and sale and to demand return of the monetary sum paid for the goods;

2)to demand the replacement of the goods of improper quality with the goods corresponding to the contract.

3.The demands indicated in Paragraphs 1 and 2 of the present Article for the elimination of defects or the exchange of the goods may be presented by the buyer unless otherwise follows from the character of the goods or the nature of the obligation.

4.In case of improper quality of part of the goods included in a complete unit (Article 495), the buyer shall have the right, with respect to this part of the goods, to exercise the rights provided by Paragraphs 1 and 2 of the present Article.

5.The rules provided by the present Article shall be applied unless the present Code or another statute has established otherwise.

#### **Article 492. Defects in the Goods for Which the Seller Is Liable**

1.The seller shall be liable for defects in the goods if the buyer proves that the defects in the goods arose before their transfer to the buyer or from causes that arose before that time.

2.With respect to goods for which the buyer has been given a guaranty of quality, the seller shall be liable for defects in the goods unless it proves that the defects in the goods arose after their transfer to the buyer as the result of violation by the buyer of the rules for use of the goods or their storage or of the actions of third persons or of force majeure.

#### **Article 493. Periods of Time for Discovery of Defects in Transferred Goods**

1.Unless otherwise established by a statute or the contract of purchase and sale, the buyer shall have the right to present claims connected with defects in the goods on the condition that they are discovered within the periods of time established by the present Article.

2.If no guaranty time period nor suitability time period is established for the goods, claims connected with defects in the goods may be made by the buyer on the condition that the defects in the goods sold were discovered within a reasonable period of time but within the limits of two years from the day of transfer of the goods to the buyer, or within the limits of a longer period of time, if such a period of time is established by a statute or by the contract of purchase and sale. The period of time for discovery of defects in the goods subject to transportation or mailing shall be calculated from the day of delivery of the goods to the place of their destination.

3.If a guaranty time period is established for the goods, the buyer shall have the right to present claims connected with defects in the goods upon discovery of the defects during the course of the guaranty time period.

4.In the case when a guaranty time period for a constituent manufacture is established in the contract of purchase and sale that is shorter than for the basic manufacture, the buyer shall have the right to present claims for defects in the constituent manufacture in case of their discovery during the course of the guaranty time period for the basic manufacture.

5.If a guaranty time period for a constituent manufacture is established in the contract that is longer than a guaranty time period for the basic manufacture, the buyer shall have the right to present claims for defects in the goods if the defects in the constituent manufacture are discovered in the course of the guaranty time period for it, regardless of the expiration of the guaranty time period for the basic manufacture.



6. With respect to the goods for which a suitability time period is established, the buyer shall have the right to present claims connected with defects in the goods if the defects are discovered during the course of the suitability time period of the goods.

7. In cases when the guaranty time period provided by the contract is less than two years and the defects in the goods are discovered by the buyer after the expiration of the guaranty period, but within the limits of two years from the day of transfer of the goods to the buyer, the seller shall bear liability if the buyer proves that the defects in the goods arose before the transfer of the goods to the buyer or due to causes that arose before that time.

#### **Article 494. Completeness of the Goods**

1. The seller has the duty to transfer to the buyer goods corresponding to the terms of the contract of purchase and sale on completeness.

2. In the case when the contract of purchase and sale does not define the completeness of the goods, the seller has the duty to transfer to the buyer the goods whose completeness is determined by the customs of trade or other usually made requirements.

#### **Article 495. Complete Unit of Goods**

1. If the contract of purchase and sale provides for the duty of the seller to transfer to the buyer a certain selection of goods in a complete unit (a complete unit of goods), the obligation shall be considered performed from the time of transfer of all the goods included in the complete unit.

2. Unless otherwise provided by the contract of purchase and sale or follows from the nature of the obligation, the seller has the duty to transfer to the buyer all the goods included in the complete unit at the same time.

#### **Article 496. Consequences of the Transfer of Incomplete Goods**

1. In case of transfer of incomplete goods (Article 494) the buyer shall have the right at its choice to demand from the seller:

1) a proportionate reduction of the purchase price;

2) completing the goods within a reasonable period of time.

2. If the seller, within a reasonable period of time, has not fulfilled the demand of the buyer for completing the goods, the buyer shall have the right at its choice:

1) to demand the exchange of the incomplete goods for complete goods;

2) to refuse to perform the contract of purchase and sale and to demand the return of the monetary sum paid.

3. The consequences provided by Paragraphs 1 and 2 of the present Article shall be applied also in the case of breach by the seller of the duty to transfer to the buyer a complete unit of the goods (Article 495) unless otherwise provided by the contract of purchase and sale or follows from the nature of the obligation.

#### **Article 497. Container and Packaging**

1. Unless otherwise provided by the contract of purchase and sale or follows from the nature of the obligation, the seller has the duty to transfer the goods to the buyer in a container and/or packaging with the exception of goods that by their nature do not require containerizing and/or packaging.

2. If the contract of purchase and sale does not define requirements for a container and packaging, then the goods must be containerized and/or packaged by the usual manner for such goods and in the absence thereof, in a manner ensuring the safekeeping of the goods of such a type under the usual circumstances.

3. If, by a procedure established by a statute, obligatory requirements are provided for the container and/or the packaging, then a seller conducting entrepreneurial activity has the duty to transfer the goods to the buyer in a container and/or packaging corresponding to these requirements.

#### **Article 498. Consequences of Transfer of the Goods Without a Container and/or Packaging or in an Improper Container and/or Packaging**

1. In cases when the goods requiring a container and/or packaging are transferred to the buyer without a container and/or packaging or in an improper container and/or packaging, the buyer shall have the right to demand that the seller containerize and/or package the goods or that the seller exchange the improper container and/or packaging, unless otherwise follows from the contract, the nature of the obligation or the character of the goods.

2. In cases provided by Paragraph 1 of the present Article, the buyer shall have the right instead of making the claims to the buyer stated in that Paragraph, to make claims to it based upon the transfer of goods of improper quality (Article 491).

#### **Article 499. Notification of the Seller of Improper Performance of the Contract of Purchase and Sale**

1. The buyer has the duty to notify the seller of breach of the terms of the contract of purchase and sale on quantity, assortment, quality, completeness, container and/or packaging of the goods within the period of time provided by a statute, other legal acts, or the contract or, if such a period of time has not been established, within a reasonable period of time after the violation of the respective term of the contract should have been discovered, proceeding from the character and use of the goods.

2. In case of nonobservance of the rule provided by Paragraph 1 of the present Article, the seller shall have the right to refuse in full or in part to satisfy the demands of the buyer for the transfer to it of the short quantity of the goods, for the exchange of goods not corresponding to the terms of the contract of purchase and sale on quality or on assortment, for eliminating defects in the goods, on completing the goods or replacing incomplete goods with complete ones, on placing the goods in a container and/or packaging the goods or on replacing an improper container and/or packaging of the goods, if it proves that the nonobservance of this rule by the buyer led to the impossibility of satisfying its demands or entailed for the seller disproportionate expenses by comparison with those that it would have borne if it had been timely notified of the breach of the contract.
3. If the seller knew or should have known that the goods transferred to the buyer did not correspond to the terms of the contract of purchase and sale, it shall not have the right to rely upon the terms provided by Paragraphs 1 and 2 of the present Article.

#### **Article 500. The Obligation of the Buyer to Accept the Goods**

1. The buyer has the duty to accept the goods transferred to it by the seller, with the exception of cases when it has the right to demand replacement of the goods or to refuse to perform the contract of purchase and sale.
2. Unless otherwise provided by a statute, other legal acts, or the contract of purchase and sale, the buyer has the duty to take the actions that, in accordance with usually made requirements, are necessary on its part for securing the transfer and the receipt of the related goods.
3. In cases when the buyer, in violation of a statute, other legal acts, or the contract of purchase and sale does not accept or refuses to accept the goods, the seller shall have the right to demand that the buyer accept the goods or to refuse to perform the contract.

#### **Article 501. The Price of the Goods**

1. The buyer has the duty to pay for the goods at the price provided by the contract of purchase and sale or, if it is not provided by the contract and cannot be determined proceeding from its terms, at the price determined in accordance with Paragraph 3 of Article 440 of the present Code and also to take at its expense the actions that, in accordance with a statute, other legal acts, the contract, or usually made requirements, are necessary for making payment.
2. When the price is established depending upon the weight of the goods, it shall be determined according to the net weight unless otherwise provided by the contract of purchase and sale.
3. If the contract of purchase and sale provides that the price of the goods is subject to change depending upon factors conditioning the price of the goods (cost of production, expenditures, etc.), but does not define a method for reconsidering the price, the price shall be determined on the basis of the relationship of these factors at the time of concluding the contract and at the time of transfer of the goods. In case of delay by the seller in performance of the duty to transfer of the goods, the price shall be determined on the basis of the relationship of these factors at the time of concluding the contract and at the time of transfer of the goods provided by the contract, or if the time is not provided by the contract—at the time determined in accordance with Article 352 of the present Code. The rules provided by the present Paragraph shall be applied unless otherwise established by the present Code, another statute, other legal acts, or the contract, or otherwise follows from the nature of the obligation.

#### **Article 502. Payment for the Goods**

1. The buyer has the duty to pay for the goods directly before or after the transfer of the goods to it by the seller, unless otherwise provided by the present Code, another statute, other legal acts or the contract of purchase and sale, or otherwise follows from the nature of the obligation.
2. If the contract of purchase and sale does not provide for installment payment for goods, the buyer has the duty to pay the seller in full the price of the goods transferred.
3. If the buyer does not make timely payment for goods transferred in accordance with the contract of purchase and sale, the seller shall have the right to demand payment for the goods and payment of interest in accordance with Article 411 of the present Code.
4. If the buyer, in breach of the contract of purchase and sale, refuses to accept and pay for the goods, the seller shall have the right at its choice to demand payment for the goods or to refuse to perform the contract.
5. In cases when the seller in accordance with the contract of purchase and sale has the duty to transfer to the buyer, not only the goods not paid for by the buyer, but also other goods, the seller shall have the right to suspend transfer of these goods until full payment for all earlier transferred goods, unless otherwise provided by a statute, other legal acts, or the contract.

#### **Article 503. Advance Payment for the Goods**

1. In cases when the contract of purchase and sale provides a duty upon the buyer to pay for the goods in full or in part before transfer by the seller of the goods (advance payment), the buyer must make payment within the period of time provided by the contract, or if such period of time is not provided by the contract, then within the period of time determined in accordance with Article 352 of the present Code.
2. In case of nonperformance by the buyer of a duty to pay for the goods in advance, the rules provided by Article 367 of the present Code shall be applied.

3. In the case when a seller who has received an sum of advance payment does not perform its duty for the transfer of the goods in the established period of time (Article 473), the buyer shall have the right to demand the transfer of the goods paid for or the return of the sum of advance payment for the goods.

4. In the case when the seller does not fulfill its duty for the transfer of goods paid for in advance and the contract of purchase and sale does not provide otherwise, interest must be paid on the sum of the advance payment, in accordance with Article 411 of the present Code, from the day when, under the contract, the transfer of goods was to be made until the day of transfer of the goods to the buyer or the return to it of the sum paid in advance. The contract may provide for a duty of the seller to pay interest on the sum of the advance payment from the day of receipt of this sum from the buyer.

#### **Article 504. Payment for the Goods Sold on Credit**

1. In the case when the contract of purchase and sale provides for payment for goods after a determined time following their transfer to the buyer (sale of goods on credit), the buyer must make payment within the period of time provided by the contract or, if such time is not provided by the contract, within the period of time determined in accordance with Article 352 of the present Code.

2. The sale of goods on credit shall be made at the prices in effect on the day of sale. A later change in prices of goods sold on credit shall not entail a recalculation, unless otherwise provided by the contract.

3. In case of nonperformance by the seller of the duty of the transfer of the goods, the rules provided by Article 367 of the present Code shall be applied.

4. In the case when the buyer who has received the goods does not perform the duty of payment for them by the time established by the contract of purchase and sale, the seller shall have the right to demand payment for the goods transferred or the return of the unpaid goods.

5. In the case when the buyer does not perform the duty of payment within the period of time established by the contract for the goods transferred, unless it is otherwise provided by the present Code or the contract of purchase and sale, interest must be paid on the overdue sum in accordance with Article 411 of the present Code from the day when under the contract the goods were to be paid for, until the day of payment for the goods by the buyer.

The contract may provide for a duty of the buyer to pay interest on a sum corresponding to the price of the goods, starting from the day of transfer of the goods by the seller.

6. Unless otherwise provided by the contract of purchase and sale, from the time of transfer of the goods to the buyer and until its payment, the goods sold on credit are recognized as being in pledge of the seller to secure the performance by the buyer of its duty to pay for the goods.

#### **Article 505. Installment Payment for the Goods**

1. A contract for the sale of goods on credit may provide for installment payment for the goods.

A contract for the sale of goods on credit with a term on installment payment shall be considered to have been concluded if, in it, the price of the goods, the procedure, the time periods, and the amounts of payments are indicated along with other essential terms of a contract of purchase and sale.

2. The rules provided by Paragraphs 2-6 of Article 504 of the present Code apply to a contract for the sale of goods on credit with a term on installment payment.

#### **Article 506. Insurance of the Goods**

1. A contract of purchase and sale may provide for a duty of the buyer or seller to insure the goods.

2. In the case when a party with a duty to insure the goods does not arrange insurance in accordance with the terms of the contract, the other party shall have the right to insure the goods and to demand from the party with the duty compensation for the expenses for insurance or to refuse to perform the contract.

#### **Article 507. Retention of Right of Ownership by the Seller**

1. Unless otherwise provided by the contract, the purchaser becomes the owner of goods from the time of payment for the goods

2. In the case when the contract of purchase and sale provides that the right of ownership to the goods transferred to the buyer is retained by the seller until payment for the goods, the buyer does not have the right, before the transfer to it of the right of ownership, to alienate the goods or to dispose of them in another manner unless otherwise provided by a contract or derives from the use and attributes of the goods.

3. In cases when the goods transferred are not paid for in the time period provided by the contract, the seller shall have the right to demand from the buyer the return to it of the goods, unless otherwise provided by the contract.

## **§ 2. RETAIL PURCHASE AND SALE**

#### **Article 508. The Contract of Retail Purchase and Sale**

1. Under the contract of retail purchase and sale, a seller conducting entrepreneurial activity for the sale of goods at retail undertakes the duty to transfer to the buyer the goods meant for personal, family, home, or other use not connected with entrepreneurial activity.

- 2.The contract of retail purchase and sale is a public contract (Article 442).
- 3.Statutes on protection of the rights of consumers and other legal acts adopted in accordance with them shall be applied to relations not regulated by the present Code under a contract of retail purchase and sale with the participation of a citizen buyer.

#### **Article 509. Form of the Contract of Retail Purchase and Sale**

Unless otherwise provided by a statute or the contract of retail purchase and sale, including terms of standard forms, to which the buyer adheres (Article 444), the contract of retail purchase and sale shall be considered concluded in proper form from the time of issue by the seller to the buyer of a cash register or goods receipt or other document confirming payment for the goods.

#### **Article 510. Public Offer of Goods**

- 1.A proposal of goods in their advertising, catalogs, and descriptions of goods directed to an indeterminate group of people is considered to be a public offer (Paragraph 2 of Article 453) if it contains all the essential terms of a contract of retail purchase and sale.
- 2.Exhibiting at the place of sale (at stands, in windows, etc.) of goods, demonstration of samples of them or presentation of information on goods sold (descriptions, catalogs, photographs of goods, etc.) at the place of their sale is recognized a public offer regardless of whether prices and other essential terms of the contract of retail purchase and sale are indicated, with the exception of the case when the seller has clearly defined that the respective goods are not meant for sale.

#### **Article 511. Giving Information on the Goods**

- 1.The seller has the duty to give the buyer necessary and accurate information on the goods proposed for sale, corresponding to the requirements established by a statute, other legal acts, and the usual requirements made in retail trade as to the content and methods of providing such information.
- 2.The buyer shall have the right before concluding the contract of retail purchase and sale to inspect the goods, to demand the conduct in its presence of checking of the qualities or a demonstration of the use of the goods if this is not excluded in view of the character of the goods and does not contradict the rules applied in retail trade.
- 3.If the buyer is not given the possibility of immediately receiving at the place of sale the information about the goods indicated in Paragraphs 1 and 2 of the present Article, he shall have the right to demand from the seller compensation for the losses caused by unjustified avoidance of concluding a contract of retail purchase and sale and, if a contract has been concluded, within a reasonable period of time to refuse to perform the contract, to demand the return of the sum paid for the goods and compensation for other losses.
- 4.A seller who has not given the buyer the possibility of receiving the appropriate information about the goods shall bear liability also for those defects in the goods arising after their transfer to the buyer with respect to which the buyer proves that they arose in connection with its lack of such information.

#### **Article 512. Sale of Goods With a Condition of Their Acceptance by the Buyer Within a Defined Period**

- 1.A contract of retail purchase and sale may be concluded with a condition of acceptance of the goods by the buyer within a time period defined by the contract, during which these goods may not be sold to another buyer.
- 2.Unless otherwise provided by the contract, failure of the buyer to appear or his failure to take other necessary actions for accepting the goods within the time period defined by the contract may be considered by the seller as a refusal by the buyer to perform the contract.
- 3.Supplementary expenses of the seller for ensuring the transfer of the goods to the buyer within the time period defined by the contract are included in the price of the goods, unless otherwise provided by a statute, other legal acts, or the contract.

#### **Article 513. Sale of Goods by Samples**

- 1.A contract of retail purchase and sale may be concluded on the basis of acquainting the buyer with a seller-provided sample of the goods (or their description, a catalog of goods, etc.).
- 2.Unless otherwise provided by a statute, other legal acts, or the contract, a contract of retail purchase and sale of goods by sample shall be considered performed from the time of delivery of the goods to the place indicated in the contract, or, if this place is not defined in the contract, from the time of delivery of the goods to the buyer at the place of residence of a citizen or the place of location of a legal person.
- 3.The buyer, until the transfer of the goods, shall have the right to refuse to perform the contract of retail purchase and sale on the condition of compensation to the seller for necessary expenses borne in connection with taking actions for the performance of the contract.

#### **Article 514. Sale of Goods With the Use of Vending Machines**

- 1.In cases when a sale of goods is made with the use of vending machines, the possessor of the vending machines has the duty to provide information to the buyer about the seller of the goods by placing on the vending machine or

providing the buyer in another manner with information on the name (or firm name) of the seller, the place of its location, and also on the actions that are necessary for the buyer to take to receive the goods.

2. A contract of retail purchase and sale with the use of vending machines shall be considered concluded from the time the buyer has taken the actions necessary for receiving the goods.

3. If the buyer is not provided with the goods paid for, the seller shall be obligated on demand by the buyer immediately to provide the goods to the buyer or return the sum paid by him.

4. In cases when the vending machine is used for making change, acquiring of tokens of payment, or foreign currency exchange, the rules on retail purchase and sale shall be applied unless otherwise follows from the nature of the obligation.

#### **Article 515. Sale of Goods With a Condition on the Delivery of the Goods to the Buyer**

1. In the case when the contract of retail purchase and sale is concluded with a condition on the delivery of the goods to the buyer, the seller is obligated within the time period established by the contract to deliver the goods to the place indicated by the buyer and if the place of delivery of the goods is not indicated by the buyer—to the place of residence of a citizen or the place of location of a legal person who is the buyer.

2. A contract of retail purchase and sale shall be considered performed from the time of handing the goods over to the buyer or, in its absence, to any person presenting a receipt or other document, evidencing the concluding of the contract or the formalization of the delivery of the goods, unless otherwise provided by a statute, other legal acts, or the contract or otherwise follows from the nature of the obligation.

3. In cases when the contract has not defined the time of delivery of the goods for handing them over to the buyer, the goods must be delivered within a reasonable period of time after the receipt of a request from the buyer.

#### **Article 516. The Price of and Payment for the Goods**

1. The buyer has the duty to pay for the goods at the price stated by the seller at the time of concluding the contract of retail purchase and sale, unless otherwise provided by a statute, other legal acts, or otherwise follows from the nature of the obligation.

2. In the case when the contract of retail purchase and sale provides for advance payment for the goods (Article 503), failure of the buyer to pay for the goods in the time period established by the contract is considered to be a refusal by the buyer to perform the contract unless otherwise provided by agreement of the parties.

3. The rules provided by Paragraph 5 of Article 504 of the present Code do not apply to contracts of retail purchase and sale of goods on credit, including those with a condition of installment payment by the buyer for the goods.

4. The buyer shall have the right to pay for the goods at any time within the limits of the time period established by the contract for installment payment for the goods.

#### **Article 517. Exchange of Goods**

1. The buyer shall have the right within fourteen days from the time of transfer to it of non-food goods, unless a longer time period has been declared by the seller, to exchange the goods bought, at the place of purchase and other places declared by the seller, for analogous goods of a different size, form, overall dimensions, fashion, color, makeup, etc., making in case of difference in price the necessary reaccounting with the seller.

If the seller lacks the goods necessary for exchange, the buyer shall have the right to return the goods acquired to the seller and to receive the money paid for them.

A demand by the buyer for exchange or return of the goods must be satisfied if the goods were not used, their consumer attributes were preserved, and there is proof that it acquired them from the given seller.

2. The list of goods which are not subject to exchange or return on the bases stated in the present Article shall be determined by the procedure established by a statute or other legal acts.

#### **Article 518. Rights of the Buyer in Case of Sale to It of the Goods of Improper Quality**

1. A buyer to whom the goods of improper quality have been sold, if their defects were not stipulated by the seller, shall have the right at its choice to demand:

- 1) replacement of the defective goods with goods of the proper quality;
- 2) proportional reduction of the purchase price;
- 3) immediate uncompensated elimination of the defects in the goods;
- 4) compensation for expenses for elimination of the defects in the goods.

The buyer shall have the right to demand the replacement of technically complex or expensive goods in case of substantial violation of the requirements for its quality (Paragraph 2 of Article 491).

2. In case of discovery of defects in the goods whose attributes do not make possible their elimination (food, consumer chemical products, etc.) the buyer shall have the right at its choice to demand the replacement of the goods with goods of the proper quality or proportional reduction of the purchase price.

3. Instead of making the demands indicated in Paragraphs 1 and 2 of the present Article, the buyer shall have the right to refuse to perform the contract of retail purchase and sale and to demand the return of the monetary sum paid for the goods.

In such a case the buyer, upon demand of the seller, and at its expense must return the goods received that were of improper quality.

4. In case of return to the buyer of the monetary sum paid for the goods, the seller shall not have the right to withhold from it the sum by which the cost of the goods have been reduced from full or partial use of the goods, loss of their form as goods, or other like circumstances.

**Article 519. Compensation for the Difference in Price in Case of Replacement of Goods, Reduction of the Purchase Price, and Return of Goods of Improper Quality**

1. In case of replacement of the goods of improper quality with goods of the proper quality that correspond to the contract of retail purchase and sale, the seller shall not have the right to demand compensation for the difference between the price of the goods established by the contract and the price of the goods existing at the time of replacement of the goods or the making by a court of a decision on the replacement of the goods.

2. In case of the replacement of defective goods with analogous goods of proper quality but differing in size, fashion, quality, or other characteristics, the difference between the price of the goods to be replaced at the time of the replacement and the price of the goods given in replacement for the goods of improper quality is subject to compensation.

If the demand of the buyer is not fulfilled by the seller, the price of the goods to be replaced and the price of the goods transferred in replacement for them shall be determined on the day of making of the court decision on the replacement of the goods.

3. In case of the making of a demand for the proportional reduction of the purchase price for goods, the price of the goods at the time of making the demand for repricing shall be used for the calculation and, if the demand of the buyer is not voluntarily satisfied, the price on the day of the making by a court of a decision on the proportional reduction of price shall be used.

4. In case of the return of the goods of improper quality to the seller, the buyer shall have the right to demand compensation for the difference between the price of the goods established by the contract of retail purchase and sale and the price of the respective goods at the time of the voluntary satisfaction of its demand or if the demand is not satisfied voluntarily—on the day of making by a court of the decision.

**Article 520. Liability of the Seller and Performance of the Obligation physically**

In case of nonperformance by the seller of an obligation under a contract of retail purchase and sale, compensation for losses and payment of a penalty shall not free the seller from performance of the obligation physically.

### **§ 3. SUPPLY OF GOODS**

**Article 521. The Contract of Supply**

1. Under a contract of supply, a seller-supplier conducting entrepreneurial activity undertakes the duty to transfer within an agreed time period or periods goods manufactured or purchased by it to the buyer for use in entrepreneurial activity or for other purposes not connected with personal, family, home, or other like use.

2. A contract of supply shall be concluded in written form.

**Article 522. Resolution of Disagreements Upon the Concluding of the Contract of Supply**

1. In the case when, upon the concluding of the contract of supply, disagreements among the parties have arisen on individual terms of the contract, a party proposing the concluding of the contract and having received from the other party a proposal on agreement on these terms must, within thirty days from the day of receipt of this proposal, unless another time period is established by a statute or agreed upon by the parties, take measures for agreement on the respective terms of the contract or inform the other party in writing of its refusal to conclude a contract.

2. A party who has received proposals on the respective terms of the contract but has not taken measures for agreement on the terms of the contract of supply and has not informed the other party of refusal to conclude the contract within the time period provided by Paragraph 1 of the present Article, has the duty to compensate for the losses caused by refusal to agree on the terms of the contract.

**Article 523. Periods of Supply of the Goods**

1. In the case when the parties have provided for the supply of the goods in separate installments during the time period of effectiveness of the contract of supply and the times of supply of separate installments (periods of supply) are not defined in it, then the goods must be supplied in equal installments monthly, unless otherwise follows from a statute, other legal acts, the nature of the obligation, or the customs of trade.

2. Along with the definition of the periods of supply the contract of supply may establish the schedule of supply of the goods (ten-day, daily, hourly, etc.).

3. Early supply of the goods may be made with the consent of the buyer.

The goods supplied early and accepted by the buyer shall be counted against the quantity of the goods subject to supply in the following period.

#### **Article 524. Procedure for Supply of the Goods**

1. The supply of the goods shall be made by the supplier by shipping (or transferring) the goods to the buyer that is a party to the contract of supply or to the person indicated in the contract as the recipient.
2. In the case when the contract of supply provides for the right of the buyer to give the supplier instructions on the shipment (or transfer) of the goods to recipients (drop shipment orders), the shipment (or transfer) of the goods shall be made by the supplier to the recipients indicated in the drop shipment order.
3. The content of the drop shipment order and the time period for sending it by the buyer to the supplier shall be defined by the contract. If the time period for sending the drop shipment order is not provided in the contract, it must be sent to the supplier not later than thirty days before the start of the time period for supply.
4. Failure by the buyer to present a drop shipment order within the established time period gives the supplier the right either to refuse to perform the contract of supply or to demand payment for the goods from the buyer. In addition the supplier shall have the right to demand compensation for the losses caused in connection with failure to present the drop shipment order.

#### **Article 525. Delivery of the Goods**

1. Delivery of the goods shall be made by the supplier on the means of transport provided by the contract of supply and on the terms determined in the contract.
2. In cases when it is not defined in the contract with what type of transport or on what terms delivery is to be made, the right of selection of means of transport or determination of terms of supply of the goods belongs to the supplier unless otherwise follows from a statute, other legal acts, the nature of the obligation, or the customs of trade.
3. The contract of supply may provide for the receipt of the goods by the buyer (or recipient) at the place of location of the supplier (pickup of the goods).  
If the time for pickup is not provided by the contract, the pickup of the goods by the buyer (or recipient) must be done within a reasonable period of time after receipt of the notice from the supplier that the goods are ready.

#### **Article 526. Making Up Shortages in the Supply of the Goods**

1. A supplier who has supplied a short quantity of the goods in a specific period of supply has the duty to make up the shortage in quantity of the goods in the following period (or periods) within the limits of the time period of effectiveness of the contract of supply, unless otherwise provided by the contract.
2. In the case when the goods are shipped by the supplier to several recipients indicated in the contract of supply or in a drop shipment order from the buyer, the goods sent to one recipient above the quantity provided by the contract or the drop shipment order are not counted in coverage of the short supply to other recipients, unless otherwise provided by the contract.
3. The buyer shall have the right, having notified the supplier, to refuse to accept the goods whose supply is delayed unless the contract of supply provides otherwise. The buyer has the duty to accept and pay for the goods supplied before receipt by the supplier of the notice.

#### **Article 527. Assortment of the Goods in Case of Makeup of Short Supply**

1. The assortment of the goods, short supply of which is to be made up, shall be determined by agreement of the parties. In case of the absence of such an agreement, the supplier shall be obligated to make up the short quantity of the goods in the assortment established for the period in which the shortage occurred.
2. The supply of the goods of one type in larger quantity than provided by the contract of supply shall not be counted in covering a shortage in supply of the goods of another type included in the same assortment and is subject to makeup, except for the case when such a supply is done with the prior written consent of the buyer.

#### **Article 528. Acceptance of the Goods by the Buyer**

1. The buyer (or recipient) has the duty to take all necessary actions to ensure the acceptance of the goods supplied in accordance with the contract of supply.
2. The goods accepted by the buyer (or recipient) must be inspected by it within the time period determined by a statute, other legal acts, the contract of supply, or customs of trade.  
The buyer (or recipient) is obligated in this same time period to check the quantity and quality of the goods accepted by the procedure established by a statute, other legal acts, the contract, or the customs of trade, and to immediately notify the supplier in writing of discovered discrepancies or defects in the goods.
3. In case of receipt from a transport organization of the goods supplied the buyer (or recipient) has the duty to check the correspondence of the goods with the information contained in the transport and accompanying documents and also to accept these goods from the transport organization with observation of the rules provided by the statutes and other legal acts regulating the activity of transport.

#### **Article 529. Responsible Storage of the Goods Not Accepted by the Buyer**

1. When the buyer (or recipient) in accordance with a statute, other legal acts, or the contract of supply refuses goods transferred by the supplier, it has the duty to ensure the safekeeping of these goods (responsible storage) and to notify the supplier immediately.

2.The supplier has the duty to take away the goods accepted by the buyer (or recipient) for responsible storage or to dispose of them within a reasonable period of time.

If the supplier does not dispose of the goods within this time period the buyer shall have the right to sell the goods or to return them to the supplier.

3.The necessary expenses borne by the buyer in connection with the acceptance of the goods for responsible storage, the sale of the goods, or their return to the seller are subject to compensation by the supplier.

In such a case the proceeds from the sale of the goods are transferred to the supplier less the amount due to the buyer.

4.In cases when the buyer without bases established by a statute, other legal acts, or the contract does not accept the goods from the supplier or refuses to accept them, the supplier shall have the right to demand payment for the goods from the buyer.

#### **Article 530. Pickup of Goods**

1.When the contract of supply provides for pickup of the goods by the buyer (or recipient) at the place of location of the supplier (Paragraph 2 of Article 525), the buyer must conduct the inspection of the goods transferred at the place of their transfer, unless otherwise provided by a statute, other legal acts or otherwise follows from the nature of the obligation.

2.Failure by the buyer (or recipient) to pick up the goods within the time period established by the contract of supply or, in the absence of such time period, within a reasonable period of time after the receipt of the notice from the supplier of the readiness of the goods, shall give the supplier the right to refuse to perform the contract or to demand payment for the goods from the buyer.

#### **Article 531. Payments for the Goods Supplied**

1.The buyer shall pay for the goods supplied, observing the procedure and form of settlements provided by the contract of supply. If the procedure and form of settlements is not determined by the agreement of the parties, then settlements shall be made by payment orders.

2.If the contract of supply provides that payment for the goods is to be made by the recipient (or payor) and the latter with no bases refuses to pay or fails to pay for the goods within the time period provided by the contract, the supplier shall have the right to demand payment from the buyer for the goods supplied.

3.In the case when the contract of supply provides for supply of the goods in separate parts that make up a whole, then payment for the goods by the buyer shall be made after shipment (or pickup) of the last part of the whole unless otherwise established by the contract.

#### **Article 532. Container and Packing**

1.Unless otherwise established by the contract of supply, the buyer (or recipient) has the duty to return to the supplier multiple-use containers and packaging materials in which the goods arrived by the procedure and within the time periods provided by a statute, other legal acts, mandatory rules adopted in accordance with them, or the contract.

2.Other containers and also packing for the goods are subject to return to the supplier only in cases provided by the contract.

#### **Article 533. Consequences of Supply of the Goods of Improper Quality**

1.The buyer (or recipient) to whom the goods of improper quality are supplied shall have the right to make against the supplier the claims provided by Article 491 of the present Code.

2.A buyer (or recipient) conducting the retail sale of the goods supplied to it shall have the right, within a reasonable period of time, to demand replacement of the goods of improper quality returned by a consumer, unless otherwise provided by the contract of supply.

#### **Article 534. Consequences of the Supply of Incomplete Goods**

1.A buyer (or recipient) to whom goods are supplied in violation of the terms of the contract of supply, the requirements of a statute, other legal acts, or usually made requirements of completeness, shall have the right to make to the supplier the demands provided by Article 496 of the present Code.

2.A buyer (or recipient) conducting the retail sale of the goods shall have the right within a reasonable period of time to demand replacement within a reasonable period of time of incomplete goods returned by a consumer with complete ones, unless otherwise provided by the contract of supply.

#### **Article 535. The Rights of the Buyer in Case of Failure to Supply All the Goods, Failure to Satisfy Demands for Elimination of Defects of the Goods or for Completing the Goods**

1.If the supplier has not supplied the quantity of goods provided by the contract of supply or has not fulfilled the demands of the buyer for replacement of defective goods or for completing the goods within the established time period, the buyer shall have the right to acquire the unsupplied goods from other persons and place all necessary and reasonable expenses for acquiring them upon the supplier.



The calculation of the expenses of the buyer for acquiring the goods from other persons in case of their short supply by the supplier or of nonfulfillment by the supplier of demands of the buyer for elimination of defects of the goods or for completing the goods shall be made according to the rules provided by Paragraph 1 of Article 539 of the present Code.

2. The buyer (or recipient) shall have the right to refuse to pay for the goods of improper quality and incomplete goods and if such goods have been paid for, to demand the return of the sums paid until the elimination of the defects and the completion of the goods or their replacement.

#### **Article 536. Penalty for Short Supply or Late Supply of the Goods**

A penalty established by a statute or contract of supply for short supply or late supply of the goods shall be recovered from the supplier until the actual fulfillment of the obligation within the limits of its duty to make up short quantity of the goods within later periods of supply, unless another procedure for payment of the penalty is established by a statute or the contract.

#### **Article 537. Setting Off Like Obligations Under Several Contracts of Supply**

1. In cases when the supply of goods of the same description is conducted by the supplier to the buyer simultaneously under several contracts of supply and the quantity of the goods supplied is insufficient to extinguish the obligations of the supplier under all the contracts, the goods supplied must be counted toward the performance of the contract indicated by the supplier in the conducted of supply or without delay after supply.

2. If the buyer has paid the supplier for the goods of the same description received under several contracts of supply and the sums of payment are insufficient for fulfilling the obligations of the buyer under all the contracts, the sum paid must be counted toward the performance of the contract indicated by the buyer in making payment for the goods.

3. If the supplier or buyer has not used the rights provided to them respectively by Paragraphs 1 and 2 of the present Article, performance of the obligation shall be considered as extinguishing obligations under the contract whose time for performance occurred sooner. If the time of performance of obligations under several contracts occurred simultaneously, the performance made shall be counted proportionally in the extinguishing of obligations under all the contracts.

#### **Article 538. Unilateral Change of or Unilateral Refusal to Perform the Contract of Supply**

1. Unilateral change of or unilateral refusal to perform a contract of supply (in whole or in part) is allowed in case of substantial breach of the contract by one of the parties (Paragraph 2 of Article 466).

2. Breach of the contract of supply by the supplier is presumed substantial in cases:

1) of supply of goods of improper quality with defects that cannot be eliminated within time period acceptable to the buyer;

2) repeated breach of the periods for supply of goods.

3. Breach of the contract of supply by the buyer is presumed to be substantial in cases:

1) of repeated breach of the periods for payment for goods;

2) of repeated failure to pick up goods.

4. Other bases for the unilateral change of or unilateral refusal to perform the contract of supply may be provided by agreement of the parties.

5. The contract of supply shall be considered changed or rescinded from the time of receipt by one party of notice thereof by the other party, unless another time period for change or rescission of the contract is provided in the notice or is defined by agreement of the parties.

#### **Article 539. Calculation of Losses on Rescission of Contract**

1. If, within a reasonable period of time after rescission of a contract as the result of breach of an obligation by the seller, the buyer has bought goods from another person at a higher, but reasonable price in place of those provided by the contract, the buyer may present to the seller a demand for compensation for losses in the form of the difference between the price established in the contract and the price of the transaction made in substitution.

2. If, within a reasonable period of time after the rescission of a contract as the result of breach of an obligation by the buyer, the seller has sold the goods to another person at a price lower than provided in the contract, but a reasonable price, the seller may make to the buyer a demand for compensation for losses in the form of the difference between the price established in the contract and the price of the transaction concluded in substitution.

3. If, after rescission of a contract on the bases provided by Paragraphs 1 and 2 of the present Article, no transaction has been concluded in substitution for the rescinded contract and there is a current price for the given goods, a party may make a demand for compensation of losses in the form of the difference between the price established in the contract and the current price at the time of rescission of the contract.

The current price is the price usually taken under comparable circumstances for analogous goods in the place where transfer of the goods was to be made. If there is no current price in this place, the current price used in another place may be used that can serve as a reasonable substitute, taking into account the difference in expenses for transportation of the goods.

4.Satisfaction of the requirements provided by Paragraphs 1-3 of the present Article shall not free the party who has not performed or has performed an obligation in an improper manner from compensating for other losses caused to the other party.

#### **§ 4. SUPPLY OF GOODS FOR STATE NEEDS**

##### **Article 540. Bases of the Supply of Goods for State Needs**

1.The supply of goods for state needs shall be conducted on the basis of the state contract for the supply of goods for state needs (hereinafter—the state contract) and also of the contracts of supply of goods for state needs concluded in accordance with it. State needs are needs of the Republic of Armenia defined by the procedure provided by a statute and financed by the assets of the state budget.

2.The rules on the contract of supply (Articles 521-538) shall be applied to relations for the supply of goods for state needs unless otherwise provided by the rules of the present Section.

Statutes on the supply of goods for state needs shall be applied to relations for the supply of goods for state needs in the part not regulated by the present Section.

##### **Article 541. The State Contract**

Under the state contract for the supply of goods for state needs the supplier (or performer) undertakes the duty to transfer the goods to the state customer or, at its direction, to another person, and the state customer undertakes the duty to ensure payment for the goods supplied.

##### **Article 542. Bases for Concluding of the State Contract**

1.The state contract shall be concluded on the basis of an order of a state customer for the supply of goods for state needs.

2.An order for supply of goods for state needs is placed only by a competition, unless otherwise provided by the statutes on the supply of goods for state needs.

3.Concluding the state contract with the supplier (or performer) declared the winner in the competition shall be obligatory for the state customer.

4.Concluding the state contract shall be obligatory for the supplier (or performer) only in the cases established by a statute and on the condition that the state customer will compensate for all losses that might be caused to the supplier (or performer) in connection with performance of the state contract.

##### **Article 543. The Procedure for Concluding the State Contract**

1.The state contract must be concluded not later than twenty days from the date of conduct of the competition.

2.If the party for whom concluding a state contract is obligatory avoids concluding it, the other party shall have the right to go to a court with a demand to compel this party to conclude the state contract.

##### **Article 544. Concluding the Contract of Supply of Goods for State Needs**

1.If a state contract provides that the supply of goods shall be made by the supplier (or performer) under contracts for the supply of goods for state needs, to a buyer specified by the state customer, the state customer not later than thirty days from the day of signing the state contract shall send the supplier (or performer) and the buyer a notification of the attachment of the buyer to the supplier (or performer).

The notification of the attachment the buyer to the supplier (or performer) issued by the state customer in accordance with the state contract shall be the basis for concluding a contract of the supply of goods for state needs.

2.The supplier (or performer) has the duty to send a draft of a contract of supply of goods for state needs to the buyer indicated in the notification of attachment not later than thirty days from the day of receipt of the notification from the state customer, unless another procedure for preparing the draft contract is provided by the state contract or the draft contract is not presented by the buyer.

3.The party who has received the draft contract of supply of goods for state needs, shall sign it and return one copy to the other party within thirty days from the day of receipt of the draft, and, if there are disagreements on the terms of the contract, within the same time period shall compile a memorandum of disagreements and send it together with the signed contract to the other party.

4.A party who has received a signed draft contract of supply of goods for state needs with a memorandum of disagreements must within thirty days consider the disagreements, take measures to agree on the terms of the contract with the other party and notify it of the acceptance of the contract in its version or of rejection of the memorandum of disagreements. Unresolved disagreements within thirty days may be transferred by an interested party for consideration by a court.

5.If the supplier (or performer) avoids concluding a contract of supply of goods for state needs, the buyer shall have the right to go to a court with a demand to compel the supplier (or performer) to conclude the contract on the terms of the draft contract prepared by the buyer.

#### **Article 545. Refusal by the Buyer to Conclude the Contract of Supply of Goods for State Needs**

1. The buyer shall have the right to refuse in whole or in part the goods indicated in the notification of attachment and to refuse to conclude a contract for their supply.

In this case the supplier (or performer) must immediately notify to the state customer and shall have the right to demand from the state customer the issuance of a notification of attachment to another buyer.

2. The state customer, not later than thirty days from the day of receipt of notice from the supplier (or performer) must either issue a notification of attachment to the supplier (or performer) of another buyer or send the supplier (or performer) a drop shipment order with an indication of the recipient of the goods or communicate its consent to accept and pay for the goods.

3. In case the state customer fails to perform the duties provided by Paragraph 2 of the present Article, the supplier (or performer) shall have the right either to demand that the state customer accept and pay for the goods, or to vend the goods at its discretion and put the reasonable expenses connected with their vending upon the state customer.

#### **Article 546. Performance of the State Contract**

1. In cases when in accordance with the terms of a state contract the supply of goods is to be made directly to the state customer or on its direction (a drop shipment order) to another person (the recipient), the relations of the parties for the performance of the state contract shall be regulated by the rules provided by Articles 521-538 of the present Code.

2. In cases when the supply of goods for state needs is made to the recipient indicated in the drop shipment order, payment for the goods shall be made by the state customer, unless a different procedure for settlements is provided by the state contract.

#### **Article 547. Payment for Goods Under the Contract of Supply of Goods for State Needs**

1. In case of supply of goods to buyers under contracts of supply of goods for state needs, payment for the goods shall be made by the buyers at the prices determined in accordance with the state contract unless another procedure for determining prices and settlements is provided by the state contract.

2. In case of payment by the buyer for goods under a contract of supply of goods for state needs, the state customer shall be a surety for this obligation of the buyer (Articles 375-382).

#### **Article 548. Compensation For the Losses Caused in Connection With the Fulfillment or Rescission of the State Contract**

1. Unless otherwise provided by statutes on the supply of goods for state needs or by the state contract, losses caused to the supplier (or performer) in connection with the fulfillment of a state contract shall be subject to compensation by the state customer not later than thirty days from the day of transfer of the goods in accordance with the state contract.

2. In the case when losses caused to the supplier (or performer) in connection with the fulfillment of the state contract are not compensated in accordance with the state contract, the supplier (or performer) shall have the right to refuse to perform the state contract and to demand compensation for the losses caused by the rescission of the state contract.

3. Upon rescission of a state contract on the bases indicated in Paragraph 2 of the present Article, the supplier shall have the right to refuse to perform the contract of supply of goods for state needs.

Losses caused to the buyer by such a refusal by the supplier shall be compensated by the state customer.

#### **Article 549. Refusal of the State Customer of the Goods Supplied Under the State Contract**

In cases provided by a statute, the state customer shall have the right in whole or in part to refuse goods whose supply is provided for by the state contract on the condition of compensation to the supplier of losses caused by such a refusal.

If a refusal by the state customer of the goods whose supply is provided for by the state contract has led to the rescission or change of the contract of supply of goods for state needs, the losses caused to the buyer by such a rescission or change shall be compensated by the state customer.

### **§ 5. ENERGY SUPPLY**

#### **Article 550. The Contract of Energy Supply**

1. Under the contract of energy supply the energy supplying organization undertakes the duty to provide the subscriber (consumer) with energy through the connecting network, and the subscriber undertakes the duty to pay for the energy taken and also to observe the regimen for its use provided by the contract and to ensure the safety of the use of the energy network under its management and the good repair of the instruments and equipment used by it and connected with the use of energy.

2. The statutes and other legal acts on the energy sector and energy supply and also obligatory rules adopted in accordance with them shall be applied to relations under the contract of energy supply that are not regulated by the present Code.

#### **Article 551. The Form of the Contract of Energy Supply**

The contract of energy supply shall be concluded in written form.

#### **Article 552. Concluding and Extension of the Contract of Energy Supply**

1. The contract of energy supply shall be concluded with the subscriber if it has energy-receiving apparatus meeting the established technical requirements that is connected to the networks of the energy supplying organization and other necessary equipment and also on the condition of ensuring reporting use of energy.
2. In the case when the subscriber under a contract of energy supply is a citizen employing energy for consumer use, the contract shall be considered concluded from the time of the first actual connection of the subscriber by the established procedure to the connected network.
3. Unless otherwise provided by agreement of the parties, a contract of energy supply shall be considered concluded for an indefinite time period and may be changed or rescinded on the bases provided by Article 558 of the present Code.
4. A contract of energy supply concluded for a definite time period is considered extended for the same time period and on the same terms unless before the expiration of the time period of its effectiveness one of the parties declares its termination or change or the concluding of a new contract.
5. If one of the parties before the end of the time period of effectiveness of the contract has made a proposal on the concluding of a new contract, then, until the concluding of a new contract, the relations of the parties shall be regulated by the contract concluded earlier.

#### **Article 553. Quantity of Energy**

1. The energy supplying organization shall have the duty to provide the subscriber with energy through the connected network in the quantity provided by the contract of energy supply and with the observance of the routine for provision agreed upon by the parties. The quantity of energy provided by the energy supplying organization and used by the subscriber shall be determined in accordance with the data of reporting on its actual use.
2. The contract of energy supply may provide the right of the subscriber to change the quantity of energy to be taken by it determined by the contract, on the condition of compensation by it for the expenses borne by the energy supplying organization in connection with ensuring provision of energy in the quantity not provided by the contract.
3. In the case when the subscriber under a contract of energy supply is a citizen using energy for consumer consumption, he shall have the right to use energy in the quantity needed by him.

#### **Article 554. Quality of Energy**

1. The quality of energy provided by the energy supplying organization must meet the requirements established by State Standards and other obligatory rules or provided by the contract of energy supply.
2. In case of violation by the energy supplying organization of the requirements set for the quality of energy, the rules provided by Article 491 of the present Code shall be applied.

#### **Article 555. Duties of the Buyer for the Maintenance and Use of the Networks, Instruments, and Equipment**

1. The subscriber undertakes the duty to ensure the proper technical condition and safety of the energy networks, instruments, and equipment in use and to observe the established regimen of consumption of energy and also to immediately notify the energy supplying organization of accidents, fires, defects in the energy metering instruments and other violations arising in the use of energy.
2. In the case when the subscriber under a contract of energy supply is a citizen using the energy for consumer consumption, the duty to ensure the proper technical condition and safety of the energy networks and also of the instruments of metering consumption of energy is placed on the energy supplying organization unless otherwise established by a statute or other legal acts.
3. Requirements for the technical condition and the use of energy networks, instruments, and equipment, and also the procedure for exercising supervision of their observance shall be determined by a statutes, other legal acts, and obligatory rules adopted in accordance with them.

#### **Article 556. Payment for Energy**

1. Payment for energy shall be made for the quantity of energy actually taken by the subscriber in accordance with the data of reporting of energy unless otherwise provided by a statute, other legal acts, or the agreement of the parties.
2. The procedure for settlements for the use of energy shall be determined by a statute, other legal acts, or agreement of the parties.

#### **Article 557. Subsubscriber**

1. A subscriber may transfer energy taken by it from an energy supplying organization through the connecting network to another person (subsubscriber) only with the consent of the energy supplying organization.

2.The rules of the present Section shall be applied to the contract for the transfer of energy by a subscriber to a subs subscriber unless otherwise provided by statute or contract.

3.In case of transfer of energy to a subs subscriber, the subscriber remains liable to the energy supplying organization unless otherwise established by statute or contract.

#### **Article 558. Change and the Rescission of the Contract of Energy Supply**

1.In the case when the subscriber under a contract of energy supply is a citizen employing the energy for consumer use, he shall have the right to rescind the contract by a unilateral procedure on the condition of notifying the energy supplying organization of this and full payment for the energy used.

In the case when the subscriber under a contract of energy supply is a legal person, the energy supplying organization shall have the right to refuse to perform the contract by a unilateral procedure on the bases provided by Article 538 of the present Code, with the exception of cases provided by a statute or other legal acts.

2.An interruption in the transmission, limitation, or termination of the transmission of energy is allowed only by the agreement of the parties except for cases when an unsatisfactory condition of energy installations of the subscriber, confirmed by an agency of state energy inspection, threatens an accident or creates danger for the life and safety of citizens. The energy supplying organization must warn the subscriber of an interruption in transmission, a limitation, or a termination of the transmission of energy.

3.An interruption in transmission, limitation, or termination of the transmission of energy without agreement with the subscriber and without warning the subscriber, but on the condition of prompt notification to the subscriber, is allowed in case it is necessary to take urgent measure to prevent or cleanup an accident in the system of the energy supplying organization.

#### **Article 559. Liability Under the Contract of Energy Supply**

1.In cases of nonperformance or improper performance of the obligations under the contract of energy supply, the party that has violated the obligation has the duty to compensate for the actual damage caused by this (Paragraph 2 of Article 17).

2.If, as the result of regulation of the regimen for use of energy, regulation conducted on the basis of a statute or other legal acts, there is an interruption in the supply of energy to the subscriber, the energy supplying organization shall bear liability for nonperformance or improper performance of contractual obligations if it is at fault.

#### **Article 560. Application of the Rules on Energy Supply to Other Contracts**

1.The rules provided by Articles 550-559 of the present Code shall be applied to relations connected with the supply of thermal energy through the connecting network unless otherwise established by a statute or other legal acts.

2.The rules on the contract of energy supply (Articles 550-559) shall be applied to relations connected with the supply through the connecting network of gas, oil and oil products, water, and other goods, unless otherwise provided by a statute, other legal acts, or otherwise follows from the nature of the obligation.

### **§ 6. PURCHASE AND SALE OF IMMOVABLE PROPERTY**

#### **Article 561. The Contract for Purchase and Sale of Immovable Property**

Under the contract for purchase and sale of immovable property (hereinafter—contract for sale of an immovable), the seller undertakes the duty to transfer to the ownership of the buyer a land parcel, building, structure, apartment, or other immovable property (Article 134).

#### **Article 562. Form of the Contract for Sale of an Immovable**

1.A contract for sale of an immovable shall be concluded in written form by the making of one document signed by the parties (Paragraph 2 of Article 450).

2.The contract for sale of an immovable is subject to notarial certification.

#### **Article 563. State Registration of the Transfer of the Right of Ownership to an Immovable**

1.The transfer of the right of ownership to an immovable to a buyer under a contract for sale of an immovable is subject to state registration.

2.Performance of a contract for sale of an immovable by the parties before state registration of the transfer of the right of ownership is not a basis for changing their relations with third persons.

#### **Article 564. Transfer of the Right to the Land Parcel Upon the Sale of a Building, Structure or Other Immovable Located on It**

1.Under a contract of sale of a building, structure, or other immovable, the rights to the part of the land parcel that is occupied by this immovable and is necessary for its use are transferred to the buyer simultaneously with the transfer of the right of ownership to such an immovable.

2. In the case when the seller is the owner of the land parcel on which the immovable being sold is located, the right of ownership or the right of lease or some other right provided by the contract for the sale of an immovable to the respective part of the land parcel shall be transferred to the buyer.

3. If the contract does not define the right to the respective land parcel transferred to the buyer of the immovable, the right of ownership to the part of the land parcel that is occupied by the immovable and is necessary for its use shall pass to the buyer.

4. The sale of an immovable located on a land parcel not belonging to the seller by right of ownership is allowed without the consent of the owner of this parcel if this does not contradict the conditions of use of such a parcel established by a statute or contract.

Upon the sale of such an immovable the buyer acquires the right of use of the respective part of the land parcel on the same conditions as the seller of the immovable.

#### **Article 565. Rights to an Immovable Upon Sale of a Land Parcel**

1. In cases when the land parcel on which a building, structure, or other immovable belonging to the seller is located is sold without transfer to the ownership of the buyer of this immovable, the seller retains the right of use of the part of the land parcel that is occupied by the immovable and is necessary for its use on the conditions provided by the contract of sale.

2. If the conditions of use of the respective part of the land parcel are not determined by the contract for its sale, the seller shall retain the right of limited use (servitude) of that part of the land parcel that is occupied by the immovable and is necessary for its utilization in accordance with its use.

#### **Article 566. Determination of the Subject in the Contract for the Sale of an Immovable**

Data must be indicated in a contract for the sale of an immovable that makes possible the establishment of the immovable property subject to transfer to the buyer under the contract, including data defining the location of the immovable on the respective land parcel or in the composition of other immovable property.

In the absence of such data in the contract, the term on the immovable property subject to transfer is considered not agreed upon by the parties and the respective contract is not considered to have been concluded.

#### **Article 567. Price in the Contract for the Sale of an Immovable**

1. A contract for the sale of an immovable must provide the price of this property.

2. In case of the absence in the contract of a term on the price of an immovable agreed upon by the parties in a written form, the contract for its sale shall be considered not concluded. In such a case the rules for determination of the price provided by Paragraph 3 of Article 440 of the present Code shall not be applied.

3. Unless otherwise provided by the contract for sale of an immovable, the price of a building, structure, or other immovable property located on a land parcel established in the contract includes the price of the respective part of the land parcel or right to it transferred with this immovable property.

4. In cases when the price of an immovable in a contract for sale of an immovable is established by unit of its area or other indicator of its size, the overall price of such immovable property subject to payment shall be determined proceeding from the actual size of the immovable property transferred to the buyer.

#### **Article 568. Transfer of an Immovable**

1. The transfer of an immovable by the seller and its acceptance by the buyer shall be made by a statement of transfer signed by the parties or by another document of transfer.

2. Unless otherwise provided by a statute or contract, the obligation of the seller to transfer the immovable to the buyer shall be considered performed after the handing over of this property to the buyer and the signing by the parties of the respective document on transfer.

3. The avoidance by one of the parties of signing a document on the transfer of an immovable on the conditions provided by the contract shall be considered a refusal of the seller to perform a duty to transfer the property or of the buyer – a duty to accept the property.

4. The acceptance by a buyer of an immovable not corresponding to the terms of the contract for sale of an immovable, including in the case when such a non-correspondence is noted in the document on the transfer of the immovable, shall not be a basis for freeing the seller from liability for the improper performance of the contract.

#### **Article 569. Consequences of the Transfer of an Immovable of Improper Quality**

In case of transfer by the seller to the buyer of an immovable not corresponding to the terms of the contract for sale of an immovable on its quality, the rules of Article 491 of the present Code shall be applied with the exception of the provisions on the right of the buyer to demand the replacement of the goods of improper quality with goods corresponding to the contract.

#### **Article 570. Peculiarities of the Sale of Housing Premises**

An essential term of a contract of sale of a dwelling house, an apartment, part of a dwelling house, or part of an apartment is a list of persons whose right of use of the housing premises was registered before the conclusion of the contract by the procedure established by a statute.

## CHAPTER 32. RENT

### § 1. GENERAL PROVISIONS ON RENT

#### **Article 571. The Contract of Rent**

1. Under the contract of rent, one party (the recipient of rent) transfers to the other party (the payor of rent) property in ownership, and the payor of rent undertakes the duty in exchange for the property received periodically to pay the recipient rent in the form of a defined monetary sum.
2. Under the contract of rent it is allowed to establish a duty to pay rent without limit of time (permanent rent) or for the time period of the life of the recipient of rent (life rent).

#### **Article 572. Form of the Contract of Rent**

1. The contract of rent shall be concluded in written form by the making of one document signed by the parties (Paragraph 2 of Article 450).
2. A contract of rent providing for the alienation of immovable property against the payment of rent is subject to notarial certification.

#### **Article 573. State Registration of the Transfer of the Right of Ownership Under a Contract of Rent Providing for the Alienation of Immovable Property**

The transfer of the right of ownership under a contract of rent providing for the alienation of immovable property against payment of rent is subject to state registration.

#### **Article 574. Alienation of Property Against Payment of Rent**

1. Property that is alienated against payment of rent may be transferred by the recipient of rent to the ownership of the payor of rent for payment or without payment.
2. In the case when the contract of rent provides for the transfer of property for payment, the rules on purchase and sale (Chapter 31) shall be applied to the relations of the parties on transfer and payment, while in the case when such property is transferred without payment the rules on the contract of gift (Chapter 34) shall be applied unless otherwise established by the rules of the present Chapter and does not contradict the nature of the contract of rent.

#### **Article 575. Burdening Immovable Property With Rent**

1. Rent burdens a land parcel, building, structure, or other immovable property transferred against its payment. In case of alienation of such property by the payor of rent, its obligations under the contract of rent shall pass to the acquirer of the property.
2. A person who has transferred immovable property burdened with rent to the ownership of another person shall bear liability subsidiary to the latter's on claims of the recipient of rent that have arisen in connection with a breach of the contract of rent, unless the present Code, another statute, or the contract has provided for joint and several liability under this obligation.

#### **Article 576. Securing the Payment of Rent**

1. Upon transfer of a land parcel or other immovable property against the payment of rent, the recipient of rent acquires the right of pledge to this property as security for the obligation of the payor of rent.
2. A substantial term of a contract providing for the transfer of a monetary sum or other movable property against the payment of rent is a term establishing the duty of the payor of rent to provide security for the performance of its obligations (Article 368) or to insure in favor of the recipient of rent the risk of liability for nonperformance or improper performance of these obligations.
3. In case of nonperformance by the payor of rent of the duties provided by Paragraph 2 of the present Article, and also in case of loss of security or worsening of its conditions due to circumstances for which the recipient of rent is not liable, the recipient of rent shall have the right to rescind the contract of rent and to demand compensation for the losses caused by the rescission of the contract.

#### **Article 577. Form and Amount of the Rent**

1. Rent shall be paid in money in the amount provided by the contract.  
A contract of rent may provide for payment of rent by the provision of property, doing work, or the rendering of services corresponding in value to the monetary sum of the rent.
2. Unless otherwise provided by the contract of rent, the amount of rent paid shall be increased in proportion to the increase of the minimum monthly wage.

#### **Article 578. Liability for Delay of Payment of Rent**

For delay of payment of rent the payor of rent shall pay the recipient the interest provided by Article 411 of the present Code unless another interest rate was established by the contract of rent.

## **§ 2. PERMANENT RENT**

### **Article 579. The Recipient of Permanent Rent**

1. The recipients of permanent rent may be only citizens, or also noncommercial organizations if this does not contradict a statute and corresponds to the purposes of their activity.
2. The rights of the recipient of rent under a contract of permanent rent may be transferred to the persons indicated in Paragraph 1 of the present Article by the assignment of a claim and may pass by inheritance or by the procedure for legal succession upon reorganization of legal persons unless otherwise provided by a statute or contract.

### **Article 580. Time Periods for Payment of Permanent Rent**

Unless otherwise provided by the contract of permanent rent, permanent rent shall be paid at the end of each calendar quarter.

### **Article 581. Right of the Payor to the Buyout of Permanent Rent**

1. The payor of permanent rent shall have the right to buyout of it.
  2. The obligation to pay rent shall not be terminated until the receipt of the whole sum of buyout by the recipient of rent unless another procedure for buyout is provided by the contract.
  3. A term of the contract of permanent rent on the renunciation by the payor of permanent rent of right of buyout for it is void.
- The contract may provide that the right to buyout of permanent rent may not be exercised during the life of the recipient of rent or during another time period.

### **Article 582. Buyout of Permanent Rent on Demand of the Recipient of Rent**

The recipient of permanent rent shall have the right to demand the buyout of rent by the payor in cases when:

- 1) the payor of rent has delayed its payment by more than one year, unless otherwise provided by the contract of permanent rent;
- 2) the payor of rent has breached its obligations for providing security for the payment of rent (Article 576);
- 3) circumstances have arisen clearly evidencing that rent will not be paid by it in the amount and within the time periods that are established by the contract;
- 4) the immovable property transferred against payment of rent has gone into common ownership or has been divided among several persons;
- 5) in other cases provided by the contract.

### **Article 583. Buyout Price for Permanent Rent**

1. Buyout of permanent rent in the cases provided by Articles 581 and 582 of the present Code shall be made at a price determined by the contract of permanent rent.
2. In case of the lack of a term on buyout price in the contract of permanent rent under which property is transferred for payment with payment of permanent rent, buyout shall be made at a price corresponding to the annual sum of rent subject to payment.
3. In case of the absence of a term on buyout price in the contract of permanent rent under which property is transferred without payment with payment of permanent rent, in the buyout price, along with the annual sum of rent payments, shall be included the price of property transferred determined by the rules provided by Paragraph 3 of Article 440 of the present Code.

### **Article 584. Risk of Accidental Loss of or Accidental Injury to Property Transferred Against Payment of Permanent Rent**

1. The risk of accidental loss of or accidental harm to property transferred without payment with payment of permanent rent shall be borne by the payor of rent.
2. In case of accidental loss of or accidental harm to property transferred for payment with payment of permanent rent, the payor shall have the right to demand respectively the termination of the obligation for payment of rent or changing the terms of its payment.

## **§ 3. LIFE RENT**

### **Article 585. The Recipient of Life Rent**

1. Life rent may be established for the time period of the life of a citizen who has transferred property against payment of rent or for the time period of the life of a citizen indicated by him.
  2. The establishment of life rent is allowed for the benefit of several citizens whose shares in the right to receipt of rent shall be considered equal, unless otherwise provided by the contract of life rent.
- In case of the death of one of the recipients of rent, his share in the right to receipt of rent shall pass to the recipients of rent surviving him, unless the contract of life rent provides otherwise. In case of the death of the last recipient of rent, the obligation of payment of rent is terminated.



3. A contract establishing life rent for the benefit of a citizen who has died by the time of concluding the contract is void.

**Article 586. Time Periods of Payment of Life Rent**

Unless otherwise provided by the contract of life rent, life rent shall be paid at the end of each calendar month.

**Article 587. Rescission of the Contract of Life Rent on Demand of the Recipient of Rent**

1. In case of substantial breach of the contract of life rent by the payor of rent the recipient of rent shall have the right to demand from the payor of rent the buyout of rent on the conditions provided by Article 583 of the present Code or rescission of the contract and compensation for losses.

2. If an apartment, dwelling house, or other property was alienated without payment with payment of rent, the recipient of rent shall have the right in case of substantial breach of the contract by the payor of the rent to demand return of this property with the subtraction of its value from the buyout price of the rent.

**Article 588. Risk of Accidental Loss of or Accidental Injury to Property Transferred Against Payment of Life Rent**

Accidental loss of or accidental harm to property transferred against payment of life rent does not free the payor of rent from the obligation to pay it on the terms provided by the contract of life rent.

**CHAPTER 33. BARTER**

**Article 589. The Contract of Barter**

1. Under the contract of barter each of the parties undertakes the duty to transfer certain goods to the ownership of the other party in exchange for other goods.

2. The respective rules on purchase and sale (Chapter 31) shall be applied to the contract of barter to the extent that this does not contradict the rules of the present Chapter and the nature of barter. In applying the rules, each of the parties shall be recognized as the seller of the goods that it undertakes the duty to transfer and the buyer of the goods that it undertakes the duty to take in exchange.

**Article 590. Prices and Expenses Under the Contract of Barter**

1. Unless it follows otherwise from the contract of barter, the goods subject to exchange shall be presumed to be of equal price and the expenses for their transfer and acceptance shall be made in each case by the party that bears the respective duties.

2. In the case when, in accordance with the contract of barter, the goods exchanged are recognized as not equal in price, the party obligated to transfer the goods the price of which is less than the price of the goods presented in return must pay the difference in price immediately before or after performing its obligation to transfer the goods unless another procedure for payment is provided by the contract.

**Article 591. Reciprocal Performance of the Obligation to Transfer the Goods Under the Contract of Barter**

In the case when, in accordance with the contract of barter, the time periods for transfer of the goods to be exchanged do not coincide, the rules on reciprocal performance of obligations (Article 367) shall be applied to the performance of the obligation to transfer the goods by the party who must transfer the goods after the transfer of the goods by the other party.

**Article 592. Transfer of the Right of Ownership to the Goods Exchanged**

Unless a statute or the contract of barter provides otherwise, the right of ownership to the goods exchanged shall pass to the parties entering into the contract of barter as buyers, simultaneously after the performance of the obligations to transfer the respective goods by both parties.

**Article 593. Liability for the Taking of Goods Acquired Under the Contract of Barter**

A party from whom a third person has taken goods acquired under a contract of barter shall have the right, in the presence of the circumstances provided by Article 477 of the present Code, to demand from the other party the return of the goods received by the latter in exchange and/or compensation for losses.

## CHAPTER 34. GIFT

### Article 594. The Contract of Gift

1. Under the contract of gift one party (the donor) without compensation transfers or undertakes the duty to transfer to the other party (the donee) property in ownership or a property right (or claim) against itself or against a third person, or frees or undertakes the duty to free it from a property obligation to itself or to a third person. In case of a reciprocal transfer of property or a right or a reciprocal obligation the contract is not a contract of gift. The rules provided by Paragraph 2 of Article 306 of the present Code shall be applied to such a contract.
2. A promise to transfer without compensation to anyone property or a property right or to free anyone from a property duty (a promise of a gift) is a contract of gift and binds the promisor if the promise is made in the proper form and contains a clearly expressed intention to make in the future a non-compensated transfer of property or of a right to a concrete person or to free it from a property duty. A promise to give all of one's property or part of all property without an indication of a concrete subject of gift in the form of property, a right, or freeing from a duty is void.
3. A contract providing for the transfer of a gift to the donee after the death of the donor is void. The rules of the present Code on inheritance shall be applied to such a gift.

### Article 595. Form of the Contract of Gift

1. A contract of gift of movable property shall be concluded in written form.
2. A contract of gift of immovable property is subject to notarial certification.

### Article 596. State Registration of the Transfer of the Right of Ownership Under a Contract of Gift of Immovable Property

The transfer of the right of ownership under a contract of gift of immovable property is subject to state registration.

### Article 597. Refusal by the Donee to Accept a Gift

1. The donee has the right at any time until the transfer of the gift to refuse it. In this case the contract of gift is considered to be rescinded.
2. The refusal of a gift must be made in the form established for the contract of gift. In case the transfer of the right of ownership under the contract has been registered, the refusal to accept the gift is also subject to state registration.
3. The donor has the right to demand from the donee compensation for the actual harm caused by the refusal to accept the gift.

### Article 598. Prohibition of Gift

It is not allowed to make a gift:

- 1) in the name of minors and of citizens declared lacking dispositive capacity, by their legal representatives;
- 2) to state employees and employees of bodies of local self-government in connection with their official position or in connection with their fulfillment of official obligations;
- 3) in relations among commercial organizations.

### Article 599. Limitations on Gift

1. The gift of property that is in common joint ownership is allowed with the consent of all the participants in joint ownership, with the observance of the rules provided by Article 198 of the present Code.
2. A gift through the performance for the donee of its duty to a third person shall be made with observance of the rules provided by Paragraph 1 of Article 351 of the present Code.
3. A gift of a right to a claim belonging to the donor against a third person shall be made with the observance of the rules provided by Articles 397-401, 403, and 404 of the present Code.
4. A gift through the transfer by the donor to itself of a debt of the donee to a third person shall be made with the observance of the rules provided by Articles 406 and 407 of the present Code.
5. A power of attorney for the making of a gift by a representative in which the donee is not named and the subject of the gift is not indicated is void.

### Article 600. Refusal to Perform the Contract of Gift

1. A donor shall have the right to refuse to perform a contract containing a promise to transfer property or a right in the future to a donee or to free a donee from a property duty if after the concluding of the contract the property or family status or state of health of the donor has changed to such an extent that performance of the contract under the new circumstances would lead to significant reduction of his standard of living.
2. The donor shall have the right to refuse to perform a contract containing a promise to transfer property or a right in the future to a donee or to free a donee from a property duty on the bases giving it the right to retract a gift (Paragraph 1 of Article 601).

3. A refusal by the donor to perform a contract of gift on the bases provided by Paragraphs 1 and 2 of the present Article does not give the donee the right to demand compensation for losses.

#### **Article 601. Rescission of a Gift**

1. A donor shall have the right to rescind a gift if the donee has made an attempt on his life, on the life of any of the members of his family or close relatives, or has intentionally caused the donor bodily harm.

In case of intentional deprivation of the life of the donor by the donee, the right to demand rescission of the gift in a court belongs to the heirs of the donor.

2. The donor shall have the right to demand, by judicial procedure, rescission of the gift if the treatment by the donee of property given that has major nonproperty value for the donor creates the threat of its irreparable loss.

3. On the bases and by the procedure provided by the Civil Procedure Code of the Republic of Armenia, the court may rescind a gift made by an individual entrepreneur or legal person.

4. The contract of gift may provide for the right of the donor to rescind the gift in the case that he outlives the donee.

5. In case of rescission of a gift, the donee has the duty to return property given if it is still physically in existence at the time of the rescission of the gift.

#### **Article 602. Limitations on Refusal to Perform a Contract of Gift and Retraction of a Gift**

The rules on refusal to perform a contract of gift (Article 600) and on retraction of a gift (Article 601) shall not be applied to ordinary gifts of small value.

#### **Article 603. Consequences of Causing Harm as the Result of Defects in the Property Given**

Harm caused to the life, health, or property of a citizen donee as the result of defects of the property given are subject to compensation by the donor in accordance with the rules provided by Chapter 60 of the present Code, if it is proved that these defects arose before the transfer of the property to the donee, are not among the obvious and that the donor, although it knew of them, did not warn the donee about them.

#### **Article 604. Legal Succession in Case of Promise of a Gift**

1. The rights of a donee to whom a gift has been promised under a contract of gift do not pass to his heirs (or legal successors), unless otherwise provided by the contract of gift.

2. The duties of the donor who has promised a gift pass to his heirs (or legal successors) unless otherwise provided by the contract of gift.

#### **Article 605. Charitable Giving**

1. A charitable giving is the giving of property or a right for generally useful purposes.

Charitable giving may be made to citizens, medical and upbringing institutions, institutions of social protection and other analogous institutions, charitable, scientific, and educational institutions, funds, museums and other institutions of culture, societal and religious organizations and also to the state and communes.

2. No permission or consent is needed for the acceptance of a charitable gift.

3. A charitable gift of property to a citizen must be and to legal persons may be conditioned by the charitable donor on the use of this property for a defined purpose. In the absence of such a condition, the charitable giving of property to a citizen is considered an ordinary gift and in the remaining cases the charitably donated property shall be utilized by the donee in accordance with the use of the property.

4. A legal person that has accepted a charitable gift for the use of which a defined use has been established must keep a separate accounting of all operations for the use of the charitably donated property.

5. If the utilization of charitably donated property in accordance with the use indicated by the charitable donor becomes impossible as the result of changed circumstances, it may be utilized for another use only with the consent of the charitable donor, and in case of the death of a citizen—charitable donor or the liquidation of a legal person—donor, by decision of a court.

6. The utilization of charitably donated property not in accordance with the use indicated by the charitable donor or the changing of this use in violation of the rules provided by Paragraph 4 of the present Article shall give the right to the charitable donor, his heirs, or other legal successor to demand the rescission of the charitable gift.

7. Article 604 of the present Code shall not be applied to charitable gifts.

# **SUBDIVISION 3. CONTRACTS OF LEASING OUT PROPERTY AND UNCOMPENSATED USE OF PROPERTY**

## **CHAPTER 35. LEASE**

### **§ 1. GENERAL PROVISIONS ON LEASE**

#### **Article 606. The Contract of Lease**

Under a contract of lease the lessor undertakes the duty to provide the lessee property for payment for temporary possession and/or use.

#### **Article 607. Fruits, Products, and Incomes from the Leased Property**

The fruits, products, and incomes received by the lessee as the result of the use of the leased property are under its ownership, unless otherwise provided by the contract.

#### **Article 608. Objects of Lease**

1. Land parcels and other distinct natural objects, buildings, structures, equipment, means of transport, and other property that does not lose its natural qualities in the process of their use (nonconsumable property) may be transferred by lease.

A statute may establish types of property whose leasing is not allowed or is limited.

2. A statute may establish the peculiarities of giving land parcels and other distinct natural objects by lease.

3. In the contract of lease there must be data allowing the definite establishment of the property subject to transfer to the lessee as the object of the lease. In the absence of these data in the contract, the term on the object subject to transfer by lease shall be considered not agreed upon by the parties and the respective contract shall not be considered to have been concluded.

#### **Article 609. The Lessor**

The right to grant property by lease belongs to its owner.

The lessor also may be a person empowered by a statute or the owner to grant the property by lease.

#### **Article 610. Form of the Contract of Lease**

1. A contract of lease shall be concluded in written form.

2. A contract of lease of immovable property is subject to notarial certification.

3. A contract of lease of property providing for transfer in the future of the right of ownership of this property to the lessee (Article 627) shall be concluded in the form provided for a contract of purchase and sale of such property.

#### **Article 611. State Registration of Arising from a Contract of Lease of Immovable Property**

Rights arising from a contract of lease of immovable property are subject to state registration.

#### **Article 612. Time Period of the Contract of Lease**

1. A contract of lease is concluded for the time period determined by the contract.

2. If the time period of the lease is not determined in the contract, the contract of lease shall be considered concluded for an indefinite term. In this case each of the parties shall have the right at any time to rescind the contract, warning the other party about this one month in advance, and in case of lease of immovable property, three months in advance.

A statute or contract may establish a different time period for warning about the termination of the contract of lease concluded for an indefinite term.

3. A statute may establish maximum (limit) time periods of contract for individual types of lease and also for lease of individual types of property. In these cases, if the time period of lease is not determined in the contract and none of the parties has rescinded the contract before the expiration of the time period limit established by a statute the contract shall be terminated upon expiration of the time period limit.

A contract of lease concluded for a time period exceeding the time period limit established by a statute is considered concluded for a time period equal to the time period limit.

#### **Article 613. Providing Property to the Lessee**

1. The lessor has the duty to provide property to the lessee in a condition corresponding to the terms of the contract of lease and the use of the property.

2. Property is given by lease together with all its accessories and documents (plan documentation, quality certificate, etc.) relating to it, unless otherwise provided by the contract.

If such accessories and documents were not transferred but without them the lessee cannot use the property in accordance with its use or to a significant degree is deprived of that upon which it had a right to rely upon concluding the contract it may demand provision to it by the lessor of such accessories and documents or rescission of the contract and also compensation for losses.

3.If the lessor has not provided the lessee with the leased property within the time period indicated in the contract of lease and in the case when in the contract such a time period is not indicated, within a reasonable period of time, the lessee shall have the right to demand this property from it in accordance with Article 414 of the present Code and to demand compensation for the losses caused by the delay in performance or to demand the rescission of the contract and compensation for the losses caused by its nonperformance.

#### **Article 614. Liability of the Lessor for Defects in the Property Given by Lease**

1.The lessor is liable for defects in property given by lease that in whole or in part hinder the use of it, even if, at the time of concluding the contract of lease, it did not know of these defects.

Upon the discovery of such defects, the lessee shall have the right at its choice:

1)to demand from the lessor either the uncompensated elimination of the defects in the property or the proportional reduction of rent payment, or compensation for its expenses for elimination of the defects in the property;

2)to directly withhold the sum of expenses made by it for elimination of the defects from the lease payment, having previously notified the lessor of this;

to demand early rescission of the contract.

2.A lessor notified of the demands of the lessee or of the lessee's intention to eliminate the defects in the property at the expense of the lessor may without delay make an exchange of the property provided to the lessee for other analogous property that is in proper condition or may eliminate the defects in the property without compensation.

3.If the satisfaction of the demands of the lessee or its withholding of expenses for the elimination of defects from the lease payment does not cover the losses caused to the lessee, the lessee shall have the right to demand compensation for the non-covered part of the losses.

4.The lessor shall not be liable for defects in the property given by lease that were excepted by it upon concluding the contract of lease or were previously known to the lessee or that should have been discovered by the lessee at the time of inspection of the property or checking its condition upon concluding the contract or transfer of the property by lease.

#### **Article 615. Rights of Third Persons to Property Given by Lease**

The transfer of property by lease is not a basis for the termination or change of the rights of third persons to this property.

At the concluding of a contract of lease the lessor has the duty to warn the lessee of all rights of third persons to the property given by lease (right of pledge, servitude, etc.). Nonperformance by the lessor of this duty shall give the lessee the right to demand a reduction in the lease payment or the rescission of the contract and compensation for losses.

#### **Article 616. Lease Payment**

1.The lessee has the duty to make timely payment for the use of property (lease payment).

The procedure, conditions and time periods for making of lease payment shall be determined by the contract of lease. In the case when they are not determined by the contract, it is considered that the procedure, conditions, and time periods are established that are usually used in the leasing of analogous property in comparable circumstances.

2.Lease payment shall be established for all leased property as a whole or separately for each of its constituent part in the form of:

1)payments defined as a fixed sum made periodically or one-time;

2)an established share of the production, fruits, or income acquired as the result of the use of leased property;

3)the giving by the lessee of specified services;

4)transfer by the lessee to the lessor of property provided by the contract in ownership or in lease;

5)placing upon the lessee expenditures provided by the contract for improvement of the leased property.

The parties may provide in the contract of lease for the combination of these forms of lease payment and other forms of payment for the lease.

3.Unless otherwise provided by the contract, the amount of lease payment may be changed by agreement of the parties within the time periods provided by the contract. A statute may provide other minimum time periods for reconsideration of the amount of lease payment for individual types of lease and also for the lease of individual types of property.

4.Unless a statute provides otherwise, a lessee shall have the right to demand a corresponding reduction of lease payment if by force of circumstances for which it is not liable, the conditions of use provided by the contract of lease or the state of the property has significantly worsened.

5. Unless otherwise provided by the contract of lease, in case of substantial breach by the lessee of the time periods for making lease payment, the lessor shall have the right to demand from it early making of lease payment within a time period established by the lessor.

#### **Article 617. Use of the Leased Property**

1. The lessee has the duty to use the leased property in accordance with the terms of the contract of lease and, if such terms are not defined in the contract, in accordance with the use of the property.
2. If a lessee uses property not in accordance with the terms of the contract of lease or the purpose of the property, the lessor shall have the right to demand rescission of the contract and compensation for losses.

#### **Article 618. Duties of the Parties for the Maintenance of the Leased Property**

1. The lessor has the duty to make at its expense major repair of the leased property unless otherwise provided by a statute, other legal acts, or the contract of lease. Major repair must be made in the time period established by the contract or if it is not established by the contract or is caused by urgent necessity, within a reasonable period of time. Breach by the lessor of a duty for the making of major repair gives the lessee the right at its choice:
  - 1) to make the major repair provided by the contract or caused by urgent necessity and to demand the cost of repair from the lessor or to count it against the lease payment;
  - 2) to demand a corresponding reduction of lease payment;
  - 3) to demand the rescission of the contract and compensation for losses.
2. The lessee has the duty to maintain the property in proper condition, to make at its expense current repair, and to bear the expenses for maintenance of the property unless otherwise established by a statute or by the contract of lease.

#### **Article 619. Maintenance of the Contract of Lease in Force Upon Change of Parties**

1. The transfer to a third person of the right of ownership to the property given by lease is not a basis for the change or rescission of the contract of lease.
2. In case of the death of a citizen leasing immovable property, his rights and duties under the contract of lease pass to his heirs, unless statute or contract provides otherwise. The lessor does not have the right to refuse such an heir entry into the contract for the remaining time period of its validity, with the exception of the case when the concluding of the contract was conditional by the personal qualities of the lessee.

#### **Article 620. Contract of Sublease**

1. The lessee shall have the right, with the consent of the lessor, to give the leased property in sublease and to transfer its rights and duties under the contract of lease to another person, to provide the leased property for uncompensated use, to give the leased rights as a pledge, and to contribute them as an investment in the charter (or contributed) capital of commercial partnerships and companies unless otherwise established by the present Code, another statute, or other legal acts. In these cases, with the exclusion of transfer rental, the lessee remains liable under the contract to the lessor.
2. A contract of sublease may not be concluded for a time period exceeding the time period of the contract of lease. The rules on contracts of lease shall be applied to contracts of sublease, unless otherwise provided by a statute or other legal acts.

#### **Article 621. Termination of the Contract of Sublease Upon Early Termination of the Contract of Lease**

1. Unless otherwise provided by the contract of lease, early termination of the contract of lease entails termination of a contract of sublease concluded in accordance with it. The lessor in this case shall have the right to conclude with sublessee a contract of lease to the property in his use in accordance with the contract of sublease within the limits of the remaining time period of sublease on terms corresponding to the terms of the terminated contract of lease.
2. If the contract of lease is void on bases provided by the present Code, contracts of sublease concluded in accordance with it are also void.

#### **Article 622. Early Rescission of the Contract on Demand of the Lessor**

On demand of the lessor a contract of lease may be rescinded early by a court in cases when the lessee:

- 1) uses the property with a substantial breach of the terms of the contract or use of the property or with repeated breaches;
- 2) substantially worsens the property;
- 3) more than twice upon the expiration of the time period for payment established by the contract fails to make lease payment;

4) does not make major repair of the property within the time periods established in the contract of lease, and in the absence of them in the contract within reasonable periods of time in those cases when in accordance with a statute, other legal acts or the contract, the making of major repair is the duty of the lessee. The contract of lease also may establish other bases for early rescission of the contract on demand of the lessor in accordance with Paragraph 2 of Article 466 of the present Code.

#### **Article 623. Early Rescission of the Contract on Demand of the Lessee**

On demand of the lessee a contract of lease may be rescinded early by a court in cases when:

- 1) the lessor does not provide the property for the use of the lessee or creates impediments for the use of the property in accordance with the terms of the contract or the use of the property;
  - 2) the property transferred to the lessee has defects hindering its use that were not excepted by the lessor at the concluding of the contract, were not previously known to the lessee and should not have been discovered by the lessee during inspection of the property or checking its condition at the concluding of the contract;
  - 3) the lessor fails to make major repair that is its duty to the property within the time periods established by the contract of lease or, in the absence of them in the contract, within reasonable period of times;
  - 4) the property by virtue of circumstances for which the lessee is not liable is in a condition unsuitable for use.
- The contract of lease also may establish other bases for early rescission of the contract on demand of the lessee in accordance with Paragraph 2 of Article 466 of the present Code.

#### **Article 624. Concluding the Contract of Lease for a New Time Period**

1. At the concluding of a contract of lease for a new time period, the terms of the contract may be changed by agreement of the parties.
2. If the lessee continues to use property after expiration of the time period of the contract in the absence of objections on the part of the lessor, the contract shall be considered renewed on the same conditions for an indefinite time period (Article 612).

#### **Article 625. Return of the Leased Property to the Lessor**

1. Upon termination of the contract of lease the lessee has the duty to return the property to the lessor in the condition in which it received it taking into account normal wear or in the condition provided by the contract.
2. If the lessee has not returned the leased property or has returned it late, the lessor shall have the right to demand making of the lease payment for the whole time period of delay. In the case when this payment does not cover the losses caused to the lessor it may demand compensation for them.
3. In the case when a penalty is provided by the contract for late return of the leased property losses may be recovered in a full sum above the penalty, unless otherwise provided by the contract.

#### **Article 626. Improvement of the Leased Property**

1. Separable improvements to the leased property made by the lessor are in its ownership, unless otherwise provided by the contract of lease.
2. In the case when the lessee has made at the expense of its own assets and with the consent of the lessor improvements in the leased property that are not separable without harm to the property, the lessee shall have the right after the termination of the contract for compensation for the value of these improvements, unless otherwise provided by the contract of lease.
3. The value of inseparable improvements of the leased property made by the lessee without the consent of the lessor is not subject to compensation unless otherwise provided by a statute.
4. Improvements in the leased property, both separable and inseparable, made at the expense of amortization transfers from this property are owned by the lessor.

#### **Article 627. Buyout of the Leased Property**

1. It may be provided in a statute or the contract of lease that the leased property shall pass to the ownership of the lessee upon expiration of the time period of lease or before its expiration on the condition of the paying by the lessee of the whole buyout price provided by the contract.
2. If a condition on buyout of the leased property is not provided in the contract of lease it may be established by a supplementary agreement of the parties, who in such a case have the right to agree on the counting of the previously paid lease payment toward the buyout price.
3. A statute may establish cases of prohibition of buyout of leased property.

#### **Article 628. Peculiarities of Individual Types of Lease and of Lease of Individual Types of Property**

The provisions contained in the present Section shall be applied to the individual types of contract of lease and to contracts of lease of individual types of property (rental, lease of means of transport, lease of buildings and structures, lease of housing premises, finance lease) unless otherwise established by the rules of the present Code on these contracts.

## **§ 2. RENTAL**

### **Article 629. The Contract of Rental**

1. Under the contract of rental, a lessor conducting the provision of property by lease as a permanent entrepreneurial activity undertakes the duty to provide the lessee with movable property for payment for temporary possession and use.

The property provided under the contract of rental shall be used for consumer purposes unless otherwise provided by the contract or otherwise follows from the nature of the obligation.

2. The contract of rental shall be concluded in written form.

3. The contract of rental is a public contract (Article 442).

### **Article 630. The Time Period of the Contract of Rental**

1. A contract of rental shall be concluded for a time period of up to one year.

2. The rules on renewing a contract of lease for an indefinite time period shall not be applied to a contract of rental.

3. The lessee shall have the right to cancel the contract of rental at any time.

### **Article 631. Provision of the Property to the Lessee**

A lessor who has concluded a contract of rental is obligated, in the presence of the lessee, to check the condition of the property given in rental and also to acquaint the lessee with the rules for use of the property or to give it written instructions on the utilization of this property.

### **Article 632. Elimination of Defects of Property Given in Rental**

1. In case of discovery by the lessee of defects in the property given in rental that in whole or in part hinder its use, the lessor is obligated within a ten-day time period from the day of notification by the lessee of the defects, unless a shorter time period is established by the contract of rental, to eliminate, without compensation, the defects in the property where it is located or to make an exchange of the given property for other analogous property that is in proper condition.

2. If the defects in the rented property are the result of violation by the lessee of the rules for use and maintenance of the property, the lessee shall pay the lessor the price of repair and transport of the property.

### **Article 633. Rental Payment Under the Contract of Rental**

1. Rental payment under the contract of rental shall be established in the form of payments defined as a fixed sum made periodically or one-time.

2. In case of early return of the property by the lessee, the lessor shall return to it the corresponding part of the rental payment received, calculated from the day after the day of actual return of the property.

### **Article 634. Use of the Rented Property**

1. Major and current repair of property given in rental under a contract of rental is the duty of the lessor.

2. The giving by subrental of property provided to a lessee under a contract of rental of movables, transfer by it of the rights and duties under the contract of rental of movables to another person, giving of this property for uncompensated use, pledge of the rental rights and contribution of them as property contribution to the charter capital of commercial partnerships and companies is not allowed.

## **§ 3. LEASING OF MEANS OF TRANSPORT**

### **1. Leasing of Means of Transport With Provision of Services for Management and Technical Utilization**

#### **Article 635. The Contract of Lease of Means of Transport With Crew**

1. Under a contract of lease (time-freight) of means of transport with crew, the lessor provides means of transport to the lessee for payment for temporary possession and use and provides with its own efforts service for managing them and for their technical exploitation.

2. The rules on renewal of a contract of lease for an indefinite time period are not applied to the contract of lease of means of transport with crew.

#### **Article 636. Form of the Contract of Lease of Means of Transport With Crew**

The contract of lease of means of transport with crew shall be concluded in written form.

#### **Article 637. Duty of the Lessor for Maintenance of Means of Transport**

The lessor shall have the duty, during the whole time period of the contract of lease of means of transport with crew, to support a suitable condition of the means of transport given by lease including conduct of current and major repair and provision of the necessary accessories.



### **Article 638. The Duties of the Lessor for Management and Technical Exploitation of Means of Transport**

1. Services provided to the lessee by the lessor for the management and technical exploitation of means of transport must ensure its normal and safe exploitation in accordance with the purposes of lease indicated in the contract. The contract of lease of means of transport with crew may provide for a broader range of services to be supplied to the lessee.
2. The staffing of the crew of the means of transport and its qualifications must correspond to the rules obligatory for the parties and to the terms of the contract and if such requirements are not established by rules obligatory for the parties, to the requirements of the usual practice of exploitation of means of transport of the given type and terms of the contract.
3. The members of the crew shall be employees of the lessor. They shall be subject to the orders of the lessor relating to management and technical exploitation and to the orders of the lessee on the commercial exploitation of the means of transport.
4. Unless the contract of lease provides otherwise, the services of the members of the crew shall be paid by the lessor.

### **Article 639. The Duty of the Lessee for the Payment of Expenses Connected With the Commercial Exploitation of Means of Transport**

Unless otherwise provided by the contract of lease of means of transport with crew, the lessee shall bear the expenses arising in connection with the commercial exploitation of the means of transport, including expenses for payment for fuel and other materials consumed in the process of exploitation and for the payment of tolls.

### **Article 640. Insurance of Means of Transport**

Unless otherwise provided by the contract of lease of means of transport with crew, the duty to insure the means of transport and/or to insure liability for damage that may be caused in connection with its exploitation is imposed on the lessor in those cases when such insurance is compulsory by force of a statute or contract.

### **Article 641. Contracts With Third Persons on the Use of Means of Transport**

1. Unless the contract of lease of means of transport with crew provides otherwise, the lessee shall not have the right without the consent of the lessor to grant means of transport by sublease.
2. The lessee within the limits of conducting commercial exploitation of the leased means of transport shall have the right without the consent of the lessor and in its own name to conclude with third persons contracts of carriage and other contracts unless they contradict the purposes of use of the means of transport indicated in the contract of lease or, if such purposes are not established, the use of the means of transport.

### **Article 642. Liability for Harm Caused to a Means of Transport**

In case of loss of or damage to a leased means of transport the lessee shall be obligated to compensate the lessor for the losses caused if the latter proves that the loss or damage to the means of transport occurred due to circumstances for which the lessee is liable in accordance with a statute or the contract of lease.

### **Article 643. Liability for Harm Caused by a Means of Transport**

Liability for harm caused to third persons by a leased means of transport, its mechanisms and apparatus shall be borne by the lessor in accordance with the rules of Chapter 60 of the present Code. It shall have the right to present a subrogation claim to the lessee for compensation for amounts paid to third persons if it proves that the harm arose due to the fault of the lessee.

### **Article 644. The Peculiarities of Lease of Individual Types of Means of Transport**

Peculiarities of the lease of individual types of means of transport with the provision of services for management and technical exploitation, peculiarities besides those provided by the present Section, may be established by statute.

## **2. Lease of Means of Transport Without Provision of Services for Management and Technical Exploitation**

### **Article 645. The Contract of Lease of Means of Transport Without Crew**

1. Under a contract of lease of means of transport without crew, the lessor provides the lessee with means of transport for payment in temporary possession and use without the provision of services for managing them or for their technical exploitation.
2. The rules on the renewal of a contract of lease for an indefinite time period shall not be applied to the contract of lease of means of transport without crew.

**Article 646. The Form of the Contract of Lease of Means of Transport Without Crew**

The contract of lease of means of transport without crew shall be concluded in written form.

**Article 647. The Duty of the Lessee for the Maintenance of the Means of Transport**

The lessee is obligated, during the whole time period of the contract of lease of means of transport without crew, to support the proper condition of the leased means of transport including the making of current and major repair, unless otherwise provided by the contract.

**Article 648. Duties of the Lessee for Management, Commercial, and Technical Exploitation of Means of Transport**

The lessee shall conduct the management of the leased means of transport and also its commercial and technical exploitation, by its own efforts.

**Article 649. Duty of the Lessee for Payment of Expenses for Maintenance of Means of Transport**

Unless otherwise provided by the contract of lease of means of transport without crew, the lessee shall bear expenses for maintenance of the leased means of transport, its insurance, including insurance of its own liability, and also expenses arising in connection with its exploitation.

**Article 650. Contracts With Third Persons on the Use of a Means of Transport**

1. Unless the contract of lease of a means of transport without crew provides otherwise, the lessee shall not have the right without the consent of the lessor to grant the leased means of transport in sublease.
2. The lessee shall have the right without the consent of the lessor in its own name to conclude contracts of carriage and other contracts with third persons unless they contradict the purposes of use of the means of transport indicated in the contract of lease and if such purposes are not listed, the use of the means of transport.

**Article 651. Liability for Harm Caused by a Means of Transport**

Liability for harm caused to third persons by a leased means of transport, its mechanisms, apparatus shall be borne by the lessee in accordance with the rules of Chapter 60 of the present Code.

**Article 652. Peculiarities of the Lease of Individual Types of Means of Transport**

A statute may establish peculiarities of the lease of individual types of means of transport without the provision of services for management and technical exploitation, peculiarities other than those provided by the present Section.

**§ 4. LEASE OF BUILDINGS AND STRUCTURES**

**Article 653. The Contract of Lease of a Building or Structure**

Under the contract of lease of a building or structure, the lessor undertakes the duty to transfer a building or structure to the lessee for payment for temporary possession and/or use.

**Article 654. Form of the Contract of Lease of a Building or Structure**

1. The contract of lease of a building or structure shall be concluded in written form by the making of one document signed by the parties (Paragraph 2 of Article 450).
2. A contract of lease of a building or structure shall be subject to notarial certification.

**Article 655. State Registration of Rights Arising from a Contract of Lease of a Building or Structure**

Rights arising from a contract of lease of a building or structure are subject to state registration.

**Article 656. Rights to a Land Parcel in Case of Lease of a Building or Structure Located on It**

1. Under a contract of lease of a building or structure to the lessee, simultaneously with the transfer of the rights of possession and use of such immovable the rights to the part of the land parcel that is occupied by this immovable and is necessary for its use are transferred.
2. In cases when the lessor is the owner of the land parcel on which the building or structure granted in lease is located, the lessee is given the right of lease or other right provided by the contract of lease of a building or structure to the respective part of the land parcel.  
If the contract has not defined the right to the respective land parcel transferred to the lessee, to it passes, for the time period of the lease of the building or structure, the right of use of the part of the land parcel that is occupied by the building or structure and is necessary for its use.
3. The lease of a building or structure located on a land parcel not belonging to the lessor by the right of ownership is allowed without the consent of the owner of this parcel if this does not contradict the conditions of use of such parcel established by a statute or by contract with the owner of the land parcel.

**Article 657. Preservation by the Lessee of the Building or Structure of the Right of Use of the Land Parcel Upon Its Sale**

In cases when the land parcel on which the leased building or structure is located is sold to another person, the lessee of this building or structure retains the right of use of the part of the land parcel that is occupied by the building or structure and is necessary for its use on the conditions in effect before the sale of the land parcel.

**Article 658. Amount of Lease Payment**

1. The contract of lease of a building or structure must provide for an amount of lease payment. In the absence of a term on the amount of lease payment, the contract of lease of a building or structure shall be considered not to have been concluded. In such a case, the rules for determining the price provided by Paragraph 3 of Article 440 of the present Code shall not be applied.
2. The payment for use of the building or structure established in the contract of lease of a building or structure includes payment for use of the land parcel on which it is located or the respective part of the land parcel transferred together with it, unless otherwise provided by a statute or contract.
3. In cases when payment for lease of a building or structure is established in the contract per unit of area of the building (or structure) or other indicator of its size, the lease payment shall be determined proceeding from the actual size of the building or structure transferred to the lessee.

**Article 659. Transfer of a Building or Structure**

1. The transfer of a building or structure by the lessor and its acceptance by the lessee shall be made by a statement of transfer or other document on transfer signed by the parties.  
Unless otherwise provided by a statute or by the contract of lease of a building or structure, the obligation of the lessor to transfer the building or structure to the lessee is considered performed after the granting of it to the lessee in possession or use and the signature by the parties of the respective document on transfer.  
Avoidance by one of the parties of signing a document on the transfer of the building or structure on the conditions provided by the contract shall be viewed as a refusal respectively by the lessor to perform the obligation for the transfer of the property or by the lessee to accept the property.
2. Upon termination of a contract of lease of a building or structure, the leased building or structure must be returned to the lessor with the observance of the rules provided by Paragraph 1 of the present Article.

**§ 5. LEASE OF HOUSING PREMISES**

**Article 660. The Contract of Lease of Housing Premises**

Under the contract of lease of housing premises one party—the owner of the housing premises or a person empowered by it (the lessor)—undertakes the duty to provide the other party (the lessee) with housing premises for payment in possession and in use.

**Article 661. Object of the Contract of Lease of Housing Premises**

1. Housing premises suitable for permanent residence (an apartment, dwelling house, part of an apartment or dwelling house) may be the object of the contract of lease of housing premises.
2. The lessee of housing premises in a multi-apartment building, along with the use of the housing premises shall have the right to use the property indicated in Article 224 of the present Code.

**Article 662. Form of the Contract of Lease of Housing Premises**

1. The contract of lease of housing premises shall be concluded in written form by the compilation of one document signed by the parties (Paragraph 2 of Article 450).
2. The contract of lease of housing is subject to notarial certification.

**Article 663. State Registration of Rights Arising from the Contract of Lease of Housing Premises**

Rights arising from the lease of housing premises are subject to state registration.

**Article 664. Preservation of the Contract of Lease of Housing Premises upon Transfer of the Right of Ownership to Housing Premises**

The transfer of the right of ownership to a dwelling house occupied under a contract of lease of housing premises does not entail the rescission or change of the contract of lease of housing premises. In such a case the new owner becomes the lessor on the conditions of the previously concluded contract of lease.

**Article 665. Duties of the Lessor of the Housing Premises**

1. The lessor has the duty to transfer to the lessee unoccupied housing premises in a condition suitable for living.
2. The lessor has the duty to conduct appropriate utilization of the dwelling house in which the housing premises given in lease is located, to provide or to ensure the provision to the lessee for payment of the necessary utility services, and to ensure the conduct of repair of the common property of a multi-apartment building and of structures for the provision of utility services.

#### **Article 666. The Lessee of the Housing Premises**

Citizens, legal persons, the Republic of Armenia and communities may be a lessee under a contract of lease of housing premises.

#### **Article 667. Duties of the Lessee of Housing Premises**

1. The lessee has the duty to ensure the safekeeping of the housing premises, and to keep the premises in proper condition.
2. The lessee does not have the right to do remodeling or reconstruction of the housing premises without the consent of the lessor.
3. The lessee has the duty to make timely lease payment for the housing premises. Unless the contract provides otherwise, the lessee has the duty to make utility payments itself.

#### **Article 668. Moving in by Other Persons**

1. With the consent of the lessee, other citizens may be moved into the housing premises as permanently living with the lessee.
2. The lessee shall bear liability to the lessor for the actions of citizens permanently living together with him that violate the terms of the contract of lease of housing premises.

#### **Article 669. Temporary Residents**

1. The lessee and citizens living with him permanently by general agreement have the right to allow sojourn without compensation in the housing premises by temporary residents.  
The lessee shall bear liability to the lessor for the actions of temporary residents.
2. Temporary residents are obligated to free the housing premises upon the expiration of the time period of sojourn agreed with them, and if the time period is not agreed, not later than seven days from the day of presentation of the respective demand by the lessee or by any citizen living with him permanently.

#### **Article 670. Repair of Housing Premises Granted in Lease**

1. Current repair of the housing premises granted in lease is the duty of the lessee unless otherwise provided by the contract of lease of housing premises.
2. Major repair of the housing premises granted in lease is the duty of the lessor unless otherwise provided by the contract of lease of housing premises.
3. Reconstruction of the dwelling house in which the housing premises given in lease are located, is not allowed without the consent of the lessee if such a reconstruction will significantly change the conditions of use of the housing premises.

#### **Article 671. Lease Payment for the Housing Premises**

1. The amount of lease payment for housing premises shall be established by agreement of the parties.
2. A unilateral change in the amount of lease payment for housing premises is not allowed with the exception of cases provided by a statute or contract.
3. Lease payment for housing premises must be made by the lessee monthly, unless otherwise provided by the contract of lease of housing premises.

#### **Article 672. Time Period in the Contract of Rental of Housing Premises**

1. The contract of lease of housing premises shall be concluded for a time period defined by the contract.
2. If the time period of lease of housing premises is not defined in the contract, the contract shall be considered concluded for an indefinite term.

#### **Article 673. Sublease of Housing Premises**

1. By the contract of sublease of housing premises, the lessee, with the consent of the lessor, transfers for a time period part or all of the premises leased by it to the use of the sublessee. The sublessee does not acquire an independent right of use of the housing premises. The lessee remains liable to the lessor under the contract of lease of housing premises.
2. The contract of sublease of housing premises shall be for compensation.
3. The time period of a contract of sublease of housing premises may not exceed the time period of the contract of lease of housing premises.
4. Upon early termination of a contract of lease of housing premises, the contract of sublease of housing premises shall be terminated simultaneously with it.

#### **Article 674. Replacement of the Lessee in the Contract of Lease of Housing Premises**

1. With the consent of the lessor, the lessee in a contract of lease of housing premises may be replaced by one of the adult citizens permanently living with the lessee.
2. In case of the death of the lessee, the contract continues to be in effect on the same conditions, and one of the citizens who was permanently living with the prior lessee becomes the lessee by joint written agreement among

these citizens. If such an agreement is not reached, then all citizens permanently living in the housing premises become co-lessees.

#### **Article 675. Rescission of the Contract of Lease of Housing Premises**

1. The lessee of housing premises shall have the right, with the consent of other citizens permanently living with him/her, at any time to rescind the contract of lease with three months written warning to the lessor.
2. The contract of lease of housing premises may be rescinded by judicial procedure on demand of the lessor in cases:
  - 1) failure of the lessee to make lease payment for the housing premises more than two times at the expiration of the time period for payment established by the contract;
  - 2) destruction or spoilage of the housing premises by the lessee or by other citizens for whose actions he is liable.
3. If the lessee of the housing premises or other citizens for whose actions he is liable use the housing premises not for their purpose or systematically violate the rights and interests of neighbors, the lessor has the right to warn the lessee of the necessity of eliminating the violations and also to rescind the contract of lease of housing premises by judicial procedure.
4. The contract of lease of housing premises may be rescinded by judicial procedure on the demand of either of the parties to the contract:
  - 1) if the housing premises ceases to be suitable for permanent living and also in case of its wrecked condition;
  - 2) in other cases provided by a statute or contract.

#### **Article 676. Consequences of the Rescission of the Contract of Lease of Housing Premises**

In case of rescission of a contract of lease of housing premises, the lessee and other citizens living in the housing premises by the time of rescission of the contract shall be subject to eviction from the housing premises on the basis of the decision of the court.

### **§ 6. FINANCE LEASE (LEASING)**

#### **Article 677. The Contract of Finance Lease**

1. Under the contract of finance lease (the contract of leasing), the lessor undertakes the duty to acquire in ownership property indicated by the lessee from a seller designated by it and to provide the lessee with this property for payment in temporary possession and use for entrepreneurial purposes. The lessor in this case does not bear liability for selection of the subject of the lease nor for selection of the seller.
2. The contract of finance lease may provide that selection of the seller and of the property to be acquired shall be made by the lessor.
3. The contract of finance lease may provide that the leased property passes to the ownership of the lessee upon the expiration of the time period of its lease or before its expiration on the condition of the payment by the lessee of the buyout price provided by the contract.
4. The peculiarities of individual types of contract of finance lease shall be established by the statute on the finance lease (leasing).

#### **Article 678. Form of the Contract of Finance Lease**

1. The contract of finance leasing shall be concluded in written form by the compilation of one document signed by the parties (Paragraph 2 of Article 450).
2. The contract of finance lease of immovable property shall be subject to notarial certification.

#### **Article 679. State Registration of Rights Arising from the Contract of Finance Lease of Immovable Property**

The rights arising from a contract of finance lease of immovable property are subject to state registration.

#### **Article 680. Subject of the Contract of Finance Lease**

The subject of the contract of finance lease may be any nonconsumable property used for entrepreneurial activity.

#### **Article 681. Notification of the Seller on Giving the Property by Lease**

The lessor, in acquiring the property for the lessee, must notify the seller of the fact that the property is meant for transfer of it by lease to a defined person.

#### **Article 682. Transfer to the Lessee of the Subject of the Contract of Finance Lease**

1. Unless otherwise provided by the contract of finance lease, the subject of this contract shall be transferred by the seller directly to the lessee at the place of location of the latter.
2. In the case when the object of the contract of finance lease is not transferred to the lessee within the time period indicated in this contract or, if such a time period is not indicated in the contract, within a reasonable period of time, the lessee shall have the right, if the delay is caused by circumstances for which the lessor is liable, to demand the rescission of the contract and compensation for losses.

**Article 683. Passing to the Lessee of the Risk of Accidental Loss of or Accidental Injury to the Property**

The risk of accidental loss of or accidental injury to the leased property shall pass to the lessee at the time of transfer to it of the leased property unless otherwise provided by the contract of finance lease.

**Article 684. Liability of the Seller**

1. The lessee shall have the right to present directly to the seller of the property that is the subject of the contract of finance lease claims deriving from the contract of purchase and sale concluded between the seller and the lessor, in particular with respect to the quality and completeness of the property, the time periods for its supply, and in other cases of improper performance of the contract by the seller. In such a case the lessee shall have the rights and bear the duties provided by the present Code for the buyer, except the right to rescind the contract of purchase and sale with the seller without the consent of the lessor and the duty to pay for the property acquired.

In relations with the seller, the lessee and lessor shall act as joint and several creditors (Article 365).

2. Unless otherwise provided by the contract of finance lease, the lessor shall not be liable to the lessee for the performance by the seller of requirements deriving from the contract of purchase and sale except for cases when liability for the selection of the seller is upon the lessor. In the latter case the lessee shall have the right at its choice to present claims deriving from the contract of purchase and sale either directly to the seller of property or to the lessor who shall bear joint and several liability.

**CHAPTER 36. UNCOMPENSATED USE OF PROPERTY**

**Article 685. The Contract of Uncompensated Use of Property**

1. Under the contract of uncompensated use of property (the contract of loan) one party (the lender) undertakes the duty to transfer or transfer property for uncompensated temporary use to the other party (the borrower) and the latter undertakes the duty to return the same property in the same condition in which it received it, subject to normal wear, or in the condition provided by the contract.

2. To the contract of uncompensated use of property there shall be applied respectively the rules provided by Article 608, Paragraph 1 and the first subparagraph of Paragraph 2 of Article 612, Article 617, Paragraph 2 of Article 624, Paragraphs 1 and 3 of Article 626 of the present Code.

**Article 686. Form of the Contract of Uncompensated Use of Property**

1. The contract of uncompensated use of property shall be concluded in written form by the compilation of one document signed by the parties (Paragraph 2 of Article 450).

2. The contract of uncompensated use of immovable property shall be subject to notarial certification.

**Article 687. State Registration of Rights Arising from the Contract of Uncompensated Use of Immovable Property**

Rights arising from a contract of uncompensated use of immovable property are subject to state registration.

**Article 688. The Lender**

1. The right to transfer property for uncompensated use belongs to its owner and to other persons empowered thereto by a statute or by the owner.

2. A commercial organization does not have the right to transfer property for uncompensated use to a person who is its founder, participant, head, or a member of its bodies of management or supervision.

**Article 689. Providing Property for Uncompensated Use**

1. The lender has the duty to provide the property in a condition corresponding to the terms of the contract of uncompensated use and to its use.

2. The property shall be provided for uncompensated use with all its accessories and the documents (instructions for use, plan documentation, etc.) relating to it, unless otherwise provided by the contract.

If such accessories and documents were not transferred, whereas the property cannot be utilized for its use without them or its use to a significant degree loses its value for the borrower, the latter shall have the right to demand the giving to it of such accessories and documents or the rescission of the contract and compensation for the actual damage suffered by it.

**Article 690. Consequences of Failure to Provide Property for Uncompensated Use**

If the lender does not transfer the property to the borrower the latter shall have the right to demand the rescission of the contract of uncompensated use and compensation for the actual damage suffered by it.

**Article 691. Liability for Defects in the Property Transferred for Uncompensated Use**

1. The lender shall be liable for defects in the property that it intentionally did not except at the concluding of the contract of uncompensated use.

Upon discovery of such defects, the borrower shall have the right at its choice to demand of the lender elimination without compensation of the defects of the property or compensation of its expenses for the elimination of the defects of the property or early rescission of the contract and compensation for the actual damage suffered by it.

2. A lender notified of the demands of the borrower or of its intent to eliminate the defects of the property at the expense of the lender may without delay replace the defective property with other analogous property that is in appropriate condition.

3. The lender is not liable for defects in the property that were excepted by it upon the concluding of the contract or that were previously known to the borrower or that should have been discovered by the borrower during inspection of the property or checking of its condition upon the concluding of the contract or transfer of the property.

#### **Article 692. Rights of Third Persons to Property Transferred for Uncompensated Use**

1. At the concluding of a contract of uncompensated use, the lender has the duty to warn the borrower of all rights of third persons to this property (right of pledge, servitude, etc.). Failure to perform this duty gives the borrower the right to demand the rescission of the contract and compensation for the actual damage suffered by it.

2. The transfer of property for uncompensated use is not a basis for changing or terminating the rights of third persons to this property.

#### **Article 693. Duties of the Borrower for Maintenance of the Property**

1. The borrower has the duty to maintain the property received for uncompensated use in sound condition including the conduct of current and major repair and to bear all expenses for its maintenance unless otherwise provided by the contract of uncompensated use.

2. The borrower has the right to transfer the property received for uncompensated use for the use of a third person only with the consent of the lender and the borrower shall remain liable to the lender.

#### **Article 694. The Risk of Accidental Loss of or Accidental Injury to the Property**

The borrower shall bear the risk of accidental loss of or accidental injury to the property received for uncompensated use if the property was lost or was injured in connection with the fact that the borrower used it not in accordance with the contract of uncompensated use or the use of the property or transferred it to a third person without the consent of the lender.

#### **Article 695. Liability for Harm Caused to a Third Person as the Result of Use of the Property**

The lender shall be liable for harm caused to a third person as the result of use of the property unless it proves that the harm was caused as the result of the intent of the borrower or the person who had the property with the consent of the borrower.

#### **Article 696. Early Rescission of the Contract of Uncompensated Use of Property**

1. The lender shall have the right to demand early rescission of the contract of uncompensated use of property in cases when the borrower:

- 1) utilizes the property not in accordance with the contract or the use of the property;
- 2) does not fulfill duties for maintaining the property;
- 3) substantially worsens the condition of the property;
- 4) has transferred the property to a third person without the consent of the lender.

2. The borrower shall have the right to demand early rescission of the contract of uncompensated use of property:

- 1) upon discovery of defects making the normal use of the property impossible, about the presence of which it did not know and could not have known at the concluding of the contract;
- 2) if the property by virtue of circumstances for which the borrower is not liable is in a condition unsuitable for use;
- 3) if at the concluding of the contract the lender did not warn it about the rights of third persons to the property transferred;
- 4) in case of nonperformance by the lender of the duty to transfer the property or its accessories and the documents relating to it.

#### **Article 697. Cancellation of the Contract of Uncompensated Use**

Each of the parties shall have the right at any time to cancel a contract of uncompensated use, giving the other party one month's notice of this, unless the contract provides for another time period for notice.

#### **Article 698. Change of the Parties in the Contract of Uncompensated Use**

1. The lender shall have the right to make an alienation of the property to a third person. In such a case the rights under a previously concluded contract of uncompensated use of property pass to the new owner and its rights with respect to the property are burdened by the rights of the borrower.

2. In case of the death of a citizen-lender or the reorganization of a legal person that is a lender, the rights and duties of the lender under the contract of uncompensated use of property pass to the heir (or legal successor).

3. In case of reorganization of a legal person that is the borrower, its rights and duties under the contract of uncompensated use of property shall pass to the legal person that is its legal successor unless otherwise provided by the contract.

**Article 699. Termination of the Contract of Uncompensated Use**

The contract of uncompensated use shall be terminated in case of the death of a citizen-borrower or the liquidation of a legal person that is a borrower, unless otherwise provided by the contract.

**SUBDIVISION 4. CONTRACTS OF DOING WORK**

**CHAPTER 37. WORK**

**§ 1. GENERAL PROVISIONS ON WORK**

**Article 700. The Work Contract**

1. Under the work contract one party (the contractor) undertakes the duty to do defined work at the order of the other party (the customer) and to transfer the result to the customer within the established time period, and the customer undertakes the duty to accept the result of the work and to pay for it.
2. The work contract shall be concluded in written form.
3. The provisions of the present Section shall be applied to individual types of the work contract (consumer work, construction work, work for the performance of design and exploratory tasks, work for state needs), unless otherwise provided by the rules of the present Code on these types of contracts.

**Article 701. Work Done Under the Work Contract**

1. A work contract may be concluded for the manufacture or reworking (or processing) of property or the doing of other work with the transfer of its result to the customer.
2. Under the work contract concluded for the manufacture of property, the contractor shall transfer the rights to it to the customer.
3. Unless otherwise provided by the work contract, the contractor shall determine independently the means of fulfilling the orders of the customer.

**Article 702. Doing Work With Dependence on the Contractor**

1. Unless otherwise provided by the contract the work shall be done with dependence upon the contractor—from its materials, with its efforts and assets.
2. The contractor shall bear liability for improper quality of materials and equipment provided by it and also for providing materials and equipment burdened by the rights of third persons.

**Article 703. Allocation of Risks Between the Parties**

1. Unless otherwise provided by the present Code, other statutes or the work contract:
  - 1) the risk of accidental loss of or accidental damage to the materials, equipment, property transferred for reworking (or processing) or other property used for performance of the contract shall be borne by the party providing them;
  - 2) the risk of accidental loss of or accidental damage to the result of done work before its acceptance by the customer shall be borne by the contractor.
2. In case of lateness of transfer or acceptance of the result of work the risks provided by Paragraph 1 of the present Article shall be borne by the party whose fault caused the lateness.

**Article 704. General Contractor and Subcontractor**

1. Unless a duty of the contractor personally to do the work provided in the contract follows from a statute or the work contract, the contractor shall have the right to involve other persons (subcontractors) in the performance of its obligations. In this case the contractor shall act as general contractor.
2. A contractor who has involved a subcontractor in the performance of a work contract in violation of the provisions of Paragraph 1 of the present Article or of the contract shall bear liability to the customer for losses caused by the participation of the subcontractor in the performance of the contract.
3. The general contractor is liable to the customer for the consequence of nonperformance or improper performance of obligations by the subcontractor, in accordance with the rules of Paragraph 1 of Article 351 and Article 419 of the present Code, and is liable to the subcontractor for nonperformance or improper performance by the customer of obligations under the work contract.



Unless otherwise provided by a statute or the contract, the customer and the subcontractor do not have the right to present claims against one another connected with the breach of the contracts concluded by each of them with the general contractor.

4. With the consent of the general contractor, the customer shall have the right to conclude contracts for doing of individual work with other persons. In this case these persons shall bear liability for non-doing or improper doing of the work directly to the customer.

#### **Article 705. Participation of Several Persons in Doing the Work**

1. If two or more persons simultaneously act on the side of the contractor, then in case of indivisibility of the subject of the obligation, they shall be, with regard to the customer, joint and several debtors and joint and several creditors respectively.

2. In case of divisibility of the subject of the obligation and also in other cases provided by a statute, other legal acts, or the contract, each of the persons indicated in Paragraph 1 of the present Article shall acquire rights and bear duties with respect to the customer within the limits of its share.

#### **Article 706. Time Periods for Doing the Work**

1. The work contract shall indicate an initial and a final time period for doing the work. By agreement between the parties, the contract may also provide the time periods for completing individual stages of work (intermediate time periods).

Unless otherwise provided by a statute, other legal acts, or the contract, the contractor shall bear liability for violation of the starting, the final, and also the intermediate time periods for doing the work.

2. The starting, final, and intermediate time periods for doing the work indicated in the work contract may be changed in the cases and by the procedure provided by the contract.

3. The consequences of delay of performance indicated in Paragraph 2 of Article 421 of the present Code shall ensue in case of violation of the final time period for doing the work.

#### **Article 707. Price of the Work**

1. The work contract shall indicate the price of the work to be done or the means for determining the price. In case of absence of such indications in the contract, the price shall be determined in accordance with Paragraph 3 of Article 440 of the present Code.

2. The price of the work may be determined by making of a budget.

In the case when the work is done in accordance with a budget made by the contractor, the budget shall take effect and become part of the work contract from the time it is approved by the customer.

3. The price of the work (or the budget) may be approximate or firm. In the absence of other indications in the work contract the price of the work shall be considered firm.

4. If the necessity has arisen for the performance of supplementary work and for this reason for the substantial exceeding of a price of work defined approximately, the contractor shall be obligated to give timely warning of this to the customer. A customer who has not agreed to an increase in the price of work indicated in the work contract shall have the right to cancel the contract. In this case the contractor may demand from the customer payment to it of the price for the part of the work that has been done.

A contractor who has failed to give timely warning to the customer of the necessity of exceeding the price of work indicated in the contract shall be obligated to perform the contract, retaining the right to receive payment for the work in the price determined in the contract.

5. The contractor does not have the right to demand an increase of a firm price, nor the customer—its reduction, even in the case when at the time of concluding the work contract the possibility was excluded of foreseeing the full scope of the work to be done or the necessary expenses therefore, unless otherwise provided by the contract. Upon significant growth of the value of the materials and equipment provided by the contractor, and also of services provided to it by third persons, that could not have been foreseen in the concluding of the contract, the contractor shall have the right to demand an increase of the established price, and in case of refusal of the customer to fulfill this demand—the rescission of the contract in accordance with Article 467 of the present Code.

#### **Article 708. Savings by the Contractor**

1. In cases when the actual expenses by the contractor are lower than those that were considered in the determination of the price of the work, the contractor shall retain the right to payment for the work at the price provided by the work contract, unless the customer proves that the savings received by the contractor affected the quality of the work done.

2. The work contract may provide for the allocation of the savings attained by the contractor between the parties.

#### **Article 709. Procedure for Payment for Work**

1. Unless the work contract provides for advance payment for work done or individual stages of it, the customer shall be obligated to pay the contractor the agreed price after the final transfer of the results of the work on the condition that the work was done properly and within the agreed time period or, with the consent of the customer, early.

2.The contractor shall have the right to demand payment to it of an advance or of a deposit only in the cases and in the amount indicated by a statute or the work contract.

#### **Article 710. Right of the Contractor to Retention**

In case of nonperformance by the customer of the duty to pay the established price or other sum due to the contractor in connection with the performance of the work contract, the contractor shall have the right, in accordance with Articles 373 and 374 of the present Code, to retain the result of the work and also equipment belonging to the customer, property transferred for reworking (or processing), the remainder of unused material and other property of the customer that it has, until payment by the customer of the respective sums.

#### **Article 711. Doing the Work With Use of Material of the Customer**

1.The contractor has the duty to use the material provided by the customer economically and prudently, after finishing the work to provide the customer with a report on the use of the material, and also to return the remainder or, with the consent of the customer, to reduce the price of the work taking into account the value of the unused material left with the contractor.

2.If the result of the work was not achieved or the achieved result had defects that make it unsuitable for the use envisioned in the work contract, or, in the absence in the contract of such a term, are not suitable for ordinary use, for reasons caused by defects in the material supplied by the customer, the contractor shall have the right to demand payment for the work done by it.

3.The contractor may exercise the right indicated in Paragraph 2 of the present Article in the case it proves that the defects in the material could not have been discovered on the proper acceptance of this material by the contractor.

#### **Article 712. Liability of the Contractor for Failure to Preserve Property Provided by the Customer**

The contractor shall bear liability for failure to keep safe the material provided by the customer, equipment, property transferred for reworking (or processing), that is in the possession of the contractor in connection with performance of the work contract.

#### **Article 713.Rights of the Customer During Doing the Work by the Contractor**

1.The customer shall have the right at any time to check the progress and quality of work being done by the contractor without interfering in its activity.

2.If the contractor does not start performance of the work contract on time or is doing the work so slowly that finishing it on time has become clearly impossible, the customer shall have the right to cancel the performance of the contract and to demand compensation for losses.

3.If at the time of doing the work it becomes clear that it will not be done in a proper manner, the customer shall have the right to designate a reasonable period of time to the contractor for the elimination of the defects and, in case of failure of the contractor to perform this demand within the designated time period, to cancel the work contract or to entrust the correction of the work to another person at the contractor's expense and also to demand compensation for losses.

#### **Article 714. Circumstances About Which the Contractor Has the duty to Warn the Customer**

1.The contractor has the duty to warn the customer immediately and also to suspend work until receipt from it of instructions in case of discovery:

1) of the unsuitability or improper quality of material, equipment, or plan documentation provided by the customer or of property transferred for reworking (or processing);

2) of possible consequences unfavorable for the customer of performing its instructions about the method for doing the work;

3) of other circumstances not depending upon the contractor which threaten the suitability or soundness of the results of the work done or make it impossible to complete it on time.

2.A contractor who has not warned the customer about the circumstances indicated in Paragraph 1 of the present Article or who has continued work without awaiting the expiration of the time period indicated in the contract or, in its absence, a reasonable period of time for an answer to its warning or despite the timely receipt of an instruction from the customer to stop work, does not have the right upon the presentation to it or by it to the customer of the respective demands to rely upon these circumstances.

3.If the customer, despite a timely and well-grounded warning by the contractor about the circumstances indicated in Paragraph 1 of the present Article, does not replace, within a reasonable period of time, the unsuitable or improper quality material, equipment, plan documentation or property transferred for reworking (or processing), does not change instructions on the method of doing the work, or does not take other necessary measures for the elimination of circumstances threatening its suitability, the contractor shall have the right to refuse to perform the work contract and to demand compensation for the losses caused by its termination.

#### **Article 715. Refusal by the Customer to Perform the Work Contract**

Unless otherwise provided by the work contract, the customer may at any time until the submission to it of the result of the work refuse to perform the contract, paying the contractor a part of the established price proportional to the part of the work done until the receipt of notice of the refusal by the customer to perform the contract. The customer also shall be obligated to compensate the contractor for the losses caused by the termination of the work contract within the limits of the difference between the price determined for the whole work and the part of the price paid for the work done.

#### **Article 716. Support by the Customer**

1. The customer shall be obligated in the cases, in the scope, and by the procedure provided by the work contract to render support to the contractor in doing the work.

In case of nonperformance by the customer of this duty, the contractor shall have the right to demand compensation for the losses caused, including supplementary costs caused by work stoppage, or an extension of the time period for doing the work or increasing the price for the work indicated in the contract.

2. In cases when doing the work under the work contract has become impossible as the result of the actions or omissions of the customer, the contractor shall retain the right for payment to it of the price indicated in the contract taking into account the part of the work done.

#### *Article 717. Nonperformance by the Customer of Reciprocal Duties Under the Work Contract*

1. The contractor shall have the right not to start work and to suspend work that has been started in cases when a breach by the customer of its duties under the work contract, in particular non-provision of material, equipment, plan documentation, or property subject to reworking (or processing) hinders the performance of the contract by the contractor and also in case of circumstances clearly evidencing that the performance of these duties will not be done in the established time (Article 367).

2. Unless otherwise provided by the work contract, the contractor, in the presence of the circumstances indicated in Paragraph 1 of the present Article, shall have the right to refuse to perform the contract and to demand compensation for losses.

#### **Article 718. Acceptance by the Customer of Work Done by the Contractor**

1. The customer is obligated, within the time periods and by the procedure provided by the work contract, with the participation of the contractor, to inspect and accept work done (or its result), and in case of discovering a deviation from the contract worsening the result of the work or other defects in the work to immediately inform the contractor about this.

2. A customer who has discovered defects in work during its acceptance shall have the right to refer to them in the cases when these defects or the possibility of later making of a demand for their elimination have been noted in a written statement or other document evidencing the acceptance.

3. Unless otherwise provided by the work contract, a customer who has accepted the work without checking loses the right to refer to defects of the work that could have been discovered by the usual method of its acceptance (obvious defects).

4. A customer who has discovered after acceptance of the work deviations in it from the work contract or other defects that could not have been discovered by the usual method of its acceptance (hidden defects), including those that were intentionally hidden by the contractor, shall be obligated to notify the contractor of this within a reasonable period of time after their discovery.

5. In case a dispute arises between the customer and the contractor about defects in the work done or their causes, upon demand of either of the parties an expert examination must be ordered. The expenses for the expert examination shall be borne by the contractor with the exception of cases when the expert examination has established the absence of breaches of the work contract by the contractor or the absence of a causal connection between the actions of the contractor and the defects discovered. In these cases the expenses for the expert examination shall be borne by the party who has demanded the ordering of an expert examination and, if it was ordered by agreement between the parties, by both parties equally.

6. Unless otherwise provided by the work contract, in case of avoidance by the customer of accepting the work done, the contractor shall have the right upon the passage of two months from the day when, according to the contract, the result of the work should have been transferred to the customer to sell the result of the work and to place the sum received less all the payments due to the contractor in the name of the customer in a deposit by the procedure provided by Article 366 of the present Code.

7. If the avoidance by the customer of accepting the work done has entailed a delay in the submission of the work, the risk of accidental loss of a ready (or reworked or processed) property shall be recognized as having passed to the customer at the time when the transfer of property should have taken place.

#### **Article 719. Quality of the Work**

1. The quality of the work done by the contractor must correspond to the terms of the work contract and, if the terms of the contract are absent or incomplete, to the requirements usually made for work of the respective kind. Unless otherwise provided by a statute, other legal acts, or the contract, the result of the work done must at the time

of transfer to the customer have the characteristics indicated in the contract or determined by the requirements usually made and within the limits of a reasonable period of time must be suitable for the use established by the contract and if such use is not provided by the contract, for the ordinary use of the result of work of such kind. 2.If obligatory requirements for the work done under a work contract are provided by a statute or by other legal acts, a contractor acting as an entrepreneur shall be obligated to do the work observing these obligatory requirements.

The contractor may undertake by the contract the duty to do work meeting requirements for quality higher than the obligatory requirements established for the parties.

#### **Article 720. Guaranty of Quality of the Work**

1.In the case when a guaranty time period is provided for the result of the work by a statute, other legal act, the work contract, or the customs of trade, the result of the work must during the course of the whole guaranty time period correspond to the terms of the contract on quality (Paragraph 1 of Article 719).

2.A guaranty of quality of the result of the work, unless otherwise provided by the work contract, extends to all that constitutes a result of the work.

#### **Article 721. Liability of the Contractor for Improper Quality of the Work**

1.In cases when the work done by the contractor with deviations from the work contract that worsen the result of the work or with other defects that make it unsuitable for the use provided in the contract or, in the absence in the contract of a respective term, unsuitable for ordinary use, the customer shall have the right, unless otherwise established by a statute or the contract, at its choice to demand from the contractor:

1)uncompensated elimination of the defects without cost within a reasonable period of time;

2)proportional reduction of the price established for the work;

3)compensation for its expenses for elimination of the defects when the right of the customer to eliminate them is provided in the work contract (Article 413).

2.The contractor shall have the right, instead of eliminating the defects for which it is liable, to do the work again without compensation, with compensation to the customer for the losses caused by the delay in performance. In this case the customer shall be obligated to return the result of the work previously transferred to it to the contractor if by the nature of the work such a return is possible.

3.If the deviations made in the course of the work from the terms of the work contract or other defects of the result of the work have not been eliminated in a reasonable period of time established by the customer or are substantial and cannot be eliminated, the customer shall have the right to refuse to perform the contract and to demand compensation for the losses caused.

4.Terms of the work contract on freeing the contractor from liability for defined defects do not free it from liability if it is proved that such defects arose as the result of faulty actions or inactions of the contractor.

5.A contractor who has provided material for doing the work shall be liable for their quality according to the rules on liability of a seller for goods of improper quality (Article 491).

#### **Article 722. Time Periods for Discovery of Improper Quality of the Result of Work**

1.Unless otherwise established by a statute or the work contract, the customer shall have the right to present claims connected with improper quality of the result of the work on the condition that the improper quality of the result of the work is discovered within the time periods established by the present Article.

2.In the case when no guaranty time period is established for the result of the work, claims connected with defects in the results of the work may be presented by the customer on the condition that they were discovered in a reasonable period of time, but within the limits of two years from the day of transfer of the result of the work, unless other times periods were established by a statute, contract, or the customs of trade.

3.The customer shall have the right to present claims connected with defects in the result of the work discovered in the course of the guaranty time period.

4.In the case when the guaranty time period provided by the contract is less than two years and the defects in the result of the work are discovered by the customer after the expiration of the guaranty time period but within the limits of two years from the time provided by Paragraph 5 of the present Article, the contractor bears liability if the customer proves that the defects arose before the transfer of the result of the work to the customer or by causes that arose before this time.

5.Unless otherwise provided by the work contract, the guaranty time period(Paragraph 1 of Article 720) starts to run from the day when the result of the work done was accepted or should have been accepted by the customer.

6.The rules contained in Paragraphs 2 and 4 of Article 487 of the present Code shall be applied respectively to the calculation of the guaranty time period under the work contract, unless otherwise provided by a statute, other legal acts, agreement of the parties, or follows from the peculiarities of the work contract.

#### **Article 723. Limitation for Actions for the Improper Quality of Work**

1.The time period of limitation of actions for claims made in connection with improper quality of the work done under a work contract is one year; with respect to buildings and structures, it is three years.

2.If, in accordance with the work contract, the result of the work is accepted by the customer in parts, the time period of limitations of actions starts to run from the day of acceptance of the result of the work as a whole.  
3.If a statute, other legal acts, or the work contract has established a guaranty time period and a declaration with respect to defects of the result of the work is made within the limits of the guaranty period, the running of the time period of limitation of actions indicated in Paragraph 1 of the present Article shall start from the day of the declaration about defects.

#### **Article 724. The Duty of the Contractor to Provide Information to the Customer**

The contractor has the duty to provide to the customer, together with the result of the work, information concerning the exploitation or other use of the subject of the work contract, if this is provided by the contract or the nature of the information is such that the use of the results of the work for the purposes indicated in the contract is impossible without it.

#### **Article 725. Confidentiality of Information Received by the Parties**

If a party, due to the performance of its obligation under a work contract, has received from the other party information on new solutions and technical knowledge, including that not protected by a statute and also information that can be considered as a commercial secret (Article 141), the party that has received such information does not have the right to communicate it to third persons without the consent of the other party. The procedure and conditions for the use of such information shall be determined by agreement of the parties.

#### **Article 726. Return by the Contractor of Property Transferred by the Customer**

In cases when the customer on the basis of Paragraph 2 of Article 713 or Paragraph 3 of Article 721 of the present Code rescinds a work contract, the contractor shall be obligated to return customer-provided materials, equipment, property transferred for reworking (or processing) or to transfer them to a person indicated by the customer, and if this is impossible, to compensate for the value of materials, equipment, and other property.

#### **Article 727. Consequences of Termination of the Work Contract Before the Acceptance of the Result of the Work**

In case of termination of the work contract on the bases provided by a statute or contract before acceptance by the customer of the result of the work done by the contractor (Paragraph 1 of Article 718), the customer shall have the right to demand transfer to it of the result of the unfinished work with compensation to the contractor for expenditures made.

## **§ 2. CONSUMER WORK**

#### **Article 728. The Consumer Work Contract**

1.Under the consumer work contract, a contractor conducting entrepreneurial activity undertakes the duty to perform, on order of a citizen (the customer), defined work meant to satisfy the consumer and other personal needs of the customer, and the customer undertakes the duty to accept and pay for the result of the work.  
2.The consumer work contract is a public contract (Article 442).  
3.Statutes on the protection of the rights of consumers and other legal acts adopted in accordance with them shall be applied to the relations under a consumer work contract not regulated by the present Code.

#### **Article 729. Guaranties of the Rights of the Customer**

1.The contractor does not have the right to compel the customer to include supplementary work or services in the consumer work contract. The customer shall have the right to refuse to pay for work or services not provided by the contract.  
2.The customer shall have the right at any time until the submission to it of the work to cancel the performance of the consumer work contract paying the contractor part of the established price proportionally to the part of the work done before notification of cancellation of performance of the contract and compensating the contractor for expenses made up to this time for the purpose of performing the contract if they are not included in this part of the price of the work. Terms of the contract depriving the customer of this right shall be void.

#### **Article 730. Providing the Customer With Information on Proposed Work**

1.The contractor is obligated before the concluding of a consumer work contract to provide the customer with necessary and reliable information on the proposed work, its types and peculiarities, on the price and form of payment, and also to report to the customer at its request other information related to the contract and the respective work. If by the nature of the work this has significance, the contractor must indicate the specific person who will perform it.  
2.The customer shall have the right to demand the cancellation without payment for the work done of a consumer work contract that has been concluded and also compensation for losses when, as a result of the incompleteness or inaccuracy of the information received from the contractor, a contract was concluded for doing the work not having the characteristics that the customer had in mind.

#### **Article 731. Doing the Work from Material of the Contractor**

1.If the work under the consumer work contract is performed from the material of the contractor, the material shall be paid for by the customer upon concluding the contract in full or in the part indicated in the contract, with final settlement being made upon receipt by the customer of the work done by the contractor.

In accordance with the contract, material may be provided by the contractor on credit including with the condition of payment by the customer for the material in installments.

2.A change, after the concluding of a consumer work contract, in the price of material provided by the contractor shall not entail a recalculation, unless otherwise provided by the contract.

#### **Article 732. Doing the Work from Material of the Customer**

If the work under a consumer work contract is performed from material of the customer, the exact designation, description, and price of the material defined by agreement of the parties must be indicated in the receipt or other document issued by the contractor to the customer upon the concluding of the contract.

#### **Article 733. Price of and Payment for the Work**

The price of work in a consumer work contract shall be determined by agreement of the parties. The work shall be paid for by the customer after its final submission by the contractor. The work may be paid for by the customer upon the concluding of the contract in full or by the giving of an advance.

#### **Article 734. Warning the Customer on the Conditions of Use of the Work Done**

Upon submission of the work to the customer, the contractor is required to notify it of the requirements that must be observed for the effective and safe use of the result of the work and also on the possible consequences for the customer and other persons of failure to observe these requirements.

#### **Article 735. Consequences of Discovering Defects in Work Done**

1.In case of discovery of defects at the time of acceptance of the result of the work or during its use, the customer may, within the course of the general time periods provided by Article 723 of the present Code, or, if there are guaranty time periods, in the course of these time periods at its choice exercise one of the rights provided in Article 721 of the present Code or demand the uncompensated repeat doing the work or compensation for the expenses borne by it for the correction of the defects with its own assets or by third persons.

2.A claim for uncompensated elimination of such defects in the result of the work done under the consumer work contract that could present danger for the life and health of the customer himself or of other persons, may be presented by the customer or his legal successor in the course of ten years from the time of acceptance of the result of the work, unless, by the procedure established by a statute longer periods (or periods of service) have been provided. Such a claim may be presented regardless of when these defects were discovered, including in case of their discovery after the expiration of the guaranty period.

3.In case of nonperformance by the contractor of a claim indicated in Paragraph 2 of the present Article, the customer shall have the right during the same time period to demand either the return of part of the price paid for the work or compensation for the expenses borne in the elimination of defects by the customer with its own efforts or with the assistance of third persons.

#### **Article 736. Consequences of Failure of the Customer to Appear to Receive the Result of the Work**

In case of failure by the customer to appear to receive the result of the work done or other avoidance by the customer of accepting it, the contractor shall have the right, after warning the customer in writing, upon the expiration of two months from the day of such warning to sell the result of work for a reasonable price and to place the sum received, less all payments due to the contractor, in deposit by the procedure provided by Article 366 of the present Code.

#### **Article 737. Rights of the Customer in Case of Improper Doing or Non-doing of Work under the Consumer Work Contract**

In case of improper doing or non-doing of work under a consumer work contract, the customer may exercise the rights provided to a buyer in accordance with Articles 518-520 of the present Code.

### **§ 3. CONSTRUCTION WORK**

#### **Article 738. The Contract for Construction Work**

1.Under the contract for construction work, the contractor undertakes the duty within the time period established by the contract to construct on order of the customer a defined object or to do other construction works, and the customer undertakes the duty to create the necessary conditions for the contractor for doing the work, to accept the result and to pay the agreed price.

2.The contract for construction work may be concluded for the construction of a building (including a dwelling house), or a structure or other object and also for the performance of installation, startup-debugging, or other work

inseparably connected with an object under construction. The rules on the contract for construction work shall also be applied to work for major repair of buildings and structures unless otherwise provided by the contract. In cases provided by the contract, the contractor shall undertake the duty to ensure the exploitation of the object after its acceptance by the customer during the time period indicated in the contract.

3. In the cases when the work under the contract for construction work is done to satisfy the consumer or other personal needs of a citizen (customer) the rules respectively of Section 2 of the present Chapter on the rights of the customer under a consumer work contract shall be applied to such a contract.

#### **Article 739. Allocation of Risk Between the Parties**

1. The risk of accidental loss of or accidental damage to the object of construction that is the subject of the contract for construction work shall be borne by the contractor until acceptance of the object by the customer.

2. If the object of construction was lost or was harmed before its acceptance by the customer as the result of poor quality of customer-provided material (or parts or assemblies) or equipment or the performance of erroneous orders of the customer, the contractor shall have the right to demand payment of the whole cost of the work provided by the budget on the condition that the contractor has performed the duties provided by Paragraph 1 of Article 714 of the present Code.

#### **Article 740. Insurance of the Object of Construction**

1. The contract for construction work may provide for a duty of the party upon whom lies the risk of accidental loss of or accidental harm to the object of construction, of material, equipment, and other property used in construction or liability for causing harm to other persons during the conduct of construction to insure the respective risks. The party upon whom the duty for insurance is imposed must provide the other party with proof of its concluding a contract of insurance on the conditions provided by the contract for construction work, including data on the insurer, the amount of the insured sum, and the insured risks.

2. Insurance does not free the respective party from the duty to take necessary measures to prevent the occurrence of the insured event.

#### **Article 741. Plan Documentation and Budget**

1. The contractor has the duty to conduct construction and work connected with it in accordance with plan documentation defining the scope, content of the work, and other requirements upon the work and in accordance with the budget determining the price of the work.

In the absence of other indications in the contract for construction work, it shall be assumed that the contractor has the duty to do all works indicated in the plan documentation and budget.

2. The contract for construction work must determine the composition and content of plan documentation and also must provide which party and by what time must provide the respective documentation.

3. A contractor that has discovered, in the course of construction, work not considered in the plan documentation and, in connection with this, the necessity of performing supplementary work and increasing the budget price of construction must report on this to the customer.

In case of failure to receive a reply to its report from the customer within ten days, unless the contract for construction work provides another time period for this, the contractor has the duty to suspend the respective work with allocation of the losses caused by the stoppage to the account of the customer. The customer shall be freed from compensation for these losses if it proves the absence of necessity for the performance of supplementary work.

4. A contractor that has not performed the obligations established by Paragraph 3 of the present Article shall be deprived of the right to demand from the customer payment for the supplementary work done by it and compensation for the losses caused by this unless it proves the necessity of immediate actions in the interests of the customer in particular in connection with the fact that the suspension of work could have led to the loss of or damage to the object of construction.

5. With the consent of the customer to the conduct of and payment for supplementary work, the contractor shall have the right to refuse to perform them only in the case when they are not in the sphere of professional activity of the contractor or cannot be fulfilled by the contractor due to causes not depending upon it.

#### **Article 742. The Making of Changes in the Plan Documentation**

1. The customer shall have the right to make changes in plan documentation on the condition that the supplementary work caused by this in value does not exceed ten percent of the overall value of construction indicated in the budget and does not change the nature of the work provided in the contract for construction work.

2. The making of changes in plan documentation in larger scope than indicated in Paragraph 1 of the present Article shall be done on the basis of a supplementary budget agreed upon by the parties.

3. The contractor shall have the right to demand, in accordance with Article 466 of the present Code, the reconsideration of the budget if, due to circumstances beyond its control, the value of the work has exceeded the budget by not less than ten percent.

4. The contractor shall have the right to demand compensation for reasonable expenses borne by it in connection with the finding and elimination of defects in the plan documentation.

#### **Article 743. Provision of the Construction Project With Materials and Equipment**

- 1.The duty to provide the construction project with materials including structures and equipment shall be borne by the contractor unless the contract for construction work provides that the provision for the construction project as a whole or for a defined part is to be provided by the customer.
- 2.A party whose duty includes provision of the construction project shall bear liability for the impossibility of the use of materials or equipment supplied by it without worsening the quality of work done, unless it proves that the impossibility of use arose due to circumstances for which the other party is liable.
- 3.In case of the impossibility of the use of materials or equipment provided by the customer without worsening the quality of work done and the refusal of the customer to replace them, the contractor shall have the right to cancel the contract for construction work and to demand from the customer payment of the price of the contract proportional to the part of the work done.

#### **Article 744. Payment for Work**

- 1.Payment for work done by the contractor shall be made by the customer in the amount provided by the budget within the times and by the procedure that are established by the contract for construction work. In the absence of the respective indications in the contract, payment for the work shall be made in accordance with Article 709 of the present Code.
- 2.The contract for construction work may provide for payment for work at one time in full after the acceptance of the object by the customer.

#### **Article 745. Supplementary Duties of the Customer Under the Contract for Construction Work**

- 1.The customer shall be obligated timely to provide a land parcel for construction unless otherwise provided by the contract. The size and condition of the land parcel provided must correspond to the conditions contained in the contract for construction work and, in the absence of such terms, must ensure a timely start of work, their normal conduct and completion on time.
- 2.The customer shall be obligated in the cases and by the procedure provided by the contract for construction work to transfer to the contractor for use the buildings and structures necessary for conduct of the work, to ensure the transport of freight to its location, the temporary bringing in of networks of energy supply and water, and also to render other services.
- 3.Payment for the services provided by the customer indicated in Paragraph 2 of the present Article shall be made in the cases and on the terms stated by the contract for construction work.

#### **Article 746. Supervision by the Customer of Doing the Work Under the Contract for Construction Work**

- 1.The customer shall have the right to exercise supervision of the progress and quality of the work done, the observance of time limits for its doing (or the schedule), the quality of the materials provided by the contractor, the correctness of the use by the contractor of the materials of the customer, and also the performance of the requirements of the plan documentation, without interfering thereby in the commercial and operational activity of the contractor.
- 2.A customer who, in conducting supervision of doing the work, has discovered deviations from the terms of the contract for construction work that may worsen the quality of the work or other defects in it shall be obligated to immediately inform in writing thereof to the contractor. A customer who has not so informed shall lose the right in the future to complain of the defects found by it.
- 3.The contractor shall be obligated to fulfill the instructions received in the course of construction from the customer if such instructions do not contradict the terms of the contract for construction work.
- 4.A contractor who has improperly done the work shall not have the right to complain of the fact that the customer failed to exercise supervision of its doing with the exception of cases when the duty to conduct such supervision was imposed on the customer by a statute or contract.

#### **Article 747. Participation of an Engineer (or of an Engineering Organization) in the Exercise of the Rights and in the Fulfillment of the Duties of the Customer**

A customer, for the purpose of exercise of supervision of construction and for making decisions in its name in relations with the contractor, may conclude independently, without the consent of the contractor, a contract on the rendering to the customer of services of such a type with an appropriate engineer (or engineering organization). In this case, the functions of such an engineer (or engineering organization) connected with the consequences of its actions for the contractor shall be defined in the contract for construction work.

#### **Article 748. Cooperation of the Parties in the Contract for Construction Work**

- 1.If, in the doing of construction and work connected with it, obstacles to the proper performance of the contract for construction work are discovered, each of the parties shall be obligated to take all reasonable measures depending on it for the elimination of such obstacles. A party that has not performed this duty shall lose the right to compensation for the losses caused by the fact that the respective obstacles were not eliminated.



2. Expenses of one of the parties connected with the performance of the duties indicated in Paragraph 1 of the present Article shall be subject to compensation by the other party in the cases when this is provided by the contract for construction work.

#### **Article 749. Duties of the Contractor for the Protection of the Environment and for Ensuring the Safety of Construction Work**

1. The contractor shall be obligated in the conduct of construction and work connected with it to observe requirements of a statute and other legal acts on the protection of the environment and on the safety of construction work.

The contractor shall be liable for violation of these requirements.

2. The contractor shall not have the right to use, in the course of conduct of work, materials and equipment provided by the customer nor to fulfill its instructions, if this can lead to violation of requirements obligatory for the parties for protection of the environment and safety of construction work.

#### **Article 750. Consequences of the Cessation and Mothballing of Construction**

If, due to circumstances not dependent on the parties, the work under a contract for construction work is stopped and the object of construction has been mothballed, the customer shall be obligated to compensate the contractor in full for the expenses caused by the necessity of stopping the work and the mothballing of construction.

#### **Article 751. Submission and Acceptance of Work**

1. A customer who has received a notice from the contractor of the readiness of the result of the work done under the contract for construction work for submission, or, if this is provided by the contract, on the performance of a stage of construction, must immediately start its acceptance.

2. The customer shall organize and conduct the acceptance of the result of the work at its expense unless otherwise provided by the contract for construction work.

In cases provided by a statute or other legal acts, representatives of state bodies and/or bodies of local self-government must also participate in the acceptance of the result of the work.

3. A customer who has preliminarily accepted the result of an individual stage of work shall bear the risk of the consequences of the loss or damage of the result of the work if it has occurred without the fault of the contractor.

4. The submission of the result of the work by the contractor and the acceptance of it by the customer shall be formalized by a statement signed by both parties. If one of the parties refuses to sign the statement, a notation to this effect shall be made on it and the statement shall be signed by the other party.

A unilateral statement on the submission or acceptance of the result of work may be recognized by a court as invalid only in the case that the motive of refusal to sign the statement is recognized by the court as justified.

5. In cases when this is provided by a statute or the contract for construction work or follows from the nature of the work done under the contract, preliminary testing must precede the acceptance of the result of the work. In this case acceptance may be made only upon a positive result of preliminary testing.

6. The customer shall have the right to refuse to accept the result of the work in the case of discovery of defects that exclude the possibility of its use for the purpose indicated in the contract for construction work and that cannot be eliminated by the contractor or the customer.

#### **Article 752. Liability of the Contractor for the Quality of the Work**

1. The contractor shall bear liability to the customer for deviations made by it from the requirements provided in the plan documentation and in construction norms and rules obligatory for the parties and also for failure to achieve the indicators designated in the plan documentation for the object of construction.

In case of reconstruction (or renewal, rebuilding, restoration, etc.) of a building or structure, the contractor shall bear liability for a reduction or loss of strength, stability, or reliability of the building, structure, or part of it.

2. The contractor shall not bear liability for minor deviations from the plan documentation made by it without the consent of the customer, if it proves that they did not influence the quality of the object of construction.

#### **Article 753. Guaranties of Quality in the Contract for Construction Work**

1. The contractor, unless otherwise provided by the contract for construction work, shall guaranty the achievement by the object of construction of the indicators designated in the plan documentation and the possibility of exploitation of the object in accordance with the contract for construction work for the length of the guaranty time period. A guaranty time period established by a statute may be lengthened by agreement of the parties.

2. The contractor shall bear liability for defects (or flaws) discovered within the limits of the guaranty time period unless it proves that they occurred as the result of normal wear of the object or of parts of it, its incorrect exploitation, the incorrectness of instructions for its exploitation developed by the customer itself or third persons involved by it, or improper repair of the object done by the customer itself or by third persons involved by it.

3. The running of the guaranty time period shall be interrupted for the whole time period during the course of which the object cannot be exploited as the result of defects for which the contractor is liable.

4. In case of discovery during the course of the guaranty time period of the defects indicated in Paragraph 1 of Article 752 of the present Code, the customer must report them to the contractor within a reasonable period of time after their discovery.

#### **Article 754. Time Limits for the Discovery of Improper Quality of Construction Work**

In case of the making of demands connected with improper quality of the result of the work, the rules provided by Paragraphs 1-5 of Article 722 of the present Code shall be applied.

In such a case the maximum time period for the discovery of defects in accordance with Paragraphs 2 and 4 of Article 722 of the present Code shall be five years.

#### **Article 755. Elimination of Defects at the Expense of the Customer**

1. The contract for construction work may provide for a duty of the contractor to eliminate, on demand of the customer and at its expense, defects for which the contractor is not liable.

2. The contractor shall have the right to refuse to perform the duty indicated in Paragraph 1 of the present Article in cases when the elimination of defects is not directly connected with the subject of the contract or cannot be conducted by the contractor for reasons beyond its control.

### **§ 4. WORK FOR THE PERFORMANCE OF DESIGN AND EXPLORATORY WORK**

#### **Article 756. The Work Contract for the Performance of Design and Exploratory Work**

Under the work contract for the performance of design and exploratory work, the contractor (or designer or explorer) is obligated, at the order of the customer, to develop plan documentation and/or perform exploratory work, and the customer has the duty to accept and pay for its result.

#### **Article 757. Initial Data for the Performance of Design and Exploratory Work**

1. Under the work contract for the performance of design and exploratory work, the customer is obligated to transfer to the contractor a task for design and also other initial data necessary for the compilation of plan documentation. The task for the performance of design work may, on the delegation of the customer, be prepared by the contractor. In this case the task becomes obligatory for the parties from the time of its approval by the customer.

2. The contractor has the duty to observe the requirements contained in the task and other initial data for the performance of design and exploratory work.

#### **Article 758. Duties of the Customer**

Unless otherwise provided by the work contract for the performance of design and exploratory work, the customer is obligated:

- 1) to pay the contractor the established price in full after the completion of all work or to pay it in parts after completion of individual stages of work;
- 2) to use the plan documentation received from the contractor only for the purposes provided by the contract, not to transfer the plan documentation to third persons and not to disclose the data contained in it without the consent of the contractor;
- 3) to provide support to the contractor in the scope and on the conditions provided in the contract;
- 4) to participate together with the contractor in the coordination of the prepared plan documentation with the respective state bodies and/or bodies of local self-government;
- 5) to compensate the contractor for supplemental expenses caused by change of the initial data for the performance of design and exploratory work as the result of circumstances not dependent upon the contractor;
- 6) to involve the contractor in participation in a case on a claim brought against the customer by a third person in connection with defects in the plan documentation compiled or in the exploratory work performed.

#### **Article 759. Duties of the Contractor**

1. Under the work contract for the performance of design and exploratory work, the contractor is obligated:

- 1) to perform the work in accordance with the task and other initial data for design and with the contract;
- 2) to obtain agreement on the completed plan documentation with the customer and, where necessary, together with the customer, with the competent state bodies and/or bodies of local self-government;
- 3) to transfer to the customer the completed plan documentation and the results of exploratory work;
- 4) not to transfer the plan documentation to third persons without the consent of the customer.

2. The contractor under the work contract for the performance of design and exploratory work guaranties to the customer that third persons do not have the right to prevent the performance of the work or limit performance of the work on the basis of the plan documentation prepared by the contractor.

#### **Article 760. Liability of the Contractor for Improper Performance of Design and Exploratory Work**

1. A contractor under a work contract for the performance of design and exploratory work is liable for improper preparation of plan documentation and the performance of exploratory work, including defects discovered later in the course of construction and also in the process of exploitation of the object created on the basis of the plan documentation and the data of the exploratory work.

2. In case of discovery of defects in the plan documentation or in the exploratory work, the contractor, on demand of the customer, has the duty to remake, without compensation, the plan documentation and respectively to make the necessary supplementary exploratory work and also to compensate the customer for the losses caused, unless a statute or the work contract for the performance of design and exploratory work has established otherwise.

### **§ 5. CONTRACT WORK FOR STATE NEEDS**

#### **Article 761. The State Contract for the Performance of Contract Work for State Needs**

1. Contract construction work (Article 738) and design and exploratory work (Article 756) designated for the satisfaction of the needs of the Republic of Armenia and financed at the expense of the state budget shall be conducted on the basis of the state contract for the performance of contract work for state needs.

2. Under the state contract for the performance of contract work for state needs (hereinafter—the state contract), the contractor undertakes the duty to perform construction, design, and other work and to transfer it to the state customer; the state customer undertakes the duty to accept the work done and to pay for it or to ensure payment for it.

#### **Article 762. The Parties in a State Contract**

Under the state contract, the state customer is the empowered state body and the contractor is a legal person or a citizen.

#### **Article 763. Bases and Procedure for the Concluding of the State Contract**

The bases and procedure for the concluding of the state contract are determined in accordance with the provisions of Articles 542 and 543 of the present Code.

#### **Article 764. Content of the State Contract**

1. The terms of the state contract shall be determined in accordance with the published conditions of the competition and the proposal presented at the competition by the contractor declared a winner in the competition.

2. The state contract must contain conditions on the scope and the value of the work to be done, the time periods for beginning and ending it, the amount and procedure for financing of and payment for work, the means of securing performance of the obligations of the parties.

#### **Article 765. Changing the State Contract**

1. In case of reduction by the established procedure of the assets of the state budget allocated for financing the construction work, the parties must agree upon new time periods and if necessary also other terms of doing the work. The contractor shall have the right to demand from the state customer compensation for the losses caused by the change of time periods for doing the work.

2. Unless otherwise provided by a statute, changes in the state contract not connected with the circumstances indicated in Paragraph 1 of the present Article shall be made by agreement of the parties.

#### **Article 766. Legal Regulation of the State Contract**

The statute on contract work for state needs shall be applied to relations under state contracts for the performance of contract work for state needs, to the extent not regulated by the present Code.

## **CHAPTER 38. PERFORMANCE OF SCIENTIFIC RESEARCH, EXPERIMENTAL DESIGN, AND TECHNOLOGICAL WORK**

#### **Article 767. Contracts for the Performance of Scientific Research, Experimental Design, and Technological Work**

1. Under a contract for the performance of scientific research work, the performer undertakes the duty to conduct scientific research based on a task of the customer and under a contract for the performance of experimental design and technological work—to develop a model of a new manufacture, design documentation for it, or a new technology, and the customer undertakes the duty to accept the work and pay for it.

2. The contract with the performer may include either the whole cycle of conduct of research, development, and preparation of models or individual stages (or elements) of it.

3. Unless otherwise provided by a statute or contract the risk of accidental impossibility of performance of contracts for the conduct of scientific research work, experimental design, and technological work shall be borne by the customer.

4. The terms of contracts for the performance of scientific research work, and for experimental design and technological work must correspond to the rules of the present Code, statutes and other legal acts on exclusive rights (intellectual property).

5. Contracts for the performance of scientific research, experimental design, and technological work shall be concluded in written form.

#### **Article 768. Doing the Work**

1. The performer has the duty to conduct scientific research personally. It shall have the right to involve third persons in performance of the contract for the conduct of scientific research work only with the consent of the customer.

2. In case of performance of experimental design or technological work, the performer shall have the right, unless otherwise provided by the contract, to involve third persons in its performance. The rules on general contractor and subcontractor (Article 704) shall be applied to the relations of the performer with third persons.

#### **Article 769. Confidentiality of Information Constituting the Subject of the Contract**

1. Unless otherwise provided by the contracts for the performance of scientific research work, experimental design or technological work, the parties shall be obligated to ensure confidentiality of information concerning the subject of the contract, the course of its performance and the results attained. The scope of the information recognized as confidential shall be determined in the contract.

2. Each of the parties has the duty to publish information recognized as confidential that was acquired in doing the work only with the consent of the other party.

#### **Article 770. Rights of the Parties to the Results of the Work**

1. The parties to contracts for the performance of scientific research work, experimental design, and technological work shall have the right to use the results of the work including those capable of legal protection within the limits and on the conditions provided by the contract.

2. Unless otherwise provided by the contract, the customer shall have the right to use the results of the work transferred to it by the performer, including those capable of legal protection, and the performer shall have the right to use for its own needs the results of the work acquired by it.

#### **Article 771. Duties of the Customer**

1. The customer in contracts for the performance of scientific research work, experimental design and technological work is obligated:

- 1) to transfer to the performer information necessary for doing the work;
- 2) to accept the result of the work done and pay for it.

2. The contract may also provide for a duty of the customer to give the performer a technical task and to agree with the performer upon a program (or economic and technical parameters) or a theme of the work.

#### **Article 772. Duties of the Performer**

The performer in contracts for the performance of scientific research work, experimental design and technological work is obligated:

- 1) to do the work in accordance with the technical task agreed with the customer and to transfer to the customer the results of the work at the time provided by the contract;
- 2) to coordinate with the customer on the necessity of use of the protected results of intellectual activity belonging to third persons and the acquiring of the rights for their use;
- 3) by its own efforts and at its own expense to eliminate defects in the work done that arose by its fault and that might entail deviations from the technical and economic parameters provided in the technical task or in the contract;
- 4) immediately to inform the customer of discovered impossibility of achieving the expected results or of the inexpediency of continuing the work;
- 5) to guarantee to the customer the transfer of the results acquired under the contract not violating the exclusive rights of other persons.

#### **Article 773. Consequences of the Impossibility of Achieving Results of Scientific Research Work**

If, in the course of scientific research work, it is discovered that it is impossible to achieve the result as the consequence of circumstances not depending upon the performer, the customer shall be obligated to pay the cost of the work done until the discovery of the impossibility of achieving the results provided by the contract for the performance of scientific research work but not more than the corresponding part of the price of the work indicated in the contract.

**Article 774. Consequences of Impossibility of Continuing Experimental Design and Technological Work**

If, in the course of performance of experimental design and technological work it is discovered that, not due to the fault of the performer, it is impossible or inexpedient to continue the work, the customer shall be obligated to pay the expenditures borne by the performer.

**Article 775. Liability of the Performer for Breach of the Contract**

1. The performer shall bear liability to the customer for breach of contracts for the performance of scientific research work, experimental design, and technological work, unless it proves that such a breach occurred not due to the fault of the performer (Paragraph 1 of Article 417).

2. The performer shall be obligated to compensate for the losses caused by it to the customer within the limits of the cost of the work in which defects were found, unless it is provided by the contract that they are subject to compensation within the limits of the overall cost of the work. Lost profit is subject to compensation in cases provided by the contract.

**Article 776. Legal Regulation of Contracts for the Performance of Scientific Research Work, Experimental Design, and Technological Work**

The rules of Articles 706, 707, and 736 of the present Code shall be applied respectively to the time periods for performance and the price of work and also to the consequences of failure of the customer to appear to receive the results of the work.

The rules of Articles 761-766 of the present Code shall be applied to state contracts for the performance of scientific research work, experimental design, and technological work for state needs.

**SUBDIVISION 5. CONTRACTS OF PROVIDING SERVICES**

**CHAPTER 39. COMPENSATED PROVIDING OF SERVICES**

**Article 777. The Contract of Compensated Providing of Services**

1. Under the contract of compensated providing of services, the performer undertakes the duty at the order of the customer to provide services (or to take specific actions or to conduct specific activity), while the customer undertakes the duty to pay for these services.

2. The contract of compensated providing of services shall be concluded in written form.

3. The rules of the present Chapter shall be applied to contracts for providing services of communications, medical, veterinary, auditing, consulting, and information services, educational services, tourist services and others.

**Article 778. Performance of the Contract of Compensated Providing of Services**

Unless otherwise provided by the contract of compensated providing of services, the performer has the duty to provide the services personally.

**Article 779. Payment for Services**

1. The customer has the duty to pay for services provided to it within the time periods and by the procedure that are indicated in the contract of compensated providing of services.

2. In case of impossibility of performance that has arisen due to the fault of the customer, the services are subject to payment in full, unless otherwise provided by a statute or the contract of compensated providing of services.

3. In the case when the impossibility of performance has arisen due to circumstances for which neither of the parties is liable, the customer shall compensate the performer for the expenses actually borne by it, unless otherwise provided by a statute or by the contract of compensated providing of services.

**Article 780. Unilateral Refusal to Perform the Contract for Compensated Providing of Services**

1. The customer shall have the right to refuse to perform the contract of compensated providing of services on the condition of payment to the performer for the expenses actually borne by it.

2. The performer shall have the right to refuse performance of obligations under the contract of compensated providing of services only on the condition of full compensation for losses to the customer.

**Article 781. Legal Regulation of the Contract of Compensated Providing of Services**

The general provisions on the work contract (Articles 700-727) and the provisions on the consumer work contract (Articles 728-737) shall be applied to the contract of compensated providing of services unless this contradicts Articles 777-780 of the present Code or the peculiarities of the subject of the contract of compensated providing of services.

## CHAPTER 40. DELEGATION

### Article 782. The Contract of Delegation

1. Under the contract of delegation, one party (the delegate) undertakes the duty to take specific legal actions in the name of and at the expense of the other party (the delegant). Under a transaction concluded by the delegate, rights and duties arise directly for the delegant.
2. The contract of delegation may be concluded with an indication of the time period during which the delegate shall have the right to act in the name of the delegant or without such an indication.
3. The contract of delegation shall be concluded in written form.

### Article 783. Compensation of the Delegate

1. The delegant undertakes the duty to pay the delegate remuneration if this is provided by a statute, other legal acts, or the contract of delegation.  
In cases when the contract of delegation is connected with the conduct by both parties or by one of them of entrepreneurial activity, the delegant undertakes the duty to pay remuneration to the delegate, unless the contract provides otherwise.
2. In case of the absence in a compensated contract of delegation of a term on the amount of remuneration or the manner of its payment, remuneration shall be paid after the performance of the delegated task in an amount determined in accordance with Paragraph 3 of Article 440 of the present Code.
3. A delegate acting as a commercial representative (Paragraph 1 of Article 320) shall have the right in accordance with Article 373 of the present Code to retain property that it has that is subject to transfer to the delegant as security for its claims under the contract of delegation.

### Article 784. Performance of the Delegated Task in Accordance With the Instructions of the Delegant

1. The delegate has the duty to perform the task given to it in accordance with the instructions of the delegant. The instructions of the delegant must be lawful, doable, and concrete.
2. The delegate shall have the right to depart from the instructions of the delegant if, under the circumstances of the case, this is necessary in the interests of the delegant and the delegate could not inquire of the delegant in advance or has not received within a reasonable period of time an answer to its inquiry. The delegate has the duty to inform the delegant of the departures that have been made as soon as informing becomes possible.
3. The delegate acting as a commercial representative (Paragraph 1 of Article 320) may be given by the delegant the right to depart in the interests of the delegant from its instructions without prior inquiry on this. In such a case the commercial representative must within a reasonable period of time inform the delegant of the departures made unless otherwise provided by the contract of delegation.

### Article 785. Obligations of the Delegate

The delegate has the duty:

- 1) personally to perform the task delegated to it, with the exception of the cases indicated in Article 787 of the present Code;
- 2) to report to the delegant on its demand all information on the course of performance of the delegated task;
- 3) to transfer to the delegant without delay everything acquired under transactions made in performance of the delegation;
- 4) upon performing the delegated task or upon termination of the contract of delegation prior to its performance to return without delay to the delegant a power of attorney whose time period of effectiveness has not expired and to present a report with an attachment of documents, if this is required by the terms of the contract or the nature of the delegated task.

### Article 786. Duties of the Delegant

1. The delegant has the duty to issue to the delegate a power of attorney (or powers of attorney) for the taking of legal actions provided by the contract of delegation with the exception of cases provided by subparagraph 2 of Paragraph 1 of Article 318 of the present Code.
2. The delegant is obligated, unless otherwise provided by the contract:
  - 1) to provide the delegate with the assets necessary for the performance of the delegated task;
  - 2) to reimburse the delegate for costs incurred.
3. The delegant is obligated without delay to accept from the delegate every property performed by it in accordance with the contract of delegation.
4. The delegant has the duty to pay the delegate remuneration if, in accordance with Article 783 of the present Code, the contract of delegation is a compensated contract.

#### **Article 787. Redelegation of the Performance of the Delegated Task**

- 1.The delegate shall have the right to delegate the performance of the delegated task to another person (or substitute) only in the cases and on the conditions provided by Article 323 of the present Code.
- 2.The delegant shall have the right to discharge a substitute selected by the delegate.
- 3.If a possible substitute for the delegate is named in the contract of delegation, the delegate shall not be liable for its selection nor for its conduct of affairs.

If the right of a delegate to transfer the performance of the delegated task to another person is not provided in the contract or if it is provided but the substitute is not named in it, the delegate shall be liable for the selection of the substitute.

#### **Article 788. Termination of the Contract of Delegation**

1.A contract of delegation shall be terminated, in addition to the general bases for termination of an obligation, as the result of:

- 1) cancellation of the delegated task by the delegant;
- 2) refusal by the delegate;
- 3) death of the delegant or delegate, declaration of either of them as lacking dispositive capacity, of limited dispositive capacity, or missing.

2.The delegant shall have the right to cancel the delegated task and the delegate to refuse it at any time. An agreement to give up this right is void.

3.A party that has canceled a contract of delegation providing for the action of the delegate as a commercial representative must notify the other party of the termination of the contract at least thirty days in advance, unless the contract provides for a longer time period.

In case of reorganization of a legal person that is a commercial representative, the delegant shall have the right to cancel the delegated task without such a preliminary notification.

#### **Article 789. Consequences of Termination of the Contract of Delegation**

1.If a contract of delegation is terminated before the delegated task is performed by the delegate in full, the delegant shall be obligated to compensate the delegate for the costs incurred by it in performance of the delegated task and when remuneration is involved for the delegate also to pay it remuneration in proportion to the work it has done. This rule shall not be applied to the performance by the delegate of a delegated task after it knows or should have known of the termination of the delegation.

2.The cancellation of the delegated task by the delegant shall not be a basis for compensation for the losses caused to the delegate by the termination of the contract of delegation with the exception of the termination of a contract providing for the action of the delegate as a commercial representative.

3.Refusal by the delegate to perform the task delegated by the delegant shall not be a basis for compensation for the losses caused to the delegant by the termination of the contract of delegation, with the exception of cases of refusal by the delegate in conditions when the delegant is deprived of the possibility of otherwise protecting its interests or of a refusal to perform a contract providing for the action of the delegate as a commercial representative.

#### **Article 790.Duties of Heirs of the Delegate and of the Liquidator of a Legal Person That is a Delegate**

In case of the death of the delegate, his heirs shall have the duty to notify the delegant of the termination of the contract of delegation and to take the measures necessary for the protection of the property of the delegant, in particular to preserve his property and documents, and then to transfer this property to the delegant.

The liquidator of a legal person that is a delegate shall bear the same duty.

Chapter 41. Commission Agency

#### **Article 791. The Contract of Commission Agency**

1.Under the contract of commission agency, one party (the commission agent) undertakes the duty on delegation from the other party (the commission principal) for compensation to make one or several transactions in its own name, but at the expense of the commission principal.

Under a transaction made by the commission agent with a third person, the commission agent shall acquire rights and become obligated although the commission principal was named in the transaction or entered into direct relations with the third person for performance of the transaction.

2.The contract of commission agency shall be concluded in written form.

3.The contract of commission agency may be concluded for a defined time period or without an indication of the time period of its effectiveness, with an indication or without an indication of the territory for its performance, with an obligation of the commission principal not to grant third persons the right to make in its interests and at its expense transactions the making of which is delegated to the commission agent or without such an obligation, with conditions or without conditions with respect to the assortment of the goods that are the subject of the commission agency.

4. A statute and other legal acts may provide for the peculiarities of individual types of the contract of commission agency.

#### **Article 792. Commission Agency Remuneration**

1. The commission principal shall be obligated to pay the commission agent remuneration and, in the case when the commission agent has undertaken a suretyship of the performance of a transaction by a third person (del credere), also supplementary remuneration in the amount and by the procedure established in the contract of commission agency.

If the amount of remuneration or the procedure for its payment is not provided by the contract and the amount of remuneration cannot be determined from the terms of the contract, remuneration shall be paid after performance of the contract of commission agency in an amount determined in accordance with Paragraph 3 of Article 440 of the present Code.

2. If a contract of commission agency was not performed for reasons depending upon the commission principal, the commission agent shall retain the right to remuneration and also to compensation for expenses borne.

#### **Article 793. Performance of the Commission Delegated Task**

The commission agent has the duty to perform the delegated task undertaken on the conditions most favorable for the commission principal in accordance with the instructions of the commission principal and in the absence in the contract of commission agency of such instructions, in accordance with the customs of trade or other usually made requirements.

In the case when the commission agent has made the transaction on conditions more favorable than those that were indicated by the commission principal, the supplementary benefit shall be divided equally between the commission principal and the commission agent unless otherwise provided by the agreement of the parties.

#### **Article 794. Liability for Nonperformance of a Transaction Concluded for a Commission Principal**

1. The commission agent shall not be liable to the commission principal for nonperformance by a third person of a transaction concluded with it at the expense of the commission principal except in cases when the commission agent did not employ the necessary care in selection of this person or undertook a guaranty of the performance of the transaction (del credere).

2. In case of nonperformance by a third person of a transaction, the commission agent shall be obligated to report this without delay to the commission principal, to gather the necessary evidence and also, on request of the commission principal, to transfer to it the rights under such a transaction observing the rules on assignment of a claim (Articles 397-404).

3. The assignment of rights to a commission principal under a transaction on the basis of Paragraph 2 of the present Article shall be allowed regardless of an agreement by the commission agent with a third person prohibiting or limiting such an assignment. This shall not free the commission agent from liability to the third person in connection with the assignment of the right in violation of an agreement forbidding it or limiting it.

#### **Article 795. Subcommission**

1. Unless otherwise provided by the contract of commission agency, the commission agent shall have the right for the purposes of performing this contract to conclude a contract of subcommission agency with another person, remaining liable to the commission principal for the actions of the subcommission agent.

Under the contract of subcommission agency, the commission agent acquires with respect to the subcommission agent the rights and duties of a commission principal.

2. Until the termination of the contract of commission agency, the commission principal shall not have the right without the consent of the commission agent to enter into direct relations with the subcommission agent, unless otherwise provided by the contract of commission agency.

#### **Article 796. Deviation from the Instructions of the Commission Principal**

1. The commission agent shall have the right to deviate from the instructions of the commission principal if by the circumstances of the case this is necessary in the interests of the commission principal and the commission agent could not inquire of the commission principal in advance or has not received an answer to its inquiry within a reasonable period of time. The commission agent shall be obligated to notify the commission principal of deviations made as soon as notification becomes possible.

A commission agent acting as an entrepreneur may be given the right by the commission principal to deviate from its instructions without preliminary inquiry. In this case the commission agent shall be obligated in a reasonable period of time to notify the commission principal on the deviations made unless otherwise provided by the contract of commission agency.

2. A commission agent who has sold property at a price less than that agreed with the commission principal shall have the duty to compensate the latter for the difference unless it proves that it did not have the possibility of selling the property at the agreed price and that sale at a lower price avoided even greater losses. In the case when the commission agent was obligated to inquire of the commission principal in advance, the commission agent



must also prove that it did not have the possibility of obtaining preliminary consent of the commission principal for deviation from its instructions.

3.If a commission agent has bought property at a price higher than that agreed with the commission principal, the commission principal, if it does not want to accept such a purchase, shall be obligated to notify the commission agent of this within a reasonable period of time after receipt from it of notice of the concluding of the transaction with a third person. Otherwise the purchase shall be recognized accepted by the commission principal.

If the commission agent has reported that the difference in price will be covered at its expense, the commission principal shall not have the right to refuse the transaction concluded for it.

#### **Article 797. Rights to Property That Is the Subject of Commission Agency**

1.Property received by the commission agent from the commission principal or acquired by the commission agent at the expense of the commission principal are owned by the latter.

2.The commission agent shall have the right, in accordance with Article 373 of the present Code, to retain property that it has and that is subject to transfer to the commission principal or to a person indicated by the commission principal as security for its claims under the contract of commission.

In case of declaration of the commission principal bankrupt this right of the commission agent shall be terminated and its claims against the commission principal, within the limits of the value of property that it retained, shall be satisfied in accordance with Article 374 of the present Code equally with claims secured by pledge.

#### **Article 798.Satisfaction of Claims of the Commission Agent from Sums Due to the Commission Principal**

The commission agent shall have the right, in accordance with Article 426 of the present Code to withhold sums due to it under the contract of commission agency from all the sums received by it on account of the commission principal.

#### **Article 799.Liability of the Commission Agent for Loss of, Shortage of, or Harm to the Property of the Commission Principal**

1.The commission agent is liable to the commission principal for loss of, shortage of, or injury to property of the commission principal that it has.

2.If, during the acceptance by the commission agent of property sent by the commission principal or received by the commission agent for the commission principal, there is injury to or a shortage in this property that may be noticed on external inspection and also in the case of the causing of damage by any person to the property of the commission principal that is in the possession of the commission agent, the commission agent shall be obligated to take measures for the protection of the rights of the commission principal, to gather the necessary evidence, and to report on every property without delay to the commission principal.

3.The commission agent who has not insured property of the commission principal that it has shall be liable for it only in the cases when the commission principal has ordered it to insure the property at the expense of the commission principal or insurance of this property by the commission agent is provided for by the contract of commission agency or the customs of trade.

#### **Article 800. Report of the Commission Agent**

Upon performance of a delegated task the commission agent shall be obligated to present a report to the commission principal and to transfer to it everything received under the contract of commission agency. The commission principal, if it has objections to the report, must communicate them to the commission agent within thirty days from the day of receipt of the report unless a different time period has been established by the contract of commission. Otherwise the report shall be considered accepted unless the contract of commission provides otherwise.

#### **Article 801.Acceptance by the Commission Principal of Performance Under the Contract of Commission Agency**

The commission principal is obligated:

- 1) to accept from the commission agent everything performed under the contract of commission agency;
- 2) to inspect property acquired for it by the commission agent and to inform the latter without delay of defects found in this property;
- 3) to free the commission agent from obligations undertaken by it to a third person in performance of the commission delegated task.

#### **Article 802.Compensation for Expenses for Performance of the Commission Delegated Task**

The commission principal shall be obligated, in addition to payment of the commission remuneration, and in appropriate cases supplementary remuneration for del credere agency to compensate the commission agent for sums spent by it in performance of the commission delegated task.

The commission agent shall not have the right to compensation for expenses for storage of property of the commission principal that it has unless established otherwise in a statute or the contract of commission agency.

### **Article 803. Cancellation of the Commission Delegated Task by the Commission Principal**

1. The commission principal shall have the right at any time to withdraw from the performance of the contract of commission agency, canceling the delegated task given to the commission agent. The commission agent shall have the right to demand compensation for losses caused by the cancellation of the delegated task.

2. In the case when the contract of commission agency was concluded without an indication of the time period of its effectiveness, the commission principal must notify the commission agent of the termination of the contract not less than thirty days in advance, unless a longer time period of notice is provided by the contract.

In this case the commission principal shall be obligated to pay the commission agent remuneration for transactions concluded by it until the termination of the contract and also to compensate the commission agent for expenses borne by it until the termination of the contract.

3. In case of cancellation of the delegated task, the commission principal shall have the duty, within the time period established by the contract of commission agency, and if such a time period is not established, without delay, to dispose of its property that is in the control of the commission agent. If the commission principal does not perform this duty, the commission agent shall have the right to deposit the property for storage at the expense of the commission principal or to sell it at the price that is the most profitable possible for the commission principal.

### **Article 804. Withdrawal by the Commission Agent from Performance of the Contract of Commission Agency**

1. The commission agent shall not have the right, unless otherwise provided by the contract of commission agency, to withdraw from performance of it, with the exception of the case when the contract has been concluded without an indication of the time period of its effectiveness. In such a case, the commission agent must notify the commission principal of the termination of the contract not later than thirty days in advance, unless a longer time period of notice is provided by the contract.

The commission agent shall be obligated to take the measures necessary for ensuring the safekeeping of the property of the commission principal.

2. The commission principal must dispose of its property that is in the control of the commission agent within fifteen days from the day of receipt of the notice of withdrawal by the commission agent from performance of the delegated task, unless the contract of commission agency has established a different term. If it does not perform this duty, the commission agent shall have the right to deposit the property for storage at the expense of the commission principal or to sell it at the price that is the most profitable possible for the commission principal.

3. Unless the contract of commission agency provides otherwise, a commission agent who has withdrawn from performance of a delegated task shall retain the right to commission remuneration for transactions concluded by it before the termination of the contract and also for compensation for the expenses borne up to this time.

### **Article 805. Termination of the Contract of Commission Agency**

The contract of commission agency shall be terminated, in addition to the general bases for termination of an obligation, as a result of:

- 1) withdrawal by the commission principal from performance of the contract;
- 2) withdrawal by the commission agent from performance of the contract in the cases provided by statute or contract;
- 3) death of the commission agent, declaration of him as lacking dispositive capacity, of limited dispositive capacity, or missing;
- 4) declaration of a commission agent bankrupt.

In case of declaration of a commission agent bankrupt, its rights and duties under transactions concluded by it for the commission principal in performance of the instructions of the latter shall pass to the commission principal.

## **CHAPTER 42. AGENCY**

### **Article 806. The Agency Contract**

1. Under the agency contract, one party (the agent) undertakes the duty, for remuneration, take, on delegation from the other party (the principal), legal or other actions in its own name but at the expense of the principal or in the name and at the expense of the principal.

Under a transaction made by the agent with a third person in its own name and at the expense of the principal, the agent acquires rights and becomes obligated even though the principal was named in the transaction or entered into direct relations with the third person for the performance of the transaction.

Under a transaction made by the agent with a third person in the name and at the expense of the principal, rights and duties arise directly for the principal.

2. The agency contract shall be concluded in written form.

3. In cases when an agency contract provides for general powers of the agent to make transactions in the name of the principal, the latter, in relations with third persons does not have the right to rely on the agent's lack of the

necessary powers unless it proves that the third person knew or should have known of the limitation of the powers of the agent.

4. The agency contract may be concluded for a defined time period or without an indication of the time period of its effectiveness.

5. A statute may provide for the peculiarities of particular types of agency contract.

#### **Article 807. Agent's Remuneration**

The principal shall be obligated to pay the agent remuneration in the amount and by the procedure established in the agency contract.

If the amount of the agent's remuneration is not provided in the agency contract and it cannot be determined proceeding from the terms of the contract, compensation shall be subject to payment in the amount determined in accordance with Paragraph 3 of Article 440 of the present Code.

In the absence in the contract of terms on the procedure for payment of agent's remuneration, the principal shall be obligated to pay remuneration within a week from the time of presentation to it by the agent of a report for the prior period, unless another procedure for payment of compensation follows from the nature of the contract or the customs of trade.

#### **Article 808. Limitations by the Agency Contract of the Rights of the Principal and the Agent**

1. An agency contract may provide for an obligation of the principal not to conclude analogous agency contracts with other agents acting on a territory defined in the contract or to refrain from conducting, on this territory, the independent activity analogous to the activity that is the subject of the agency contract.

2. The agency contract may provide for an obligation of the agent not to conclude with other principals analogous agency contracts that must be performed on a territory coextensive in whole or in part with the territory indicated in the contract.

3. Terms of the agency contract, by virtue of which the agent shall have the right to sell goods, to do work, or render services exclusively for a defined category of buyers (or customers) or exclusively for buyers (or customers) having a place of location or a place of residence in a territory defined in the contract are void.

#### **Article 809. Reports of the Agent**

1. In the course of performance of the agency contract, the agent shall be obligated to provide the principal with reports by the procedure and within the time periods that are provided by the contract. In the absence of corresponding terms in the contract, the reports shall be presented by the agent in the course of performing by it of the contract or at the end of the effectiveness of the contract.

2. Unless the agency contract provides otherwise, the necessary proofs of expenses made by the agent at the expense of the principal should be attached to the report of the agent.

3. A principal having objections to an agent's report must notify the agent of them within thirty days from the day of receipt of the report, unless the agency agreement has established another time period. Otherwise the report shall be considered accepted by the principal unless the agency contract provides otherwise.

#### **Article 810. Subagency Contract**

1. Unless otherwise provided by the agency contract, the agent shall have the right for the purpose of performance of the contract to conclude a subagency contract with another person, while remaining liable to the principal for the actions of the subagent. The agency contract may provide for a duty of the agent to conclude a subagency contract with or without an indication of the concrete terms of such a contract.

2. A subagent does not have the right to conclude transactions with third persons in the name of the person who is the principal under the agency contract with the exception of the cases when, in accordance with Paragraph 1 of Article 323 of the present Code, the subagent may act on the basis of a redelegation. The procedure for and consequences of such a redelegation are determined by the rules provided by Article 787 of the present Code.

#### **Article 811. Termination of the Agency Contract**

The agency contract shall be terminated, in addition to the general bases for termination of an obligation, as the result of:

1) withdrawal of one of the parties from performance of a contract concluded without determination of the time of the end of its effectiveness;

2) death of the agent, declaration of him as lacking dispositive capacity, of limited dispositive capacity, or missing;

3) declaration of an agent bankrupt.

#### **Article 812. Application to Agency Relations of the Rules on Contracts of Delegation and of Commission Agency**

The rules provided by Chapter 40 or Chapter 41 of the present Code shall be applied respectively to the relations arising from the agency contract depending upon whether the agent acts under the terms of the contract in the name of the principal or in its own name, unless these rules contradict the provisions of the present Chapter or the nature of the agency contract.

## CHAPTER 43. STORAGE

### § 1. GENERAL PROVISIONS ON STORAGE

#### **Article 813. The Contract of Storage**

1. Under the contract of storage, one party (the bailee) undertakes the duty to store property transferred to it by the other party (the bailor), and to return this property in safely kept condition.
2. In a contract of storage in which the bailee is a commercial organization or a noncommercial organization conducting storage as one of the purposes of its professional activity (a professional bailee), there may be provided an obligation of the bailee to accept for storage property from the bailor within a time period provided by the contract.

#### **Article 814. Form of the Contract of Storage**

1. The contract of storage must be concluded in written form.
2. The simple written form of a contract of storage shall be considered observed if the acceptance of property for storage is evidenced by the bailee by the issuance to the bailor:
  - 1) of a storage receipt, receipt, certificate, or other document signed by the bailor;
  - 2) of a numbered token (or check) or other symbol evidencing the receipt of property for storage if such a form of confirmation of the receipt of property for storage is provided by a statute or other legal act or is usual for such a type of storage.

#### **Article 815. Performance of the Duty to Accept Property for Storage**

1. A bailee who has undertaken by the contract of storage the duty to take property for storage (Paragraph 2 of Article 813) does not have the right to demand the transfer of this property for storage. However, a bailor who has not transferred property for storage within the time period provided by the contract shall bear liability to the bailee for the losses caused in connection with the failure of the storage to occur unless otherwise provided by a statute or the contract of storage. The bailor shall be freed of this liability if it notifies the bailee of its refusal of the bailee's services in a reasonable period of time.
2. Unless otherwise provided by the contract of storage, the bailee shall be freed from the duty to accept property for storage in the case when property is not given to it within the time period provided by the contract.

#### **Article 816. Time Period of Storage**

1. The bailee undertakes the duty to store property during the time period provided by the contract of storage.
2. If the time period of storage is not provided by the contract and cannot be determined on the basis of its provisions, the bailee has the duty to store the property until the demand for it by the bailor.
3. If the time period of storage is determined by the time of demand for property by the bailor, the bailee shall have the right on the expiration of the time period of storage of property usual in such circumstances to demand of the bailor that it takes back the property, providing it with a reasonable period of time for this. Failure of the bailor to perform this obligation shall entail the consequences provided by Article 826 of the present Code.

#### **Article 817. Storage of Property with Loss of Identity**

In cases directly provided by the contract of storage, property accepted for storage from one bailor may be mixed with property of the same kind and quality of other bailors (storage with loss of identity). An equal quantity or a quantity agreed upon by the parties of property of the same type and quality shall be returned to the bailor.

#### **Article 818. Duty of the Bailee to Ensure the Safekeeping of the Property**

1. The bailee has the duty to take all measures provided by the contract of storage to ensure the safekeeping of property transferred for storage. In case of absence in the contract of terms on such measures or incompleteness of these terms, the bailee also must take for the preservation of property the measures corresponding to the customs of trade and the nature of the obligation including the qualities of property transferred for storage, unless the necessity of taking these measures is excluded by the contract.
2. The bailee in any case must take for preserving property transferred to it the measures whose obligatory nature is provided by a statute, by other legal acts, or by the procedure established by them (fire safety, sanitation, security, etc.).
3. If storage is conducted without compensation, the bailee has the duty to care for the property accepted for storage not less than for its own property.

### **Article 819. Use of Property Transferred for Storage**

The bailee shall not have the right without the consent of the bailor to use property transferred for storage nor to provide the possibility for its use to third persons with the exception of the case when the use of the stored property is necessary for ensuring its safekeeping and does not contradict the contract of storage.

### **Article 820. Changing the Conditions of Storage**

1. In case of necessity of changing the conditions of storage of property provided by the contract of storage, the bailee shall be obligated to notify the bailor of this without delay and to await its answer.

If a change of the conditions of storage is necessary for elimination of the danger of loss of, shortage of, or harm to the property, the bailee shall have the right to change the method, place, and other conditions of storage without awaiting the answer of the bailor.

2. If during the time of storage a real danger of spoilage of property has arisen or property has already been subject to spoilage, or circumstances have arisen not allowing the making provision for its safekeeping and the timely taking of measures by the bailor cannot be expected, the bailee shall have the right to independently sell property or part of it at the price prevailing at the place of storage. If these circumstances arose due to causes for which the bailee is not liable, it shall have the right to compensation for its expenses for sale at the expense of the purchase price.

### **Article 821. Storage of Property with Dangerous Qualities**

1. Property that is easily inflammable, present danger of explosion, or in general is dangerous by its nature, if the bailor, in its submission for storage, did not warn the bailee of these qualities, may at any time be rendered harmless or destroyed by the bailee without compensation of losses to the bailor. The bailor shall be liable for the losses caused in connection with the storage of such property to the bailee and to third persons.

In case of transfer of property with dangerous qualities for storage to a professional bailee, the rules provided by the first subparagraph of the present Paragraph, shall be applied in the case when such property was submitted for storage under an incorrect designation and the bailee at their acceptance could not by an external inspection establish its dangerous qualities.

In case of compensated storage in the cases provided by the present Paragraph the remuneration paid for storage of property shall not be returned and, if it was not paid, the bailee may recover it in full.

2. If property indicated in the first subparagraph of Paragraph 1 of the present Article that was taken for storage with the knowledge and consent of the bailee has become, despite the observance of the conditions of its storage, dangerous for those around or for the property of the bailee or third persons and the circumstances do not allow the bailee to demand from the bailor their prompt removal or it fails to fulfill such demand, this property may be rendered harmless or destroyed by the bailee without compensation for losses to the bailor. In such a case, the bailor shall not bear liability to the bailee and third persons for the losses caused in connection with the storage of this property.

### **Article 822. Transfer of Property for Storage to a Third Person**

Unless the contract of storage provides otherwise, the bailee does not have the right without the consent of the bailor to transfer property for storage to a third person, with the exception of cases when it is compelled to this by force of circumstances in the interests of the bailor and is deprived of the possibility of acquiring its consent. The bailee shall be obligated to notify the bailor without delay of the transfer of property for storage to a third person.

Upon the transfer of property for storage to a third person, the terms of the contract between the bailor and the original bailee shall remain in force and the latter shall be liable for the actions of the third person to whom it transferred property for storage as for its own.

### **Article 823. Remuneration for Storage**

1. Remuneration for storage must be paid to the bailee at the end of the storage and, if payment for storage is provided by periods, it must be paid in respective parts at the expiration of each period.

2. In case of delay of payment of remuneration for storage for more than half of the time period for which it should have been paid, the bailee shall have the right to refuse to perform the contract and to demand from the bailor the immediate removal of property submitted for storage.

3. If storage is terminated before the expiration of the agreed time period due to circumstances for which the bailee is not liable, it shall have the right to a proportional part of the remuneration, and in the case provided by Paragraph 1 of Article 821 of the present Code, to the whole sum of remuneration.

If storage is terminated early due to circumstances for which the bailee is liable, it shall not have the right to demand remuneration for storage and must return the sums received toward this remuneration to the bailor.

4. If, at the expiration of the time period of storage, property that is in storage is not taken back by the bailor, the bailor shall be obligated to pay the bailee proportional remuneration for further storage of the property. This rule shall be applied also in the case when the bailor has the duty to take back property before the expiration of the time period for storage.

5.The rules of the present Article shall be applied unless the contract of storage provides otherwise.

#### **Article 824. Compensation of Expenses for Storage**

1.Unless otherwise provided by the contract of storage, the expenses of the bailee for storage of property are included in the remuneration for storage.

2.In case of storage without compensation, the bailor shall be obligated to reimburse the bailee for necessary expenses made by it for storage of property unless a statute or the contract of storage provides otherwise.

#### **Article 825. Extraordinary Expenses for Storage**

1.Expenses for storage of property that exceed the usual expenses of such type and that the parties could not foresee at the concluding of the contract of storage (extraordinary expenses) shall be reimbursed to the bailee if the bailor gave consent to these expenses or approved them later and also in other cases provided by a statute, other legal acts, or the contract.

2.In case of necessity to make extraordinary expenses, the bailee shall be obligated to ask the bailor for consent for these expenses. If the bailor does not communicate its non-consent in the time period indicated by the bailee or in the course of time reasonably necessary for an answer, it shall be considered that it consents to the extraordinary expenses.

In the case when the bailee has made extraordinary expenses for storage without having received preliminary consent for these expenses from the bailor, although by the circumstances of the case this was possible and the bailor has not later approved them, the bailee may demand compensation for extraordinary expenses only within the limits of the damage that might have been caused to the property if these expenses had not been made.

3.Unless otherwise provided by the contract of storage, extraordinary expenses shall be compensated in addition to the remuneration for storage.

#### **Article 826. The Duty of the Bailor to Take Back the Property**

1.Upon expiration of the agreed time period of storage or of the time period given by the bailee for the taking back of property on the basis of Paragraph 3 of Article 816 of the present Code, the bailor shall be obligated immediately to take back property transferred for storage.

2.Upon nonperformance by the bailor of its duty to take back property transferred for storage, including in case of its avoidance of receiving the property, the bailee shall have the right, unless otherwise provided by the contract of storage, after written warning to the bailor, independently to sell property at the price prevailing in the place of storage and if the value of property by appraisal exceeds one hundred times the monthly minimum wage, to sell it at an auction by the procedure provided by the statute on public auctions.

The sum acquired from the sale of property shall be transferred to the bailor less the sum due to the bailee, including its expenses for the sale of the property.

#### **Article 827. Obligation of the Bailee to Return the Property**

1.The bailee shall be obligated to return, to the bailor or the person indicated by it as the recipient, the same property that was transferred for storage, unless the contract provides for storage with loss of identity (Article 817).

2.Property must be returned by the bailee in the same condition in which it was received for storage, taking into account its natural worsening, natural decrease, or other change as the result of its natural qualities.

3.Simultaneously with the return of the property, the bailee shall be obligated to transfer the fruits and income received during its storage unless otherwise provided by the contract of storage.

#### **Article 828. Bases of Liability of the Bailee**

1.The bailee shall be liable for loss of, shortage of, or harm to property accepted for storage on the bases provided by Article 417 of the present Code.

A professional bailee shall be liable for loss of, shortage of, or harm to property unless it proves that the loss, shortage, or harm occurred as the result of force majeure or from qualities of property about which the bailee, accepting it for storage, did not know and should not have known, or as the result of the intent or gross negligence of the bailor.

2.For loss of, shortage of, or harm to property accepted for storage after the occurrence of the duty of the bailor to take this property back (Paragraph 1 of Article 826), the bailee shall be liable only in presence of intent or gross negligence on its part.

#### **Article 829. Extent of Liability of the Bailee**

1.Losses caused to the bailor by the loss of, shortage of, or harm to property shall be compensated by the bailee in accordance with Article 409 of the present Code, unless a statute or the contract of storage provide otherwise.

2.In case of uncompensated storage, losses caused to the bailor by the loss of, shortage of, or harm to property shall be compensated:

- 1) for loss and shortage of property—in the amount of the value of the lost or short property;
- 2) for harm to property—in the amount by which its value was reduced.

3. In the case when, as the result of harm for which the bailee is liable, the quality of property has changed to such an extent that it cannot be utilized for its primary use, the bailor shall have the right to refuse it and to demand from the bailee compensation for the value of property and also for other losses, unless otherwise provided by a statute or the contract of storage.

**Article 830. Compensation for Losses Caused to the Bailee**

The bailor shall be obligated to compensate the bailee for the losses caused by the qualities of property submitted for storage if the bailee, when accepting property for storage, did not know and should not have known of these qualities.

**Article 831. Termination of Storage on Demand of the Bailor**

The bailee shall be obligated on the first demand of the bailor to return property accepted for storage, even if the time period of its storage provided by the contract still has not ended.

In this case the bailor shall be obligated to compensate the bailee for losses caused by the early termination of the obligation unless otherwise provided by the contract.

**Article 832. Application of General Provisions on Storage to Individual Types of Storage**

The general provisions on storage (Articles 813-831) shall be applied to individual types of storage unless the rules on the individual types of storage contained in Articles 834-853 of the present Code and in other statutes establish otherwise.

**Article 833. Storage by Force of a Statute**

The rules of the present Chapter shall be applied to obligations of storage arising by force of a statute unless the statute has established otherwise.

**§ 2. STORAGE AT A GOODS WAREHOUSE**

**Article 834. The Contract of Warehouse Storage**

1. Under the contract of warehouse storage, a goods warehouse (the bailee) undertakes the duty for remuneration to store goods transferred to it by a goods-possessor (the bailor), and to return these goods in a safely kept condition. A goods warehouse is an organization conducting as entrepreneurial activity the storage of goods and rendering services connected with storage.

2. The written form of the contract of warehouse storage shall be considered observed if its concluding and the acceptance of the goods at the warehouse is evidenced by a warehouse document (Article 839).

**Article 835. Storage of Goods by a Warehouse for Public Use**

1. A goods warehouse is a warehouse for public use if, from a statute, other legal acts, or permission (or license) issued to this commercial organization, it follows that it has the duty to accept goods for storage from any goods-possessor.

2. A contract of warehouse storage concluded by a goods warehouse for public use is a public contract (Article 442).

**Article 836. Checking the Goods Upon Their Receipt by a Goods Warehouse and During Their Storage**

1. Unless otherwise provided by the contract of warehouse storage, a goods warehouse, upon the receipt of the goods for storage, shall be obligated at its expense to make an inspection of the goods and to determine their quantity (number of units or pieces of goods or measure—weight or volume) and external condition.

2. The goods warehouse shall be obligated to provide the goods-possessor at the time of storage the possibility of inspecting the goods or samples of them if storage is conducted with loss of identity, to take samples and to take measures necessary for ensuring the preservation of the goods.

**Article 837. Change of the Conditions of Storage and the State of the Goods**

1. In the case when, to ensure the safekeeping of the goods, it is necessary to change the conditions of their storage, the goods warehouse shall have the right to take the necessary measures independently. However, it shall be obligated to notify the goods-possessor of the measures taken, if it has been necessary to substantially change the conditions of storage of the goods provided by the contract of warehouse storage.

2. In case of discovery during storage of damage to the goods going beyond the limits agreed in the contract of warehouse storage or the usual norms of natural spoilage, the goods warehouse shall be obligated to compile a statement about this without delay and on the same day to inform the goods-possessor.

### **Article 838. Checking the Quantity and Condition of the Goods on Their Return to the Goods-Possessor**

1. The goods-possessor and the goods warehouse have the right to demand at the return of the goods their inspection and checking their quantity. The expenses caused by this shall be borne by the one that demanded the inspection of the goods or the checking of their quantity.
2. If, upon return of the goods by the warehouse to the goods-possessor, the goods were not jointly inspected or checked by them, a statement on shortage or harm to the goods as the result of their improper storage must be made to the warehouse in writing upon receipt of the goods and, with respect to shortage or harm that could not be discovered by the usual method of acceptance of the goods, within three days after their receipt. In the absence of the statement indicated in the first subparagraph of the present Paragraph, it shall be considered, unless proven otherwise, that the goods were returned by the warehouse in accordance with the terms of the contract of warehouse storage.

### **Article 839. Warehouse Documents**

1. The goods warehouse shall issue in confirmation of the acceptance of the goods for storage one of the following warehouse documents:
  - 1) a double warehouse certificate (Article 160);
  - 2) a simple warehouse certificate (Article 161);
  - 3) a warehouse certificate.
2. Goods accepted for storage under a double or simple warehouse certificate may, during the time period of their storage, be the subject of pledge by the pledge of the respective certificate.

### **Article 840. Contents of a Double Warehouse Certificate**

1. In each part of a double warehouse certificate the following must be indicated identically:
  - 1) the designation and place of location of the goods warehouse that has accepted the goods for storage;
  - 2) the serial number of the warehouse certificate in the register of the warehouse;
  - 3) the designation of the legal person or the name of the citizen from whom the goods were accepted for storage and also the place of location (or place of residence) of the goods-possessor;
  - 4) the designation and number of the goods accepted for storage—number of units and/or pieces of goods and/or measure (weight or volume) of the goods;
  - 5) the time period for which the goods were accepted for storage, if such time period is established, or an indication that the goods were accepted for storage until demand;
  - 6) the amount of compensation for storage or the tariff on the basis of which it is calculated and the procedure for payment for storage;
  - 7) the date of issuance of the warehouse certificate.Both parts of the double warehouse certificate must have identical signatures of an authorized person and the seal of the goods warehouse.
2. A document not meeting the requirements of the present Article is not a double warehouse certificate.

### **Article 841. The Rights of the Holder of the Warehouse and the Pledge Certificates**

1. The holder of the warehouse and the pledge certificate shall have the right of disposition of the goods stored at the warehouse in full.
2. The holder of the warehouse certificate, separate from the pledge certificate, shall have the right to dispose of the goods but may not take them from the warehouse until paying off the credit issued against the pledge certificate.
3. A holder of the pledge certificate other than the holder of the warehouse certificate shall have the right of pledge to the goods in the amount of the credit given against the pledge certificate and the interest on it. In case of pledge of goods, a note of this shall be made on the warehouse certificate.

### **Article 842. Transfer of the Warehouse Certificate and the Pledge Certificate**

The warehouse certificate and the pledge certificate may be transferred together or separately by transfer endorsements.

### **Article 843. Release of the Goods Under a Double Warehouse Certificate**

1. The goods warehouse shall release the goods to the holder of the warehouse and pledge certificates (of the double warehouse certificate) not otherwise than in exchange for both these certificates together.
2. The goods shall be released by the warehouse to a holder of the warehouse certificate who does not have the pledge certificate, but who has paid the sum of the debt under it, not otherwise than in exchange for the warehouse certificate and on the condition of presentation together with it of a receipt for payment of the whole sum of the debt under the pledge certificate.
3. A goods warehouse that contrary of the requirements of the present Article has released the goods to the holder of the warehouse certificate not having the pledge certificate and not having paid the sum of the debt under it, shall bear liability to the holder of the pledge certificate for the payment of the whole sum secured by it.



4. The holder of the warehouse and the pledge certificate shall have the right to demand release of the goods in parts. In such a case, in exchange for the original certificates new certificates shall be issued to it for the goods remaining in the warehouse.

#### **Article 844. Contents of a Simple Warehouse Certificate**

1. A simple warehouse certificate must contain the information provided by numbered subparagraphs 1, 2, and 4-7 of Paragraph 1 and by the last subparagraph of Paragraph 1 of Article 840 of the present Code, and also an indication of the fact that it is issued to bearer.

2. A document not corresponding to the requirements of the present Article is not a simple warehouse certificate.

#### **Article 845. Storage of Property with the Right of Disposition of It**

If from a statute, other legal acts, or a contract it follows that a goods warehouse may dispose of the goods submitted to it for storage, the rules of the present Code on loan (Chapter 46) shall be applied to the relations of the parties, but the time and place of return of the goods shall be determined by the rules of the present Chapter.

### **§ 3. SPECIAL FORMS OF STORAGE**

#### **Article 846. Storage in a Pawnshop**

1. The contract of storage in a pawnshop of property belonging to a citizen is a public contract (Article 442).

2. The concluding of a contract of storage in a pawnshop shall be evidenced by the issuance by the pawnshop to the bailor of a named storage receipt.

3. Property submitted for storage in a pawnshop shall be subject to valuation by agreement of the parties in accordance with the market prices for property of such a type and quality at the time and place of its acceptance for storage.

4. The pawnshop has the duty to insure the property accepted for storage for the benefit of the bailor at the pawnshop's expense for the full amount of their valuation made in accordance with Paragraph 3 of the present Article.

#### **Article 847. Property Not Claimed from a Pawnshop**

1. If property submitted for storage in a pawnshop is not claimed by the bailor within the time period agreed with the pawnshop the pawnshop shall be obligated to store it for a month, taking the payment for this provided by the contract of storage. At the expiration of this time period the unclaimed property shall be sold at auction by the procedure established by the statute on public auctions.

2. From the sum received from the sale of the unclaimed property, payment for its storage and other payments due to the pawnshop shall be covered. The remainder of the sum shall be returned by the pawnshop to the bailor.

#### **Article 848. Storage of Valuables in a Bank**

1. A bank may accept for storage commercial paper and securities, precious metals and stones, and other high-priced property and other valuables including documents.

2. Concluding a contract of storage of valuables in a bank shall be confirmed by the issuance by the bank to the bailor of a named storage document, presentation of which shall be the basis for the issuance of the stored valuables to the bailor.

#### **Article 849. Storage of Valuables in an Individual Bank Safe**

1. A contract of storage of valuables in a bank may provide for their storage with the use by the bailor (the client) or with the provision to it of an individual bank safe protected by the bank.

Under the contract of storage of valuables in an individual bank safe, the client is given the right to itself place the valuables in the safe and to remove them from the safe. For this it must be given a key to the safe, a card allowing identification of the client, or other symbol or document confirming the right of the client of access to the safe and its contents.

The terms of the contract may provide for the right of the client to work in the bank with valuables stored in the individual safe.

2. Under the contract of storage of valuables in the bank with use by the client of an individual bank safe, the bank accepts from the client valuables that are to be stored in the safe, conducts supervision of their placing by the client in the safe and their removal from the safe and after removal returns them to the client.

3. Under the contract of storage of valuables in a bank with the provision to the client of an individual bank safe, the bank provides the client with the possibility of placing valuables in the safe and removing them from the safe without any supervision whatsoever including without supervision on the part of the bank.

Unless the contract of storage of valuables in the bank with provision to the client of an individual bank safe provides otherwise, the bank shall be freed from liability for failure to keep safe the content of the safe if it proves that under the conditions of storage access of anyone to the safe without the knowledge of the client was impossible or became possible as the result of force majeure.

4.The rules of the present Code on the contract of lease shall be applied to a contract for provision of a bank safe for the use of another person without liability of the bank for the content of the safe.

#### **Article 850. Storage in Check Rooms of Transport Organizations**

1.Check rooms for public use that are under the management of transport organizations must accept for storage the property of passengers and other citizens regardless of whether or not they have travel documents. The contract of storage of property in check rooms of transport organizations is a public contract (Article 442).

2.In confirmation of the acceptance of property for storage in a check room (with the exception of automatic lockers) the bailor shall be issued a receipt or a numbered token. In case of loss of the receipt or token property submitted to the check room shall be given to the bailor upon presentation of proof that property belongs to it.

3.The time period for which the check room has the duty to store property shall be determined by special rules or the agreement of the parties. The check room shall be obligated to store property unclaimed in these time periods for thirty more days. At the expiration of this time period the unclaimed property may be sold by the procedure provided by Paragraph 2 of Article 826 of the present Code.

4.Losses of the bailor as the result of loss of, shortage of, or harm to property submitted to the check room within the limits of the sum of its valuation by the bailor in submitting them for storage shall be subject to compensation by the bailee within twenty-four hours from the time of presentation of a demand for their compensation.

#### **Article 851. Storage in Coatcheck of Organizations**

1.Storage in coatcheck of organizations is assumed to be without compensation unless compensation for storage is agreed upon or is stipulated in another obvious manner upon giving property for storage.

The bailee of property given to a coatcheck, regardless of whether the storage is conducted for compensation or without compensation, has the duty to take, for ensuring the safekeeping of the property, all the measures provided by Paragraphs 1 and 2 of Article 818 of the present Code.

2.The rules of the present Article shall be applied also to the storage of outer cloths, headgear, and other similar property left without submission of them for storage by citizens in places established for these purposes in organizations and means of transport.

#### **Article 852. Storage in a Hotel**

1.A hotel shall be liable as a bailee even without a special agreement with a person living in it (a lodger) for the loss of, shortage of, or harm to his property placed in the hotel with the exception of money, other currency valuables, commercial paper and securities, and other high-priced property.

Property is considered to be brought into the hotel if it is entrusted to employees of the hotel or is property placed in a hotel room or other place designated for it.

2.A hotel shall be liable for the loss of money, other currency valuables, commercial paper and securities, and other high-priced property of the lodger on the condition that they were accepted by the hotel for storage or were placed by the lodger in an individual safe provided to it by the hotel regardless of whether this safe was located in his room or in other premises of the hotel. The hotel shall be freed from liability for failure to keep safe the contents of such a safe if it proves that by the conditions of storage access of anyone to the safe without the knowledge of the lodger was impossible or became possible as the result of force majeure.

3.A lodger who has discovered the loss of, shortage of, or harm to its property is obligated without delay to declare this to the management of the hotel. Otherwise the hotel shall be freed from liability for failure to keep safe the property.

4.An announcement made by the hotel to the effect that it does not accept liability for failure to keep safe property of lodgers does not free it from liability.

5.The rules of the present Article shall be applied correspondingly with respect to the storage of property of citizens in motels, resorts, pensions, sanatoria, bathhouses, and other like organizations.

#### **Article 853. Storage of Property That is the Subject of a Dispute (Sequestering)**

1.Under a contract of sequestering, two or several persons among whom a dispute has arisen on the right to property transfer this property to a third person, who undertakes the duty, upon resolution of the dispute, to return property to the person to whom it is awarded by decision of a court or by agreement of all the persons involved in the dispute (contract sequestering).

2.Property that is the subject of a dispute among two or several persons may be transferred for storage by way of sequestering by decision of a court (judicial sequestering).

The bailee under judicial sequestering may be either a person designated by the court or a person determined by mutual agreement of the parties involved in the dispute. In both cases the consent of the bailee shall be required, unless a statute provides otherwise.

3.Both movable and immovable property may be transferred for storage by way of sequestering.

4.The bailee conducting the storage of property by way of sequestering shall have the right to remuneration at the expense of parties involved in the dispute unless a contract or a decision of the court that established the sequester provides otherwise.

## CHAPTER 44. CARRIAGE

### Article 854. General Rules on Carriage

1. Carriage of freight, passengers, and baggage shall be conducted on the basis of the contract of carriage.
2. The contract of carriage shall be concluded in written form.
3. The general conditions of carriage are determined by transport codes, other statutes, and rules issued in accordance with them.

The conditions of carriage of freight, passengers, and baggage by individual types of transport and also the liability of the parties for this carriage are determined by agreement of the parties unless the present Code, transport codes, other and rules issued in accordance with them, provide otherwise.

### Article 855. The Contract of Carriage of Freight

1. Under the contract of carriage of freight, the carrier undertakes the duty to deliver freight entrusted to it by the shipper to the place of destination and to present it to the person authorized to receive the shipment (the recipient), and the shipper undertakes the duty to pay the established price for the carriage of the freight.
2. Concluding the contract of carriage of freight shall be confirmed by the compilation and issuance to the shipper of the freight of a carriage invoice (bill of lading or other document for the freight).

### Article 856. The Contract of Carriage of a Passenger

1. Under the contract of carriage of a passenger, the carrier undertakes the duty to carry the passenger to the place of destination and in the case the passenger has checked baggage, also to deliver the baggage to the point of destination and to present it to the person empowered for the receipt of baggage, and the passenger undertakes the duty to pay the established price for the travel and in case of checking of baggage, also for the carriage of baggage.
2. Concluding a contract of carriage of a passenger shall be confirmed by a ticket and checking by a passenger of baggage by a baggage check.
3. The passenger shall have the right in the manner provided by statute and other legal acts:
  - 1) to bring with it children free of charge or on other favorable conditions;
  - 2) to bring along free hand luggage within the limits of the established norms;
  - 3) to check baggage for carriage with payment according to the tariff.

### Article 857. The Contract of Freight Charter

Under the contract of freight charter (charter) one party (the charter-granter) undertakes the duty to provide the other party (the charterer) for pay all or part of the capacity of one or several means of transport for one or more trips for the carriage of freight, passengers, and baggage.

The procedure for concluding the contract of freight charter shall be established by statute and other legal acts.

### Article 858. Direct Intermodal Transportation

The mutual relations of transport organizations in the carriage of freight, passengers, and baggage by different types of transport under a single transportation document (direct intermodal transportation) and also the procedure for organization of such carriage shall be determined by agreement among the organizations of the respective types of transport concluded in accordance with statute.

### Article 859. Carriage by a Common Carrier

1. Carriage conducted by a commercial organization is considered to be carriage by a common carrier if from a statute, other legal acts, or the permission (or license) issued to this organization it follows that this organization undertakes the duty to conduct the carriage of freight, passengers, and baggage on request of any citizen or legal person.

The list of organizations obligated to conduct carriage recognized as carriage by a common carrier shall be published by the established procedure.

2. The contract of carriage by a common carrier is a public contract (Article 442).

### Article 860. Payment for Carriage

1. For the carriage of freight, passengers, and baggage, the payment for carriage established by agreement of the parties shall be taken unless otherwise established by a statute or other legal acts.
2. Payment for the carriage of freight, passengers, and baggage by a common carrier shall be made on the basis of tariffs approved by the procedure established by statute.
3. Work done and services rendered by carriers on demand of the freight possessor and not provided for by tariffs shall be paid for in accordance with an agreement of the parties.
4. The carrier shall have the right to withhold freight and baggage transferred to it for carriage as security for payment for carriage and other payments related to carriage due to it (Articles 373 and 374), unless otherwise provided by a statute, other legal acts, or the contract of carriage or follows from the nature of the obligation.

### **Article 861. Supply of Means of Transport, Loading and Unloading of Freight**

1. The carrier shall be obligated to supply the shipper of freight for loading at the time established by the request (or order) accepted from it, by the contract of carriage or by the contract on the organization of carriage, means of transport in good repair in a condition suitable for the carriage of the respective freight.

The shipper of freight shall have the right to refuse means of transport supplied that are not suitable for the carriage of the respective freight.

2. The loading (or unloading) of freight shall be conducted by the transport organization or the shipper (or the recipient) by the procedure provided by the contract with observation of the provisions established by a statute and rules issued in accordance with them.

3. The loading (or unloading) of freight conducted by the efforts and assets of the shipper (or recipient) of freight must be done within the time periods provided by the contract, unless such time periods are established by a statute and rules issued in accordance with it.

### **Article 862. Time Periods for Delivery of the Freight, the Passenger, and the Baggage**

The carrier shall be obligated to deliver the freight, the passenger, or the baggage at the place of destination within the time periods provided by contract, and in the absence of such times, within a reasonable period of time.

### **Article 863. Liability for Breach of the Obligations for Carriage**

1. In case of nonperformance or improper performance of obligations for carriage, the parties shall bear the liability established by the present Code, other statutes, and also by the agreement of the parties.

2. Agreements of transport organizations with passengers and possessors of freight on limitation or exclusion of the liability of the carrier established by a statute are invalid with the exception of cases provided by statute.

### **Article 864. Liability of the Carrier for Failure to Provide Means of Transport and of the Shipper for Failure to Use Means of Transport Supplied**

1. The carrier for failure to supply means of transport for carriage of the freight in accordance with an accepted request (or order) or other contract, and the shipper for failure to provide freight or failure to use the supplied means of transport for other reasons shall bear the liability established by statute and also by the agreement of the parties.

2. The carrier and the shipper of the freight shall be freed from liability in case of failure to supply means of transport or failure to use of the supplied means of transport, if this occurred as the result:

1) of force majeure, and also other phenomena of an unpredictable nature (fires, snowdrifts, floods) and military actions;

2) of the termination or limitation of the transport of freight in certain directions established by the procedure provided by statute;

3) in other cases provided by statute.

### **Article 865. Liability of the Carrier for Delay of Dispatch of a Passenger**

1. For delay of dispatch of means of transport carrying a passenger or for late arrival of such a means of transport at the place of destination (with the exception of carriage in city and suburban transportation) the carrier shall pay the passenger a penalty in the amount established by statute, unless it proves that the delay or lateness took place as the result of force majeure, elimination of a defect in means of transport threatening the life and health of passengers, or other circumstances not depending upon the carrier.

2. In case of refusal by the passenger of carriage because of delay in dispatch of the means of transport, the carrier has the duty to return the passage payment to the passenger.

### **Article 866. Liability of the Carrier for Loss of, Shortage of, and Damage to Freight or Baggage**

1. The carrier shall bear liability for failure to keep safe freight or baggage that occurred after its acceptance for transport and before delivery to the freight recipient, a person empowered by it, or a person empowered to receive baggage, unless it proves that the loss, shortage, or damage of the freight or baggage occurred as the result of circumstances that the carrier could not prevent and the elimination of which did not depend upon the carrier.

2. Damage caused in the carriage of freight or baggage shall be compensated by the carrier:

1) in case of loss or shortage of freight or baggage—in the sum of the value of the lost or short freight or baggage;

2) in case of damage to freight or baggage—in the amount of sum for which its value was reduced and in case of the impossibility of restoring the damaged freight or baggage—in the amount of its value;

3) in case of loss of freight or baggage submitted for carriage with a declaration of its value—in the amount of the declared value of the freight or baggage.

The value of freight or baggage shall be determined on the basis of its price indicated in the invoice of the seller or provided by contract and, in the absence of such invoice or of an indication of price in the contract, on the basis of the price which in comparable circumstances is usually taken for analogous goods.

3. The carrier, along with compensation for the established damage caused by the loss of, shortage of, or damage to the freight or baggage, shall return to the shipper (or recipient) the payment for carriage taken for carriage of the lost, short, damaged freight or baggage unless this payment is included in the value of the freight.

4. Documents on the cause of failure to keep safe freight or baggage (a commercial statement, a statement in general form, etc.), compiled by the carrier in a unilateral form shall be subject, in case of dispute, to evaluation by the court along with other documents evidencing circumstances that can serve as the basis for the liability of the carrier, shipper, or recipient of the freight or baggage.

#### **Article 867. Time Period of Limitation of Actions for Carriage of Freight**

The time period of limitation of actions for claims deriving from the transport of freight is established as one year.

#### **Article 868. Liability of the Carrier for Causing Harm to the Life or Health of a Passenger**

The liability of the carrier for harm caused to the life or health of a passenger shall be determined by the rules of Chapter 60 of the present Code, unless statute or the contract of carriage has provided a higher liability for the carrier.

#### **Article 869. Contracts on the Organization of Carriage**

The carrier and the possessor of freight, if it is necessary to conduct systematic carriage of freight, may conclude long-term contracts on the organization of carriage.

Under the contract on the organization of the carriage of freight, the carrier is obligated at the established time periods to accept and the possessor of freight—to present for carriage freight in the agreed volume. In the contract on the organization of the carriage of freight the volumes, time periods, and other conditions of the provision of means of transport and presentation of freight for carriage, the procedure for settlement, and also other conditions of the organization of carriage shall be defined.

#### **Article 870. Contracts Between Transport Organizations**

Contracts may be concluded between organizations of different types of transport on the organization of work for ensuring the transport of freight (contracts on centralized delivery (or removal) of freight, etc.).

The procedure for conclusion of such contracts shall be established by statute and other legal acts.

Chapter 45. Freight Forwarding

#### **Article 871. The Contract of Freight Forwarding**

1. Under the contract of freight forwarding, one party (the freight forwarder) undertakes the duty for remuneration and at the expense of the other party (the client—freight shipper or freight recipient) to render or to organize the rendering of services defined by the contract of freight forwarding that are connected with the transport of freight. The contract of freight forwarding may provide for duties of the freight forwarder to organize the carriage of freight by the type of transport and by a route selected by the freight forwarder or by the client, to conclude in the name of the client or in its own name a contract (or contracts) of carriage of freight, to ensure the shipment and receipt of freight, and also other duties connected with the carriage of freight.

As supplementary services, the contract of freight forwarding may provide for the conduct of such operations necessary for the transport of freight as the acquiring of documents required for export or import, the conduct of customs and other formalities, checking the quantity and condition of freight, its loading and unloading, payment of excises, fees, and other expenses imposed on the client, storage of the freight, its receipt at the place of destination and also performance of other operations and rendering services provided by the contract.

2. The rules of the present Chapter also apply to cases when, in accordance with the contract, the duties of freight forwarder are performed by the carrier.

3. The conditions of performance of the contract of freight forwarding shall be determined by the agreement of the parties unless otherwise established by the statute on freight forwarding activity, other statutes, or other legal acts.

#### **Article 872. Form of the Contract of Freight Forwarding**

1. The contract of freight forwarding shall be concluded in written form.

2. The client must give the freight forwarder a power of attorney if one is necessary for performance of the freight forwarder's duties.

#### **Article 873. Liability of the Freight Forwarder Under the Contract of Freight Forwarding**

For nonperformance or improper performance of duties under a contract of freight forwarding, the freight forwarder shall bear liability on the bases and in an amount determined in accordance with the rules of Chapter 26 of the present Code.

If the freight forwarder proves that the violation of the obligations was caused by the improper performance of contracts of carriage, the liability of the freight forwarder to the client shall be determined by the same rules by which the respective carrier is liable to the freight forwarder.

#### **Article 874. Documents and Other Information Provided to the Freight Forwarder**

1. The client has the duty to provide the freight forwarder with documents and information on the qualities of the freight, on the conditions of its carriage, and also other information necessary for the performance by the freight forwarder of the duty provided by the contract of freight forwarding.

2. The freight forwarder must inform the client of defects discovered in the information received and in case of incompleteness of the information must request the necessary supplementary data from the client.
3. In case of the failure of the client to present the necessary information, the freight forwarder shall have the right not to commence performance of the respective duties until the presentation of such information.
4. The client shall bear liability for the losses caused to the freight forwarder in connection with breach of duty for the presentation of the information indicated in Paragraph 1 of the present Article.

#### **Article 875. Performance of Duties of the Freight Forwarder by a Third Person**

If, from the contract of freight forwarding, it does not follow that the freight forwarder must perform its duties personally, the freight forwarder shall have the right to involve other persons in the performance of its duties. The delegation of the performance of duties to a third person shall not free the freight forwarder from liability to the client for performance of the contract.

#### **Article 876. Unilateral Refusal to Perform the Contract of Freight Forwarding**

Either of the parties shall have the right to refuse to perform the contract of freight forwarding warning the other party about this within a reasonable period of time.

In case of unilateral refusal to perform the contract, the party who has declared the refusal shall compensate the other party for the losses caused by the rescission of the contract.

## **CHAPTER 46. LOAN**

#### **Article 877. The Contract of Loan**

1. Under the contract of loan, one party (the lender) transfers to the ownership of the other party (the borrower) money or other property determined by generic characteristics, and the borrower undertakes the duty to return to the lender the same sum of money (the amount of the loan) or an equal quantity of other property received by it of the same type and quality.

The contract of loan shall be considered concluded from the time of transfer of the money or other property.

2. Foreign currency and currency valuables may be the subject of a contract of loan on the territory of the Republic of Armenia with the observance of the rules of Articles 142, 143, and 356 of the present Code.

#### **Article 878. The Form of the Contract of Loan**

1. The contract of loan shall be concluded in written form.

2. In confirmation of the contract of loan and its terms, a receipt by the borrower or other document evidencing the transfer to it by the lender of a defined monetary sum or a defined quantity of property may be presented.

3. Nonobservance of written form shall entail the invalidity of the contract of loan. Such a contract shall be considered void.

#### **Article 879. Interest Under the Contract of Loan**

1. Unless otherwise provided by the contract of loan, the lender shall have the right to receive interest from the borrower on the sum of the loan. In the contract of loan, the amount and procedure for calculation of interest must be clearly established. The amount of interest may not exceed twice the accounting rate of bank interest established by the Central Bank of the Republic of Armenia.

2. Unless otherwise provided by the contract of loan, interest shall be paid monthly.

3. A contract of loan shall be considered to be without interest, unless it directly provides otherwise in cases when:

- 1) a contract has been concluded between citizens for a sum not exceeding fifty times the minimum monthly wage, and not connected with the conduct of entrepreneurial activity by even one of the parties;
- 2) not money but other property determined by generic characteristics is transferred to the borrower under the contract of loan.

#### **Article 880. Duty of the Borrower to Return the Sum of the Loan**

1. The borrower shall have the duty to return to the lender the sum of the loan received within the time period and by the procedure that are provided by the contract of loan.

In cases when the time period for return is not established by the contract, or is defined as the time of demand, the sum of the loan must be returned by the borrower within thirty days from the day of receipt of demands from the lender, unless otherwise provided by the contract.

2. The sum of an interest-free loan may be returned early by the borrower.

Unless otherwise provided by the contract of loan, the sum of a loan made with interest may be returned early with the consent of the lender.

3. Unless otherwise provided by the contract of loan, the sum of the loan shall be considered returned from the time of its transfer to the lender or the deposit of the respective monetary funds in its bank account.

#### **Article 881. Consequences of Violation by the Borrower of the Contract of Loan**

1. In cases when the borrower does not return the sum of the loan within the time period, the calculation of interest provided by the contract of loan is terminated and on this sum, from the day when it should have been returned until the day of return to the lender of the sum of the loan, interest is subject to payment only in the amount provided by Paragraph 1 of Article 411 of the present Code.

An agreement in the contract of loan on other conditions for payment of interest is void.

2. If a contract of loan provides for the return of the loan in parts (or in installments), then in case of violation by the borrower of the time period established for the return of a scheduled part of the loan, the lender shall have the right to require the early return of the whole remaining sum of the loan together with the interest due.

#### **Article 882. Dispute of the Contract of Loan**

1. A borrower shall have the right to contest a contract of loan, by proving that the money or other property in fact were not received by it from the lender or were received in a smaller quantity than indicated in the contract.

2. Contest of a contract of loan on the bases provided by Paragraph 1 of the present Article by way of testimony of witnesses is not allowed, with the exception of cases when the contract was concluded under the influence of deception, force, threats, of a bad faith agreement of the representative of the borrower with the lender, or of a confluence of harsh circumstances.

3. If in contesting a contract of loan by a borrower on the bases provided by Paragraph 1 of the present article it is established that the money or other property in fact were not received from the lender, the contract of loan is considered not to have been concluded. When the money or property in fact were received by the borrower from the lender in lesser quantity than indicated in the contract, the contract shall be considered concluded for this quantity of money or property.

#### **Article 883. The Consequences of Loss of Security for the Obligations of the Borrower**

In case of nonperformance by the borrower of obligations provided by the contract of loan for securing the return of the sum of the loan and also in case of loss of security or worsening of its conditions due to circumstances for which the lender is not liable, the lender shall have the right to demand from the borrower early return of the sum of the loan and payment of the interest due unless otherwise provided by the contract.

#### **Article 884. Loan for a Purpose**

1. If a contract of loan is concluded with a condition of use by the borrower of the funds received for specific purposes (a loan for a purpose), the borrower must ensure the possibility of exercise by the lender of supervision of the use of the sum of the loan for the purpose.

2. In case of nonperformance by the borrower of the condition of the contract of loan on the use of the sum of the loan for a purpose and also in case of violation of the duties provided by Paragraph 1 of the present Article, the lender shall have the right to demand from the borrower early return of the sum of the loan and payment of interest due, unless otherwise provided by the contract.

#### **Article 885. The Contract of State Loan**

1. Under the contract of state loan, the borrower is the Republic of Armenia and the lender is a citizen or a legal person.

2. State loans are voluntary.

3. The contract of state loan shall be concluded by the acquiring by the lender of state bonds or other state commercial paper and securities issued by the borrower evidencing the right of the lender to the receipt from the borrower of monetary funds, of other property, of established interest, or other property rights within the time periods provided by the terms of issuance of the loan.

4. Changing the terms of a loan that has been issued is not allowed.

5. The rules on the contract of state loan shall be applied respectively to loans issued by a commune.

#### **Article 886. Substitution of a Debt as a Loan Obligation**

1. By agreement of the parties a debt that has arisen from purchase and sale, lease of property, or on other basis may be replaced by a loan obligation.

2. Replacement of a debt by a loan obligation shall be conducted with the observance of the requirements on substitution (Article 430) and shall be concluded in the form provided for the concluding of a contract of loan (Article 878).

## CHAPTER 47. CREDIT

### Article 887. The Credit Contract

1. Under a credit contract, a bank or other credit organization (the creditor) undertakes the duty to provide monetary funds (credit) to the borrower in the amount and on the conditions provided by the contract, and the borrower undertakes the duty to return the monetary sum received and to pay interest on it.
2. The rules provided by Chapter 46 of the present Code shall be applied to relations under the credit contract, unless otherwise established by the rules of the present Chapter or follows from the nature of the credit contract.

### Article 888. Form of the Credit Contract

The credit contract shall be concluded in written form.

Nonobservance of written form shall entail the invalidity of the credit contract. Such a contract shall be considered void.

### Article 889. Refusal to Provide or Receive Credit

1. The creditor shall have the right to refuse to provide the borrower with the credit provided in the credit contract in whole or in part if circumstances are present that obviously evidence that the sum provided to the borrower will not be returned within the time period.
2. In case of breach by the borrower of a duty provided by the credit contract for use of the credit for a purpose (Article 884), the creditor also shall have the right to refuse further giving of credit to the borrower under the contract.
3. The borrower shall have the right to refuse to receive credit in whole or in part if it has notified the creditor of this before the time period established by the contract for its giving unless otherwise provided by a statute, other legal acts, or the credit contract.

### Article 890. Goods Credit

The parties may conclude a contract providing for the duty of one party to provide the other party with property determined by generic characteristics (the contract of goods credit). The rules of the present Chapter shall be applied to such a contract unless otherwise provided by the contract or follows from the nature of the obligation. Terms on the quantity, assortment, completeness, quality, containers and/or packaging of the goods provided must be performed in accordance with the rules on the contract of purchase and sale of goods (Articles 481-501), unless otherwise provided by the contract of goods credit.

### Article 891. Commercial Credit

1. Contracts whose performance is connected with the transfer of monetary sums or other property determined by generic characteristics into the ownership of the other party may provide for the giving of credit including in the form of an advance, preliminary payment, delayed, and installment payment for goods, work, or services (commercial credit), unless otherwise established by a statute.
2. The rules of the present Chapter shall be applied respectively to commercial credit unless otherwise provided by the rules on the contract from which the respective obligation arose and if it does not contradict the nature of such obligation.

## CHAPTER 48. FINANCING WITH ASSIGNMENT OF MONETARY CLAIM (FACTORING)

### Article 892. The Contract of Financing With Assignment of Monetary Claim

1. Under the contract of financing with assignment of the monetary claim, one party (the finance agent) transfers or undertakes the duty to transfer to the other party (the client) monetary funds with reference to a monetary claim of the client (creditor) against a third person (the debtor) arising from the provision by the client of goods, doing by it of work, or the rendering by it of services to the third person, and the client assigns or undertakes the duty to assign this monetary claim to the finance agent.  
The monetary claim against the debtor also may be assigned by the client to the finance agent for the purpose of providing security for performance of an obligation of the client to the finance agent.
2. The obligations of the finance agent under the contract of financing with assignment of a monetary claim may include the conduct of bookkeeping for the client and also the provision for the client of other financial services connected with the monetary claims that are the subject of the assignment.
3. The contract of financing with assignment of monetary claim shall be concluded in written form.



### **Article 893. Finance Agent**

Banks and other credit organizations and also commercial organizations with permission (or a license) for the conduct of activity of such type may conclude, as finance agents, contracts of financing with assignment of monetary claims.

### **Article 894. The Monetary Claim Assigned for the Purpose of Acquiring Financing**

1. The subject of assignment in connection with which financing is provided may be either a monetary claim, the time period of payment on which has already arrived (an existing claim) or a right to acquire monetary funds that will arise in the future (a future claim).

A monetary claim that is a subject of assignment must be defined in the contract of the client with the finance agent in such a manner as will allow the identification of an existing claim at the time of concluding of the contract and a future claim—not later than at the time when it arises.

2. In case of assignment of a future monetary claim, it shall be considered as having passed to the finance agent after the right itself has arisen to receipt from the debtor of monetary funds that are the subject of the assignment of the claim provided by the contract. If assignment of the monetary claim is conditioned on a specific event, it will enter into effect after the occurrence of this event.

Supplementary formalization of the assignment of a monetary claim is not required in these cases.

### **Article 895. Liability of the Client to the Finance Agent**

1. Unless the contract of financing with assignment of the monetary claim provides otherwise, the client shall bear liability to the finance agent for the validity of the monetary claim that is the subject of the assignment.

2. The monetary claim that is the subject of the assignment shall be recognized as valid if the client has the right to transfer the monetary claim and at the time of assignment of the claim it does not know of circumstances as a consequence of which the debtor will have the right not to perform it.

3. The client is not liable for nonperformance or improper performance by the debtor of the claim that is the subject of the assignment in the case of presentation of it by the finance agent for performance, unless otherwise provided by the contract between the client and the finance agent.

### **Article 896. Invalidity of a Prohibition of Assignment of a Monetary Claim**

1. Assignment to a finance agent of a monetary claim is valid even if an agreement exists between the client and its debtor on the prohibition or limitation of assignment.

2. The rule established by Paragraph 1 of the present Article does not free the client from obligations or liability to the debtor in connection with the assignment of the claim in violation of an agreement between them forbidding or limiting assignment.

### **Article 897. Subsequent Assignment of a Monetary Claim**

Unless the contract of financing with assignment of the monetary claim provides otherwise, a subsequent assignment of the monetary claim by the finance agent is not allowed.

In the case when a subsequent assignment of the monetary claim is allowed by the contract the provisions of the present Chapter respectively shall be applied to it.

### **Article 898. Performance of a Monetary Claim by a Debtor to a Finance Agent**

1. A debtor shall be obligated to make payment to a finance agent on condition that it has received from the client or from the finance agent written notice of the assignment of the monetary claim to the given finance agent and the monetary claim subject to performance is defined in the notice and the finance agent to whom payment must be made is also indicated.

2. On request of the debtor, the finance agent shall be obligated, within a reasonable period of time, to provide the debtor with proof of the fact that the assignment of the monetary claim to the finance agent actually took place. If the finance agent does not perform this duty, the debtor shall have the right to make payment on the given claim to the client in the performance of its obligation to the latter.

3. Performance of a monetary claim by the debtor to the finance agent in accordance with the rules of the present Article frees the debtor from the respective obligation to the client.

### **Article 899. Rights of the Finance Agent to Sums Received from the Debtor**

1. If, under the terms of the contract of financing with assignment of the monetary claim, the financing of the client is conducted by the purchase from it of this claim by the finance agent, the latter acquires the right to all sums that it receives from the debtor in performance of the claim and the client does not bear liability to the finance agent if the sums received by it are less than the price for which the agent acquired the claim.

2. If the assignment of a monetary claim to a finance agent was conducted for the purposes of securing the performance of obligations of the client to it and the contract of financing with assignment of the claim does not provide otherwise, the finance agent has the duty to provide a report to the client and to transfer to it the sum exceeding the sum of the debt of the client secured by the assignment of the claim. If the monetary funds received

by the finance agent from the debtor are less than the debt of the client to the finance agent secured by the assignment of the claim, the client remains liable to the finance agent for the remainder of the debt.

#### **Article 900. Setoffs of the Debtor**

1. In the case of the making by the finance agent of a demand upon the debtor to make payment, the debtor shall have the right in accordance with Articles 426-428 of the present Code to present in setoff its monetary claims based on the contract with the client that the debtor already had by the time when it acquired notice of the assignment of the claim to the finance agent.
2. Claims that the debtor could make against the client in connection with the breach by the latter of an agreement forbidding or limiting the assignment of the claim are ineffective with respect to the finance agent.

#### **Article 901. Return to the Debtor of the Sums Received by the Finance Agent**

1. In case of violation by the client of its obligations under the contract concluded with the debtor, the latter shall not have the right to demand from the finance agent the return of sums already paid to it on a claim that has passed to the finance agent if the debtor has the right to receive such sums directly from the client.
2. A debtor having the right to receive directly from the client sums paid to the finance agent as the result of assignment of the claim nevertheless shall have the right to claim the return of these sums by the finance agent if it is proved that the latter has not performed its obligation to make to the client a promised payment connected with the assignment of the claim or has made such a payment knowing of the breach by the client of the obligation to the debtor to which the payment connected with the assignment of claim relates.

### **CHAPTER 49. BANK DEPOSIT**

#### **Article 902. The Contract of Bank Deposit**

1. Under the contract of bank deposit [*vklada*] (of deposit [*depozita*]), one party (the bank) that has accepted a monetary sum (the deposit [*vklad*]) coming from the other party (the contributor) or coming for the contributor, undertakes the duty to return to the depositor the sum of the deposit and to pay interest on it on the conditions and by the procedure provided by the contract.
2. A contract of bank deposit in which the depositor is a citizen is a public contract (Article 442).
3. The rules on the contract of bank account (Chapter 50) shall be applied to the relations of the bank and the depositor with respect to the account into which the deposit is made, unless otherwise provided by the rules of the present Chapter or otherwise follows from the nature of the contract of bank deposit.  
Legal persons do not have the right to transfer monetary funds in deposit [*vkladakh*] (deposits [*depositakh*]) to other persons.
4. The rules of the present Chapter relating to banks shall be applied also to other credit organizations accepting deposits [*vklady*] (deposits [*deposity*]) from legal persons in accordance with a statute.

#### **Article 903. The Right to Take In Monetary Funds as Deposits**

1. The right to acquire monetary funds as deposits is possessed by banks to which such a right has been given in connection with a permission (or license) issued by a procedure established in accordance with a statute.
2. In case of acceptance of a deposit from a citizen by a person who does not have this right, or in violation of the procedure established by a statute or bank rules adopted in accordance with a statute, the depositor may demand the immediate return of the sum of the deposit and also payment on it of the interest provided by Article 411 of the present Code and compensation above the sum of interest for all losses caused to the depositor.  
If such a person has taken the monetary funds of a legal person on the conditions of a contract of bank deposit, this contract shall be invalid (Article 305).
3. Unless otherwise established by a statute, the consequences provided by Paragraph 2 of the present Article shall be applied also in cases:
  - 1) of acquiring of monetary funds of citizens and legal persons by sale to them of share of stock and other commercial paper and securities the issuance of which is recognized illegal;
  - 2) of acquiring of monetary funds of citizens in deposit against bills of exchange or other commercial paper and securities preventing receipt by their holders of the deposit on first demand nor the exercise by the depositor of the other rights provided by the rules of the present Chapter.

#### **Article 904. The Form of the Contract of Bank Deposit**

1. The contract of bank deposit shall be concluded in written form.  
The written form of the contract of bank deposit shall be considered observed if the making of the deposit is evidenced by a bank book, bank certificate or certificate of deposit, or other document issued by the bank to the depositor that meets the requirements provided for such documents by a statute, bank rules established in accordance with a statute, and the customs of trade applied in banking practice.

2. Nonobservance of written form of the contract of bank deposit shall entail invalidity of this contract. Such a contract is void.

#### **Article 905. Types of Deposits**

1. The contract of bank deposit is concluded on the conditions of the release of the deposit on first demand (a demand deposit) or on conditions of return of the deposit on the expiration of a time determined by the contract (time deposit).

The contract may provide for the making of deposits on other conditions of their return not contradictory to a statute.

2. Under the contract of bank deposit of any type, the bank undertakes the duty to release the sum of the deposit or part of it on the first demand of the depositor, with the exception of deposits made by legal persons on other conditions of return provided by the contract.

A term of a contract on the waiver by a citizen of the right to receive a deposit on first demand is void.

3. In cases when a time or other deposit, other than a demand deposit, is returned to the depositor on its demand before the expiration of the time or before the occurrence of other circumstances indicated in the contract of bank deposit, the interest on the deposit shall be paid at the rate corresponding to the rate of interest paid by the bank on demand deposits, unless another rate of interest is provided by the contract.

4. In cases when the depositor does not demand the return of the sum of a time deposit on the expiration of the time period or the sum of a deposit made on other conditions of return—upon the occurrence of the circumstances provided by the contract, the contract shall be considered continued on the conditions of a demand deposit, unless otherwise provided by the contract.

#### **Article 906. Interest on the Sum of the Deposit**

1. The bank shall pay the depositor interest on the sum of the deposit at the rate determined by the contract of bank deposit.

In the absence in the contract of a term on the rate of interest to be paid, the bank shall be obligated to pay interest at the rate established in accordance with Paragraph 1 of Article 411 of the present Code.

2. Unless otherwise provided by the contract of bank deposit, the bank shall have the right to change the rate of interest paid on demand deposits.

In case the bank reduces the rate of interest, the new rate of interest shall be applied to deposits made in the bank before the depositors were informed of the reduction of interest through the expiration of a month from the respective informing, unless otherwise provided by the contract.

3. The interest rate determined by the contract of bank deposit for a deposit made by a citizen on the condition of its release upon expiration of a determined time period or upon occurrence of the circumstances provided by the contract may not be unilaterally reduced by the bank, unless otherwise provided by a statute. Under a contract for such a bank deposit concluded by the bank with a legal person, the rate of interest may not be unilaterally changed, unless otherwise provided by a statute or the contract.

#### **Article 907. The Procedure for Calculation of Interest on the Sum of the Deposit and for Its Payment**

1. Interest on the sum of a bank deposit shall be calculated from the day following the day of its arrival at the bank until the day preceding its return to the depositor or its deduction from the account of the depositor on other bases.

2. Unless otherwise provided by the contract of bank deposit, interest on the sum of the bank deposit shall be paid to the depositor on its demand at the expiration of each quarter separately from the sum of the deposit, and interest not claimed at this time shall increase the sum of the deposit on which interest is calculated.

Upon return of the deposit all interest credited up to that time shall be paid.

#### **Article 908. Security for the Return of the Deposit**

1. Banks are obligated to provide security for the return of deposits of citizens by compulsory insurance and, in cases provided by a statute, also by other means.

The return of the deposits of citizens by a bank, over fifty percent of the shares of stock of the charter capital of which or ownership shares of participation in which are held by the Republic of Armenia or communes, is additionally guaranteed by their subsidiary liability on the claims of the depositor against the bank by the procedure provided by Article 415 of the present Code.

2. The means of securing by the bank of the return of the deposits of legal persons are determined by the contract of bank deposit.

3. At the concluding of the contract of bank deposit, the bank has the duty to provide the depositor with information on the security for the return of the deposit.

4. Upon failure by the bank to perform duties provided by a statute or the contract of bank deposit for securing the return of the deposit and also in case of loss of security or worsening of its conditions, the depositor shall have the right to demand from the bank immediate return of the sum of the deposit, also payment of interest on it at the rate determined in accordance with Paragraph 1 of Article 906 of the present Code, and compensation for losses caused.

#### **Article 909.Placing by Third Persons of Monetary Funds on the Account of the Depositor**

Unless otherwise provided by the contract of bank deposit, monetary funds coming to the bank in the name of the depositor from third persons with an indication of the necessary data on its account for the deposit shall be added to the account of the deposit. It shall be presumed that the depositor has expressed consent to the receipt of monetary funds from such persons, having provided them the necessary data on the account for the deposit.

#### **Article 910. Deposits for the Benefit of Third Persons**

1.A deposit may be made in a bank in the name of a specific third person. Unless otherwise provided by the contract of bank deposit, such a person shall acquire the rights of a depositor from the time of its presentation to the bank of the first demand based on these rights or of expression by it to the bank in another manner of the intent to use such rights.

The indication of the name of the citizen (Article 22) or the designation of the legal person (Article 58) for whose benefit the deposit is made is an essential term of the respective contract of bank deposit.

A contract of bank deposit for the benefit of a citizen who has died by the time of the concluding of the contract or of a legal person not existing by this time is void.

2.Until the expression by the third person of an intent to enjoy the rights of a depositor, the person who has concluded the contract of bank deposit may enjoy the rights of a depositor with respect to monetary funds it has deposited to this account.

3.The rules on a contract for the benefit of a third person (Article 446) shall be applied to a contract of bank deposit for the benefit of a third person, unless this contradicts the rules of the present Article and the nature of a bank deposit.

#### **Article 911. The Bank Book**

1.Unless otherwise provided by the agreement of the parties, the concluding of a contract of bank deposit with a citizen and the deposit of monetary funds to its account on the deposit is evidenced by a bank book. The contract of bank deposit may provide for the issuance of a bank book in a name or a bearer bank book.

The name and place of location of the bank and, if the deposit was made at a branch, also of its respective branch, number of the account for the deposit and also all sums of monetary funds deposited to the account, all sums of monetary funds withdrawn from the account, and the remainder of monetary funds on the account at the time of presentation of the bank book to the bank must be indicated in the bank book and confirmed by the bank.

Unless proven otherwise, the data on the deposit indicated in the bank book shall be the basis for settlements on the deposit between the bank and the depositor.

2.The release of the deposit, the payment of interest on it, and the performance of orders of the depositor for the transfer of monetary funds from the account for the deposit to other persons shall be made by the bank upon presentation of the bank book.

If a bank book in a name is lost or is brought into a condition unsuitable for presentation, the bank on request of the depositor shall issue it a new bank book.

Reinstatement of rights for a lost bearer bank book shall be conducted by the procedure provided for bearer commercial paper and securities (Article 151).

## **CHAPTER 50. BANK ACCOUNT**

#### **Article 912. The Contract of Bank Account**

1.Under the contract of bank account, a bank undertakes the duty to credit monetary funds coming to the account opened to the client (the accountholder), to execute the orders of the client on transfer and release of respective sums from the account and on the conduct of other operations on the account.

2.A bank may use monetary funds that are on the account, guarantying the right of the client to the unobstructed disposition of these funds.

3.The bank does not have the right to determine or supervise the direction of use of monetary funds of the client nor to establish other limitations, not provided by a statute or contract of bank account, on its right to dispose of the monetary funds at its discretion.

4.The rules of the present Chapter relating to banks shall be applied also to other credit organizations in the concluding and performance by them of a contract of bank account in accordance with the permission (or license) given.

#### **Article 913. Form of the Contract of Bank Account**

1.The contract of bank account shall be concluded in written form.

2.Nonobservance of written form of the contract entails the invalidity of this contract. Such a contract is void.

#### **Article 914. Concluding the Contract of Bank Account**

1. Upon the concluding of a contract of bank account, an account shall be opened for the client or a person indicated by it at a bank on the conditions agreed upon by the parties.

2. The bank undertakes the duty to conclude a contract of bank account with a client that has made a proposal to open an account on the conditions announced by the bank for the opening of an account of the given type, corresponding to the requirements provided by a statute and the bank rules established in accordance with it. The bank does not have the right to refuse to open an account, the making of the respective operations under which is provided for by a statute, the charter of the bank, and the permission (or license) issued to it, with the exception of cases when such a refusal is caused by the bank's lacking the possibility of accepting for banking service or is allowed by a statute or other legal acts.

In case of an groundless avoidance by a bank of concluding a contract of bank account, the client shall have the right to bring against it the claims provided by Article 461 of the present Code.

#### **Article 915. Authentication of the Right to Dispose of Monetary Funds Located on the Account**

1. The rights of persons making in the name of a client orders for the transfer and release of funds from the account shall be authenticated by the client by presenting to the bank the documents provided by a statute, by bank rules established in accordance with it, and by the contract of bank account.

2. A client may give an order to a bank on the withdrawal of monetary funds from the account on demand of third persons, including a demand connected with the performance by the client of its obligations to these persons. The bank shall accept these orders on the condition of indication in them in written form of the necessary data allowing, upon presentation of the corresponding demand, the identification of the person having the right to present it.

3. The contract may provide for the authentication of rights for the disposition of monetary sums that are in the account by electronic means of payment and other documents with the use in them of analogues of a handwritten signature (Paragraph 2 of Article 296), codes, passwords, and other means confirming that the order is given by a person empowered to do so.

#### **Article 916. Operations With the Account Done by the Bank**

The bank undertakes the duty to perform for the client the operations provided for accounts of the given type by a statute, by bank rules established in accordance with it, and by customs of trade applied in bank practice, unless otherwise provided by the contract of bank deposit.

#### **Article 917. Time Periods for Operations on the Account**

The bank has the duty to credit monetary funds received to the account of the client not later than the day following the day of the arrival at the bank of the respective payment document, unless another, shorter time period is provided by statute or the contract of bank deposit.

The bank is obligated on order of the client to release or transfer from the account monetary funds of the client not later than the day following the day of the coming to the bank of the respective payment document, unless other periods are provided by a statute, bank rules issued in accordance with it, or by the contract of bank account.

#### **Article 918. Providing Credit to the Account**

1. In cases when, in accordance with the contract of bank account, the bank makes payments from the account despite the absence in it of monetary funds (providing credit to the account), the bank shall be considered to have provided the client with credit in the corresponding sum from the day of making of such a payment.

2. The rights and duties of the parties connected with providing credit to an account are determined by the rules on loan (Chapter 46) and credit (Chapter 47), unless the contract of bank account provides otherwise.

#### **Article 919. Payment of Expenses of the Bank for Performing Operations on the Account**

1. In cases provided by the contract of bank account, the client shall pay for the services of the bank for performing operations with monetary funds that are on the account.

2. Payment for the services of the bank provided by Paragraph 1 of the present Article may be deducted by a bank from the monetary funds of a client that are on the account after the completion of each transaction unless otherwise provided by the contract of bank account.

#### **Article 920. Interest for the Use by the Bank of Monetary Funds**

1. Unless otherwise provided by the contract of bank account, the bank shall pay interest for the use of monetary funds in the account of the client, the sum of which interest shall be deposited to the account.

2. The interest indicated in Paragraph 1 of the present Article shall be paid by the bank at the rate determined by the contract of bank account, or, in the absence in the contract of the respective term—at the rate established by this bank for demand deposits (Article 906).

3. The sum of interest shall be deposited to the account within the time periods provided by the contract and in the case when such time periods are not provided by the contract, at the expiration of each quarter.

#### **Article 921. Setoff of Mutual Claims of the Bank and the Client on the Account**

Monetary claims of the bank upon the client connected with providing credit to an account (Article 918) and with payment for services of the bank (Article 919) and also claims of the client upon the bank for payment of interest for the use of monetary funds (Article 920) shall be extinguished by setoff (Article 426), unless otherwise provided by the contract of bank account.

The setoff of these claims shall be made by the bank. The bank shall be obligated to inform the client of the setoff made by the procedure and within the time periods established by the contract and, if the respective terms have not been agreed upon by the parties, by the procedure and within the times usual for banking practice of presenting clients with information on the state of monetary funds on the respective account.

#### **Article 922. Bases for Withdrawing Monetary Funds from an Account**

1. Withdrawal of monetary funds from an account shall be made by the bank on the basis of an order by the client.  
2. Without an order by the client, the withdrawal of monetary funds that are located on the account shall be allowed by decision of a court and also in other cases established by a statute or provided by the contract between the bank and the client.

#### **Article 923. The Successive Priority of Withdrawing Monetary Funds from an Account**

1. If there are present on an account monetary funds, the sum of which is sufficient for the satisfaction of all claims presented against the account, the withdrawal of these funds from the account is done in the priority of receipt of orders from the client and other documents for withdrawal (chronological priority), unless otherwise provided by a statute.

2. In case of insufficiency of monetary funds on the account to satisfy the orders of the client and all the claims made against it, the withdrawal of monetary funds shall be made in the following priority:  
in the first priority, withdrawal shall be made under an execution document providing for the transfer or issuance of monetary funds from the account for the satisfaction of claims for compensation for harm caused to life or health, and also claims for the recovery of support payments;  
in the second priority, withdrawal shall be made under an execution document providing for the transfer or issuance of monetary funds for settlements for payment of job leaving compensation and for payment for labor of persons working under a labor contract and for payment of remuneration under a publishing contract;  
in the third priority, withdrawal shall be made under payment documents providing for payments to the state fisc and to the fiscs of communes;  
in the fourth priority, withdrawal shall be made under an execution document providing for the satisfaction of other monetary claims;  
in the fifth priority, withdrawal shall be made under other payment documents in chronological priority.  
Withdrawal of funds from the account on claims relating to the same priority shall be made by chronological order of the coming of documents.

#### **Article 924. Liability of the Bank for Improper Conduct of Operations Under the Account**

In cases of late deposit of monetary funds coming for the client to the account or of their groundless withdrawal by the bank from the account, and also of nonperformance or improper performance of orders of the client to transfer monetary funds from the account or for their release from the account, the bank shall be obligated to pay interest on this sum by the procedure and in the amount provided by Article 411 of the present Code.

#### **Article 925. Bank Secrecy**

1. The bank guarantees secrecy of the bank account and bank deposit, and of operations on the account and information on the client.  
2. Information subject to bank secrecy may be provided only to the clients themselves or their representatives. State bodies and their officials may be provided with such information only in the cases and by the procedure provided by a statute.  
3. In case of divulgence by the bank of information subject to bank secrecy, the client whose rights have been violated shall have the right to demand from the bank the compensation for the losses caused.

#### **Article 926. Limitation of Disposition of the Account**

Limitation of the rights of the client to dispose of the monetary funds on the account is not allowed, with the exception of cases of seizure of the monetary funds on the account or stoppage of operation of an account in cases provided by a statute.

#### **Article 927. Rescission of the Contract of Bank Account**

1. The contract of bank account may be rescinded on statement made by the client at any time.  
2. Unless otherwise provided by the contract of bank account, on demand of the bank the contract of bank account may be rescinded by a court in the following circumstances:  
1) when the sum of monetary funds kept on the account of the client is less than the minimum amount provided by bank rules or contract, unless such a sum is reinstated within a month from the day of warning by the bank of this;

- 2) in the absence of operations under this account in the course of a year, unless otherwise provided by the contract.
3. The remainder of monetary funds on the account shall be given to the client or at its order shall be transferred to another account not later than seven days after receipt of the respective written statement from the client.
4. Rescission of the contract of bank account shall be the basis for closing of the account of the client.

#### **Article 928. Accounts of Banks**

The rules of the present Chapter extend to correspondent accounts, correspondent subaccounts, and other accounts of banks, unless otherwise provided by a statute, other legal acts, or bank rules established in accordance with them.

## **CHAPTER 51. SETTLEMENTS**

### **§ 1. GENERAL PROVISIONS ON SETTLEMENTS**

#### **Article 929. Cash and Non-cash Settlements**

1. Settlements with the participation of citizens that are not connected with the conduct by them of entrepreneurial activity may be made in cash (Article 142) without limitation of the sum or by non-cash procedure.
2. Settlements between legal persons and also settlements with the participation of citizens connected with the conduct by them of entrepreneurial activity shall be made by non-cash procedure. Settlements between these persons may also be made in cash, unless otherwise provided by a statute.
3. Non-cash settlements shall be made through banks or other credit organizations (hereinafter -- banks) in which the respective accounts have been opened unless otherwise follows from a statute or otherwise is conditioned by the form of accounts used.

#### **Article 930. Forms of Non-cash Settlements**

1. In making non-cash settlements, settlements by payment orders, letters of credit, settlements by draft, checks, and debit cards are permitted, and also settlements in other forms provided by a statute, bank rules established in accordance with it, and customs of trade applied in banking practice.
2. The parties to a contract have the right to select and establish in it any of the forms of settlements indicated in Paragraph 1 of the present Article.

### **§ 2. SETTLEMENTS BY PAYMENT ORDERS**

#### **Article 931. General Provisions on Settlements by Payment Orders**

1. In case of settlements by a payment order, the bank undertakes the duty on order of the payor at the expense of the funds located on its account to transfer a determined monetary amount to the account of the person indicated by the payor in this or another bank within the time period provided by a statute or established in accordance with it, unless a shorter time period is provided by the contract of bank account or is determined by the customs of trade applied in banking practice.
2. The rules of the present Section shall be applied to relations connected with the transfer of monetary funds through the bank by a person not having an account in the given bank, unless otherwise provided by a statute, by bank rules established in accordance with it, or otherwise follows from the nature of these relations.
3. The procedure for making settlements by payment orders shall be regulated by a statute and also by bank rules established in accordance with it and by customs of trade applied in bank practice.

#### **Article 932. Conditions for Execution by the Bank of a Payment Order**

1. The content of a payment order and of the settlement documents presented with it and their form must correspond to the requirements provided by a statute and by bank rules established in accordance with it.
2. In case the payment order does not correspond to the requirements of Paragraph 1 of the present Article, the bank may clarify the content of the order. Such a request must be made to the payor without delay upon receipt of the order. In case of failure to receive a reply within a time established by a statute or by bank rules established in accordance with it, or—in their absence—within a reasonable period of time, the bank may leave the payment order unperformed and return it to the payor, unless otherwise provided by a statute, by bank rules established in accordance with it, or by the contract between the bank and the payor.
3. The payor's order shall be executed by the bank only in case of presence of funds on the account of the payor, unless otherwise provided by the contract between the payor and the bank. Orders shall be performed by the bank with observance of the priority of withdrawal of monetary funds from the account (Article 923).

#### **Article 933. Execution of the Order**

1. A bank that has accepted a payor's payment order has the duty to transfer the corresponding monetary sum to the bank of the recipient of the funds for its deposit into the account of the person indicated in the order within the time period established by Paragraph 1 of Article 931 of the present Code.
2. The bank shall have the right to involve other banks for performance of operations for the transfer of monetary funds to the account indicated in the client's order.
3. The bank is obligated immediately to inform the payor on its demand of the performance of the order. The procedure for formalizing and the requirements for the content of the information on the performance of an order shall be established by a statute, by bank rules established in accordance with it, or by the agreement of the parties.

#### **Article 934. Liability for Nonperformance or Improper Performance of an Order**

1. In case of nonperformance or improper performance of a client's order, the bank shall bear liability on the bases and in the amounts provided by Chapter 26 of the present Code.
2. In cases when the nonperformance or improper performance of an order took place in connection with a violation of the rules of making payment operations by a bank involved for the performance of the payor's order, the liability provided by Paragraph 1 of the present Article may be imposed by the court on this bank.
3. If the violation of the rules of payment operations by the bank has entailed to illegal retention of monetary funds, the bank shall be obligated to pay interest by the procedure and in the amount provided by Article 411 of the present Code.

### **§ 3. SETTLEMENTS BY LETTER OF CREDIT**

#### **Article 935. General Provisions on Settlements by Letter of Credit**

1. In the case of settlements by letter of credit, the bank acting on the order of the payor for the opening of the letter of credit and in accordance with its order (the emitting bank) undertakes the duty to make payments to the recipient of the funds or to pay, accept, or honor a transfer bill of exchange or empower another bank (the executing bank) to make payments to the recipient of funds, or to pay, accept, or honor a transfer bill of exchange. The rules on the executing bank shall be applied to an emitting bank that has made payments to the recipient of funds or has paid, accepted, or honored a transfer bill of exchange.
2. The procedure for making settlements under a letter of credit shall be regulated by a statute and also by bank rules established in accordance with it and by customs of trade applied in banking practice.

#### **Article 936. Revocable Letter of Credit**

1. A revocable letter of credit is one that may be changed or revoked by the emitting bank without prior notification to the recipient of funds. Revocation of the letter of credit does not create any obligations of the emitting bank to the recipient of funds.
2. The executing bank has the duty to make payment or other operations under a revocable letter of credit if by the time of making them it has not received notification of the change of conditions or the revocation of the letter of credit.
3. A letter of credit is revocable unless directly established otherwise in its text.

#### **Article 937. Irrevocable Letter of Credit**

1. An irrevocable letter of credit is one that may not be revoked or changed without the consent of the recipient of funds.
2. On request of the emitting bank, the executing bank participating in the conduct of a letter of credit operation, may guaranty an irrevocable letter of credit (guaranteed letter of credit). Such a guaranty signifies acceptance by the executing bank of an obligation supplementary to the obligation of the emitting bank to make payment in accordance with the terms of the letter of credit.  
An irrevocable letter of credit guaranteed by the executing bank may not be changed or revoked without the consent of the executing bank.

#### **Article 938. Execution of a Letter of Credit**

1. To execute a letter of credit the recipient of funds shall present to the executing bank documents confirming the performance of all terms of the letter of credit. In case of violation of even one of these terms execution of the letter of credit shall not take place.
2. If the executing bank has completed payment or has conducted another operation in connection with the terms of the letter of credit, then the emitting bank shall be obligated to compensate it for the expenses borne connected with the execution of the letter of credit. These expenses and also all other expenses of the emitting bank connected with the execution of the letter of credit shall be compensated by the payor.



#### **Article 939. Refusal to Accept Documents**

1.If the executing bank refuses to accept documents that by external characteristics do not correspond to the terms of the letter of credit, it shall be obligated immediately to inform the recipient of funds and the emitting bank of this with an indication of the causes of the refusal.

2.If the emitting bank, having received the documents accepted by the executing bank, considers that they do not correspond by external characteristics to the terms of the letter of credit, it shall have the right to refuse to accept them and to demand from the executing bank the sum paid to the recipient of funds in violation of the terms of letter of credit and, for an uncovered letter of credit, to refuse to compensate for the sums paid.

#### **Article 940. Liability of the Bank for Violation of the Terms of a Letter of Credit**

1.Liability to the payor for violation of the terms of a letter of credit shall be borne by the emitting bank, and to the emitting bank by the executing bank, with the exception of cases provided in the present Article.

2.In case of groundless refusal of the executing bank to pay monetary funds under a covered or guarantied letter of credit, liability to the recipient of funds may be imposed on the executing bank.

3.In case of incorrect payment by the executing bank of monetary funds under a covered or guarantied letter of credit as the result of violations of the terms of the letter of credit, liability to the payor may be imposed on the executing bank.

#### **Article 941. Closing of a Letter of Credit**

1.Closing of a letter of credit at the executing bank shall be made:

- 1) on the expiration of the time period of the letter of credit;
- 2) on statement by the recipient of funds of its decision not to use the letter of credit before the expiration of the time period of its effectiveness, if the possibility of such a decision is provided by the terms of the letter of credit;
- 3) on demand of the payor for the full or partial recall of the letter of credit, if such a recall is possible under the terms of the letter of credit.

The executing bank must make the emitting bank informed of the closing of the letter of credit.

2.The unused sum of a covered letter of credit is subject to return to the emitting bank without delay simultaneously with the closing of the letter of credit. The emitting bank has the duty to credit the returned sums to the account of the payor from which the funds were deposited.

### **§ 4. SETTLEMENT BY DRAFT**

#### **Article 942. General Provisions on Settlements by Draft**

1.In case of settlements by draft, the bank (the emitting bank) undertakes the duty on instruction by the client to conduct at the expense of the client actions for receipt from the payor of payment and/or acceptance of payment.

2.The emitting bank, having received an instruction from the client, shall have the right to involve another bank to fulfill it (the executing bank).

The procedure for conducting settlements by draft shall be regulated by a statute, bank rules established in accordance with it, and the customs of trade applied in banking practice.

3.In case of nonperformance or improper performance of the instruction from the client, the emitting bank shall bear liability to it on the bases and in the amount that are provided by Chapter 26 of the present Code.

If the nonperformance or improper performance of the order from the client took place in connection with a violation of the rules for making accounting operations by the executing bank, liability to the client may be imposed on that bank.

4.Relations connected with settlement by draft that are not regulated by the present Code are regulated by statute.

#### **Article 943. Performance of a Draft**

1.In the absence of any document or in case of noncorrespondence of documents by their external characteristics to the draft, the executing bank shall be obligated to inform immediately the person from whom the draft was received of this. In case of failure to eliminate these defects, the bank shall have the right to return the documents without execution.

2.The documents are to be presented to the payor in the form in which they were received, with the exception of notes and inscriptions of the banks necessary for the formalization of the draft operation.

3.If the documents are subject to payment at sight, the executing bank must make presentation for payment without delay upon the receipt of the draft.

If the documents are subject to payment in another time period, the executing bank must, to acquire acceptance by the payor, present the documents for acceptance without delay upon receipt of the draft, and the demand for payment must be made not later than the day of the occurrence of the time period of payment indicated in the document.

4.Partial payments may be accepted in cases when this is established by bank rules or in case of the presence of a special permission in the draft.

5.Sums received (drawn) must be transferred immediately by the executing bank to the disposition of the emitting bank, which must deposit these amounts to the account of the client. The executing bank shall have the right to withhold, from the sums drawn, the remuneration due to it and reimbursement for expenses.

#### **Article 944. Giving Notice About Operations Conducted**

1.If payment and/or acceptance are not received, the executing bank shall be obligated immediately to give notice to the emitting bank of the causes of the nonpayment or refusal of acceptance.

The emitting bank shall be obligated to give notice to the client immediately of this, asking it for instructions with respect to further actions.

2.In case of failure to receive instructions on further actions within the time period established by bank rules, or in its absence, within a reasonable period of time, the executing bank shall have the right to return the documents to the emitting bank.

### **§ 5. SETTLEMENTS BY CHECKS**

#### **Article 945. General Provisions on Settlements by Checks**

1.In case of settlements by check (Article 155) only a bank where the maker of a check has funds which it has the right to dispose of by writing checks may be indicated as payor under a check.

2.Revocation of a check before the expiration of the time period for its presentation is not allowed.

3.Issuance of a check does not extinguish the monetary obligation in performance of which it was issued.

4.The procedure and conditions for the use of checks in payments shall be regulated by the present Code, and in the area not regulated by it, by other statutes and bank rules established in accordance with them.

#### **Article 946. Requisites of a Check**

1.A check must contain:

- 1) the designation “check”;
- 2) an order to the payor to pay a defined monetary sum;
- 3) the designation of the payor and an indication of the account from which payment must be made;
- 4) an indication of the currency of payment;
- 5) an indication of the date and place of the making of the check;
- 6) the signature of the person who wrote the check—the maker of the check.

A document in which any of these requisites is absent is not a check.

A check that does not indicate the place where it was made is considered signed in the place of location of the maker of the check.

An indication on interest is considered as not having been written.

2.The form of the check and the procedure for filling it out are determined by a statute and bank rules established in accordance with it.

#### **Article 947. Payment of a Check**

1.A check shall be paid at the expense of the maker of the check.

In case of deposit of funds, the procedure and condition of deposit of funds for coverage of the check shall be established by bank rules.

2.A check is subject to payment by the payor on the condition of presentation of it for payment in the time period established by a statute.

3.The payor of a check has the duty to check by all means available to it the authenticity of the check and also that the presenter of the check is a person empowered by it.

In case of payment of an endorsed check, the payor has the duty to verify the correctness of endorsements, but not the signatures of the endorser.

4.Losses resulting as the consequence of payment by the payor of a counterfeit, stolen, or lost check, shall be imposed on the payor or the maker of the check depending upon whose fault they were caused.

5.A person who has paid a check shall have the right to demand transfer of the check to it with a signature on the receipt of payment.

#### **Article 948. Transfer of Rights Under a Check**

1.Transfer of rights under a check shall be made by the procedure established by Article 149 of the present Code with observance of the rules provided by the present Article.

2.A check made to a name is not subject to transfer.

3.In a transferable check, an endorsement to the payor has the effect of a signature for the receipt of payment.

An endorsement made by the payor is invalid.

A person holding a transferable check received by endorsement shall be considered the legal holder, if it bases its right on an uninterrupted series of endorsements.

#### **Article 949. Guaranty of Payment**

1. Payment under a check may be guaranteed in full or in part by a surety notation. The guaranty of the payment under a check (surety notation) may be given by any person, with the exception of the payor.
2. The surety notation shall be placed on the face side of the check or on a supplementary list under the heading "consider as surety notation" and indications by whom and for whom it is given. If it is not indicated for whom it is given, then it shall be considered that the surety notation is given for the maker of the check. The surety notation shall be signed by the surety with an indication of its place of residence and the date of making the notation and if the surety is a legal person, the place of its location and the date of making the notation.
3. The surety shall be liable in the same way as the one for whom it gave the surety notation. Its obligation shall be valid even in the case when the obligation that it guaranteed is invalid on any basis other than a nonobservance of form.
4. A surety who has paid a check shall acquire the rights deriving from the check against the person for whom it gave the guaranty and against those who are liable to the latter.

#### **Article 950. Cashing a Check**

1. Presentation of a check at a bank serving the holder of the check for cashing to receive payment is considered presentation of a check for payment. Payment of the check shall be made by the procedure provided in Article 943 of the present Code.
2. Deposit of funds under the cashed check to the account of the holder of the check shall be made after the receipt of payment from the payor, unless otherwise provided by the contract between the holder of the check and the bank.

#### **Article 951. Evidence of Refusal to Pay a Check**

1. Refusal to pay a check must be evidenced by one of the following means:
  - 1) making by a notary of a protest or compiling of an equivalent document by the procedure established by a statute;
  - 2) a notation of the payor on the check on refusal to pay it with an indication of the date of presentation of the check for payment;
  - 3) a notation of a collecting bank with an indication of the date to the effect that the check was timely presented and not paid.
2. A protest or equivalent document must be executed before the expiration of the time period for presentation of the check. If presentation of the check took place on the last day of the period, then the protest or equivalent document may be executed on the next working day.

#### **Article 952. Notification of Nonpayment of a Check**

- The holder of a check shall be obligated to notify its endorser and the maker of the check of nonpayment in the course of two working days following the day of the execution of the protest or equivalent document. Each endorser must, within two working days following the day it has received notice, communicate the notice received by it to its endorser. Notice is to be sent within the same time period to the person who gave a surety notation for this person.
- A person who has not sent notification in the time period indicated does not lose its rights, but it must compensate for the losses that might occur as the result of non-notification of nonpayment of the check. The amount of the losses compensated may not exceed the sum of the check.

#### **Article 953. Consequences of Nonpayment of a Check**

1. In case of refusal of the payor to pay a check, the holder of the check shall have the right at its choice to bring a suit against one, several, or all persons obligated on the check (maker of the check, surety, indorsers), who bear joint and several liability to it.
2. The holder of the check shall have the right to demand from these persons payment of the sum of the check, of its expenses in acquiring payment, and also of interest in accordance with Paragraph 1 of Article 411 of the present Code. The same right shall belong to the person obligated on the check after it has paid the check.
3. A suit by the holder of the check against the persons indicated in Paragraph 1 of the present Article may be presented within six months from the day of the end of the time period for presenting the check for payment. Subrogation claims on suits of obligated persons to one another shall be extinguished with the expiration of six months from the day when the respective obligated person satisfied the claim or from the day of bringing suit against it.

## CHAPTER 52. ENTRUSTED MANAGEMENT OF PROPERTY

### Article 954. The Contract of Entrusted Management of Property

1. Under the contract of entrusted management of property one party (the founder of the management) transfers to the other party (the entrusted manager) for a specified time period property into entrusted management and the other party has the duty to conduct management of this property in the interests of the founder of the management or of a person indicated by it (the benefit-receiver).

The transfer of property into entrusted management does not entail the transfer of the right of ownership to it to the entrusted manager.

2. In conducting entrusted management of property, the entrusted manager shall have the right to conduct with respect to this property, in accordance with the contract of entrusted management, any legal or factual actions in the interests of the benefit-receiver.

A statute or contract may provide for limitations with respect to individual actions for the entrusted management of property.

3. The entrusted manager shall make transactions with property transferred into entrusted management in its own name, indicating that it is acting as such a manager. This condition shall be considered observed if on conducting the actions not requiring written formalization the other party is informed that they are being conducted by an entrusted manager in such capacity and in written documents after the name or designation of the entrusted manager the notation, "D.U." [*abbreviation of the Russian words for "Entrusted Manager"—translator's note*], is made.

In the absence of an indication of the action of an entrusted manager in this capacity, the entrusted manager shall undertake the duty to third persons personally and shall be liable to them only with the property belonging to it.

### Article 955. Object of Entrusted Management

1. Individual objects related to immovable property, commercial paper and securities, rights evidenced by undocumented securities, exclusive rights, and other property may be objects of entrusted management.

2. Money, with the exception of cases provided by a statute, may not be an independent object of entrusted management.

### Article 956. The Founder of the Management

The founder of the entrusted management is the owner of the property or, in the cases provided by Article 968 of the present Code, another person.

### Article 957. The Entrusted Manager

1. The entrusted manager may be an individual entrepreneur or a commercial organization.

In cases when entrusted management of property is conducted on bases provided by a statute, the entrusted manager may be a citizen who is not an entrepreneur or a noncommercial organization.

2. Property may not be transferred into entrusted management to a state body or a body of local self-government.

3. The entrusted manager may not be the benefit-receiver under the contract of entrusted management of property.

### Article 958. Essential Terms of the Contract of Entrusted Management of Property

1. The contract of entrusted management of property must indicate:

1) the composition of the property transferred into entrusted management;

2) the designation of the legal person or the name of the citizen in whose interests the management of the property is conducted;

3) the amount and form of remuneration to the manager, if payment of remuneration is provided by the contract;

4) the time period of effectiveness of the contract.

2. The contract of entrusted management of property may be concluded for a time period not exceeding five years. For individual types of property transferred into entrusted management, a statute may establish other time limits for which the contract may be concluded.

In the absence of a statement of one of the parties on the termination of the contract, at the end of the time period of its effectiveness it shall be considered extended for the same time period and on the same conditions as was provided by the contract.

### Article 959. Form of the Contract of Entrusted Management of Property

1. The contract of entrusted management of property must be concluded in written form.

2. The contract of entrusted management of immovable property is subject to notarial certification.

3. A right of entrusted management with respect to immovable property is subject to state registration.

### Article 960. Segregation of Property Transferred into Entrusted Management

1. Property transferred into entrusted management shall be segregated from other property of the founder of the management and also from the property of the entrusted manager. This property shall be reflected for the entrusted

manager on a separate balance sheet for which independent accounting shall be maintained. For payments for the activity connected with entrusted management, a separate bank account shall be opened.

2. In case of bankruptcy of the founder of the management, entrusted management of this property shall be terminated and the property shall be included in the general assets of the proceedings.

#### **Article 961. Transfer into Entrusted Management of Property Burdened by Pledge**

1. The transfer of pledged property into entrusted management shall not deprive the pledgee of the right to levy execution on this property.

2. The entrusted manager must be warned of the fact that the property transferred to it into entrusted management is burdened with a pledge. If the entrusted manager neither knew nor should have known of the burdening with a pledge of the property transferred to it into entrusted management, it shall have the right to demand in a court the rescission of the contract of entrusted management of property with compensation to it of actual damage and payment of proportionate remuneration.

#### **Article 962. Rights and Duties of the Entrusted Manager**

1. The entrusted manager shall exercise, within the limits provided by a statute and the contract of entrusted management of property, the powers of an owner with respect to the property transferred into entrusted management. The entrusted manager shall exercise disposition of immovable property in the cases provided by the contract of entrusted management.

2. The rights acquired by the entrusted manager as the result of actions for the entrusted management of property shall be included in the composition of the property transferred into entrusted management. Duties that have arisen as the result of such actions of the entrusted manager shall be performed at the expense of this property.

3. For the protection of rights to property that is in entrusted management, the entrusted manager shall have the right to demand all types of elimination of a violation of its rights (Articles 274, 275, 277, 278).

4. The entrusted manager shall present the founder of the management and the benefit-receiver with a report on its activity within the time periods and by the procedure that are established by the contract of entrusted management of property.

#### **Article 963. Transfer of Entrusted Management of Property to Another Person**

1. The entrusted manager shall conduct entrusted management of property personally with the exception of cases provided by Paragraph 2 of the present Article.

2. The entrusted manager may empower another person to take, in the name of the entrusted manager, actions necessary for the management of the property, if it is empowered to do so by the contract of entrusted management of property or if it has received the consent of the founder of the management in written form to do so, or was compelled to do so by force of circumstances for the ensuring the interests of the founder of the management or the benefit-receiver and does not have the possibility of receiving instructions of the founder of the management within a reasonable period of time.

The entrusted manager shall be liable for the actions of an empowered person selected by it as for its own actions.

#### **Article 964. Liability of the Entrusted Manager**

1. The entrusted manager who has not employed in the entrusted management of property the necessary care for the interests of the benefit-receiver or the founder of the management shall compensate the benefit-receiver for lost profit for the time of entrusted management of property and the founder of the management for the losses caused by the loss of or harm to property, taking into account its natural wear, and also lost profit.

The entrusted manager shall bear liability for the losses caused unless it proves that these losses occurred as the result of force majeure or the actions of the benefit-receiver or the founder of the management.

2. Obligations under a transaction made by the entrusted manager exceeding the powers given to it or in violation of the limitations established for it shall be borne by the entrusted manager personally. If the third persons participating in the transaction neither knew nor should have known of the excess of powers or of the established limitations, the obligations that have arisen shall be subject to performance by the procedure established by Paragraph 3 of the present Article. The founder of the management may in this case demand from the entrusted manager compensation for losses suffered by it.

3. Debts on obligations that arose in connection with the entrusted management of property shall be paid at the expense of this property. In case of insufficiency of this property execution may be levied on the property of the entrusted manager and in case of insufficiency also of its property—on the property of the founder of the management that was not transferred into entrusted management.

4. The contract of entrusted management of property may provide for the giving by the entrusted manager of a pledge to secure compensation for losses that may be caused to the founder of the management or the benefit-receiver by the improper performance of the contract of entrusted management.

#### **Article 965. Remuneration for the Entrusted Manager**

The entrusted manager shall have the right to the remuneration provided by the contract of entrusted management of property and also to compensation of the necessary expenses made by it in the entrusted management of property at the expense of income from the use of this property.

#### **Article 966. Termination of the Contract of Entrusted Management of Property**

1. The contract of entrusted management of property shall be terminated, in addition to the general bases for termination of an obligation, as the result of:

- 1) the death of a citizen who is the benefit-receiver or the liquidation of a legal person that is the benefit-receiver unless the contract provides otherwise;
- 2) a refusal by the benefit-receiver to receive the benefits under the contract unless the contract provides otherwise;
- 3) death of a citizen who is the entrusted manager, recognition of him as lacking dispositive capacity, of limited dispositive capacity, missing, or bankrupt;
- 4) withdrawal by the entrusted manager or the founder of the management from the conduct of entrusted management in connection with the impossibility for the entrusted manager to personally conduct the entrusted management of the property;
- 5) withdrawal by the founder of the management from the contract on condition of payment to the entrusted manager of the remuneration provided by the contract;
- 6) declaration of the citizen who is the founder of the management as bankrupt.

2. In case of withdrawal by one party from the contract of entrusted management of property, the other party must be informed of this three months before the termination of the contract, unless the contract provides another time period of for informing.

3. Upon termination of a contract of entrusted management, the property that is in entrusted management shall be transferred to the founder of the management unless the contract provides otherwise.

#### **Article 967. Transfer of Commercial Paper and Securities into Entrusted Management**

In case of transfer of commercial paper and securities into entrusted management, provision may be made for the combining of commercial paper and securities transferred into entrusted management by various people.

The powers of the entrusted manager for the disposition of the commercial paper and securities shall be determined in the contract of entrusted management.

The peculiarities of entrusted management of commercial paper and securities shall be determined by a statute. The rules of the present Article shall be applied respectively to rights evidenced by undocumented commercial paper and securities (Article 152).

#### **Article 968. Entrusted Management of Property on Bases Provided by a Statute**

1. Entrusted management of property may also be founded:

- 1) as the consequence of the necessity of continual management of the property of a ward in the cases provided by Article 40 of the present Code;
- 2) on the basis of a will in which there is named a person to execute the will (the executor);
- 3) on other bases provided by a statute.

2. The rules provided by the present Chapter shall be applied respectively to relations for entrusted management of property founded on the bases indicated in Paragraph 1 of the present Article unless otherwise provided by a statute or follows from the nature of such relations.

In cases when the entrusted management of property is founded on the bases indicated in Paragraph 1 of the present Article, the rights of the founder of the management provided by the rules of the present Chapter belong respectively to the agency of guardianship and curatorship, to the executor of the will or to another person indicated in a statute.

### **CHAPTER 53. ENTREPRENEURIAL SYSTEM LICENSE (FRANCHISING)**

#### **Article 969. The Contract of Entrepreneurial System License**

1. Under the contract of entrepreneurial system license (hereinafter—system license) one party (the rightholder) undertakes the duty to provide the other party (the user) for remuneration for a time period or without an indication of a time period the right to use in the entrepreneurial activity of the user a system of exclusive rights belonging to the rightholder, including the right to a firm name of the rightholder, to protected commercial information, and also to other objects of exclusive rights provided by the contract—trademark, service mark, etc.

The contract of system license provides for the use of the system of exclusive rights, business reputation, and commercial experience of the rightholder in a specified scope (in particular with an establishment of a minimum and/or maximum volume of use), with an indication or without an indication of the territory of use with respect to

a defined area of entrepreneurial activity (sale of goods received from the rightholder or produced by the user, conduct of other trade activity, doing the work, rendering of services).

2. Commercial organizations and citizens registered as individual entrepreneurs may be parties under a contract of system license.

#### **Article 970. The Form and Registration of the Contract of System License**

1. The contract of system license shall be concluded in written form.

Nonobservance of the written form of the contract shall entail its invalidity. Such a contract shall be considered void.

2. A contract of system license shall be registered by the state body that conducted the registration of a legal person or individual entrepreneur acting under the contract as the rightholder.

If the rightholder is registered as a legal person or individual entrepreneur in a foreign state, registration of the contract of system license shall be conducted by the body that conducted the registration of the legal person or individual entrepreneur that is the user.

In relations with third persons, the parties to the contract of system license shall have the right to refer to the contract only from the time of its registration.

The contract of system license for the use of an object protected in accordance with patent legislation shall be subject to registration also in the empowered state body in the area of patents and trademarks. In case of nonobservance of this requirement, the contract of system license shall be considered void.

#### **Article 971. System Sublicense**

1. A contract of system license may provide for the right of the user to permit other persons the use of the system of exclusive rights or part of this system that was given to it on the conditions of sublicense agreed by it with the rightholder or defined in the contract of system license. The contract may provide for a duty of the user to grant during a defined time period to a defined number of persons the right of use of these rights on the conditions of sublicense.

The contract of system sublicense may not be concluded for a time period longer than the contract of system license on the basis of which it was concluded.

2. If the contract of system license is invalid, contracts of system sublicense concluded on the basis of it shall also be invalid.

3. Unless otherwise provided by the contract of system license concluded for a term, in case of its early termination the rights and duties of the secondary rightholder under the contract of system sublicense (or of the user under the contract of system license) shall pass to the rightholder unless it has renounced the taking for itself of the rights and duties under this contract. This rule shall be applied respectively in case of rescission of a contract of system license concluded without an indication of the term.

4. The user shall bear subsidiary liability for harm caused to the rightholder by the actions of the secondary users unless otherwise provided by the contract of system license.

5. The rules provided by the present Chapter on the contract of system license shall be applied to the contract of system sublicense unless otherwise follows from the peculiarities of sublicense.

#### **Article 972. Remuneration Under the Contract of System License**

Remuneration under the contract of system license may be paid by the user to the rightholder in the form of fixed one-time or periodic payments, transfers from receipts, extra charges on the wholesale price of the goods transferred by the rightholder for resale, or in another form provided by the contract.

#### **Article 973. Duties of the Rightholder**

1. The rightholder is obligated:

1) to transfer to the user technical and commercial documentation and to provide other information necessary to the user for the exercise of the rights provided to it under the contract of system license and also to instruct the user and its employees on questions connected with the exercise of these rights;

2) to issue the user the licenses provided by the contract, having ensured their formalization by the established procedure.

2. If the contract of system license does not provide otherwise, the rightholder is obligated:

1) to ensure the registration of the contract of system license (Paragraph 2 of Article 1003);

2) to provide the user with continual technical and consulting support, including support in the training and raising of the skills of employees;

3) to supervise the quality of the goods (or of work or of services) produced (or performed or rendered) by the user on the basis of the contract of system license.

#### **Article 974. Duties of the User**

Taking into account the nature and peculiarities of the activity conducted by the user under the contract of system license, the user is obligated:

- 1) to use, in the conduct of the activity provided by the contract, the firm name of the rightholder in the manner indicated in the contract;
- 2) to ensure the correspondence of the quality of the goods produced by it on the basis of the contract, of work done, of services rendered to the quality of the analogous goods, work, or services, produced, performed, or rendered by the rightholder;
- 3) to observe the instructions and directions of the rightholder directed at ensuring the correspondence of the nature, means, and conditions of the use of the system of exclusive rights to that which it enjoys as the rightholder, including directions concerning the external and internal appearance of commercial premises;
- 4) to render the buyers (or customers) all additional services that they could expect, acquiring (or ordering) goods (or work or services) directly from the rightholder;
- 5) not to divulge secrets of production of the rightholder or other confidential commercial information received from it;
- 6) to provide the agreed number of sublicenses if such a duty is provided by the contract;
- 7) to inform the buyers (or customers) by the means most obvious for them that it is using the firm name, trademark, service mark, or other means of individualization by virtue of a contract of system license.

#### **Article 975. Limitations of the Rights of the Parties Under the Contract of System License**

1. A contract of system license may provide for limitations of the rights of the parties, in particular it may provide for:

- 1) an obligation of the rightholder not to provide other persons with similar systems of exclusive rights for their use on the territory attached to the user or to refrain from its own analogous activity on this territory;
- 2) an obligation of the user not to compete with the rightholder on the territory to which the effect of the contract of system license;
- 3) a renunciation by the user of the receipt under the contracts of system license of analogous rights from competitors (or potential competitors) of the rightholder;
- 4) an obligation of the user to agree with the rightholder on the place of location of commercial premises used for the exercise of the exclusive rights provided under the contract and also on their external and internal appearance. Limiting terms may be found invalid on the demand of the antimonopoly agency or other interested person, if these terms, taking into account the condition of the relevant market and financial status of the parties, violate antimonopoly legislation.

2. Terms limiting the rights of the parties under the contract of system license shall be void if by virtue of them:

- 1) the rightholder has the right to determine the price of sale of goods by the user or the price of work (or services) done (or rendered) by the user, or to establish an upper or lower limit for these prices;
- 2) the user shall have the right to sell goods, to do work, or render services exclusively to a defined category of buyers (or customers) or exclusively to buyers (or customers) having a place of location (or place of residence) on the territory defined in the contract.

#### **Article 976. Liability of the Rightholder for Claims Made Against the User**

The rightholder shall bear subsidiary liability for claims made against the user on the nonconformity of the quality of the goods (or work or services) sold (or performed or rendered) by the user under the contract of system license. On claims made against the user as the producer of products (or goods) of the rightholder, the rightholder shall be liable jointly and severally with the user.

#### **Article 977. Priority Right of the User to Conclude the Contract of System License for a New Time Period**

1. Unless otherwise provided by the contract of system license, a user who has properly performed its obligations shall have, under otherwise equal conditions a priority right before other persons, to conclude a contract for a new time period.

2. A user shall give notice in writing the holder of the right on his intent to conclude this contract within a time period, mentioned in the contract of system license, and if this time period is not mentioned in contract, within a reasonable time period upon the end of contract.

3. Upon conclusion of the contract of system license for a new time period conditions of the contract may be changed upon an agreement of parties.

#### **Article 978. Change of the Contract of System License**

The contract of system license may be changed in accordance with the rules provided by Chapter 30 of the present Code.

In relations with third persons, the parties to the contract of system license shall have the right to rely on a change in the contract only from the time of registration of this change by the procedure established by Paragraph 2 of Article 970 of the present Code, unless they prove that the third person knew or should have known of the change of the contract.



#### **Article 979. Termination of the Contract of System License**

1. Each of the parties to a contract of system license concluded without an indication of a time period shall have the right at any time to withdraw from the contract, having notified the other party of this six months in advance, unless the contract provides a longer term.
2. Early rescission of a contract of system license concluded with an indication of a time period and also rescission of a contract concluded without an indication of a time period are subject to registration by the procedure established by Paragraph 2 of Article 970 of the present Code.
3. In case of termination of the right belonging to the rightholder to a firm name, the contract of system license shall be terminated.
4. Upon declaration of the rightholder bankrupt, the contract of system license shall be terminated.

#### **Article 980. Maintenance of the Contract of System License in Effect Upon Change of the Parties**

1. The transfer to another person of any exclusive right included in the system of exclusive rights transferred to the user is not a basis for change or rescission of the contract of system license. The new rightholder becomes a party to this contract with respect to the rights and duties relating to the transferred exclusive right.
2. In case of the death of the rightholder, his rights and duties under the contract of system license pass to the heir upon the condition that he is registered or, in the course of six months from the day of opening the inheritance, will be registered as an individual entrepreneur. In the contrary case the contract shall be terminated. The exercise of the rights and the performance of the duties of the deceased rightholder until the acceptance by the heir of these rights and duties or until the registration of the heir as an individual entrepreneur shall be conducted by an administrator appointed by a notary.

#### **Article 981. Consequences of Changing the Firm Name of the Rightholder**

In case of change by the rightholder of its firm name, the right to use of which is included in the system of exclusive rights, the contract of system license shall be effective with respect to the new firm name of the rightholder unless the user demands rescission of the contract and compensation for losses. In case of continuation of the effect of the contract, the user shall have the right to demand a proportional reduction of the remuneration due to the rightholder.

#### **Article 982. Consequences of Termination of an Exclusive Right the Use of Which Was Given Under the Contract of System License**

If, during the time period of effectiveness of a contract of system license, the time period of effectiveness of an exclusive right has expired whose use was given under this contract, or this right has terminated on another basis, the contract of system license shall continue to be in effect with the exception of the provisions relating to the terminated right, and the user, unless otherwise provided by the contract, shall have the right to demand the proportional reduction of the remuneration due to the rightholder.

In case of termination of the right belonging to the rightholder to a firm name, the consequences shall ensue that are provided by Paragraph 3 of Article 979 and by Article 981 of the present Code.

## **CHAPTER 54. INSURANCE**

#### **Article 983. Voluntary and Compulsory Insurance**

1. Insurance shall be conducted on the basis of contracts of property or personal insurance concluded by a citizen or legal person (the insured) with an insurance organization (the insurer).
2. The contract of personal insurance is a public contract (Article 442).
3. In cases when a statute imposes upon persons indicated in it a duty to insure as the insured the life, health, or property of other persons or their civil law liability to other persons at the insured's own expense or at the expense of the interested persons (compulsory insurance), the insurance shall be conducted by the concluding of a contract in accordance with the rules of the present Chapter. For the insurers the concluding of contracts of insurance on conditions proposed by the insured shall not be obligatory.
4. A statute may provide for cases of obligatory insurance of the life, health, and property of citizens at the expense of funds of the budget (obligatory state insurance).

#### **Article 984. Interests, Insurance of Which is Not Permitted**

1. Insurance is not allowed:  
of unlawful interests;  
for losses from participation in games, lotteries, and wagers.
2. Terms of a contract of insurance contradicting Paragraph 1 of the present Article are void.

### **Article 985. The Contract of Property Insurance**

1. Under the contract of property insurance, one party (the insurer) undertakes the duty, in exchange for the payment stated in the contract (the insurance premium), upon the happening of the event provided in the contract (the insured event) to compensate the other party (the insured), or the other person for whose benefit the contract is concluded (the benefit-aquirer), for the losses caused as the result of this event to the insured property or losses in connection with other property interests of the insured (to pay the insurance compensation) within the limits of the sum determined by the contract (the insured sum).

2. Under the contract of property insurance, the following property interests in particular may be insured:

- 1) the risk of loss (perishing), shortage of, or harm to defined property (Article 986);
- 2) the risk of liability under obligations arising as the result of causing harm to the life, health, or property of other persons or, in cases provided by a statute, also of liability under contracts—the risk of civil liability (Articles 987 and 988);
- 3) the risk of losses from entrepreneurial activity because of the breach of their obligations by contract partners of the entrepreneur or change of conditions of this activity due to circumstances not depending upon the entrepreneur, including the risk of nonreceipt of expected income—entrepreneurial risk (Article 989).

### **Article 986. Insurance of Property**

1. Property may be insured under a contract of insurance for the benefit of a person (the insured or benefit-aquirer) having an interest based upon a statute, other legal act, or contract in the preservation of this property.

2. A contract of insurance of property made in the absence of interest of the insured or benefit-aquirer in the preservation of the insured property is invalid.

3. A contract of insurance of property for the benefit of a benefit-aquirer may be concluded without indication of the name or designation of the benefit-aquirer (insurance “for the account of whom it may concern”).

In case of concluding such a contract, the insured shall be issued a bearer insurance policy. The presentation of this policy to the insurer shall be required for the exercise by the insured or the beneficiary of the rights under such a contract.

### **Article 987. Insurance of Liability for Causing Harm**

1. Under a contract of insurance of the risk of liability for obligations arising as the result of causing harm to the life, health, or property of other persons, the risk of liability of the insured itself or of another person upon whom such liability may be imposed may be insured.

2. The person whose risk of liability for causing of harm is insured must be named in the contract of insurance. If this person is not named in the contract, it shall be considered that the risk of liability of the insured itself is insured.

3. The contract of insurance of the risk of liability for causing harm shall be considered concluded for the benefit of the persons to whom harm may be caused (the benefit-aquirer), even if this contract is concluded for the benefit of the insured or of another person liable for causing harm, or if in the contract it is not indicated in whose benefit it is made.

4. In the case when liability for causing harm is insured because its insurance is obligatory and also in other cases provided by a statute or the contract of insurance of such liability, the person for whose benefit the contract of insurance is considered to have been concluded shall have the right to present a demand directly to the insurer for compensation for harm within the limits of the insured sum.

### **Article 988. Insurance of Liability Under a Contract**

1. Insurance of the risk of liability for breaching a contract shall be allowed in the cases provided by a statute.

2. Under the contract of insurance of the risk of liability for breaching a contract, only the risk of liability of the insured itself may be insured. A contract of insurance not meeting this requirement is void.

3. The risk of liability for breaching the contract shall be considered insured for the benefit of the party to whom, under the terms of this contract, the insured must bear the corresponding liability—the benefit-aquirer, even if the contract of insurance is made for the benefit of another person or it is not indicated in it for whose benefit it is concluded.

### **Article 989. Insurance of an Entrepreneurial Risk**

1. Under a contract of insurance of an entrepreneurial risk, only the entrepreneurial risk of the insured itself may be insured and only for its benefit.

2. A contract of insurance of entrepreneurial risk of a person who is not the insured is void.

A contract of insurance of entrepreneurial risk for the benefit of a person who is not the insured shall be considered concluded for the benefit of the insured.

### **Article 990. The Contract of Personal Insurance**

1. Under the contract of personal insurance one party (the insurer) undertakes the duty for a payment defined by the contract (the insurance premium) paid by the other party (the insured) to pay at one time or to pay periodically the sum provided by the contract (the insured sum) in case of causing of harm to the life or health of the insured

himself or of another citizen named in the contract (the insured person), the reaching by him of a specified age, or the happening in his life of another event provided by the contract (the insured event).

The right to receive the insured sum belongs to the person for whose benefit the contract was concluded.

2. The contract of personal insurance shall be considered concluded for the benefit of the insured person, unless another person is named in the contract as the benefit-aquirer. In case of the death of the person insured under a contract in which no other benefit-aquirer is named, the heirs of the insured person shall be recognized as benefit-aquirers.

A contract of personal insurance for the benefit of a person who is not the insured person, including for the benefit of an insured who is not the insured person, may be concluded only with the written consent of the insured person. In the absence of such consent, the contract may be declared invalid on suit of the insured person and in case of the death of this person, on suit of his heirs.

#### **Article 991. Compulsory Insurance**

1. A statute may impose, upon persons indicated in it, the duty to insure:

1) the life, health, or property of other persons defined in a statute in case of the causing of harm to their life, health, or property;

2) the risk of its own civil liability that may occur as the result of the causing of harm to the life, health, or property of other persons or the breach of contract with other persons.

2. The duty to insure his own life and health may not be imposed upon a citizen by a statute.

3. In cases when the duty to insure does not derive from a statute, but is based on a contract, including the duty to insure property—on a contract with the holder of the property or on the charter of the legal person that is the owner of the property, such insurance is not compulsory in the sense of the present Article and does not entail the consequences provided by Article 993 of the present Code.

#### **Article 992. Making of Compulsory Insurance**

1. Compulsory insurance shall be made by the conclusion of a contract of insurance by the person upon whom the duty of such insurance is imposed (the insured) with the insurer.

2. Compulsory insurance shall be made at the expense of the insured with the exception of compulsory insurance of passengers, which, in the cases provided by a statute, may be made at their expense.

3. The objects subject to compulsory insurance, the risks from which they should be insured, and the minimum amounts of insured sums are determined by a statute.

#### **Article 993. Consequences of Violation of Rules on Compulsory Insurance**

1. A person, for whose benefit, according to a statute, compulsory insurance should have been made, shall have the right, if it is known to it that this insurance has not been made, to demand by court procedure that it be made by the person upon whom the duty to insure is placed.

2. If the person upon whom the duty to insure is placed has not made it or has made a contract of insurance on conditions worsening the position of the benefit-aquirer in comparison with the conditions defined by a statute, it, in case of happening of the insured event, shall bear liability to the benefit-aquirer on the same conditions on which insurance compensation should have been paid with proper insurance.

3. Sums improperly saved by the person upon whom the duty to insure was placed due to the fact that it did not fulfill this duty or fulfilled it improperly shall be recovered for the income of the Republic of Armenia with assessment of interest on these sums in accordance with Article 411 of the present Code.

#### **Article 994. Insurers**

1. Legal persons that have permission (or a license) for the conduct of insurance of the respective type may conclude contracts of insurance as insurers.

2. The requirements that insurance organizations must meet and also the procedure for licensing their activity and for the exercise of state supervision over this activity shall be determined by the statutes on insurance.

#### **Article 995. Fulfillment of Duties Under the Contract of Insurance by the Insured and the Benefit-aquirer**

1. Concluding a contract of insurance for the use of a benefit-aquirer, including when it is the insured person, shall not free the insured from performing the duties under this contract, unless the contract provides otherwise or the duties resting on the insured are performed by the person for whose benefit the contract is concluded.

2. The insurer shall have the right to demand from the benefit-aquirer, including when the benefit-aquirer is the insured person, the fulfillment of duties under the contract of insurance, including the duties resting on the insured, but not fulfilled by it, upon making by the benefit-aquirer of a demand for payment of insurance compensation under a contract of property insurance or of the insured sum under a contract of personal insurance. The risk of the consequences of nonfulfillment or untimely fulfillment of the duties which should have been fulfilled earlier are borne by the benefit-aquirer.

#### **Article 996. Form of the Contract of Insurance**

1. A contract of insurance shall be concluded in written form.

Nonobservance of the written form entails the invalidity of a contract of insurance. Such a contract is void.

2. A contract of insurance may be concluded by the compiling of one document (Paragraph 2 of Article 450) or by the presentation to the insured by the insurer on the basis of the insured's written or verbal application of an insurance policy (or record, certificate, or receipt), signed by the insurer.

Concluding the contract on the terms proposed by the insurer shall be confirmed by acceptance from the insurer of the documents indicated in the first subparagraph of the present Paragraph.

3. The insurer in concluding the contract of insurance shall have the right to use standard forms of contract (insurance policy) developed by it or by an amalgamation of insurers for individual types of insurance.

#### **Article 997. Insurance Under a General Policy**

1. Systematic insurance of various lots of property of one type (goods, freight, etc.) on like terms in the course of a determined time period may, by agreement of the insured with the insurer, be conducted on the basis of one contract of insurance—a general policy.

2. The insured shall have the duty, with respect to each lot of property falling under the effect of the general policy, to inform the insurer of the information required by this policy in the time period provided by it and, if no time period is provided, without delay after receiving the information. The insured shall not be freed from this duty even if by the time of receiving such information the possibility of losses subject to compensation by the insurer has already passed.

3. Upon demand of the insured, the insurer shall be obligated to issue insurance policies for individual lots of property falling under the effect of the general policy.

In case of noncorrespondence of the content of the insurance policy to the general policy, preference shall be given to the insurance policy.

#### **Article 998. Essential Terms of the Contract of Insurance**

1. In the concluding of a contract of property insurance agreement must be achieved between the insured and the insurer:

- 1) upon the specific property or other property interest that is the object of the insurance;
- 2) on the nature of the event for the case of the happening of which the insurance is made (the insured event);
- 3) on the amount of the insured sum;
- 4) on the time period of effectiveness of the contract.

2. In the concluding of a contract of personal insurance agreement must be achieved between the insured and the insurer:

- 1) upon the insured person;
- 2) on the nature of the event for the case of the happening of which in the life of the insured person the insurance is made (the insured event);
- 3) on the amount of the insured sum;
- 4) on the time period of effectiveness of the contract.

#### **Article 999. Determination of the Terms of the Contract of Insurance in the Rules of Insurance**

1. The terms on which a contract of insurance is made may be determined in standard rules of insurance of the respective type adopted or approved by the insurer or by an amalgamation of insurers (rules of insurance).

2. The terms contained in the rules of insurance and not included in the text of the contract of insurance (or insurance policy) shall be obligatory for the insured (and the benefit-aquirer) if in the contract (or insurance policy) there is a direct indication of the application of these rules and the rules themselves are stated in the same document as the contract (or insurance policy) or on its reverse side or attached to it. In the latter case presentation to the insured upon the concluding of the contract of the rules of insurance must be evidenced by a notation in the contract.

3. In concluding a contract of insurance, the insured and the insurer may agree on changing or excluding individual provisions of the rules of insurance and on supplementing the rules.

4. The insured (or benefit-aquirer) shall have the right to rely in protection of its interests on the rules of insurance of the respective type to which there is a reference in the contract of insurance (or insurance policy), even if these rules by virtue of the present Article are not binding for it.

#### **Article 1000. Information Provided by the Insured When Concluding of the Contract of Insurance**

1. When concluding of the contract of insurance, the insured has the duty to communicate to the insurer circumstances known to the insured having substantial significance for determining the probability of the happening of the insured event and the amount of possible losses from its happening (the insured risk), unless these circumstances were not known and were not have been known by the insurer.

In any event, circumstances specifically stated by the insurer in the standard form of contract of insurance (or insurance policy), or in a written questionnaire of the insurer, are recognized as substantial.

2.If a contract of insurance is concluded in the absence of answers of the insured to any questions of the insurer, the insurer may not thereafter demand the rescission of the contract or declaration of it as invalid on the basis that the respective circumstances were not communicated by the insured.

3.If after concluding the contract of insurance it is found that the insured communicated to the insurer knowingly false information on the circumstances indicated in Paragraph 1 of the present Article, the insurer shall have the right to demand declaration of the contract as invalid and the application of the consequences provided by Paragraph 2 of Article 313 of the present Code.

The insurer may not demand declaration of a contract of insurance as invalid if the circumstances about which the insured was silent already have ceased.

#### **Article 1001. The Right of the Insurer to an Evaluation of the Insured Risk**

1.At the concluding of a contract of insurance of property, the insurer shall have the right to make an inspection of the insured property and in case of necessity to have an expert examination made for the purpose of determining its actual value.

2.At the concluding of a contract of personal insurance the insurer shall have the right to make an investigation of the insured person to evaluate the actual condition of his health.

3.The evaluation of the insurance risk by the insurer on the basis of the present Article shall not be obligatory for the insured, who shall have the right to prove otherwise.

#### **Article 1002. Secrecy of Insurance**

The insurer does not have the right to divulge information received by it as the result of its professional activity about the insured, the insured person, and the benefit-aquirer, their condition of health, nor the financial status of these persons. For violation of secrecy of insurance, the insurer, depending upon the type of the violated rights and/or the nature of the violation shall bear liability in accordance with the rules provided by Article 141 or Article 162 of the present Code.

#### **Article 1003. The Insured Sum**

1.The sum within the limits of which the insurer undertakes the duty to pay insurance compensation under a contract of property insurance or which it undertakes the duty to pay under a contract of personal insurance (the insured sum) shall be determined by the agreement of the insured with the insurer in accordance with the rules provided by the present Article.

2.In case of insurance of property or entrepreneurial risk, the insured sum must not exceed their actual value (of the insurance value). This value is considered to be:

1) for property—its actual value at the place where it is located on the day of concluding the contract of insurance;  
2) for entrepreneurial risk—the losses from the entrepreneurial activity that the insured, as might be expected, would have suffered upon the happening of the insured event.

3.In contracts of personal insurance and contracts of insurance for civil liability the insured sum shall be determined by the parties at their discretion.

#### **Article 1004. Contesting the Insurance Value of Property**

The insurance value of property indicated in the contract of insurance may not be contested thereafter with the exception of the case when an insurer that did not use its right to evaluate the insured risk (Paragraph 1 of Article 1001) before the concluding of the contract was intentionally led into misapprehension with respect to this value.

#### **Article 1005. Partial Property Insurance**

1.If, in the contract of insurance of property or entrepreneurial risk, the insured sum is established as less than the insurance value, the insurer upon happening of the insured event has the duty to compensate the insured (or the benefit-aquirer) part of the losses suffered by the latter in proportion to the relation of the insured sum to the insurance value.

2.The contract may provide for a higher amount of insurance compensation, but not higher than the insurance value.

#### **Article 1006. Supplementary Property Insurance**

1.In the case when the property or entrepreneurial risk is insured only for part of the insurance value, the insured (or benefit-aquirer) shall have the right to acquire supplementary insurance including from another insurer, but on the condition that the overall insured sum in all the contracts of insurance does not exceed the insurance value.

2.Nonobservance of the provisions of Paragraph 1 of the present Article shall entail the consequences provided by Paragraph 4 of Article 1007 of the present Code.

#### **Article 1007. Consequences of Insurance Above the Insurance Value**

1.If the insured sum indicated in the contract of insurance of property or of entrepreneurial risk exceeds the insurance value, the contract shall be void with respect to that part of the insured sum that exceeds the insurance value.

The excess part of the insurance premium paid shall not be subject to return in such a case.

2.If, in accordance with a contract of insurance, the insurance premium is paid in installments and at the time of establishment of the circumstances indicated in Paragraph 1 of the present Article it has not been fully paid, the remaining insurance payments must be paid in an amount reduced in proportion to the reduction of the amount of the insured sum.

3.If the exaggeration of the insured sum in the contract of insurance was the result of deception on the part of the insured, the insurer shall have the right to demand declaration of the contract as invalid and compensation for the losses caused to it by this in the amount exceeding the sum received by it from the insured as an insurance premium.

4.The rules provided by Paragraphs 1-3 of the present Article respectively also shall be applied in the case when the insured sum had exceeded the insurance value as the result of insurance of one and the same object with two or several insurers (duplicate insurance).

The sum of insurance compensation subject to payment in this case by each of the insurers shall be reduced proportionally to the reduction of the initial insured sum under the respective contract of insurance.

#### **Article 1008. Property Insurance against Various Insurance Risks**

1.Property and entrepreneurial risk may be insured against various insurance risks both under one and under separate contracts of insurance, including under contracts with different insurers.

In these cases it is allowed that the amount of the overall insured sum by all the contracts may exceed the insurance value.

2.If, from two or several contracts concluded in accordance with Paragraph 1 of the present Article, there derives a duty of the insurers to pay insurance compensation for one and the same consequence of the happening of one and the same insurance event, the rules provided by Paragraph 4 of Article 1007 of the present Code shall be applied to such contracts in respective part.

#### **Article 1009. Joint Insurance**

The object of insurance may be insured under one contract of insurance jointly by several insurers (joint insurance). If the rights and duties of each of the insurers are not defined in such a contract they are jointly and severally liable to the insured (or the benefit-aquirer) for the payment of insurance compensation under a contract of property insurance or the insured sum under a contract of personal insurance.

#### **Article 1010. The Insurance Premium and Insurance Payments**

1.The insurance premium is payment for the insurance that the insured (or the benefit-aquirer) has the duty to pay the insurer by the procedure and within the time periods established by the contract of insurance.

2.The insurer, in defining the amount of the insurance premium subject to payment under the contract of insurance, shall have the right to apply insurance rate tariffs developed by it, defining the premium taken per unit of insured sum, taking into account the object of insurance and the nature of the insurance risk.

In cases provided by a statute the amount of the insurance premium shall be defined in accordance with the insurance tariffs established or regulated by the agencies of state insurance supervision.

3.If a contract of insurance provides for the paying of an insurance premium in installments, the contract may define the consequences of nonpayment of current installment payments within the established time periods.

4.If an insured event happened before the payment of the current insurance payment, the making of which was overdue, the insurer shall have the right in determining the amount of insurance compensation subject to payment under a contract of property insurance or the insured sum under a contract of personal insurance to subtract the sum of late insurance payment.

#### **Article 1011. Replacement of the Insured Person**

1.In a case, when under a contract of insurance of the risk of liability for the causing of harm (Article 987), the liability of a person other than the insured is insured, the latter shall have the right, unless otherwise provided by the contract, at any time before the happening of the insured event to replace this person with another, having notified the insurer in writing of this.

2.The insured person named in the contract of personal insurance may be replaced by the insured with another person only with the consent of the insured person itself and the insurer.

#### **Article 1012.Replacement of the Beneficiary**

1.The insured shall have the right to replace the benefit-aquirer named in the contract of insurance with another person, having informed the insurer in writing of this. The replacement of a benefit-aquirer under a contract of personal insurance who was named with the consent of the insured person (Paragraph 2 of Article 990) is allowed only with the consent of this person.

2.The benefit-aquirer may not be replaced by another person after it has fulfilled any duty whatsoever under the contract of insurance or has presented to the insurer a demand for payment of the insurance compensation or insured sum.

### **Article 1013. Start of Effectiveness of the Contract of Insurance**

1. The contract of insurance shall enter into effect from the time of payment of the insurance premium or the first installment of it, unless provided otherwise in the contract.
2. The insurance provided by the contract of insurance shall extend to the insured events that have happened after the entry of the contract of insurance into effect, unless in the contract a different time period of start of effectiveness of the insurance is provided.

### **Article 1014. Early Termination of the Contract of Insurance**

1. A contract of insurance shall be terminated before the expiration of the time period for which it was concluded if, after it has gone into effect, the possibility of happening of the insured event has ceased and the existence of the insured risk has been terminated by circumstances other than the insured event. Such circumstances, in particular, include:

- 1) destruction of the insured property due to causes other than the happening of the insured event;
  - 2) termination by the established procedure of the entrepreneurial activity of the person who has insured an entrepreneurial risk or a risk of civil liability connected with this activity.
2. The insured (or benefit-aquirer) shall have the right to withdraw from a contract of insurance at any time, if by the time of withdrawal the possibility of happening of the insured event has not ceased due to the circumstances indicated in Paragraph 1 of the present Article.

3. In case of early termination of a contract of insurance due to circumstances indicated in Paragraph 1 of the present Article, the insurer shall have the right to part of the insurance premium proportional to the time during which the insurance was in effect.

In case of early withdrawal by the insured (or the benefit-aquirer) from the contract of insurance, the insurance premium paid to the insurer shall not be subject to return unless the contract provides otherwise.

### **Article 1015. Consequences of Increase of the Insured Risk During the Time Period of Effectiveness of the Contract of Insurance**

1. During the time period of effectiveness of the contract of property insurance, the insured (or the benefit-aquirer) shall be obligated to inform the insurer immediately of the substantial changes that became known to it of the circumstances communicated to the insurer upon concluding the contract if these changes may substantially influence the increase of the insured risk.

In any event, circumstances specifically stated by the insurer in the standard form of contract of insurance (or insurance policy), or in the rules of insurance given to the insured.

2. An insurer that has been notified of the circumstances entailing increase of the insured risk shall have the right to demand changes of the terms of the contract of insurance or payment of an increased insurance premium proportional to the increased risk.

If the insured (or benefit-aquirer) objects to the change of the terms of the contract of insurance or increased payment of the insurance premium, the insurer shall have the right to demand rescission of the contract in accordance with the rules of Chapter 30 of the present Code.

3. In case of nonperformance by the insured or the benefit-aquirer of the duty provided by Paragraph 1 of the present Article, the insurer shall have the right to demand rescission of the contract and compensation for the losses caused by rescission of the contract (Paragraph 5 of Article 469).

4. The insurer does not have the right to demand rescission of a contract of insurance if the circumstances causing the increase of the insured risk have already ceased.

5. In case of personal insurance the consequences of changing the insured risk during the time period of effectiveness of the contract of insurance indicated in Paragraphs 2 and 3 of the present Article may occur only if this is directly provided in the contract.

### **Article 1016. Transfer of the Rights to the Insured Property to Another Person**

1. Upon transfer of the rights to the insured property from the person in whose interests the contract of insurance was concluded to another person, the rights and duties under this contract shall pass to the person to whom the rights to the property have passed, with the exception of cases of compulsory taking of property on the bases indicated in Paragraph 2 of Article 279 of the present Code or renunciation of the right of ownership (Article 280).

2. The person to whom the rights to the insured property have passed must notify the insurer of this in writing without immediately.

### **Article 1017. Notification of the Insurer on the Happening of the Insured Event**

1. The insured under a contract of property insurance, after it has learned of the happening of the insured event, is obligated without delay to notify the insurer or its representative of its happening. If the contract provides a time period for and/or a means of notification, it must be done within the agreed time period and by the means indicated in the contract.

The same duty rests on the benefit-aquirer who learned of the concluding of the contract of insurance to its benefit if it intends to use the right to insurance compensation.

2. Nonperformance of the duty provided by Paragraph 1 of the present Article shall give the insurer the right to refuse to pay the insurance compensation, unless it is proved that the insurer learned in a timely manner of the happening of the insured event or that the insurer's lack of information on this could not affect its duty to pay the insurance compensation.

3. The rules provided by Paragraphs 1 and 2 of the present Article shall be applied respectively to the contract of personal insurance if the insured event is the death of the insured person or the causing of harm to his health. In such a case the time period for notification of the insurer established by the contract cannot be less than thirty days.

#### **Article 1018. Reduction of Losses from the Insured Event**

1. In case of happening of the insured event provided by a contract of property insurance, the insured shall be obligated to take the measures reasonable and available in the given circumstances to reduce the possible losses. In taking such measures, the insured must follow the instructions of the insurer if they are communicated to the insured.

2. Expenses for the purpose of reducing the losses subject to compensation by the insurer, if such expenses were necessary or were made to fulfill the instructions of the insurer, must be compensated by the insurer, even if the respective measures turned out to be unsuccessful.

Such expenses shall be compensated proportionally to the relation of the insured sum to the insurance value, regardless of whether, together with compensation of other losses, they may exceed the insured sum.

3. The insurer shall be freed from compensation for losses that have arisen as the result of the fact that the insured intentionally did not take the reasonable and available measures to reduce the possible losses.

#### **Article 1019. Consequences of the Happening of the Insured Event Due to the Fault of the Insured, the Benefit-aquirer, or the Insured Person**

1. The insurer shall be freed from payment of insurance compensation or the insured sum if the insured event happened as the result of the intent of the insured, the benefit-aquirer, or the insured person, with the exception of cases provided by Paragraphs 2 and 3 of the present Article.

2. An insurer shall not be freed from payment of the insurance compensation under a contract of insurance of civil liability for the causing of harm to the life or health if the harm is caused due to the fault of the person responsible for it.

3. The insurer shall not be freed from payment of the insured sum that under the contract of personal insurance is subject to payment in case of the death of the insured person if its death occurred as the result of suicide, and by which time the insurance contract had been in effect for no less than three years.

#### **Article 1020. Bases for Freeing the Insurer from Payment of the Insurance Compensation and the Insured Sum**

1. Unless a statute or the contract of insurance provides otherwise, the insurer shall be freed from payment of the insurance compensation and the insured sum if the insured event occurred as the result of:

- 1) the effect of a nuclear explosion, radiation, or radiation poisoning;
- 2) military actions and also maneuvers or other military measures;
- 3) civil war, popular uprising of any type, or strikes.

2. Unless the contract of property insurance provides otherwise, the insurer shall be freed from payment of the insurance compensation for losses that have arisen as the result of taking, confiscation, requisition, seizure, or destruction of the insured property by order of state bodies.

#### **Article 1021. Transfer to the Insurer of the Rights of the Insured to Compensation for Damage (Subrogation)**

1. Unless the contract of property insurance provides otherwise, the right to claim that the insured (or benefit-aquirer) has against the person liable for the losses compensated as the result of the insurance passes, within the limits of the sum paid, to the insurer who has paid insurance compensation. A term of the contract excluding the transfer to the insurer of the right of a claim against a person who has intentionally caused losses is void.

2. The right of claim that has passed to the insurer shall be exercised by it with observance of the rules regulating the relations between the insured (or benefit-aquirer) and the person liable for the losses.

3. The insured (or the benefit-aquirer) shall be obligated to transfer to the insurer all the documents and proofs and to communicate to it all information necessary for the exercise by the insurer of the right of a claim that have passed to it.

4. If the insured (or the benefit-aquirer) renounced its right of claim against the person liable for the losses compensated by the insurer or the exercise of this right became impossible due to the fault of the insured (or the benefit-aquirer), the insurer shall be freed from payment of the insurance compensation in full or in corresponding part and shall have the right to demand the return of the sum of compensation paid in excess.

#### **Article 1022. Limitation of Actions on Claims Connected With Property Insurance**

A suit on claims arising from a contract of property insurance may be presented within the course of two years.



### **Article 1023. Reinsurance**

1. The risk of payment of insurance compensation or the insured sum undertaken by the insurer by the contract of insurance may be insured by it in full or in part with another insurer (or insurers) under a contract of reinsurance concluded with the latter.
2. Unless otherwise provided by the contract of reinsurance, the rules of the present Chapter applicable with respect to insurance of entrepreneurial risk shall be applied to the contract of reinsurance. In this case, the insurer under the contract of insurance (the basic contract) who has concluded a contract of reinsurance shall be considered in this latter contract to be the insured.
3. In case of reinsurance the person liable to the insured under the basic contract of insurance for payment of the insurance compensation or the insured sum remains the insurer under this contract.
4. The consecutive concluding of two or more contracts of reinsurance is permitted.

### **Article 1024. Compulsory State Insurance**

1. For the purpose of ensuring the social interests of citizens and the interests of the state a statute may establish compulsory state insurance of the life, health, and property of state employees of specified categories. Compulsory state insurance shall be conducted at the expense of funds appropriated for this purpose from the state budget to the ministries and other agencies of executive authority (the insured).
2. Compulsory state insurance shall be conducted in accordance with statutes and other legal acts on such insurance on the basis of contracts of insurance.
3. Payment shall be made for compulsory state insurance to the insurers in the amount determined by statutes and other legal acts on such insurance.
4. The rules of the present Chapter shall be applied to compulsory state insurance unless otherwise provided by statutes and other legal acts on such insurance and that it does not otherwise follow from the nature of the respective relations for insurance.

### **Article 1025. Application of the General Rules on Insurance to Special Types of Insurance**

The rules of the present Chapter shall be applied to relations for the insurance of foreign investments against noncommercial risks, medical insurance, insurance of bank deposits, and insurance of pensions, and also to other types of insurance unless otherwise provided by the statutes on these types of insurance.

## **SUBDIVISION 6. CONTRACT OF JOINT ACTIVITY WITHOUT FORMING A LEGAL PERSON**

### **CHAPTER 55. JOINT ACTIVITY**

#### **Article 1026. The Contract of Joint Activity**

1. Under a contract of joint activity, two or more persons (the participants) undertake the duty to join their contributions and act jointly without the formation of a legal person to acquire profit or achieve another purpose not contrary to a statute.
2. Only individual entrepreneurs and/or commercial organizations may be parties to a contract of joint activity concluded for the conduct of entrepreneurial activity.
3. The joint activity contract may provide for the existence of the latter not to be disclosed to third persons (silent joint activity).
4. The contract of joint activity shall be concluded in written form.

#### **Article 1027. Contributions of the Participants**

1. The contribution of a participant is everything that it puts into the common activity, including money, other property, professional and other knowledge, skills and abilities, and also business reputation and business connections.
2. The contributions of participants shall be assumed equal in value, unless otherwise follows from the contract of joint activity or the actual circumstances. Monetary valuation of the contribution of a participant shall be made by agreement among the participants.

#### **Article 1028. Common Property of the Participants**

1. Property contributed by the participants that they held by right of ownership and also products produced as the result of joint activity and fruits and income acquired from such an affair shall be considered to be in their common share ownership, unless otherwise established by a statute or the contract of joint activity or derives from the nature of the obligation.

Property contributed by participants that they held on bases different from the right of ownership shall be used in the interests of all the participants and shall constitute, along with the property that is in their common ownership, the common property of the participants.

2. Bookkeeping for the common property of the participants may be delegated by them to one of them.

3. Use of the common property of the participants shall be made by their general consent, and in case of absence of consent, by the procedure established by a court.

4. The duties of participants for maintaining the common property and the procedure for compensation for expenses connected with the fulfillment of these duties shall be determined by the contract of joint activity.

#### **Article 1029. Conduct of Common Affairs of the Participants**

1. In the conduct of common affairs, each participant shall have the right to act in the name of all the participants unless the contract of joint activity has established that the conduct of affairs shall be conducted by individual participants or jointly by all the participants in the contract of joint activity.

In case of joint conduct of affairs, the agreement of all the participants shall be required for the conduct of each transaction.

2. In relations with third persons, the power of a participant to make transactions in the name of all the participants shall be confirmed by a power of attorney issued to it by the remaining participants or a contract of joint activity.

3. In relations with third persons the participants cannot refer to limitations of the rights of a participant who has made a transaction in the conduct of the common affairs of the participants with the exception of cases when they prove that at the time of concluding the transaction the third person knew or should have known of the presence of such limitations.

4. A participant who has concluded transactions in the name of all the participants with respect to which its right for the conduct of the common affairs of the participants was limited or who has concluded transactions in its own name in the interest of all the participants may demand compensation for expenses made by it at its own expense, if there was sufficient reason to suppose that these transactions were necessary in the interests of all the participants. Participants suffering losses as the result of such transactions shall have the right to demand compensation for them.

5. Decisions concerning the common affairs of the participants shall be taken by the participants by general agreement, unless otherwise provided by the contract of joint activity.

#### **Article 1030. The Right of a Participant to Information**

Each participant, regardless of whether it is empowered to conduct the common affairs of the participants shall have the right to become acquainted with all the documentation for the conduct of affairs. A renunciation of this right or its limitation, including by agreement of the participants, is void.

#### **Article 1031. Common Expenses and Losses of the Participants**

The procedure for covering expenses and losses connected with the joint activity of the participants shall be determined by their agreement. In the absence of such an agreement each participant shall bear expenses and losses proportional to the value of its contribution to the common affairs.

An agreement fully freeing any of the participants from participation in the coverage of the common expenses and losses is void.

#### **Article 1032. Liability of Participants on Common Obligations**

1. If a contract of joint activity is not connected with the conduct by its participants of entrepreneurial activity, each participant shall be liable for the common contractual obligations with all its property proportionally to the value of its contribution to the common affairs.

On common obligations arising not from the contract, the participants shall be liable jointly and severally.

2. If a contract of joint activity is connected with the conduct by its participants of entrepreneurial activity, the participants shall be liable jointly and severally for all the common obligations regardless of the bases of their origin.

#### **Article 1033. Distribution of Profit**

Profit received by participants as the result of their joint activity shall be distributed proportionally to the value of the contributions of the participants in the common affairs, unless otherwise provided by the contract of joint activity or other agreement of the participants.

An agreement on elimination of any of the participants from participation in the profit is void.

#### **Article 1034. Separation of the Share of a Participant on Demand of Its Creditor**

The creditor of a participant in the contract of joint activity shall have the right to present a demand for the separation of its share in the common property in accordance with Article 200 of the present Code.

#### **Article 1035. Termination of the Contract of Joint Activity**

1. A contract of joint activity shall be terminated as the result of:

- 1) declaration of any of the participants as lacking dispositive capacity, of limited dispositive capacity, or missing, unless the contract of joint activity or a later agreement provides for keeping the contract in the relations among the remaining participants;
- 2) declaration of any of the participants bankrupt, with the exception indicated in numbered subparagraph 1 of the present Paragraph;
- 3) death of a participant or liquidation or reorganization of a legal person participating in the contract of joint activity unless the contract or a later agreement provides for keeping the contract in the relations among the remaining participants or replacement of the deceased participant (or reorganized legal person) by its heirs (or legal successors);
- 4) the withdrawal by any of the participants from further participation in a contract of joint activity without a time limit, with the exception indicated in numbered subparagraph 1 of the present Paragraph;
- 5) rescission of the contract of joint activity concluded with an indication of the time period on demand of one of the participants in the relations between it and the remaining participants with the exception indicated in numbered subparagraph 1 of the present Paragraph;
- 6) expiration of the time period of the contract of joint activity;
- 7) separation of the share of a participant upon the demand of its creditor, with the exception indicated in numbered subparagraph 1 of the present Paragraph.

2. In case of termination of the contract of joint activity property transferred to common possession and/or use of the participants shall be returned to the participants who provided them without compensation, unless otherwise provided by the agreement of the parties.

From the time of termination of the contract of joint activity its participants shall bear joint and several liability for unperformed common obligations with respect to third persons.

Division of the property that was in the common ownership of the participants and of common rights of claims that have arisen for them shall be conducted by the procedure established by Article 197 of the present Code.

A participant who has contributed an individually defined property to common ownership shall have the right upon termination of the contract of joint activity to demand by judicial procedure the return to it of this property upon the condition of observance of the interests of the remaining participants and creditors.

#### **Article 1036. Withdrawal from a Contract of Joint Activity Without a Time Limit**

A declaration of withdrawal of a participant from a contract of joint activity without a time limit must be made by it not later than three months before the proposed exit from the contract.

An agreement on limitation of the right to withdrawal from a contract of joint activity without a time limit is void.

#### **Article 1037. Rescission of the Contract of Joint Activity on Demand of a Party**

Along with the bases indicated in Paragraph 2 of Article 466 of the present Code, a party to a contract of joint activity concluded with an indication of the time period or with an indication of a purpose as a condition for cancellation, shall have the right to demand rescission of the contract in the relations between itself and the remaining participants for a compelling reason with compensation for the remaining participants for the actual damage caused by the rescission of the contract.

#### **Article 1038. Liability of a Participant With Respect to Whom the Contract of Joint Activity Has Been Rescinded**

In the case when a contract of joint activity was not terminated as the result of the declaration of one of the participants on withdrawal from further participation in it or the rescission of the contract upon the demand of one of the participants, the person whose participation in the contract was terminated shall be liable to third persons for common obligations that have arisen in the time period of its participation in the contract just as if it had remained a participant in the contract of joint activity.

## **SUBDIVISION 7. CONTRACTS ON THE CONDUCT OF GAMES AND WAGERS**

### **CHAPTER 56. CONDUCT OF GAMES AND WAGERS**

#### **Article 1039. Requirements Connected With the Organization of Games and Wagers and With Participation Therein**

Claims of citizens and legal persons connected with the organization of games and wagers based on risk (games of chance) or with participation in them shall not be subject to judicial protection with the exception of the claims of persons who took part in games or wagers under the influence of fraud, duress, threats or bad faith agreement of

their representative with the organizer of games or wagers and also the claims indicated in Paragraph 5 of Article 1040 of the present Code.

**Article 1040. Conduct of Lotteries, Pari-mutuels and Other Games by the State and Communes or by Their Permission**

1. The relations between organizers of lotteries, pari-mutuels (mutual wagers) and other games based on risk—the Republic of Armenia, communes, persons who have received permission (or a license) from an empowered state body or body of local self-government—and participants in games shall be based on contract.

2. In the cases provided by the rules of organization of games, the contract between the organizer and the participant in the game shall be formalized by the issuance of a lottery ticket, receipt, or other document.

3. A proposal to conclude a contract provided for by Paragraph 1 of the present Article must include conditions on the time period of conduct of games and the procedure for determining the winning and its amount.

4. In case of refusal of the organizer of the games to conduct them within the established time period, the participants in the games shall have the right to demand from their organizer compensation for the actual damage suffered as the result of the cancellation of the games or their postponement.

5. Persons who, in accordance with the rules of the conduct of a lottery, pari-mutuel, or other games are recognized as the winners must be paid the winnings by the organizer of the games in the amount, in the form (in money or physically), and within the time period provided by the rules of the game, or if the time period is not indicated in these rules, not later than ten days from the time of determining the results of the games.

6. In case of nonperformance by the organizer of the games of the duty indicated in Paragraph 4 of the present Article, a participant who has won in the lottery, pari-mutuel, or other games shall have the right to demand from the organizer of the games payment of the winnings and also compensation for the losses caused by breach of the contract on the part of the organizer.

## **DIVISION 8. LIABILITIES EMERGING FROM UNILATERAL ACTIONS**

### **CHAPTER 57. PUBLIC PROMISE OF A REWARD**

#### **Article 1041. Obligation to Pay a Reward**

1. A person who has publicly announced about the payment of monetary compensation or the issuance of another reward (on the payment of a reward) to one who takes the lawful action indicated in the announcement within the time period indicated in it shall be obligated to pay the promised reward to anyone who took the corresponding action, in particular found a lost property or reported the necessary information to the person who announced the reward.

2. The duty to pay the reward shall arise on the condition that the promise of the reward makes possible the establishment of by whom it was promised. A person reacting to a promise shall have the right to demand written confirmation of the promise and shall bear the risk of the consequences of not making this demand if it turns out that in reality the announcement about the reward was not made by the person indicated in it.

3. If the amount is not indicated in the public promise of a reward, the amount shall be determined by agreement with the person who promised the reward, and in case of dispute, by a court.

4. The duty to pay a reward shall arise regardless of whether the corresponding action was taken in connection with the announcement that was made or independent of it.

5. In cases when the action indicated in the announcement was taken by several persons, the right to receive the reward shall be acquired by the one of them who took the respective action first.

If the action indicated in the announcement was taken by two or more persons and it is impossible to determine who of them took the respective action first, and also in the case if the action was taken by two or more persons simultaneously, the reward shall be divided equally among them or in other amount provided by the agreement between them and, in case of a dispute, by a court.

6. Unless otherwise provided in the announcement on the reward or derives from the nature of the action indicated in the announcement, the correspondence of the action taken to the requirements contained in the announcement shall be determined by the person who publicly promised the reward and, in case of dispute, by a court.

#### **Article 1042. Revocation of a Public Promise of a Reward**

1. A person who has made a public announcement about the payment of a reward shall have the right, in the same form, to withdraw from this promise, except in cases when the impermissibility of a withdrawal is provided in the announcement itself or arises from it or there is given a specified time period for the taking of an action for which the reward is promised, or by the time of announcement of withdrawal, one or several of the persons that reacted to a promise already took the action indicated in the announcement.

2. Revocation the public promise of a reward does not free the person who announced about the reward from compensating persons who have reacted for the expenses borne by them in connection with the taking of the action indicated in the announcement, within the limits of the reward indicated in the announcement

### **CHAPTER 58. PUBLIC COMPETITION**

#### **Article 1043. Organization of a Public Competition**

1. A person who has publicly announced about the payment of monetary compensation or the giving of another reward (on the payment of a reward) for the best doing of the work or the achievement of other results (a public competition) must pay (or give) the stipulated reward to the one who, in accordance with the conditions of the conduct of the competition, is declared its winner.

2. A public competition may be open, when the proposal of the organizer of the competition to take part in it is addressed to all who so wish by means of an announcement in the press or other media of mass information, or closed, when the proposal to take part in the competition is directed to a specific group of people by the choice of the organizer of the competition.

An open competition may be stipulated with the preliminary qualification of its participants when the organizer of the competition conducts a preliminary selection of persons wishing to take part in it.

3. An announcement of a public competition must contain as a minimum terms providing the essence of the task, the criteria and procedure for evaluation of the results of work or other achievements, the place, time period, and procedure for presenting them, the amount and form of the reward, and also the procedure and time periods for the announcement of the results of the competition.

4. To a public competition containing an obligation to conclude a contract with the winner of the competition, the rules provided by the present Chapter shall be applied unless Articles 463-465 of the present Code provide otherwise.

#### **Article 1044. Changing the Conditions and Revocation of a Public Competition**

1. The person who has announced a public competition shall have the right to change its conditions or to revoke the competition only during the first half of the time period established for the presentation of work.

2. A communication of the change of conditions or the revocation of the competition must be made in the same manner as the competition was announced.

3. In case of change of conditions of the competition or its revocation, the person who announced the competition must compensate for the expenses borne by any person who has done the work provided in the announcement before it was or should have been known to it about the change of conditions of the competition and its revocation. The person who announced the competition shall be freed from the duty to compensate for expenses if it proves that this work was done not in connection with the competition, in particular before the announcement of the competition, or deliberately did not meet the conditions of the competition.

4. If, in the change of the conditions of the competition or its revocation, the requirements indicated in Paragraphs 1 or 2 of the present Article were violated, the person who announced the competition must pay the reward to those who has done the work satisfying the conditions indicated in the announcement.

#### **Article 1045. Decision on the Payment of the Reward**

1. A decision on payment of the reward must be made and reported to the participants of a public competition by the procedure and within the time periods that were established in the announcement of the competition.

2. If the results indicated in the announcement were achieved in work done jointly by two or more persons, the reward shall be distributed in accordance with an agreement reached among them. In the case when such an agreement is not reached, the procedure for distributing the reward shall be established by a court.

#### **Article 1046. Use of Works of Science, Literature, and Art That Earned Rewards**

If the subject of a public competition is the creation of a work of science, literature, or art, and the conditions of the competition do not provide otherwise, the person who has announced the public competition shall acquire a priority right to the concluding, with the author of a work that has earned the agreed reward, of a contract on the use of the work with payment to it of the corresponding remuneration.

#### **Article 1047. Return of Works Presented to the Participants in a Public Competition**

A person who has announced a public competition shall be obligated to return the works that did not earn rewards to the participants in the competition, unless otherwise provided by the announcement of the competition or follows from the nature of the work done.

### **CHAPTER 59. ACTIVITY IN ANOTHER'S INTEREST WITHOUT DELEGATION**

#### **Article 1048. Conditions of Actions in Another's Interest**

1. Actions without delegation, other instruction, or previously promised consent of an interested person for the purposes of preventing harm to its personality or property, the performance of its obligation or in its other not unlawful interests (actions in another's interest) must be conducted proceeding from the obvious benefit or use and actual or likely intentions of the interested person and with the care and caution necessary according to the circumstances of the case.

2. The rules provided in the present Chapter shall not be applied to actions in the interest of other persons made by state bodies and bodies of local self-government for whom such actions are one of the purposes of their activity.

#### **Article 1049. Notification of the Interested Person of Actions in Its Interest**

1. A person who exercises activity in another's interest shall be obligated at first opportunity to report about this to the interested person and to await for a reasonable period of time its decision on approval or nonapproval of the actions taken, unless such waiting will cause serious damage for the interested person.

2. It is not required to specially report to an interested citizen on actions in his interest if these actions were taken in his presence.

#### **Article 1050. Consequences of Approval by the Interested Person of Actions in Its Interest**

If a person in whose interests actions were exercised without its delegation, approves these actions, the rules on the contract of delegation or other contract corresponding to the nature of the actions taken shall be applied to the relations of the parties thereafter.

**Article 1051. Consequences of Nonapproval by the Interested Person of Actions in Its Interest**

1. Actions in another's interest made after it became known to those who were making them that they are not approved by the interested person do not entail obligations for the latter, neither with respect to the one who has made these actions nor with respect to third persons.
2. Actions with the purpose of preventing danger for the life of a person who was in danger are allowed even against the will of this person, and performance of a duty for the support of someone is allowed against the will of the person upon whom this duty lies.

**Article 1052. Compensation of Losses to a Person Who Has Acted in Another's Interest**

1. The necessary expenses and other actual damage borne by a person acting in another's interest in accordance with the rules provided by the present Chapter shall be subject to compensation by the interested person with the exception of expenses that are caused by the actions indicated in Paragraph 1 of Article 1051 of the present Code. The right to compensation for the necessary expenses and other actual damage shall be preserved even in the case when the actions in another's interest did not lead to the anticipated result. However, in case of prevention of damage to the property of another person, the amount of compensation must not exceed the value of the property.
2. The expenses and other losses of the person acting in another's interest borne by it in connection with the actions that were taken after receipt of approval from the interested person (Article 1050) shall be compensated according to the rules on a contract of the corresponding type.

**Article 1053. Remuneration for Actions in Another's Interest**

A person whose actions in another's interest have led to a positive result for the interested person shall have the right to receive remuneration if such a right is provided by a statute, agreement with the interested person or the customs of trade.

**Article 1054. Consequences of a Transaction in Another's Interest**

Duties under a transaction concluded in another's interest shall pass to the person in whose interest it was made, on the condition of approval by it of this transaction and if the other party does not object to such transfer or if at the concluding of the transaction knew or should have known that the transaction was concluded in another's interest. In case of transfer of duties under such a transaction to the person in whose interests it was concluded, the rights under this transaction also must be transferred to the latter.

**Article 1055. Compensation for Harm Caused by Actions in Another's Interest**

Relations for compensating for harm caused to interested or third parties by actions in another's interest are regulated by rules provided by Chapter 60 of the present Code.

**Article 1056. Unjust Enrichment as the Result of Actions in Another's Interest**

If actions not aimed directly at ensuring the interests of another person, including in the case when the person making them mistakenly supposed that it was acting in its own interest, have led to unjust enrichment of the other person, the rules provided by Chapter 61 of the present Code shall be applied.

**Article 1057. Report of a Person Who Has Acted in Another's Interest**

A person who has acted in another's interest shall have the duty to provide the person in whose interest it conducted such actions with a report having an indication of the income received and expenses made and other losses.

## **DIVISION 9. OBLIGATIONS EMERGING AS A RESULT OF HARM CAUSED AND UNJUST ENRICHMENT**

### **CHAPTER 60. OBLIGATIONS Emerging AS A RESULT OF THE CAUSING OF HARM**

#### **§ 1. GENERAL PROVISIONS ON COMPENSATION FOR HARM**

##### **Article 1058. General Bases of Liability for the Causing of Harm**

1. Harm caused to the person or property of a citizen and also harm caused to the property of a legal person shall be subject to compensation in full by the person who has caused the harm.

A statute may place a duty for compensation for harm on a person who is not the person that caused the harm.

2. The person who has caused the harm is freed from compensation for the harm if it proves that the harm was caused not by its fault. A statute may provide for compensation for the harm even in the absence of fault of the person who caused the harm.

3. Harm caused by lawful actions shall be subject to compensation in the cases provided by a statute.

Compensation for harm may be refused if the harm was caused at the request, or with the consent, of the victim.

##### **Article 1059. Preventing the Causing of Harm**

1. The danger of causing harm in the future may be the basis for a suit for prohibition of action creating such a danger.

2. If harm caused is a consequence of the exploitation of a building, structure, or other production activity that continues to cause harm or threatens with new harm, a court, in addition to compensation for harm, shall have the right to obligate the defendant to suspend or cease the respective activity.

3. A court may refuse a suit for the suspension or cessation of the respective activity only in the case when its suspension or cessation would violate state interests. A refusal of suspension or cessation of such activity does not deprive the victims of the right to compensation for the harm caused by such activity.

##### **Article 1060. Causing Harm in a State of Necessary Defense**

Harm is not subject to compensation if it is caused in a state of necessary defense, provided that its limits were not exceeded.

##### **Article 1061. Causing Harm in a State of Extreme Necessity**

1. Harm caused in a state of extreme necessity, i.e. to eliminate a danger threatening the person causing the harm or other persons, if this danger in the given circumstances could not be eliminated by other means, must be compensated by the person who has caused the harm.

2. Considering the circumstances under which such harm was caused, a court may place the duty to compensate for it upon the third person in whose interest the person who caused the harm acted, or free both this third person and the person who caused the harm from compensation for the harm in whole or in part.

##### **Article 1062. Liability of a Legal Person or a Citizen for Harm Caused by Its Employee**

1. A legal person or a citizen shall compensate for harm caused by its employee in the performance of labor (or employment, or official) duties.

2. With respect to the rules provided by the present Chapter, an employee is a citizen, doing work under a labor contract, and also a citizen doing work under a civil law contract if thereby he acted or was required to act on a task of the respective legal person or citizen and under its supervision for safe conduct of work.

3. Business partnerships shall compensate for harm caused by their participants in the conduct by the latter of entrepreneurial, production or other activity of the partnership.



**Article 1063. Liability for Harm Caused by State Bodies, Bodies of Local Self-Government, and their Officials**

Harm caused to a citizen or legal person as the result of illegal actions (or inactions) of state bodies, bodies of local self-government or officials of these bodies, including as the result of the issuance of an act of a state body or an act of a body of local self-government not corresponding to a statute or other legal act, is subject to compensation by the Republic of Armenia or the respective commune.

**Article 1064. Liability for Harm Caused by Illegal Actions of Agencies of Inquiry, Preliminary Investigation, the Procuracy, and the Court**

1. Harm caused to a citizen as the result of illegal conviction, illegal bringing to criminal liability, illegal application as a measure of restraint of confinement under guard or signed commitment not to depart, or illegal imposition of an administrative penalty, shall be compensated by the Republic of Armenia in full regardless of the fault of the officials of the agencies of inquiry, preliminary investigation, procuracy, and the court, by the procedure established by a statute.

2. Harm caused to a citizen or legal person as the result of illegal activity of agencies of inquiry, preliminary investigation, or procuracy, that have not caused the consequences provided by Paragraph 1 of the present Article shall be compensated on the bases and by the procedure that are provided by Article 1063 of the present Code.

3. Harm caused in the conduct of the court administration shall be compensated in the case when the fault of the judge is established by a verdict-sentence of a court, that has gone into legal force.

**Article 1065. Agencies and Persons Acting in the Name of the Republic of Armenia or a Commune in Compensation for Harm**

In cases when in accordance with the present Code or other statutes the harm that has been caused is subject to compensation at the expense of the Republic of Armenia or a commune, the respective financial agencies shall act in their name unless, in accordance with Paragraph 3 of Article 129 of the present Code, this duty is imposed upon another agency, legal person, or citizen.

**Article 1066. Compensation for Harm by a Person Who has Insured Its Liability**

A legal person or citizen who has insured its liability by way of voluntary or compulsory insurance for the benefit of the victim (Article 987, Paragraph 1 of Article 991), in the case when the insurance compensation is insufficient to fully compensate for the harm caused, shall compensate for the difference between the insurance compensation and the actual amount of damage.

**Article 1067. Liability for Harm Caused by Minors of the Age of Up to Fourteen Years**

1. For harm caused by a minor who has not reached fourteen years of age (an infant), its parents (or adoptive parents) or guardian shall be liable, unless they prove that the harm arose not by their fault.

2. If an infant needing guardianship was in a respective child-raising institution, therapeutic institution, institution of social protection of the public, or other analogous institution, that by force of a statute is its guardian (Article 37), this institution shall be obligated to compensate for the harm caused by the infant unless it proves that the harm arose without the fault of the institution.

3. If the infant caused harm at the time when it was under the supervision of an educational, child-raising, therapeutic, or other institution obligated to conduct supervision of him, or of a person conducting supervision on the basis of a contract, this institution or person shall be liable for the harm unless it proves that the harm arose without its fault.

4. The duty of parents (or adoptive parents), guardians, educational, child-raising, therapeutic, and other institutions for compensation for harm caused by the infant does not end with the attainment by the infant of majority or the receipt by it of property sufficient for the compensation for harm.

If the parents (or adoptive parents), guardians, or other citizens indicated in Paragraph 3 of the present Article have died or do not have sufficient assets for compensation for harm caused to the life or health of the victim, while the person who caused the harm himself, having become of full dispositive capacity, disposes of such assets, the court, taking into account the financial status of the victim and the one who caused the harm and other circumstances shall have the right to take a decision on the compensation for harm in full or in part at the expense of the one who caused the harm himself.

**Article 1068. Liability for Harm Caused by Minors of the Age of Fourteen to Eighteen Years**

1. Minors of the age of fourteen to eighteen years independently bear liability for harm caused on general bases.

2. In the case when a minor of the age of fourteen to eighteen years does not have income or other property sufficient for compensation for harm, the harm must be compensated in full or in the lacking part, by its parents (or adoptive parents) or curator, unless they prove that the harm arose not by their fault.

3. If a minor of the age of fourteen to eighteen years, needing curatorship, was in a respective child-raising institution, therapeutic institution, institution of social protection of the public, or in another analogous institution,

that by force of a statute is its curator (Article 37), this institution shall be obligated to compensate for harm in full or in the lacking part unless it proves that the harm arose not by its fault.

4. The duty of parents (or adoptive parents), a curator, and the respective institution to compensate for harm caused by the minor of the age of fourteen to eighteen years shall be terminated upon attainment of majority by the person who caused the harm or when, before attainment of majority he gets income or other property sufficient for compensation for the harm, or when he has acquired dispositive capacity before the attainment of majority.

#### **Article 1069. Liability for Harm Caused by a Citizen Declared Lacking Dispositive Capacity**

1. Harm caused by a citizen declared lacking dispositive capacity shall be compensated by its guardian or the organization obligated to conduct supervision over him, unless they prove that the harm arose not by their fault.

2. The duty of a guardian or organization obligated to conduct supervision—to compensate for harm caused by a citizen who has been declared lacking dispositive capacity shall not be terminated in the case of the later declaration of him as having dispositive capacity.

3. If the guardian has died or lacks sufficient assets for compensation for harm caused to the life or health of the victim and the one who caused the harm himself possesses such assets, the court, taking into account the financial status of the victim and of the one who caused the harm and also other circumstances, shall have the right to take a decision on compensation for harm in full or in part at the expense of the one who caused the harm himself.

#### **Article 1070. Liability for Harm Caused by a Citizen Declared of Limited Dispositive Capacity**

Harm caused by a citizen declared of limited dispositive shall be compensated by the one who caused the harm himself.

#### **Article 1071. Liability for Harm Caused by a Citizen Not Capable of Understanding the Significance of His Actions**

1. A citizen with dispositive capacity or a minor of the age of fourteen to eighteen years who has caused harm in a condition when he could not understand the significance of his actions or control them is not liable for harm caused by him.

If the harm was caused to the life or health of the victim, the court may, taking into account the financial status of the victim and the one who caused the harm and also other circumstances, impose a duty to compensate for the harm in full or in part upon the one who caused the harm.

2. The one who caused the harm shall not be freed from liability if he brought himself to the condition in which he could not understand the significance of his actions or control them by the use of alcoholic beverages, narcotic substances, or in another manner.

3. If the harm is caused by a person who could not understand the significance of his actions or control them as the result of mental disorder, the duty to compensate for harm may be imposed by the court on his spouse, parents, or adult children who are living with him and capable of work, and who knew of the mental disorder of the person who caused the harm but did not raise the question of declaring him lacking dispositive capacity.

#### **Article 1072. Liability for Harm Caused by Activity Creating an Increased Danger for Those Around**

1. Legal persons and citizens, whose activity is connected with increased danger for those around (use of means of transport, mechanisms, high-voltage electrical energy, atomic energy, explosive substances, strongly-acting poisons, etc.; conduct of construction work and other activity connected with it, etc.) shall be obligated to compensate for harm caused by the source of increased danger unless they prove that the harm arose as the result of force majeure or the intent of the victim. The possessor of a source of increased danger may be freed by a court from liability in full or in part also on the bases provided by Paragraphs 2 and 3 of Article 1076 of the present Code.

The duty of compensation for harm shall be placed upon the legal person or citizen who possesses the source of increased danger by the right of ownership or on other legal basis (on the right of lease, under a power of attorney for the right to drive means of transport, etc.).

2. The possessor of a source of increased danger shall not be liable for harm caused by this source if it proves that the source left its control as the result of the unlawful actions of other persons. Liability for harm caused by the source of increased danger in such cases shall be borne by the persons who have unlawfully taken possession of the source. In case of fault of the possessor of the source of increased danger in the unlawful taking of this source from its control, liability may be imposed both on the possessor and on the person who unlawfully took possession of the source of increased danger.

3. The possessors of sources of increased danger shall bear joint and several liability for harm caused as the result of the interaction of these sources (collision of means of transport, etc.) to third persons on the bases provided by Paragraph 1 of the present Article.

Harm caused as the result of the interaction of sources of increased danger to their possessors shall be compensated on general bases (Article 1058).

### **Article 1073. Liability for Jointly Caused Harm**

Persons who have jointly caused harm shall be liable jointly and severally to the victim.

On request of the victim and in its interests, the court shall have the right to impose upon persons who have jointly caused harm liability in shares, defining them according to the rules provided by Paragraph 2 of Article 1074 of the present Code.

### **Article 1074. The Right of Subrogation Against the Person Who Has Caused Harm**

1. One who has compensated for harm caused by another person (by an employee in its performance of employment, official, or other labor duties, by a person driving a means of transport, etc.) shall have the right of a claim over (subrogation) against this person in the amount of compensation paid unless another amount is established by a statute.

2. A person who has caused harm and who has compensated for jointly caused harm shall have the right to claim from each of those who have caused harm a share of the compensation paid to the victim in an amount corresponding to the degree of fault of this person who has caused harm. In case of impossibility of determining the degree of fault, the shares shall be recognized as equal.

3. In case of their compensating for harm caused by an official of agencies of inquiry, preliminary investigation, procuracy, or court (Paragraph 1 of Article 1064), the Republic of Armenia shall have the right of subrogation against this person if his fault has been established by a verdict-sentence of a court that has entered into legal force.

4. Persons who have compensated for harm on the bases indicated in Articles 1067-1069 of the present Code shall not have the right of subrogation against the person who caused the harm.

### **Article 1075. Means of Compensation for Harm**

In satisfying a claim for compensation for harm, the court, in accordance with the circumstances of the case, shall obligate the person liable for the causing of harm to compensate for the harm physically (to provide property of the same type and quality, fix the damaged property, etc.) or to compensate for the losses caused (Paragraph 2 of Article 17).

### **Article 1076. Consideration of the Fault of the Victim and the Financial Status of the Person Who Caused the Harm**

1. Harm caused as the result of the intent of the victim is not subject to compensation.

2. If the gross negligence of the victim itself aided the arising or increasing of the harm, then, depending upon the degree of fault of the victim and the person who caused the harm, the amount of compensation must be reduced. In case of gross negligence of the victim and absence of fault of the one who caused harm in cases when liability occurs regardless of fault, the amount of compensation must be reduced or compensation for harm may be refused, unless a statute provides otherwise. In case of causing of harm to the life or health of a citizen refusal of compensation for harm is not allowed.

The fault of the victim shall not be considered in compensation for the supplementary expenses (Paragraph 1 of Article 1078) nor in compensation for harm in connection with the death of the breadwinner (Article 1082), nor in compensation of funeral expenses (Article 1087).

3. The court may reduce the amount of compensation for harm caused by a citizen, taking into account his financial status, with the exception of cases when the harm is caused by actions taken intentionally.

## **§ 2. COMPENSATION FOR HARM CAUSED TO THE LIFE OR HEALTH OF A CITIZEN**

### **Article 1077. Compensation for Harm Caused to the Life or Health of a Citizen in the Performance of Contractual or Other Duties**

Harm caused to the life or health of a citizen in the performance of contractual duties and also in the performance of duties of military service, service in the police, and other analogous duties shall be compensated according to the rules provided by the present Chapter unless a statute or contract provides for a higher measure of liability.

### **Article 1078. Scope and Nature of Compensation for Harm Caused by Injury to Health**

1. In case of the causing of physical injury or other injury to the health of a citizen, the lost wages (or income) which it had or definitely could have had and also supplementary expenses borne that were caused by the injury to the health, including expenses for medical treatment, supplementary nourishment, acquiring medicines, prosthetics, care, sanitarium-resort treatment, acquiring special means of transport, preparation for another job, etc., shall be subject to compensation, if it is established that the victim needs these means of assistance and care and does not have the right to receive them free of charge.

2. In determining the lost wages (or income), a disability pension awarded to the victim in connection with the physical injury or other injury to the health and also other types of pensions, allowances and also other similar payments awarded both before and after the causing of harm to the health shall not be considered and shall not entail a reduction of the amount of compensation for harm (shall not be considered toward the compensation for

harm). Wages (or income) received by the victim after the injury to the health was caused also shall not be considered toward the compensation for harm.

3.The scope and amount of compensation for harm due to a victim in connection with the present Article may be increased by a statute or contract.

#### **Article 1079.Determination of the Wages (Income) Lost as the Result of Injury to Health**

1.The amount of wages (or income) lost by the victim and subject to compensation shall be determined as a percentage of the average monthly wages (or income) before the physical injury or other injury to the health or until loss by him of ability to work corresponding to the degree of loss by the victim of job-related ability to work and, in the absence of job-related ability to work, the degree of loss of general ability to work.

2.All types of payment for its labor under labor and civil-law contracts both at its basic place of work and at an additional job that are assessed for income taxation shall be included in the wages (or income) lost by the victim. Payments of a one-time nature, in particular, compensation for unused leave and exit compensation on discharge, shall not be taken into account. For a time period of temporary inability to work or leave for pregnancy and childbirth, the allowance paid shall be taken into account. Income from entrepreneurial activity and also author's royalty shall be included in lost wages; income from entrepreneurial activity shall be included on the basis of the data of the tax inspectorate.

All types of wages (or income) shall be calculated in the sums paid before deduction of taxes.

3.The average monthly wages (or income) of the victim shall be calculated by dividing the total sum of its wages (or income) for the twelve months of work preceding the injury to the health by twelve. In the case when the victim by the time of the causing of harm had worked less than twelve months, the average monthly wages (or income) shall be calculated by dividing the total sum of wages (or income) for the number of months actually worked preceding the injury to the health by the number of these months.

Incompletely worked months by the victim at his option shall be replaced with the previous completely worked months or shall be excluded from the calculation if it is impossible to replace them.

4.In the case when the victim, at the time of causing of the harm has not worked, there shall be considered, at his option, wages before discharge or the usual wage of an employee of his skill in the given place, but not less than five times the minimum monthly wage.

5.If stable changes occurred in the wages (or income) of the victim before the causing of physical injury to him or other injury to his health improving his financial status (the wages were raised for the official position he occupied, he was transferred to a higher paid work, he started to work after finishing an educational institution as a full-time day student, and in other cases when the stability of the change or possibility of change of payment for the labor of the victim is proved), in determining his average monthly wages (or income), only the wages (or income) are considered that he received or should have received after the respective change.

#### **Article 1080. Compensation for Harm in the Case of Injury to the Health of a Person Who Has Not Attained Majority**

1.In case of physical injury or other injury to the health of a minor who has not attained the age of fourteen years (an infant) and does not have wages (or income), the person liable for the harm caused has the duty to compensate for the expenses connected with the injury to the health.

2.When the infant victim attains the age of fourteen years, and also in the case of causing of harm to a minor of fourteen to eighteen years of age who does not have wages (or income), the person liable for the harm caused has the duty to compensate the victim, in addition to expenses connected with the causing of injury to the health, also the harm connected with the loss or reduction of his ability to work, proceeding from five times the minimum monthly wage established by a statute.

3.If by the time of injury to his health, the minor had earnings, then the harm shall be compensated proceeding from the amount of these earnings, but not less than five times the minimum monthly wage established by a statute.

4.After the start of labor activity, a minor, to whose health the harm was previously caused, shall have the right to demand an increase in the amount of compensation for harm on the basis of the wages received by him, but not more than the amount of compensation established for the official position occupied by him or the wages of an employee of the same skill at his place of work.

#### **Article 1081.Compensation for Harm to Persons Borne Damage as the Result of the Death of the Breadwinner**

1.In case of the death of the victim (or breadwinner), the following shall have the right to compensation for harm:

1)persons not capable of work that were dependent upon support by the decedent or having by the day of his death the right to receive support from him;

2)a child of the decedent born after his death;

3)one of the parents, spouse, or other member of the family regardless of ability to work who does not work and engages in care of children, grandchildren, bothers, or sisters of the decedent who were dependent upon support by the decedent and have not attained fourteen years of age or who, although they have attained this age, but on conclusion of medical bodies need, due to condition of health, outside care;

4) persons that were dependent upon support by the decedent and have become incapable of work in the course of five years after his death.

One of the parents, the spouse or other member of the family who was not working and was engaged in care of children, grandchildren, brothers, or sisters of the decedent and who became unable to work during the time period of conducting care preserves the right to compensation for harm after the ending of care for these persons.

2. Harm shall be compensated:

1) for minors until attainment of the age of eighteen;

2) for students of the age of eighteen and older—until finishing study in full-time educational institutions but not further than until the age of twenty three;

3) for women older than fifty five years and men older than sixty years—for life;

4) for disabled persons—for the time period of disability;

5) for one of the parents, the spouse, or other member of the family occupied in care for children, grandchildren, brothers, or sisters of the decedent who were dependent upon support of the decedent—until they reach the age of fourteen.

#### **Article 1082. Amount of Compensation for Harm Borne in Case of the Death of the Breadwinner**

1. For persons having the right to compensation for harm in connection with the death of the breadwinner, harm shall be compensated in the amount of that share of the wages (or income) of the decedent determined according to the rules of Article 1079 of the present Code that they received or had the right to receive for their support while he was alive. In determining the compensation for harm to these persons, in the income of the decedent along with wages (or income) pensions, and other like payments received by him during life shall be included.

2. In determining the amount of compensation for harm, pensions awarded to persons in connection with the death of the breadwinner and types of pensions awarded both before and after the death of the breadwinner, and also wages (or income) and scholarships received by these persons shall not be counted in the calculation of the compensation for harm.

3. The amount of compensation established for each of those having the right to compensation for harm in connection with the death of a breadwinner shall not be subject to further recalculation except in cases:

1) birth of a child after the death of the breadwinner;

2) of the award or termination of payment of compensation to persons occupied with care of children, grandchildren, brothers, and sisters of the deceased breadwinner.

A statute or contract may increase the amount of compensation.

#### **Article 1083. Later Change of the Amount of Compensation for Harm**

1. A victim who has partially lost the ability to work shall have the right at any time to demand from the person upon whom the duty to compensate for harm has been placed, a corresponding increase in the amount of the compensation for harm if the ability to work of the victim has been further reduced in connection with the harm caused to the health in comparison with that which he still had by the time of the award of compensation for harm to him.

2. A person upon whom the duty of compensation for harm caused to the health of the victim has been imposed shall have the right to demand a corresponding reduction in the amount of compensation if the ability to work of the victim has increased in comparison with that which he still had by the time when the compensation for harm was awarded to him.

3. The victim shall have the right to demand increase in the amount of compensation for harm if the financial status of a citizen upon whom the duty to compensate for harm was imposed has improved and the amount of compensation had been reduced in accordance with Paragraph 3 of Article 1076 of the present Code.

4. The court may, on demand of a citizen who has caused harm, reduce the amount of compensation for harm if his financial status in connection with disability or reaching pension age worsened in comparison with its status at the time of the award of compensation for harm, with the exception of cases when the harm was caused by actions committed intentionally.

#### **Article 1084. Increase in the Amount of Compensation for Harm in Connection With Increase in the Cost of Living and Increase in the Minimum Monthly Wage**

1. The sums of compensation paid for harm caused to the life or health of the victim shall be subject to indexation by the procedure established by a statute in case of increase in the cost of living.

2. In case of increase in the minimum monthly wage, the sums of compensation for lost wages (or income) and other payments awarded in connection with harm to the health or the death of the victim shall be increased proportionally to the increase in the minimum monthly wage (Article 357).

#### **Article 1085. Payments in Compensation for Harm**

1. Compensation for harm caused by the reduction in ability to work or the death of the victim shall be made in monthly payments.

In case of valid reasons, the court, taking into account the possibilities of the one who caused the harm, may, on demand of the person having the right to compensation for harm, award to it the compensation due at one time, but not for more than three years.

2. Sums in compensation for supplementary expenses (Paragraph 1 of Article 1078) may be awarded for the future within the time periods determined on the basis of medical expert evaluation, and also in case of the necessity of advance payment of the cost of respective services and property, including acquiring vouchers, paying for transportation, and payment for special means of transportation.

#### **Article 1086. Compensation for Harm in Case of Termination of a Legal Person**

1. In case of reorganization of a legal person recognized by the established procedure as liable for the harm caused to the life or health, the duty for making of the respective payments shall be borne by its legal successor. Claims for compensation for harm shall be made against it.

2. In case of liquidation of a legal person recognized by the established procedure as liable for the harm caused to the life or health, the respective payments must be capitalized for their payment to the victim according to the rules established by a statute or other legal acts.

A statute or other legal acts also may establish other cases in which capitalization of payments may be made.

#### **Article 1087. Compensation of Funeral Expenses**

The persons liable for the harm caused by the death of the victim shall be obligated to compensate for the necessary funeral expenses to the person who has borne these expenses.

The funeral allowance received by citizens who have borne these expenses shall not be subtracted in calculating the compensation for harm.

### **§ 3. COMPENSATION FOR HARM CAUSED AS THE RESULT OF DEFECTS IN GOODS, WORK, OR SERVICES**

#### **Article 1088. The Bases of Compensation for Harm Caused as the Result of Defects in Goods, Work, or Services**

Harm caused to the life, health, or property of a citizen or to the property of a legal person as the result of design, formula, or other defects in goods, work, or services and also as the result of unreliable or insufficient information on goods (or work or services) shall be subject to compensation by the seller or manufacturer of the goods or person doing the work or rendering the services (the performer) regardless of their fault and of whether or not the victim was in contractual relations with them.

The rules provided by the present Article shall be applied only in cases of acquiring the goods (doing the work, rendering of services) for consumer purposes and not for their use in entrepreneurial activity.

#### **Article 1089. Persons Liable for Harm Caused as the Result of Defects in Goods, Work, or Services**

1. Harm caused as the result of defects in goods shall be subject to compensation at the choice of the victim by the seller or manufacturer of the goods.

2. Harm caused as the result of defects in work or services shall be subject to compensation by the person who has done the work or rendered the service (by the performer).

3. Harm caused as the result of failure to provide full or reliable information on the goods (or work or services) shall be subject to compensation by the persons indicated in Paragraphs 1 and 2 of the present Article.

#### **Article 1090. Time Periods for the Compensation for Harm Caused as the Result of Defects in Goods, Work, or Services**

1. Harm caused as the result of defects in goods, work, or services shall be subject to compensation if it has arisen in the course of the established time periods of suitability of the goods (or work or services), or, if a time period of suitability has not been established, in the course of ten years from the day of production of the goods (or work or service).

2. Harm shall be subject to compensation no matter of the time it was caused, if:

1) in violation of the requirements of a statute, a time period of suitability was not established;

2) the person to whom the goods were sold, for whom the work was done, or to whom the services were rendered was not warned of the necessary actions upon the expiration of the time period of suitability and the possible consequences in case of failure to take these actions.

#### **Article 1091. Bases for Freeing from Liability for Harm Caused as the Result of Defects in Goods, Work or Services**

The seller or manufacturer of the goods or the one who performed work or rendered a service shall be freed from liability in the case if it proves that the harm arose as the result of force majeure or violation by the consumer of the established rules for use of the goods, the results of work, or services or their storage.

## **CHAPTER 61. OBLIGATIONS ARISING AS THE RESULT OF UNJUST ENRICHMENT**

### **Article 1092. The Duty to Return Unjust Enrichment**

1. A person who without bases established by a statute, other legal acts, or a transaction has acquired or economized property (the recipient) at the expense of another person (the victim) shall be obligated to return to the latter the unjustly acquired or economized property (unjust enrichment), with the exception of the cases, provided by Article 1099 of the present Code.

2. The rules provided by the present Chapter shall be applied regardless of whether the unjust enrichment was the result of the conduct of the acquirer of the property, the victim itself, third persons, or occurred against their will.

### **Article 1093. Relation of Claims for the Return of Unjust Enrichment to Other Claims for the Protection of Civil-Law Rights**

Unless otherwise established by the present Code, other statutes or other legal acts, nor otherwise follows from the nature of the respective relations, the rules provided by the present Chapter shall also be applied to claims:

- 1) for return of performance under an invalid transaction;
- 2) for the recovery of property by the owner from another's illegal possession;
- 3) of one party in an obligation to another for return of performance in connection with this obligation.

### **Article 1094. Physical Return of Unjust Enrichment**

1. Property constituting unjust enrichment of the acquirer must be physically returned to the victim.

2. The acquirer shall be liable to the victim for every, including accidental, shortage or worsening of the unjustly acquired or economized property that occurred after it learned or should have learned of the unjust enrichment. It shall be liable only for intent and gross negligence before this time.

### **Article 1095. Compensation for the Value of Unjust Enrichment**

1. In case of the impossibility of the physical return of the unjustly acquired or economized property, the acquirer must compensate the victim for the actual value of this property at the time it was acquired and also for the losses caused by later change in the value of the property if the acquirer has not compensated for its value promptly after it learned of the unjust enrichment.

2. A person who has unjustifiably made temporary use of another's property without the intent to acquire it or of another's services must compensate the victim for what the person economized as the result of such use at the price existing at the time when the use ended and in the place where it occurred.

### **Article 1096. Consequences of Unjustified Transfer of Rights to Another Person**

A person who has transferred by way of assignment of a claim or in another manner a right belonging to itself to another person on the basis of a nonexistent or invalid obligation shall have the right to demand re-establishment of the former position including the return to it of documents evidencing the right transferred.

### **Article 1097. Compensation to the Victim for Income Not Received**

1. A person who has unjustly received or economized property shall be obligated to return to or compensate the victim for all income that it extracted or should have extracted from this property from the time when it learned or should have learned of the unjust enrichment.

2. Interest for the use of another's assets (Article 411) shall be assessed on the sum of unjust monetary enrichment from the time when the acquirer learned or should have learned of the unjust receipt or saving of monetary assets.

### **Article 1098. Compensation for Expenditures on Property Subject to Return**

Upon the return of the unjustly acquired or economized property (Article 1094) or compensation for its value (Article 1095), the acquirer shall have the right to claim from the victim compensation for necessary expenditures borne for the maintenance and preservation of the property from the time from which it was obligated to return income (Article 1097) taking into account the benefits received by it. The right to compensation for expenditures shall be lost in the case when the acquirer intentionally withheld property subject to return.

### **Article 1099. Unjust Enrichment Not Subject to Return**

The following are not subject to return as unjust enrichment:

- 1) property transferred in performance of an obligation before the occurrence of the time period for performance, unless the obligation provides otherwise;
- 2) property transferred in performance of an obligation after expiration of the time period of limitation of actions;
- 3) wages and payments equated to them, pensions, allowances, scholarships, compensation for harm caused to the life or health, support payments, and other monetary sums given to a citizen as means for subsistence, in the absence of bad faith on his part;

4)monetary sums and other property provided in performance of a nonexistent obligation if the acquirer proves that the person claiming return of the property knew of the absence of the obligation or provided the property for purposes of charity.



## **DIVISION 10. INTELLECTUAL PROPERTY**

### **CHAPTER 62. GENERAL PROVISIONS**

#### **Article 1100. Objects of Intellectual Property**

1. Objects of intellectual property include results of intellectual activity and means of individualization of participants in civil commerce, of goods, of work, and of services.
2. Results of intellectual activity are:
  - 1) works of scholarship, literature, and art;
  - 2) performances, phonograms, and transmissions of broadcasting organizations;
  - 3) inventions, utility models, industrial designs;
  - 4) achievements of plant and animal breeding;
  - 5) the topology of integrated microcircuits;
  - 6) undisclosed information, including secrets of production (or know-how).
3. Means of individualization of participants in civil commerce, of goods, of work, and of services are:
  - 1) firm names;
  - 2) trademarks (and service marks);
  - 3) names of places of origin (or designations of origin) of goods.
4. Objects of intellectual property also include other results of intellectual activity and means of individualization of participants in civil commerce, of goods, and of services in cases provided by the present Code and other statutes.

#### **Article 1101. Bases for the Arising of Rights to Objects of Intellectual Property**

Rights to objects of intellectual property arise by virtue of the fact of their creation or as the result of the giving of legal protection by an empowered state body in the cases and by the procedure provided by the present Code or by another statute.

The conditions of providing legal protection of undisclosed information shall be determined by a statute.

#### **Article 1102. Personal Non-Property and Property Rights to Objects of Intellectual Property**

1. Personal non-property and property rights with respect to the results of creative activity belong to the creator of the results of intellectual activity.
2. Personal non-property rights belong to the creator regardless of his property rights and are retained by him in case of passage of his property rights to the results of intellectual activity to another person.

#### **Article 1103. Right of Creatorship**

1. The right to be recognized as the creator of a result of intellectual activity (the right of creatorship) is a personal non-property right and may belong only to the person by whose creative labor a result of intellectual activity has been created.
2. The right of creatorship is inalienable, non-transferable, and is effective without limit of time.
3. If a result is created by the joint creative labor of two or more persons, they shall be recognized as cocreators.

#### **Article 1104. Exclusive Rights to Objects of Intellectual Property**

1. The holder of property rights to a result of intellectual activity or to a means of individualization of participants in civil commerce, goods, and services (hereinafter—means of individualization) has the exclusive right of lawful use of this object of intellectual property at his discretion in any form and any way.
2. The use by other persons of objects of intellectual property, with respect to which their rightholder has an exclusive right is allowed only with the consent of the rightholder, unless otherwise provided by statute.
3. The holder of an exclusive right to an object of intellectual property has the right to transfer this right to another person in whole or in part, to permit another person to use this object, and has the right to dispose of it in another manner if this does not contradict the rules of the present Code and other statutes.
4. Limitations on exclusive rights, including by way of giving the right for the use of an object of intellectual property to other persons, the declaration of these rights as invalid and their termination (or annulment) is allowed in the cases, within the limits, and by the procedure established by the present Code and other statutes.

#### **Article 1105. Passage of the Exclusive Rights to Another Person**

1. Property rights belonging to the holder of exclusive rights to an object of intellectual property, unless otherwise provided by the present Code or other statute, may be transferred by their rightholder in full or in part to another person by contract, and they also pass by the procedure of universal legal succession by inheritance or as the result of the reorganization of a legal person that is a rightholder.

The transfer of property rights by contract or their passage by way of universal legal succession does not entail the transfer or limitation of the right of creatorship and other inalienable and nontransferable exclusive rights. The conditions of a contract on transfer or limitation of such rights are void.

2. Exclusive rights that are transferred by a contract must be defined therein. The rights that are not indicated in the contract as alienated are presumed not to be transferred, until proved otherwise.

#### **Article 1106. Licensing Contract**

1. Under a licensing contract the party holding an exclusive right to the result of intellectual activity or to a means of individualization (the licensor) grants the other party (the licensee) permission to use the respective object of intellectual property.

2. A licensing contract is presumed to be for compensation. The amount of remuneration and/or the procedure for determining the amount of remuneration and the time periods for its payment must be established in the licensing contract.

3. The licensing contract must define the rights given, the limits and the time periods for their use.

4. A licensing contract may provide for giving to the licensee:

1) the rights of use of the object of intellectual property with the retaining by the licensor of the right of use and the right of giving licenses to other persons (a simple, nonexclusive license);

2) the rights of use of the object of intellectual property with the retaining by the licensor of the right of use, but without retaining the right of giving licenses to other persons (an exclusive license);

3) other types of license allowed by statute.

Unless provided otherwise in the licensing contract, a license is presumed to be simple (nonexclusive).

5. A contract on the provision by the licensor of the right of use of an object of intellectual property to another person is a sublicensing contract. The licensor has the right to conclude a sublicensing contract only in cases provided by the licensing contract.

The licensee bears liability to the licensor for the actions of the sublicensee, unless the licensing contract provides otherwise.

#### **Article 1107. Contract for the Creation and Use of the Results of Intellectual Activity**

1. A creator may undertake by contract the obligation to create in the future a work, invention, or other result of intellectual activity and to provide to the customer who is not his employer exclusive rights to the use of this result.

2. The contract provided for in Paragraph 1 of the present Article must define the nature of the result of intellectual activity to be created and also the purposes or the means of its use.

3. A contract obligating a creator to provide to any person exclusive rights to the use of any results of intellectual activity that this creator creates in the future is void.

4. Terms of a contract limiting a creator in the future in the creation of results of intellectual activity of a particular type or in a particular area are void.

#### **Article 1108. Exclusive Right and Right of Ownership**

The exclusive right to a result of intellectual activity or a means of individualization exists independently of the right of ownership of the material object in which such a result or means of individualization is expressed.

#### **Article 1109. Time Period of Effectiveness of an Exclusive Right**

The exclusive right to an object of intellectual property is effective during the time period provided by the present Code or other statutes.

#### **Article 1110. Means of Protection of Exclusive Rights**

1. Protection of exclusive rights shall be conducted by the means provided by Article 14 of the present Code. Protection of exclusive rights may be conducted also by:

1) taking of material objects with the aid of which exclusive rights are violated and material objects created as the result of such violation;

2) compulsory publication about a breach committed, with an inclusion therein of information about to whom the right breached belongs;

3) other means provided by statute.

2. In case of breach of contracts on the use of results of intellectual activity and of means of individualization the general rules on liability for breach of obligations (Chapter 26) shall be applied.

## **CHAPTER 63. COPYRIGHT**

#### **Article 1111. Objects of Copyright**

1. Copyright extends to works of scholarship, literature, and art that are the result of creative activity regardless of the use and merits of the work and also to means of its expression.

2. The work must be expressed in audible, written or other objective form allowing the possibility of its perception. A work in written form or otherwise expressed on a material carrier (manuscript, typescript, musical notation, recording with the use of technical means, including sound or video recording, fixation of an image in two dimensional or volume-spacial form, etc.) shall be considered as having objective form regardless of its accessibility by third persons. An audible work or other work not expressed on a material carrier, shall be considered to have objective form if it has become accessible for perception by third persons (public speaking or public performance, etc.)
3. Copyright extends both to works published (made public, released to the public) and also to unpublished works.
4. Copyright does not extend to ideas, concepts, principles, systems, proposed solutions, nor discoveries of objectively existing phenomena.

#### **Article 1112. Types of Objects of Copyright**

The objects of copyright include:

- 1) literary works (literary-artistic, scholarly, instructional, publicistic, etc.)
- 2) dramatic and film script works;
- 3) musical works with words and without words;
- 4) musical-dramatic works;
- 5) choreographic works and pantomimes;
- 6) audiovisual works (motion picture, television, and video films, slide films, transparency films and other motion picture, television and video works), radio works;
- 7) works of painting, sculpture, graphics, design and other works of fine art;
- 8) works of applied decorative and stage-setting art;
- 9) works of architecture, city planning, and garden and park art;
- 10) photographic works and works made by modes analogous to photography;
- 11) geographic, geologic, and other maps, plans, drawings, and plastic works related to geography, topography, and other sciences;
- 12) programs for computers of all types, including applied programs and operating systems;
- 13) kinds of fonts;
- 14) other works meeting the requirements established by Article 1111 of the present Code.

#### **Article 1113. Parts of a Work and Derivative Works**

1. Parts of works, their names, and derivative works are objects of copyright if they meet the requirements established by Article 1111 of the present Code.
2. Derivative works include:
  - 1) works that are the reworking of other works (revisions, annotations, summaries, resumes, surveys, stage-settings, arrangements, and other similar works of scholarship, literature, and art);
  - 2) translations;
  - 3) collections (encyclopedias, anthologies, databases) and other compiled works, that are by selection or organization of materials the result of creative labor.
3. Derivative works are protected by copyright, regardless of whether or not the works upon which they are based or which they include are objects of copyright.

#### **Article 1114. Works and Similar Results of Activity that are not Objects of Copyright**

The following are not objects of copyright:

- 1) official documents (statutes, decrees, decisions, etc.), and also their official translations;
- 2) official symbols and signs (flags, seals, medals, currency, etc.);
- 3) folk works;
- 4) communications on daily news or communications on current events having the nature of ordinary press information;
- 5) results acquired with the use of technical means without the conduct of human creative activity.

#### **Article 1115. Rights to Drafts of Official Documents, Symbols, and Signs**

1. The right of authorship to a draft of an official documents, of a symbol, or of a sign belongs to the person who has created the draft (the developer).
2. The developers of drafts of official documents, symbols, and signs have the right to publish such a draft if this is not forbidden by the body upon whose delegation the development of the draft was made. In case of publication of the draft the developers have the right to indicate their names.
3. The draft may be used by the competent body for the making of an official document without the consent of the developer if this draft has been published by him or has been sent by him to the respective body.
4. In the making of official documents, symbols or signs on the basis of a draft, additions and changes may be made to it at the discretion of the body conducting the making of the official document, symbol, or sign. After approval of the draft by the competent body, it may be used without indication of the name of the developer.

#### **Article 1116. Arising of Copyright. Presumption of Authorship**

1. Copyright to a work of scholarship, literature, or art arises by virtue of the fact of its creation. Neither registration of the work nor the observance of any other formalities is required for the arising of copyright.
2. A person indicated as author upon first publication of a work is considered its author unless proven otherwise.
3. If a work is published anonymously or under a pseudonym (with the exception of the case when the pseudonym of the author leaves not doubt as to his identity), the publisher, the name or designation of which is indicated on the work, in the absence of proofs otherwise is considered to be a representative of the author and has the right to protect the rights of the author and ensure their exercise. This provision shall stay in effect until the author of such a work reveals his identity or declares his authorship.

#### **Article 1117. Coauthorship**

1. Copyright to a work made by the joint creative labor of two or more citizens belongs to the coauthors jointly, regardless of whether such a work forms one indivisible whole or consists of parts each of which also has independent significance.
2. A part of a work has independent significance if it may be used independently from other parts of the work.
3. Each of the coauthors shall have the right to use a part of the work created by him that has independent significance at his discretion unless otherwise provided by agreement among them.
4. The relations of coauthors shall be determined on the basis of an agreement. In the absence of such an agreement, copyright to a work shall be exercised by all the authors jointly and remuneration shall be distributed among them equally.
5. If the work of coauthors forms one indivisible whole, then no one of the authors has the right without sufficient bases therefor to forbid the use of the work.

#### **Article 1118. Authors of Derivative Works**

1. Authors of derivative works are respectively persons who have made the revision of other works, translators, compilers of collections and other compiled works.
2. The author of a derivative work shall enjoy copyright to this work on the condition of his observance of the right of the author of the work that has undergone revision, translation, or inclusion in a compiled work.
3. The copyright of creators of derivative works shall not prevent other persons from creating their own derivative works on the basis of work already used earlier.

#### **Article 1119. Rights of Persons Organizing the Creation of Works**

1. Persons organizing the creation of works (publishers of encyclopedias, makers of films, producers, etc.) shall not be recognized as authors of the respective works. However in the cases provided by the present Code or other statutes, such persons shall acquire exclusive rights to the use of these works.
  2. Publishers of encyclopedias, encyclopedic works, periodical or continuing collections of scholarly works, newspapers, magazines, and other periodical publications shall have the exclusive rights to the use of such publications. The publisher shall have the right in case of any use of such designations to indicate its name or demand such an indication.
- The authors of works included in such publications shall retain the exclusive rights to the use of their works independent of the publication as a whole unless otherwise provided by a contract for the creation of the work.

#### **Article 1120. Symbols of Protection of Copyright**

1. The holder of an exclusive copyright may, for notification of his rights, use the symbol of protection of copyright which shall be placed on each copy of the work and consists of three elements:
  - 1) the Latin letter "C" in a circle;
  - 2) the name (or designation) of the holder of the exclusive copyright;
  - 3) the year of first publication of the work.
2. Unless proved otherwise, the rightholder shall be considered to be the person indicated in the symbol of protection of copyright.

#### **Article 1121. Personal Nonproperty Rights of the Author**

1. The author of the work shall have the following personal nonproperty rights:
  - 1) the right to be recognized as author of the work (the right of authorship);
  - 2) the right to use or permit the use of the work under his own name, under a pseudonym, or anonymously (the right to the author's name);
  - 3) the right to integrity of the work.
2. A declaration by the author or an agreement by the author with anyone on renunciation of the exercise of personal non-property rights is void.

#### **Article 1122. The Right to Integrity of the Work**

- 1.The author has the exclusive right to make changes and additions to his work and to the protection of the work from the introduction into it by anyone without the consent of the author of changes or additions (the right to integrity of the work).
- 2.In case of publication, public performance, or other use of the work, the introduction of any changes either in the work itself or in its name or in the indication of the name of the author is allowed only with the consent of the author. It is forbidden without the consent of the author to provide the work upon publication with illustrations, forewords, afterwords, commentaries, or any explanations.
- 3.After the death of the author the protection of the integrity of the work shall be exercised by the person indicated in the will and the absence of such indications, by the heirs of the author and also by persons to whom the protection of copyrights is entrusted in accordance with statute.

#### **Article 1123. The Right to Publication of the Work**

- 1.The author has the right to open access to the work to an indefinite circle of persons (the right to publication).
- 2.A work shall be considered published when such access is opened for the first time by the author or with his consent by the publication, public performance, public display of the work, or release of the work to the public in another manner.
- 3.The author shall have the right to renounce a previously taken decision on publication of a work (the right to recall), on condition of compensation of the persons who have received the right to use the work of the losses, including lost profit, caused by such a decision. If the work has already been published, the author has the duty to give public notice of its recall. In this case he has the right to remove, at his expense, from circulation previously made copies of the work. The provisions of this Paragraph shall also be applied to employee works unless a contract with the author provides otherwise.

#### **Article 1124. The Right of the Author to Use of a Work**

- 1.The author shall have the exclusive rights to the use of the work in any form and by any mode.
- 2.The use of a work is the reproduction and distribution of the work and its vending by other modes, which include in particular:
  - 1) public display (showing, exhibition) of the work;
  - 2) renting a copy constituting a material carrier of the work;
  - 3) public performance of the work;
  - 4) transmission over the airwaves (broadcast by radio and television), including transmission by cable or communications satellite;
  - 5) technical recording of the work;
  - 6) reproduction of a technical recording of the work, including by radio or television;
  - 7) translation or reworking of a work for its later use;
  - 8) practical realization of city planning, architectural, or design plan.
- 3.Reproduction is the repeated giving of objective form to a work, even that which it had in the original (publishing a work, running off sound or video recordings, etc.).
- 4.The distribution of a work is the sale, barter, renting out, or other operations with copies of a work, including their import.

If copies of a work have been alienated by the procedure established by statute, then their further distribution shall be allowed without the consent of the author and without the payment of remuneration with the exception of cases provided by statute.
- 5.A work shall be considered used regardless of whether it has been used with the purpose of acquiring profit or its use was not directed at this.
- 6.The practical use of matters constituting the contents of works (inventions, other technical, economic, organizational, etc. solutions) shall not constitute the use of a work in the sense of copyright.

#### **Article 1125. Disposition of the Right to Use of the Work**

- 1.The author or other rightholder may by contract, including contract concluded at public auction, transfer all rights to use the work to another person (alienation of the right to use).
- 2.The right to use of a work may pass by way of universal legal succession (Paragraph 1 of Article 1105).
- 3.The rightholder may grant another person permission (a license) for the use of the work within defined limits. Permission is required for the use of the work both in its original and in a reworked form, in particular as a translation, arrangement, etc.

For each mode of use of the work special permission of the rightholder is required (Paragraph 2 of Article 1105).

#### **Article 1126. Right of Access of the Author to a Fine Arts Work**

The author of a fine arts work has the right to demand from the owner of the work the giving of the possibility to exercise the right to reproduce his work (the right of access). However, the owner may not be required to deliver the work to the author.

#### **Article 1127. Limitations Upon Copyrights**

Limitations of the exclusive rights of the author shall be applied on the condition that they do not cause unjustified damage to the normal use of the work and do not impinge in an unjustified manner on the legal interests of the author. Limitation of the exclusive rights of the author and of other persons to the use of the work shall be allowed only in cases provided by statute.

#### **Article 1128. The Right to an Employment Work**

1. The copyright to a work created in the course of fulfillment of an employment task (an employment work) belongs to the author of the work.
2. The right of use of an employment work in a manner occasioned by the purpose of the task and within the limits deriving from it belongs to the person for whose task the work was created and with whom the author is in labor relations (to the employer), unless the contract between him and the author provides otherwise. The employer has the right to transfer such a right of use to another person. The contract of the employer with the author may provide for payment to the author for remuneration for the use of employment work and contain other terms on its use.
3. Upon the expiration of ten years from the time of presentation of the work and—with the consent of the employer—even earlier, the author acquires in full the right to the use of the work and to the receipt of author's remuneration, regardless of the contract concluded with the employer.
4. The right of an author to use an employment work in a manner not occasioned by the purpose of the task is not limited.

#### **Article 1129. Effectiveness of Copyright on the Territory of the Republic of Armenia**

1. Copyright to a work first released to the public on the territory of the Republic of Armenia or not released to the public, but one the original of which is on its territory in some objective form, shall be effective on the territory of the Republic of Armenia. In this case, copyright shall be recognized for the author and his heirs, and also for other legal successors of the author regardless of their citizenship.
2. Copyright shall be recognized also for citizens of the Republic of Armenia whose works first were released to the public or exist in some objective form on the territory of a foreign state and also for their heirs and other legal successors.
3. In the giving of legal protection to an author in accordance with international treaties the fact of release of a work to the public on the territory of a foreign state shall be determined according to the provisions of the respective international treaty.

#### **Article 1130. The Beginning of Effectiveness of Copyright**

Copyright to a work begins to be in effect from the time a work is given an objective form accessible for perception by third persons regardless of its release to the public. Copyright to an audible work is effective from the time of its communication to third persons.

If a work does not fall under the effect of Article 1129 of the present Code, the copyright to such a work shall be protected from the time of the first publication of the work, if the publication is made in the Republic of Armenia .

#### **Article 1131. Time Period of Effectiveness of Copyright**

1. Copyright shall be in effect during the life of the author and for 50 years after his death, counting from January 1 of the year following after the year of death of the author.
2. Copyright to a work made in coauthorship shall be in effect during the life of the coauthors and for 50 years after the death of the last of the authors who has survived the other coauthors.
3. Copyright to a work first released to the public under a pseudonym or anonymously shall be in effect for 50 years, counting from January 1 of the year following the year of release of the work to the public. If during the course of this time period work the pseudonymous or anonymous author is revealed, then the terms established by Paragraph 1 of the present Article shall be applied.
4. During the time periods indicated in Paragraphs 1-3 of the present Article, copyright shall belong to the heirs of the author and shall pass by inheritance. During these same time periods, a copyright shall belong to legal successors who have received this right by contract with the author, his heirs, or subsequent legal successors.
5. Copyright to a work first released to the public within 50 years after the death of the author shall be in effect for 50 years after its release to the public, counting from January 1 of the year following the release of the work to the public.
6. Authorship, the name of the author, and the integrity of the work shall be protected without limit of time.

#### **Article 1132. Passage of a Work into the Public Domain**

1. Upon the expiration of the time period of effectiveness of the copyright to a work it shall enter the public domain. Works that never were given protection on the territory of the Republic of Armenia shall be considered to be in the public domain.
2. Works that are in the public domain may be used freely by any person without payment of author's remuneration. However, the right of authorship, the right to the name, and the right to integrity of the work must be observed.

#### **Article 1133. Author's Contract**

1. The author or his heir may transfer the right to use his work to another person by means of conclusion of an author's contract.
2. An author's contract is assumed to be for compensation.
3. An author's contract may be concluded for a ready work or for a work that the author undertakes the duty to create (an order contract). An author's contract also includes a contract concluded by an author or his heirs on permission to use a work within certain limits (an author's licensing contract).

#### **Article 1134. Terms of an Author's Contract**

1. An author's contract must provide:
  - 1) the modes of use of the work (the concrete rights transferred under the given contract);
  - 2) the time period for which the right to use the work is transferred;
  - 3) the amount of remuneration and (or) the procedure for determining the amount of remuneration for each mode of use of the work and the time periods for payment.In the absence in the author's contract of a condition on the territory within the boundaries of which the right to use the work is effective, the effect of the right transferred by the contract is limited to the territory of the Republic of Armenia.
2. Rights to use of the work unknown at the time of conclusion of the contract may not be the subject of an author's contract.
3. The amount of remuneration shall be determined in the author's contract by agreement of the parties. If in an author's contract for publication or other reproduction of the work, remuneration is determined in the form of a fixed sum, then such a contract must establish the maximum number of copies to be made of the work.
4. An agreement on the renunciation by the author or his heirs of the right to receive remuneration is void.
5. Rights transferred under an author's contract may be transferred by any party to the contract in full or in part to other persons only in the case when this is directly provided by such a contract.

#### **Article 1135. Form of the Author's Contract**

The author's contract must be concluded in written form.

#### **Article 1136. Liability Under an Author's Contract**

1. A party that has not performed or has improperly performed obligations under an author's contract is obligated to compensate for losses caused to the other party, including lost profit.
2. If an author has not presented an ordered work in accordance with the conditions of an order contract, he has the duty to compensate for the actual damage caused to the customer.

#### **Article 1137. Liability for Unlawful Use of a Work Without a Contract**

In case of use of a work without a contract with the rightholder, the infringer has the duty to compensate to the rightholder the losses borne by it, including lost profit. The rightholder has the right to recover from the infringer, instead of the losses, the income received by it as a result of the breach. The use of a work in a mode not provided by the author's contract or upon the termination of effectiveness of such a contract shall be considered a use of the work without a contract.

#### **Article 1138. Legal Regulation of Copyright Relations**

Copyright relations shall be regulated by the present Code and by the statute of the Republic of Armenia "On Copyright and Neighboring Rights."

The statute of the Republic of Armenia "On Copyright and Neighboring Rights" shall be applied to relations not regulated by the present Chapter.

## **CHAPTER 64. NEIGHBORING RIGHTS**

#### **Article 1139. The Objects of Neighboring Rights**

Neighboring rights extend to staging, performing, sound and videorecordings of a performance (recordings of a performance), transmissions of organizations of over-the-air and cable broadcasting. For the arising and exercise of neighboring rights there is no requirement of observation of any formalities whatsoever.

#### **Article 1140. Subjects of Neighboring Rights**

1. The subjects of neighboring rights are the performers, the makers of recordings of a performance, and organizations of over-the-air and cable broadcasting.
2. The right to a performance belongs to the performers and also to their heirs. The right to the use of such a performance may pass to other legal successors.
3. The right to a recording of a performance belongs to the person who has created such a recording or his legal successors.

4. The right to a transmission belongs to the organization of over-the-air or cable broadcasting that has made the transmission or to its legal successors.

#### **Article 1141. Symbols of Protection of Neighboring Rights**

The producer of a recording of a performance and the performer may for notification of their rights use the symbol of protection of neighboring rights, which is placed on each copy of the sound or video recording and/or on each jacket containing it and consists of three elements:

- 1) the Latin letter "P" in a circle;
- 2) the name (or designation) of the holder of the exclusive neighboring rights;
- 3) the year of first publication of the recording.

#### **Article 1142. Time Period of Effectiveness of Neighboring Rights**

1. The rights of a performer shall be effective for 50 years from the time of first performance (or presentation) or first recording.

The right of a performer to his name and to protection of the performance from distortion shall be protected without limit of time.

2. The right of the creator of a recording of a performance shall be effective for 50 years after its first recording.

3. The right of an organization of over-the-air or cable broadcasting to the transmission shall be in effect for 50 years from the time of its first transmission.

#### **Article 1143. Legal Regulation of Neighboring Rights Relations**

Neighboring rights relations shall be regulated by the present Code and by the statute of the Republic of Armenia "On Copyright and Neighboring Rights."

The statute of the Republic of Armenia "On Copyright and Neighboring Rights" shall be applied to relations not regulated by the present Chapter.

## **CHAPTER 65. RIGHT TO AN INVENTION, UTILITY MODEL, OR INDUSTRIAL DESIGN**

#### **Article 1144. Conditions of Legal Protection of an Invention, Utility Model, or Industrial Design**

1. The rights to an invention, utility model, or industrial design shall be protected on the condition of issuance of a patent.

2. Legal protection shall be given

- 1) to an invention, which is a solution that is new, has an inventive level, and is industrially applicable;
- 2) to a utility model, which is the design realization of means of production and consumer items;
- 3) to an industrial design, which is an artistic-design solution for a manufacture defining its external appearance and being new, original, and industrially applicable.

3. The requirements applied to an invention, utility model, and industrial design, according to which the right arises to acquire a patent and also the procedure for its issuance by the patent office shall be established by the statute of the Republic of Armenia "On Patents."

#### **Article 1145. Right to Use of an Invention, Utility Model or Industrial Design**

1. The patentholder has the exclusive right to the use of the protected invention, utility model, or industrial design at his discretion.

2. Other persons do not have the right to use the invention, utility model, or industrial design without the permission of the patentholder, with the exception of cases when such use in accordance with the law of the Republic of Armenia "On Patents" is not a violation of the rights of the patentholder.

#### **Article 1146. Disposition of the Right to a Patent**

The right to acquire a patent, the rights deriving from the registration of an application, the right to possession of a patent, and the rights deriving from a patent may be transferred in whole or in part to another person.

#### **Article 1147. Right of Creatorship of an Invention, Utility Model, and Industrial Design**

1. The creator of an invention, utility model, or industrial design has the right of inventorship and the right of giving a name to the invention, utility model, or industrial design.

2. The right of creatorship and other personal rights to an invention, utility model, or industrial design arise from the time of arising of rights based on a patent.

3. The person indicated in the application as the creator of the invention, utility model, or industrial design, shall be considered the creator until it is proved otherwise.



#### **Article 1148. Cocreators of an Invention, Utility Model, or Industrial Design**

1. The mutual relations of cocreators of an invention, utility model, or industrial design shall be determined by agreement among them.
2. Noncreative support in the creating of an invention, utility model or industrial design (technical or organizational assistance, assistance in formalizing rights, etc.) does not entail cocreatorship.

#### **Article 1149. Employment Inventions, Utility Models, and Industrial Designs**

The right to receive a patent for an invention, utility model, or industrial design made by an employee in the fulfillment by him of his employment responsibilities or of a concrete task of the employer (an employment invention) belongs to the employer if this is directly provided in a contract between them.

#### **Article 1150. The Right of the Creator to Remuneration for an Employment Invention, Utility Model, or Industrial Design**

The amount, conditions, and procedure for remuneration of a creator for an employment invention, utility model, or industrial design shall be determined by an agreement concluded between him and the employer or, in case of absence of an agreement by decision of a court.

#### **Article 1151. Effectiveness of a Patent on the Territory of the Republic of Armenia**

A patent for an invention, patent for a utility model, or patent for an industrial design issued by the patent office of the Republic of Armenia is effective on the territory of the Republic of Armenia.

Patents issued in foreign states or by an international organization are effective on the territory of the Republic of Armenia in the cases provided by international treaties of the Republic of Armenia.

Foreign citizens and legal persons or their legal successors have the right to acquire, in the Republic of Armenia, a patent for an invention, a patent for a utility model, or a patent for an industrial design if a solution that is the subject of an application by the established procedure satisfies the requirements applied by the statute of the Republic of Armenia “On Patents” for an invention, utility model, or industrial design.

#### **Article 1152. Time Period of Effectiveness of a Patent**

The time period of effectiveness of a patent is established by the statute of the Republic of Armenia “On Patents.”

#### **Article 1153. Form of a Contract on Transfer of the Right to a Patent and Registration of the Rights Arising from the Contract**

1. A contract for the assignment of a patent must be concluded in written form and the rights arising from the contract are subject to registration at the patent office.
2. Nonobservance of written form or of the requirement of shall entail the invalidity of the contract.

#### **Article 1154. Form of a Licensing and Sublicensing Contract and Registration of Rights Arising From Them**

1. A licensing contract or sublicensing contract shall be concluded in written form and the rights arising from these contracts shall be subject to registration at the patent office.
2. Nonobservance of the written form or the requirement of registration shall entail the invalidity of the contract.

#### **Article 1155. Liability for Infringement of a Patent**

Upon demand of the patentholder the infringement of a patent must be terminated and the infringer shall be obligated to compensate the patentholder for the losses borne by it.

#### **Article 1156. Limitation of the Rights of a Patentholder**

The bases for the limitation of rights of a patentholder, conditions for termination (or annulment) of a patent, of recognizing it as invalid, issuance of compulsory licenses, and compulsory alienation of patents are established by the statute of the Republic of Armenia “On Patents.”

## **CHAPTER 66. RIGHTS TO NEW VARIETIES OF PLANTS AND NEW BREEDS OF ANIMALS**

#### **Article 1157. Conditions of the Protection of Rights to New Varieties of Plants and New Breeds of Animals**

1. The rights to new varieties of plants and new breeds of animals (achievements of breeding) shall be protected on condition of the issuance of a patent.  
An achievement of breeding in plant cultivation is a variety of plant acquired by an artificial means or by selection and having one or several economic characteristic that distinguish it from existing varieties of plants.

An achievement of breeding in animal husbandry is a breed, i.e., a whole multiple group of animals of common origin created by man and having a genealogical structure and characteristics that make possible distinguishing it from other breeds of animals of the same type and are quantitatively sufficient for multiplication as a single breed.

2. The requirements upon which the right to obtain a patent arises and the procedure for issuing a patent to achievements of breeding are established by the statute of the Republic of Armenia "On Patents."

3. To relations connected with the rights to achievements of breeding and protection of these rights, the rules of Articles 1146-1151 and 1153-1156 of the present Code are applied correspondingly unless the rules of the present Chapter and the statute of the Republic of Armenia "On the Protection of Achievements of Breeding" do not provide otherwise. In this case the respective rights and duties of the patent office shall be exercised the state agency to which is assigned the testing and protection of achievements of breeding.

#### **Article 1158. Right of the Breeder to Determine the Name of an Achievement of Breeding**

1. The breeder of an achievement of breeding has the right to determine its name, which must comply with the requirements established by the statute of the Republic of Armenia "On the Protection of Achievements of Breeding."

2. In the production, reproduction, offering for sale, sale, and other types of distribution of protected achievements of breeding the use of the names registered for them is obligatory. The application to seeds or breeding material that are produced and/or being sold of a name different from that which is registered is not allowed.

3. The application of the name of a registered achievement of breeding to seeds or breeding material that are produced or being sold that are not covered by it is a infringement of the rights of the patentholder and the breeder.

#### **Article 1159. Rights of the Holder of a Patent to an Achievement of Breeding**

The holder of a patent to an achievement of breeding has the exclusive right to the use of the achievement of breeding within the limits established by the statute of the Republic of Armenia "On the Protection of Achievements of Breeding."

#### **Article 1160. Duties of the Patentholder**

The holder of a patent to an achievement of breeding is required to maintain the respective variety of plant or respective breed of animal during the time period of effectiveness of the patent in such a manner as to maintain the characteristics indicated in the description of the variety or breed compiled at their registration.

#### **Article 1161. The Time Period of Effectiveness of a Patent to an Achievement of Breeding**

The effectiveness of a patent to an achievement of breeding starts from the day of registration of the achievement in the state register of protected achievements of breeding and the issuance of a patent. The time period of effectiveness of the patent shall be established by the statute of the Republic of Armenia "On the Protection of Achievements of Breeding."

#### **Article 1162. Allowance for Achievements of Breeding to be Used**

1. Achievements of breeding that have been given legal protection shall be allowed for use. Giving an achievement of breeding legal protection is not a basis for allow its use.

2. Inclusion of varieties of plants and breeds of animals in the state register of achievements of breeding allowed for use shall be done by the state agency responsible for testing and protection of achievements of breeding on the results of state testing for economic utility.

An application for allowance of use of varieties of plants or breeds of animals shall be submitted to the state agency responsible for testing and protection of achievements of breeding.

## **CHAPTER 67. RIGHT TO THE TOPOLOGY OF INTEGRATED MICROCIRCUITS**

#### **Article 1163. Conditions of Protection of Rights to the Topology of Integrated Microcircuits**

1. Legal protection of the topology of an integrated microcircuit shall be given on the basis of its registration.

Registration of the topology of an integrated microcircuit shall be conducted by the patent office.

On the basis of registration a certificate of the right of use of the topology of an integrated microcircuit shall be issued.

2. The procedure and conditions for registration of the topology of an integrated microcircuit and the issuance of a certificate shall be established by the statute of the Republic of Armenia "On the Legal Protection of the Topology of Integrated Microcircuits."

3. Relations connected with the topology of integrated microcircuits shall be regulated by the present Code and the statute of the Republic of Armenia "On the Legal Protection of the Topology of Integrated Microcircuits."

## **CHAPTER 68. RIGHT TO PROTECTION OF UNDISCLOSED INFORMATION FROM ILLEGAL USE**

### **Article 1164. Conditions of Legal Protection of Undisclosed Information**

1. A person who lawfully possesses technical, organizational, or commercial information, including secrets of production (or know-how) unknown to third persons (undisclosed information), has the right to protection of this information from illegal use, if the conditions are observed that are established by the Paragraph 1 of Article 141 of the present Code.
2. The right to protection of undisclosed information from illegal use arises independently of the fulfillment with respect to this information of any formalities whatsoever (its registration, acquiring certificates, etc.).
3. The rules on the protection of undisclosed information shall not be applied with respect to information that, in accordance with statute may not constitute an official, commercial, or banking secret (information on legal persons, rights to property subject to state registration, information subject to presentation for state statistical reporting, etc.)
4. The right to protection of undisclosed information shall be effective so long as the conditions provided by Paragraph 1 of Article 141 of the present Code are in effect.

### **Article 1165. Liability for Illegal Use of Undisclosed Information**

1. A person who without legal bases has received, distributed, or is using undisclosed information shall be obligated to compensate the person who lawfully possesses this information for the losses caused by its illegal use.
2. If a person who is illegally using undisclosed information has received it from a person who did not have the right to distribute it, of which the acquirer did not know and should not have known (a good-faith acquirer), the lawful possessor of the undisclosed information has the right to demand from it compensation for losses caused for use of the undisclosed information after the good-faith acquirer learned that its use was illegal.
3. A person lawfully having undisclosed information has the right to demand from a person who is illegally using it the immediate cessation of its use. However, a court, taking into account the funds expended by a good-faith acquirer of undisclosed information toward its use, may permit its further use on the condition of a compensated nonexclusive license.
4. A person who has independently and lawfully acquired information constituting the content of undisclosed information has the right to use this information independently of the rights of the possessor of the corresponding undisclosed information and is not liable to it for such use.

### **Article 1166. Transfer of the Right to Protection of Undisclosed Information from Illegal Use**

1. A person having undisclosed information may transfer all or part of the information constituting the content of this information to another person under a licensing contract (Article 1106).
2. The licensee shall be obligated to take appropriate measures for the protection of the confidential information acquired under the contract and has the same rights to its protection from illegal use by third persons as has the licensor. Unless otherwise provided in the contract, the duty to keep the information confidential remains for the licensee even after the termination of the licensing contract if the corresponding information continues to remain undisclosed information.

## **CHAPTER 69. MEANS OF INDIVIDUALIZATION OF PARTICIPANTS IN CIVIL COMMERCE, OF GOODS, AND OF SERVICES**

### **§ 1. Firm Name**

#### **Article 1167. Right to a Firm Name**

1. A legal person has the exclusive right to use its firm name on goods, their packing, in advertising, signs, catalogs, bills, printed publications, official letterheads, and other documentation connected with its activity and also in demonstration of goods at exhibits and fairs.
2. The firm name of a legal person is determined upon the approval of its charter and is subject to registration by the procedure established by statute.

#### **Article 1168. The Use of the Firm Name of a Legal Person in a Trademark**

The firm name of a legal person may be used in a trademark belonging to it.

#### **Article 1169. Effectiveness of the Right to a Firm Name**

1. On the territory of the Republic of Armenia there is in effect an exclusive right to a firm name registered in the Republic of Armenia as the designation of a legal person.

For a name registered or generally recognized in a foreign state, an exclusive right is in effect on the territory of the Republic of Armenia in the cases provided by statute.

2.The effectiveness of the right to a firm name is terminated only upon the liquidation of the legal person or with a change in its firm name.

#### **Article 1170. Passage of the Right to a Firm Name**

Passage of the right to the firm name of a legal person is allowed only in case of its reorganization.

### **§ 2. Trademark**

#### **Article 1171. Conditions of Legal Protection of a Trademark**

1.A trademark (or service mark) is a registered verbal, pictorial, spacial, or other designation serving to distinguish the goods or services of one person from the same kind of goods and services of other persons.

2.Legal protection of a trademark is given on the basis of its registration.

3.The right to a trademark is evidenced by a certificate.

4.Designations whose registration as a trademark is not allowed, the procedure for registration of trademarks, for their annulment and declaration as invalid, and also cases in which legal protection of unregistered trademarks may be allowed shall be determined by the statute of the Republic of Armenia “On Trademarks, Service Marks, and Designations of Places of Origin of Goods.”

#### **Article. 1172. The Right to Use a Trademark**

1.The possessor of the right to a trademark has the exclusive right to use and dispose of the mark belonging to it.

2.The use of a trademark is any introduction of it into commerce: the making, application, import, storage, proposal for sale, or sale of the trademark or of goods designated by this mark, its use in signs, advertising, printed production, or other business documentation.

#### **Article 1173. Legal Protection of a Trademark on the Territory of the Republic of Armenia**

A trademark registered by the patent office of the Republic of Armenia or by an international organization by virtue of an international treaty of the Republic of Armenia is granted legal protection on the territory of the Republic of Armenia.

#### **Article 1174. Time Period of Effectiveness of the Registration of a Trademark**

The time period of effectiveness of the registration of a trademark shall be established by the statute of the Republic of Armenia “On Trademarks, Service Marks, and Designations of Places of Origin of Goods.”

#### **Article 1175. Passage of the Right to a Trademark**

1.The right to a trademark with respect to all the classes of goods and services indicated in the certificate or part of them may be transferred by the rightholder to another person by contract.

2.The passage of the right to a trademark, including its transfer by contract or by way of legal succession must be registered at the patent office.

#### **Article 1176. Permission to Use a Trademark**

1.The right to use a trademark may be given by the holder of the right to the trademark to another person with respect to all classes of goods and services indicated in the certificate or part of them under a licensing contract (Article 1106).

2.A licensing contract permitting the licensee to use a trademark must contain a condition to the effect that the quality of the goods or services of the licensee will be not lower than the quality of goods or services of the licensor and that the licensor has the right to exercise supervision of the fulfillment of this condition.

3.Upon termination of the effect of registration of the right to a trademark the effect of the licensing contract is terminated.

4.The passage of the right to a trademark to another person does not entail the termination of the licensing contract.

#### **Article 1177. Form of Contracts on the Transfer of the Right to a Trademark or on the Giving of a License and the Registration of the Transfer of Rights**

1.A contract on the transfer of the right to a trademark or on the giving of a license must be concluded in written form and the transfer of rights must be registered in the patent office.

2.Nonobservance of the written form or the requirement of registration entails the invalidity of the contract.

#### **Article 1178. Liability for Infringing the Right to a Trademark**

1.A person who is unlawfully using a trademark must cease the infringement and compensate the holder of the trademark for the losses borne by it (Article 17).

2.A person who is unlawfully using a trademark has the duty to destroy reproductions of the trademark that have been prepared, to remove from the goods or their packaging an illegally used trademark or a designation similar to it to the point of confusion.

3. In case of the impossibility of fulfilling the requirements established by Paragraph 2 of the present Article, the respective goods are subject to destruction.

### **§ 3. Designation of the Place of Origin of Goods**

#### **Article 1179. Condition for the Legal Protection of the Designation of the Place of Origin of the Goods**

1. The designation of the place of origin (indication of origin) of goods is the name of the country, populated point, locality, or other geographic object used for the signification of goods, whose special qualities exclusively or mainly are determined by the natural conditions or other factors characteristic for this region or a combination of natural conditions and these factors.

The designation of the place of origin of goods may be the historical name of a geographic object.

2. Legal protection of the designation of the place or origin of the goods shall be provided on the basis of its registration. Registration of the designation of a place of origin shall be conducted by the patent office.

On the basis of registration a certificate of the right to use the designation of a place of origin shall be issued.

3. The procedure and conditions for issuance of certificates, recognizing as invalid and terminating the effectiveness of registration and certificates shall be determined by the statute of the Republic of Armenia “On Trademarks, Service Marks, and Designations of Places of Origin of Goods.”

#### **Article 1180. The Right to Use Designations of Place of Origin of Goods**

A person who has the right to use the designation of a place of origin of goods has the right to place this designation on the goods, packaging, advertising, catalogs, bills, and to use it in another manner in connection with the introduction of the given goods into civil commerce.

#### **Article 1181. Area of Effectiveness of the Legal Protection of the Designation of the Place of Origin of Goods**

1. In the Republic of Armenia legal protection shall be provided for the designation of places of origin of goods located on the territory of the Republic of Armenia.

2. Legal protection of the designation of a place of origin of goods that are located in another state shall be provided in the Republic of Armenia in cases provided by statute.

#### **Article 1182. Time Period of Effectiveness of a Certificate of the Right to Use the Designation of a Place or Origin of Goods**

The time period of effectiveness of a certificate of the right to use the designation of the place or origin of goods shall be established by the statute of the Republic of Armenia “On Trademarks, Service Marks, and Designations of the Place of Origin of Goods.”

#### **Article 1183. Liability for Unlawful Use of the Designation of the Place or Origin of Goods**

1. A person having the right to use the designation of a place of origin of goods and also an organizations for the protection of the rights of consumers may demand, from a person who has illegally used the designation, the termination of its use, the removal from the goods, their packaging, letterheads, and similar documentation of an illegally used designation similar to it to the point of confusion, the destruction of depictions prepared of the designation and—if this is impossible—the taking and destruction of the goods and/or packaging.

2. A person having the right to use the designation of a place of origin of goods has the right to demand from an infringer of this right the compensation for losses borne (Article 17).

## **DIVISION 11. INHERITANCE LAW**

### **CHAPTER 70. GENERAL PROVISIONS ON INHERITANCE**

#### **Article 1184. Right of Inheritance**

1. By inheritance the property of the decedent (the inheritance) passes to other persons in unaltered form as a unified whole (universal legal succession), unless the rules of the present Code provide otherwise.
2. Inheritance is regulated by the present Code and, in cases directly provided by it, also by other statutes.

#### **Article 1185. Bases for Inheritance**

1. Inheritance is conducted by will and by statute.
2. Inheritance shall be conducted by statute when a will does not exist or does not determine the fate of all the inheritance and also in other cases provided by the present Code.

#### **Article 1186. The Composition of the Inheritance**

1. The composition of the inheritance includes the property belonging to the donor by inheritance at the date of opening of the inheritance, including money, commercial paper and securities, property rights, and duties.
2. The composition of the inheritance does not include rights and duties inseparably connected with the personality of the donor by inheritance, including:
  - 1) rights to and duties for support payment obligations;
  - 2) the right to compensation for harm caused to the life or health of a citizen;
  - 3) personal nonproperty rights and other nonmaterial values;
  - 4) rights and duties whose transfer by the procedure for inheritance is not allowed by the present Code or other statutes.

#### **Article 1187. Opening of the Inheritance**

An inheritance shall be opened as the result of the death of a citizen. Declaration by a court of a citizen as dead shall entail the same legal consequences as the death of a citizen.

#### **Article 1188. Time of Opening of the Inheritance**

1. The time of opening the inheritance is the day of death of the citizen or, in the case he is declared dead—the day of entry into legal force of a decision of a court declaring the citizen dead, unless another day is established in the decision.
2. If, on one and the same day, persons have died who had the right to inherit one after the other, they shall be considered to have died simultaneously. The inheritance shall be opened after each of them and the heirs of each of them shall be called to the inheritance.

#### **Article 1189. Place of Opening the Inheritance**

1. The place of opening the inheritance is the last place of residence of the donor by inheritance.
2. If the last place of residence of the donor by inheritance is abroad or is unknown, the place of opening the inheritance is the place of location of the immovable property included in the inheritance or its most valuable part and, in the absence of immovable property, the place of location of the movable property or its most valuable part.

#### **Article 1190. Heirs**

1. Citizens alive on the day of opening the inheritance and also those conceived during the life of the donor by inheritance and born alive after the opening of the inheritance may be heirs by will or statute.
2. Legal persons existing on the day of the opening of the inheritance, the Republic of Armenia and communes, and also foreign states and international organizations may be heirs by will.

#### **Article 1191. Exclusion of Unworthy Heirs from Inheritance**

1. Persons shall be excluded from inheritance both by will and by statute who have intentionally hindered the exercise by the donor by inheritance of his last wish, intentionally have deprived the donor by inheritance or any of the possible heirs of life or who have committed an attempt on their life. An exception shall be persons with respect to whom a testator made a will after the making of an attempt.
2. In case of inheritance by statute, parents shall be excluded from inheritance who were deprived of parental rights and were not reinstated in these rights by the time of opening the inheritance.
3. The bases for exclusion from an inheritance of unworthy heirs are a sentence and/or decision of a court that have entered into legal force.  
Persons for whom such an exclusion engenders property consequences connected with the inheritance have the right to apply to court with a demand for exclusion of unworthy heirs from an inheritance.
4. The rules of the present Article shall extend to heirs having a right to a compulsory ownership share in the inheritance.

5.The rules of Paragraphs 1 and 3 of the present Article shall be applied also to a testamentary charge.

## **CHAPTER 71. INHERITANCE BY WILL**

### **Article 1192. General Provisions**

- 1.A will is the expression of the wish of a citizen for the disposition of property belonging to him in case of death.
- 2.Disposition of property in case of death is possible only by the making of a will.
- 3.A will may be made by a citizen who has full dispositive capacity.
- 4.A will must be made personally. Making of a will through a representative is not allowed.
- 5.A will may contain the disposition of only one person. Making of a will by two or more persons is not allowed.
- 6.A will is a unilateral transaction whose validity is determined at the time of opening of the inheritance.

### **Article 1193. Freedom of Leaving by Will**

- 1.A citizen has the right at his discretion to leave by will any property to any persons, to determine the ownership share of heirs in the inheritance in any manner, to deprive heirs by statute of inheritance, to include in the will other dispositions provided for by the rules of the present Code on inheritance, to revoke, amend, or supplement a will that has been made.
- 2.A citizen is not obligated to inform anyone of the making, amending, or revoking of a will.
- 3.Freedom of making a will is limited only by the rules on a compulsory ownership share in an inheritance.

### **Article 1194. The Right to a Compulsory Ownership Share in the Inheritance**

- 1.A compulsory ownership share is the right of an heir to inherit, regardless of the content of the will, not less than half of the ownership share which would have been allotted to him in case of inheritance by statute.
- 2.At the time of opening the inheritance minor children of the testator and also children, the spouse, and the parents of the testator who have been recognized by the procedure established by statute as disabled or lacking dispositive capacity or have attained the age of 60 have the right to a compulsory ownership share.
- 3.Toward the compulsory ownership share shall be counted all that the heir having the right to such an ownership share receives from the inheritance on any basis, including the value of a testamentary charge established for the benefit of such an heir.

### **Article 1195. Designation of Heirs**

- 1.A citizen has the right to leave by will all his property or part of it to one or several persons, both included and not included in the circle of heirs by statute.
- 2.A testator does not have the right to impose upon persons designated by him in his will as heirs a duty in their turn to dispose by of the property willed to them in a specific way in case of their death.

### **Article 1196. Ownership Shares of Heirs in Willed Property**

Property willed to two or several heirs without an indication of their ownership shares in the inheritance and without an indication of which property or rights included in the composition of the inheritance are designated for which of the heirs shall be considered willed to the heirs in equal ownership shares.

### **Article 1197. Will With a Condition**

- 1.A testator has the right to condition receipt of an inheritance on a specific lawful condition with respect to the nature of the conduct of the heir.
- 2.Unlawful conditions included in a disposition on designation of an heir or deprivation of the right of inheritance shall be invalid.
- 3.A condition included in a will may be declared invalid on suit by the heir if the condition cannot be carried out by the heir due to the condition of his health or by virtue of other objective causes.

### **Article 1198. Subdesignation of Heirs**

- 1.The testator may indicate in the will another heir (subdesignation of an heir) in case the heir designated by him in the will dies before the opening of the inheritance, refuses the inheritance, is excluded from the inheritance as an unworthy heir, or does not fulfill lawful conditions of the testator.
- 2.A subdesignated heir may be any person who, in accordance with Article 1190 of the present Code, may be an heir.
- 3.Refusal of an heir by will of an inheritance not for the benefit of the subdesignated heir is not allowed.

### **Article 1199. Right to Will Any Property**

- 1.The testator has the right to make a will containing a disposition of any property including that which he may acquire in the future.
- 2.An inheritance shall be opened with respect to only that property that belonged to the testator at the day of opening the inheritance.
- 3.The testator may make a will on all his property, on part of it, or on individual property or rights.

### **Article 1200. Inheritance of the Part of Property Left Unwilled**

A part of the property of the testator left unwilled shall be distributed among the heirs by statute called to the inheritance by the procedure provided by Chapter 72 of the present Code.

Among these heirs are also included those heirs by statute to whom another part of the property was left by will.

### **Article 1201. Deprivation of Inheritance**

1.A testator has the right, without explanation of the reasons to deprive of inheritance one, several, or all the heirs by statute.

2.If the testator has deprived a person of inheritance who, on the day of opening the inheritance, has the right to a compulsory ownership share, the will in the respective part is invalid.

### **Article 1202. Revocation of, Amendment of, and Supplement to a Will**

1.A testator has the right to revoke, amend, or supplement a will made by him at any time after making the will and is not obligated in such case to indicate the reasons for the revocation, amendment, or supplementation.

2.A testator has the right by a new will:

1)to revoke a prior will entirely;

2)to amend a prior will by the revocation, amendment, or supplementation of individual testamentary dispositions contained in it or by supplementing the will with new dispositions.

3.A will made later and not containing direct indications of the revocation of a previous will nor of individual dispositions in it, revokes the earlier made will in the part in which it contradicts the earlier will.

If the later will that revoked or amended the will is declared invalid, the will made earlier shall be considered valid.

4.A will made earlier, revoked in full or in part by a later will is not reinstated if the later will is in its turn revoked in full or in the respective part by the testator.

5.A statement of the revocation, amendment, or supplementation of a will must be made in the form provided by the present Code for the making of a will.

### **Article 1203. Form of a Will**

1.A will must be made in written form with an indication of the place and time of its compilation, signed by the testator by his own hand, and notarially certified.

2.Nonobservance of the rules of Paragraph 1 of the present Article shall entail the invalidity of the will.

### **Article 1204. Will Equated to one Done in One's Own Hand**

If the testator by virtue of physical handicaps, disease, or illiteracy cannot personally handwrite a signature to will, the will at his request may be signed in the presence of a notary or other person certifying the will in accordance with statute, by another citizen with an indication of the reasons by virtue of which the testator cannot sign the will by his own hand. The name and permanent place of residence of this citizen must be indicated in the will.

### **Article 1205. Notarially Certified Will**

1.A will shall be certified by a notary by the procedure provided by statute.

2.A notarially certified will must be written by the testator or written down from the testator's spoken words by a notary. In the writing or recording of the will technical means (personal computer, typewriter, etc.) may be used.

3.A will written down by a notary from the spoken words of the testator must be read in full by the testator in the presence of the notary before the signing of the will.

If the testator by virtue of physical defects, illness, or illiteracy is not in a condition to read the will personally, its text shall be communicated to him by the notary in the presence of a witness, and a corresponding note about this shall be made in the will with an indication of the reasons why the testator could not personally read the will.

4.At the wish of the testator a witness may be present at the compilation and notarial certification of a will. In the case when the testator is not in a condition to personally read the will, the presence of a witness is obligatory.

If a will is compiled and certified in the presence of a witness, the will must be signed by him and the name and place of residence of the witness must be indicated in the will.

5.The notary has the duty to warn the witness and the person signing the will instead of the testator of the necessity of observing secrecy of the will.

6.In the certification of a will, the notary has the duty to explain to the testator about the right to a compulsory ownership share in the inheritance.

7.In cases when the right to making notarial actions is given by statute to officials of consular institutions of the Republic of Armenia, the will may be certified by the appropriate official, instead of by a notary, with the observance of the rules of the present Code on the form of a will and the procedure for its notarial certification.

### **Article 1206. Closed Will**

1.At the wish of the testator a will shall be authenticated by a notary without acquaintance with its content (a closed will).

2.A closed will must be personally written in his own hand and signed by the testator.



3. The testator shall give the closed will in a envelope that has been glued shut to the notary in the presence of two witnesses, who shall place their signatures on the envelope. The envelope signed by the witnesses shall be put under seal in their presence by the notary in another envelope, upon which the notary shall make an authenticating inscription. The authenticating inscription must contain information on the testator from whom the closed will was received by the notary, on the place and date of its receipt and on the name and place of residence of each witness.
4. When accepting the envelope with the will from the testator, the notary must explain to the testator about the right to a compulsory ownership share in the inheritance.
5. Nonobservance of the rules of the present Article shall entail the invalidity of the will, about which the notary has the duty to warn the testator.

#### **Article 1207. Wills Equated to Those Notarially Certified**

1. The following are equated to notarially certified wills:
  - 1) wills of citizens located for treatment in hospitals, military hospitals, other inpatient treatment institutions or living in homes for the elderly and disabled, certified by chief physicians, their deputies for the medical section, or by the duty physicians of these hospitals, military hospitals, or other treatment institutions, and also by the heads of military hospitals, directors or chief physicians of homes for the elderly and disabled;
  - 2) wills of military service personnel, and in places of stationing of military units where there are no notaries also wills of civilians working in this units, of the members of their families and of members of families of military service personnel, certified by the commanders of military units;
  - 3) wills of persons living in distant populated localities where there is no notary, certified by the head of the commune;
  - 4) wills of citizens located in prospecting or other similar expeditions certified by the heads of these expeditions;
  - 5) wills of citizens who are at the time sailing on ships sailing under the flag of the Republic of Armenia, certified by the captains of these ships;
  - 6) wills of persons who are in places of deprivation of freedom certified by the heads of the places of deprivation of freedom.
2. The wills indicated in Paragraph 1 of the present Article must be signed by the testator in the presence of a witness who must also sign the will.  
The rules of Article 1205 of the present Code shall be applied correspondingly to these wills.
3. A will certified in accordance with the present Article must be, as soon as this becomes possible, sent by the person who has certified the will to a notary at the place of residence of the testator.

#### **Article 1208. Persons Who May Not be Witnesses Nor Sign a Will In Place of the Testator**

- In cases when in accordance with the rules of the present Code witnesses must be present at the compilation, signing, or certification of a will, the following may not be such witnesses and also may not sign the will in place of the testator:
- 1) the notary or other person certifying the will;
  - 2) a person in whose benefit a will is made or a testamentary charge is made, the spouse of this person, his children, or parents;
  - 3) citizens not having full dispositive capacity;
  - 4) illiterates and persons not able to read the will;
  - 5) persons not sufficiently fluent in the language in which the will is made, with the exception of the case when a closed will is made;
  - 6) persons having an active criminal record for perjury.

#### **Article 1209. Secrecy of the Will**

1. The notary or other person who has certified a will, the witnesses, and also a citizen who has signed a will in place of the testator does not have the right before the opening of the inheritance to disclose information concerning the content of the will, its compilation, revocation, amendment, or supplementation.
2. Secrecy of the will shall be protected by the means provided by the present Code and other statutes.

#### **Article 1210. Interpretation of a Will**

- In the interpretation of a will, the notary, the executor of the will, or the court shall take into account the literal meaning of the words and expressions contained in it.  
In case the literal meaning of any provision of the will is not clear, the meaning shall be established by comparing this provision with other provisions and the sense of the will as a whole.

#### **Article 1211. Invalidity of a Will**

1. A will may be declared invalid by a court on suit by a person whose rights or interests are violated by this will.
2. Contesting a will before the opening of the inheritance is not allowed.
3. A will shall be declared invalid as the result of violation of rules on the form of a will or other provisions of the present Code on the invalidity of transactions.
4. Slips of the pen and other insignificant violations of the procedure for compilation, signing, or authenticating a will shall not be bases for declaration of a will as invalid if it is proved that they could not influence the understanding of the testator's expression of his wish.

5. Invalidity may be recognized for the will as a whole or for individual testamentary dispositions contained in it. The invalidity of individual testamentary dispositions shall not affect the validity of the remaining part of the will.

6. The declaration that a will is invalid shall not deprive persons named in it as heirs or benefit-aquirer of the right to inherit by statute nor on the basis of another, valid will.

#### **Article 1212. Execution of a Will**

1. The testator may entrust the execution of a will to a person named in the will—the executor of the will. The consent of this person to be the executor of the will must be expressed by him in a personally signed inscription on the will itself or in a statement attached to the will.

2. By agreement among themselves the heirs have the right to delegate execution of the will to one of the heirs or to another person. In the absence of such an agreement an executor of the will may be appointed by a court on request of one or several heirs.

3. The executor of a will has the right at any time to decline to perform the duties placed upon him, after informing the heirs under the will of this in advance. The executor of a will may be removed from the performance of duties by decision of a court on the basis of a petition by heirs.

4. The executor of the will must:

- 1) take the measures established by Chapter 76 of the present Code for the protection of the inheritance and the management of it;
- 2) inform all the heirs and benefit-aquirers of the opening of the inheritance and of testamentary charges for their benefit;
- 3) acquire sums and other property due to the donor by inheritance;
- 4) cover the debts connected with the inheritance in the priority established by Article 1242 of the present Code;
- 5) ensure the receipt by the heirs of the property due to them in accordance with the wish of the donor by inheritance and statute;
- 6) perform the testamentary charges or demand of the heirs by will performance of the testamentary charges.

5. The executor of the will has the right to conduct in his own name judicial and other matters connected with the protection of the inheritance, the management of it, and the execution of the will.

6. The executor of the will shall exercise his functions during the time period necessary for the recovery of sums due to the donor by inheritance, cleansing of the inheritance from debts and entry of all heirs into possession of the inheritance.

7. On request by the heirs, the executor of the will shall be obligated to provide them with a report on the execution of the will.

8. The executor of the will has the right to compensation at the expense of the inheritance for the necessary expenses for the protection of the inheritance, the management of it, and the execution of the will, and also to the receipt of remuneration. The will may provide for payment of remuneration to the executor of the will at the expense of the inheritance.

#### **Article 1213. Testamentary Charge**

1. The testator has the right to impose on one or several heirs by will the performance at the expense of the inheritance of any kind of obligation (a testamentary charge) for the benefit of one or several persons (the benefit-aquirers) who acquire the right to demand the performance of this obligation.

The same duty may be imposed upon the executor of the will with the allocation by the testator of part of the property for his performance of a testamentary charge.

2. The general provisions on obligations shall be applied to relations between the benefit-aquirer (creditor) and the heir whose right to an inheritance is burdened with a testamentary charge (the debtor), unless otherwise follows from the rules of the present Code and the nature of a testamentary charge.

3. A testamentary charge must be established in a will.

4. The benefit-aquirers may be both persons included and those not included among heirs by statute. The right of a benefit-aquirer is inalienable and does not pass to other persons. In a will a benefit-aquirer may be subdesignated to another benefit-aquirer.

5. The subject of a testamentary charge may be the transfer to the benefit-aquirer, in ownership or in use, of property included in the composition of the inheritance, the transfer to him of a property right included in the composition of the inheritance, the acquisition and transfer to him of other property, the fulfillment for him of specified work, or the rendering to him of a specified service.

The subject of a testamentary charge may also be the maintenance of animals belonging to the testator and care for them.

6. The testator has the right to impose upon an heir to whom a dwelling house (or an apartment) passes, the obligation to provide another person with the use for life of the dwelling premises or of a specified part of it. In case of the transfer of the right of ownership to the dwelling house (or apartment), the right of use for life shall remain in force.

The right of use for life of dwelling premises is inalienable, nontransferable, and does not pass to the heirs of the benefit-aquirer.

The right of use for life of dwelling premises provided to the benefit-aquirer shall not be the basis for the living of members of his family in these premises, unless the will provides otherwise.

#### **Article 1214. Performance of a Testamentary Charge**

1. An heir upon whom the testator has imposed a testamentary charge must perform it only within the limits of the value of the inheritance that has passed to him.
2. If the heir upon whom a testamentary charge is imposed has the right to a compulsory ownership share in the inheritance, his duty to perform the testamentary charge is bounded by the limits of the value of the inheritance that has passed to him that exceeds the amount of his compulsory ownership share.
3. If a testamentary charge is imposed on several heirs, it burdens the right to inheritance of each of them in proportion to his ownership share in the inheritance unless the will has provided otherwise.
4. In case of the death of an heir upon whom a testamentary charge was imposed or his nonacceptance of the inheritance, the performance of the testamentary charge passes to the other heirs who have received his ownership share.
5. The executor of the will, the heirs, and also interested persons have the right to demand in court the performance of a testamentary charge.

### **CHAPTER 72. INHERITANCE BY STATUTE**

#### **Article 1215. General Provisions**

1. Heirs by statute are called to inheritance by the priority established by Articles 1216-1219 of the present Code.
2. The heirs of each succeeding priority acquire the right to inheritance in case of the absence of heirs of the preceding priority, their exclusion from the inheritance, their nonacceptance of the inheritance or refusal of it.
3. The heirs of one priority inherit in equal ownership shares.

#### **Article 1216. Heirs of the First Priority**

Heirs of the first priority are children, the spouse, and the parents of the donor by inheritance. Grandchildren of the donor by inheritance inherit by right of representation.

#### **Article 1217. Heirs of the Second Priority**

Heirs of the second priority are the brothers and sisters of the donor by inheritance. Children of brothers and sisters (nephews and nieces) inherit by right of representation.

#### **Article 1218. Heirs of the Third Priority**

Heirs of the third priority are the grandfather and grandmother of the donor by inheritance both on the father's side and on the mother's side.

#### **Article 1219. Heirs of the Fourth Priority**

Heirs of the fourth priority are the brothers and sisters of the parents of the donor by inheritance (uncles and aunts of the donor by inheritance). First cousins of the donor by inheritance inherit by right of representation.

#### **Article 1220. Dependents of the Donor by Inheritance Who Are Not Capable of Work**

Heirs by statute include persons who are not capable of work who for not less than one year before the death of the donor by inheritance were dependent upon him. If there are other heirs by statute, they inherit together with the heirs of the priority that is called to inheritance.

#### **Article 1221. Inheritance by Right of Representation**

1. The ownership share of an heir by statute who has died before the opening of the inheritance passes to his children (inheritance by right of representation) and shall be divided among them equally.
2. Children of an heir by statute who has been excluded from inheritance or deprived by the donor by inheritance of inheritance do not inherit by right of representation.

#### **Article 1222. The Rights of a Spouse Upon Inheritance**

A right of inheritance belonging to a surviving spouse by virtue of a will or statute does not affect his rights to part of the property jointly earned during marriage with the donor by inheritance and being in their joint ownership. The ownership share of the deceased spouse in this property shall be determined in accordance with Article 201 of the present Code and is included in the composition of the inheritance.

#### **Article 1223. Inheritance by Adopted Children and Adoptive Parents**

1. In case of inheritance by statute, an adopted child and his children on the one hand and an adoptive parent and his relatives on the other are equated to relatives by the origin (blood relatives).
  2. An adopted child and his children do not inherit by statute after the death of the parents of the adopted child, his other relatives by origin.
- The parents of an adopted child and his other relatives by origin do not inherit by statute after the death of the adopted child and his children.

#### **Article 1224. Escheated Inheritance**

- 1.If there are no heirs by will nor by statute or they refuse the inheritance or are excluded from the inheritance, the inheritance shall be declared escheated.
- 2.Escheated inheritance passes by way of inheritance by statute to the ownership of the commune at the place of opening of the inheritance.

### **CHAPTER 73. ACCEPTANCE OF THE INHERITANCE**

#### **Article 1225. Procedure for Acceptance of the Inheritance**

- 1.To acquire an inheritance, the heir must accept it.
- 2.It is not allowed to accept an inheritance under a condition or with exceptions.
- 3.The acceptance by an heir of part of an inheritance signifies acceptance of the whole inheritance due him whatever it concludes of and wherever it is located.
- 4.The acceptance of an inheritance by one or several heirs does not signify acceptance of the inheritance by the remaining heirs.
- 5.The accepted inheritance shall be recognized as belonging to the heir from the time of opening the inheritance, regardless of state registration of the right of the heir to this property, when such a right is subject to registration.
- 6.Nonacceptance by an heir of an inheritance shall entail the same consequences as his refusal of the inheritance without the indication of the person for whose benefit he refused the inheritance, unless otherwise provided by the present Code.

#### **Article 1226. Modes of Accepting an Inheritance**

- 1.Acceptance of an inheritance is made by submission to a notary at the place of opening of the inheritance of a statement of the heir on the acceptance of the inheritance or his request for the issuance of a certificate of the right to inheritance.
- 2.In the case when the request is given to a notary not by the heir himself, the signature of the heir on the statement must be certified by a notary or by an official empowered to conduct notarial acts.  
Acceptance of an inheritance through a representative is possible if a power for its acceptance is specially provided in a power of attorney.
- 3.It shall be recognized, unless proved otherwise, that an heir has accepted an inheritance when he has in fact entered into possession or management of the inherited property, in particular when the heir:
  - 1) has taken measures for the preservation of the property and for the protection of it from incursions or claims of third persons;
  - 2) has made expenses at his own expense for the maintenance of the property;
  - 3) has paid at his own expense the debts of the donor by inheritance or has received sums due to the donor by inheritance from third persons.

#### **Article 1227. Time Period for Accepting an Inheritance**

- 1.An inheritance may be accepted during six months from the date of opening the inheritance.
- 2.If the right of inheritance arises for other persons in case of refusal by an heir of an inheritance, they may accept the inheritance in the course of the remaining part of the time period indicated in Paragraph 1 of the present Article, or if this is less than three months, then within three months.
- 3.Persons for whom the right of inheritance arises only in case of nonacceptance of an inheritance by another heir may accept an inheritance until the passing of three months from the day of the ending of the time period indicated in Paragraph 1 of the present Article.

#### **Article 1228. Accepting an Inheritance After the Expiration of the Established Time Period**

- 1.An inheritance may be accepted by an heir after the expiration of the time period limit established for accepting without applying to court, on the condition of the consent thereto of all the remaining heirs who have accepted the inheritance. The signatures of these heirs on documents containing such consent must be witnessed by the procedure indicated in Paragraph 2 of Article 1226 of the present Code. Such agreement of heirs shall be the basis for annulment by a notary of a previously issued certificate of the right to inheritance and the issuance of a new certificate.
- 2.On request by an heir who has let pass the time period for acceptance of an inheritance, a court may declare that he has accepted the inheritance, if the court finds the reasons for letting pass the time period to be compelling, in particular if it establishes that this time period was passed because the heir did not know and should not have known of the opening of the inheritance and on the condition that the heir who had let pass the time period for the acceptance of the inheritance applies to the court in the course of six months after the reasons for letting this time period pass have ceased to exist. When it declares than an heir has accepted an inheritance, the court shall decide the questions deriving from the rights of other heirs to the inherited property and also shall declare invalid an earlier issued certificate of the right to an inheritance. In this case the issuance of a new certificate of the right to inheritance is not required.

**Article 1229. Transfer of the Right to Accept an Inheritance (Inheritance Transmission)**

- 1.If an heir who has been called to inheritance by will or by statute dies after the opening of the inheritance without having succeeded in accepting it, the right to accept the inheritance due him shall pass to his heirs.
- 2.The right to accept an inheritance belonging to a deceased heir may be exercised by his heirs on general bases in accordance with Article 1225-1228 of the present Code.
- 3.The right of an heir to accept part of an inheritance as a compulsory ownership share does not pass to his heirs.

**CHAPTER 74. REFUSAL OF AN INHERITANCE**

**Article 1230. Right to Refuse an Inheritance**

- 1.An heir has the right to refuse an inheritance during six months from the day of the opening of the inheritance, including in the case when he has already accepted the inheritance.
- 2.Refusal of an inheritance is done by the submission by the heir of a statement to the notary office at the place of opening of the inheritance.  
In the case when the statement is not given to the notary by the heir himself, the signature of the heir on such a statement must be witnessed by the procedure established by Paragraph 2 of Article 1226 of the present Code.  
A refusal of an inheritance through a representative is possible if the power of attorney specially provides the power for such a refusal.
- 3.A refusal of an inheritance may not be thereafter canceled or retracted.
- 4.A refusal of an inheritance with exceptions or on a condition is not allowed.
- 5.A refusal of part of an inheritance due to an heir is not allowed.
- 6.If an heir is called to an inheritance both by will and by statute, he has the right to refuse the inheritance due him on one of these bases or on both bases.
- 7.An heir has a right to refuse an inheritance due to him by the right of accrual, regardless of the inheritance of the remaining part of the inheritance.

**Article 1231. Refusal of an Inheritance for the Benefit of Another Person**

- 1.In case of refusal of an inheritance the heir has the right to indicate that he is refusing it for the benefit of other persons from among the heirs on the will or by statute of any priority including those who inherit by right of representation.
- 2.A refusal for the benefit of another person is not allowed:
  - 1) of property inherited by will if all the property of the donor by inheritance is willed to heirs named by him;
  - 2) of a compulsory ownership share in the inheritance;
  - 3) if an heir is subdesignated to the heir.

**Article 1232. Accrual of Inheritance Ownership Shares**

- 1.If an heir does not accept an inheritance, refuses an inheritance without indication of another heir for whose benefit he refuses, is excluded from the inheritance as an unworthy heir, or as the result of declaration of the will as invalid, the part of the inheritance that would have been due to such an eliminated heir shall pass to the heirs by statute called to the inheritance and shall be distributed among them in equal ownership shares.  
If the donor by inheritance has willed all property to heirs named by him, the part of the inheritance due to the heir that refused the inheritance or has been eliminated by the other reasons indicated above, shall pass to the remaining heirs by will and shall be distributed among them proportionally to their inheritance ownership shares unless otherwise provided by the will.
- 2.The rules of Paragraph 1 of the present Article shall not be not applied:
  - 1) if there is an heir subdesignated to the refused or otherwise eliminated heir;
  - 2) in case of refusal by an heir of an inheritance for the benefit of another heir.

**Article 1233. Right to Refuse a Testamentary Charge**

- 1.The benefit-aquirer has the right to refuse a testamentary charge.  
A partial refusal of a testamentary charge and also a refusal of it for the benefit of another person, with exceptions or on a condition is not allowed.
- 2.In the case when the benefit-aquirer is simultaneously an heir, his right provided by the present Article to refuse a testamentary charge does not depend on his right to accept the inheritance or to refuse it.
- 3.If the benefit-aquirer has refused a testamentary charge, the heir obligated to perform the testamentary charge is freed from the duty to perform it.

## **CHAPTER 75. DIVISION OF AN INHERITANCE**

### **Article 1234. Common Ownership of Heirs to an Inheritance**

1. In case of inheritance by will, if it is willed to two or several heirs without an indication of the concrete property and rights inherited by each of them, and in case of inheritance by statute, if the inherited property passes to two or several heirs, the property goes from the day of opening of the inheritance into common share ownership by the heirs.
2. The rules of Chapter 12 of the present Code on common share ownership shall be applied to common share ownership by the heirs to an inheritance, unless otherwise provided by the rules of the present Code on inheritance.
3. Any of the heirs who has accepted an inheritance has the right to demand division of the inheritance.

### **Article 1235. Priority Right of an Heir to Specific Property from the Composition of the Inheritance Upon Its Division**

1. In the division of the inheritance, an heir who enjoyed together with the donor by inheritance the right of common ownership of property has a priority right of receipt of this property toward his inheritance ownership share.
2. In the division of the inheritance, an heir having the right of use of dwelling premises with respect to a dwelling house (or apartment) belonging to the donor by inheritance shall have a priority right to receive, toward his inheritance ownership share, this house (or apartment) and also household wares and items of home use.
3. Inequality in value of the property and of the inheritance ownership share of the heir having the priority right to receive it shall be eliminated by the transfer to the remaining heirs of other property from the composition of the inheritance or other allowance including payment of the appropriate monetary amount.
4. The exercise by an heir of a priority right is possible only after the giving of the corresponding allowance to other heirs, unless an agreement among the heirs has provided otherwise.

### **Article 1236. Division of an Inheritance by Agreement Among Heirs**

1. Property that is included in the composition of the inheritance and that is in common share ownership by two or several heirs, may be divided by agreement among them.
2. An agreement on the division of an inheritance, including on the separation from it of the share of one of the heirs, if it is concluded before the issuance of a certificate of the right to an inheritance and is notarially certified, shall be the basis for the issuance to the heirs of a certificate of the right to an inheritance with an indication in it of the concrete property and rights inherited in accordance with the agreement by each of the heirs.
3. Inequality in value of the division of the inheritance made in the agreement from the shares due to the heirs in the inheritance shall not be a basis for refusal of issuance to them of a certificate to the right to an inheritance.

### **Article 1237. Division of an Inheritance by a Court**

In case the heirs do not reach agreement on the division of the inheritance, including on separation from it of the ownership share of one of the heirs, division shall be made by a court in accordance with Article 197 of the present Code.

### **Article 1238. Protection of the Interests of the Heir Upon the Division of an Inheritance**

1. In case there is an heir who has been conceived but not yet born, division of the inheritance may be made only after the birth of this heir.
2. For the protection of interests of minors a representative of the agency of guardianship and curatorship must be invited to participate in the compilation of an agreement on the division of the inheritance or to the consideration in court of a case on the division of inheritance.

## **CHAPTER 76. PROTECTION AND MANAGEMENT OF AN INHERITANCE**

### **Article 1239. Procedure for Protection of an Inheritance and Management of It**

1. For the protection of the rights of heirs, benefit-acquirers, and other interested persons, the notary at the place of opening of the inheritance shall take the measures established by Articles 1240 and 1241 of the present Code and other necessary measures for the protection of the inheritance and its management.
2. Measures for the protection or management of the inheritance shall also be taken by the notary on the basis of a request submitted by an heir, the executor of the will, a creditor, a body of local self-government or other persons acting in the interests of preservation of the inheritance property.  
The notary has the right on his own initiative to take measures for the protection or management of an inheritance if he considers this necessary.
3. For the purposes of discovering the composition of the inheritance and its protection, the notary has the right to ask banks and other credit institutions about money (and foreign currency) in contributions, in accounts, or transferred to them for storage, and currency equivalents and other valuables belonging to the donor by inheritance.

4. For the purposes of notifying creditors, the notary shall publish an announcement in the press on the opening of the inheritance with a proposal to creditors to present claims they have against the donor by inheritance within a six month time period from the date of publication.

5. Measures for protection and management of the inheritance shall be conducted by him during the course of the time period determined by the notary taking into account the nature and value of the inheritance and the time necessary for the heirs for entry into possession of the inheritance, but not for more than six months, or, in the cases provided by Paragraphs 2 and 3 of Article 1227 and Paragraph 2 of Article 1229 of the present Code—not for more than nine months from the date of opening the inheritance.

6. The protection of the inheritance and management of it shall be conducted for compensation.

7. In cases when the inheritance property is in various places, the notary at the place of opening of the inheritance shall send through the justice agencies to the notary or official empowered to conduct notarial actions at the place of location of the respective part of the inherited property a task obligatory for performance for the protection or management of this property.

#### **Article 1240. Measures for the Protection of an Inheritance**

1. For the protection of an inheritance the notary shall make an inventory of the inheritance property.

2. Cash money (or foreign currency) included in the composition of the inheritance shall be put into the deposit of the notary and currency equivalents, manufactures of precious stones and metals shall be transferred to a bank for storage by the procedure provided by Chapter 43 of the present Code.

3. Measures for the protection of property included in the composition of inheritance whose circulation in commerce is allowed by special permission shall be taken by the notary by the procedure provided by statute for the respective property.

4. Property included in the composition of the inheritance that is not indicated in Paragraphs 2 and 3 of the present Article, if it does not require management, shall be transferred by the notary under a contract of storage to one of the heirs and case of impossibility of transferring it to the heirs, shall be transferred to a specialized organization.

5. The notary shall make an inventory of inherited property and shall take measures for the protection of this property by the procedure provided by the statute on the notary system.

#### **Article 1241. Measures for Management of an Inheritance**

1. If there is property in the composition of the inheritance that requires not only protection but also management (a ownership share in the charter (or contributed) capital of a business partnership or company, commercial paper and securities, exclusive rights, etc.), the notary as the founder of entrusted management shall conclude a contract of entrusted management of this property.

2. Obligatory and other conditions of the contract of entrusted management of the inherited property, the procedure for concluding it, and the determination of the amount of remuneration for the entrusted manager shall be established in accordance with the rules of Chapter 52 of the present Code, unless otherwise follows from the nature of the relations for the entrusted management of the inheritance.

### **CHAPTER 77. REIMBURSEMENT FOR EXPENSES CONNECTED WITH AN INHERITANCE**

#### **Article 1242. Expenses Subject to Reimbursement at the Expense of the Inheritance**

1. Expenses connected with an inheritance shall be reimbursed in the following priority:

in the first priority necessary expenses caused by the pre-death illness of the donor by inheritance and for a suitable funeral for him shall be reimbursed;

in the second priority expenses connected with the protection or management of the inheritance property and also with the execution of the will shall be reimbursed;

in the third priority claims of creditors for debts of the donor by inheritance shall be satisfied;

in the fourth priority claims of heirs having the right to a compulsory ownership share shall be satisfied;

in the fifth priority expenses connected with the performance of a testamentary charge shall be reimbursed.

2. Claims of each priority shall be satisfied after the full satisfaction of claims of the previous priority. In case of insufficiency of the inheritance property, it shall be distributed among creditors of the respective priority in proportion to the amounts of claims subject to satisfaction.

#### **Article 1243. Procedure for Presentation of Claims by Creditors**

1. Creditors shall have the right to present their claims during six months from the day of opening of the inheritance.

2. Until the receipt by the heirs of a certificate of the right to inheritance, claims may be presented to an heir who has accepted an inheritance or to the executor of the will, and in the absence of these persons, to the notary at the place of opening of the inheritance.

#### **Article 1244. Liability of the Heirs**

1. After receipt by the heirs of a certificate on the right to inheritance, the expenses indicated in Article 1242 of the present Code, shall be reimbursed by the heirs within the limits of the value of the inheritance property that has passed to them.
2. An heir who has obtained inherited property either directly as the result of the opening of an inheritance or as the result of inheritance transmission, shall be liable within the limits of the value of the inheritance property obtained on both bases.
3. Heirs shall be liable jointly and severally within the limits of the value of the inheritance property that has passed to each of them.

### **CHAPTER 78. FORMALIZATION OF THE INHERITANCE**

#### **Article 1245. Certificate of the Right to an Inheritance**

1. A certificate of the right to an inheritance shall be issued at the place of opening the inheritance by the notary or by the official to whom a statute has given the right of making such a notarial action.
2. A certificate of the right to an inheritance shall be issued on the basis of a request by the heir.
3. A certificate of the right to an inheritance shall be issued to all the heirs separately.
4. In case of discovery, after the issuance of a certificate of the right to an inheritance, of inheritance property for which the certificate was not issued, a supplementary certificate of the right to inheritance shall be issued.
5. In case of an escheated inheritance, a certificate of the right to escheated inheritance shall be sent to the appropriate body of local self-government.

#### **Article 1246. Time Period for Issuance of a Certificate of the Right to an Inheritance**

1. A certificate of the right to an inheritance shall be issued to the heirs upon the expiration of six months from the day of opening the inheritance, with the exception of cases provided by the present Code.
2. For inheritance by will and also by statute, the certificate of the right to an inheritance may be issued before the expiration of six months from the day of the opening of the inheritance if there are reliable data to the effect that, except for the persons applying for the issuance of the certificate, there are no other heirs with respect to the property or the respective part of it.
3. In case of a dispute on the right of ownership to inheritance property, the issuance of the certificate of the right to an inheritance shall be suspended until the entry into legal force of a decision of a court.

### **CHAPTER 79. PECULIARITIES OF THE INHERITANCE OF INDIVIDUAL TYPES OF PROPERTY**

#### **Article 1247. Inheritance of Property That is in Common Joint Ownership**

The death of a participant in common joint ownership is a basis for the determination of his ownership share in the right to the common property and the division of the common property or the separation from it of the ownership share of the deceased participant by the procedure provided by Article 199 of the present Code. In this case the inheritance shall be opened with respect to the common property allotted to the ownership share of the deceased participant and if the physical division of the property is impossible—with respect to the value of such a ownership share.

#### **Article 1248. Inheritance of the Right to the Value of a Ownership Share in a Business Partnership or Company and the Value of a Participatory Share in a Cooperative**

1. The composition of the inheritance of a deceased participant in a business partnership or business company includes the right to the value of the ownership share of this participant in the contributed capital of the partnership or in the charter capital of the company unless otherwise provided by the charter of the partnership or company.
2. The composition of the inheritance of a deceased member of a cooperative includes the right to the value of his participatory share in the cooperative unless otherwise provided by the charter of the cooperative.
3. A decision of the question of who of the heirs may be accepted into a business partnership or company or into a cooperative in the case when the rights of the donor by inheritance to the respective legal person have passed to several heirs, and also the procedure, modes, and time periods for payment to the heirs who have not become participants (or members) of the respective legal persons, and the sums due them shall be determined by the present Code, statutes on business companies, statutes on cooperatives, and also the charter of the respective legal person.



**Article 1249. Inheritance of Unpaid Sums of Wages, Pensions, Benefits, and Payments in Compensation for Harm**

- 1.The right to receipt of sums of wages, pensions, benefits, and payments in compensation of harm to life or health that were subject to payment to a citizen but were not received by him during his life for any reason whatsoever shall belong to the members of the family of the decedent and also to his dependents who are not able to work.
- 2.Claims for the payment of sums on the basis of Paragraph 1 of the present Article must be presented within six months from the day of opening of the inheritance.
- 3.If there are no persons who would have had the right to the receipt, on the basis of Paragraph 1 of the present Article, of the sums not paid to the decedent or if they have not made demands for payment of these sums within the established time period, the respective sums shall be included in the composition of the inheritance and shall be inherited on the general bases provided by the present Code.

**Article 1250. Inheritance of Property Limited in Circulation**

- 1.Property belonging to the donor by inheritance whose presence in circulation is allowed by special permission (arms, etc.) shall be included in the composition of the inheritance and inherited on the general bases provided by the present Code. Special permission is not required for the acceptance of an inheritance whose composition includes such property.
- 2.An heir who has accepted such an inheritance is obligated within one month to apply to the empowered state body for receipt of special permission.
- 3.In case of refusal to issue special permission to the heir, his right of ownership to the property requiring such permission shall be subject to termination in accordance with Article 282 of the present Code.

**Article 1251. Inheritance of State Awards and Medals**

State awards and medals that the citizen was awarded do not enter into the composition of the inheritance. The transfer of these awards and medals after death of the award recipient to other persons shall be conducted by the procedure provided by the statute of the Republic of Armenia “On State Awards of the Republic of Armenia.”.

**Article 1252. Inheritance of Collections of Commemorative and Other Medals**

Collections of commemorative and other medals belonging to the donor by inheritance shall enter into the composition of the inheritance and shall be inherited on the general bases provided by the present Code.

## **DIVISION 12. PRIVATE INTERNATIONAL LAW**

### **CHAPTER 80. GENERAL PROVISIONS**

#### **Article 1253. Determination of the Law Applicable to Civil-Law Relations with the Participation of Foreign Persons**

- 1.The law subject to application by the court to civil-law relations with the participation of foreign citizens, including individual entrepreneurs, foreign legal persons and organizations that are not a legal person under foreign law, and persons without citizenship (hereinafter -- foreign persons), and also in cases when the object of civil-law rights is located abroad shall be determined on the basis of the present Code, other statutes of the Republic of Armenia, international treaties of the Republic of Armenia, and international customs recognized by the Republic of Armenia.
- 2.If it is impossible to determine the law subject to application in accordance with Paragraph 1 of the present Article, the law most closely connected with the civil-law relations with the participation of foreign persons shall be applied.
- 3.The rules of the present Division on the determination of the law subject to application by a court shall be applied correspondingly for other bodies given the power to decide the question of the law subject to application.

#### **Article 1254. Characterization of Legal Concepts**

- 1.In determining the law subject to application, the court shall act on the basis of the interpretation of legal concepts in accordance with the law of the Republic of Armenia, unless otherwise provided by statute.
- 2.If legal concepts requiring legal characterization are not known to the law of the Republic of Armenia or are known under another name or with other content and cannot be determined by interpretation under the law of the Republic of Armenia, then the law of the foreign state may be applied in their legal characterization.

#### **Article 1255. Establishment of the Content of Norms of Foreign Law**

- 1.In the application of foreign law the court shall establish the content of its norms in accordance with their official interpretation and practice of application in the respective foreign state.
- 2.For the purposes of establishing the content of norms of foreign law the court may apply by the established procedure for assistance and explanation to the competent bodies in the Republic of Armenia and abroad or may involve experts.
- 3.Persons participating in a case have the right to present documents confirming the content of the norms of foreign law on which they rely in justification of their claims or defenses and otherwise assist the court in the establishment of the content of these norms.
- 4.If the content of the norms of foreign law, despite measures taken in accordance with the present Article, is not established within reasonable time periods, the law of the Republic of Armenia shall be applied.

#### **Article 1256. Application of the Law of a State With a Multiplicity of Legal Systems**

In cases when the law of a state in which several legal systems are in effect, and it is impossible to determine which of the legal systems is subject to application, the legal system shall be applied with which the given relation is most closely connected.

#### **Article 1257. The Principle of Mutuality**

- 1.The court shall apply foreign law regardless of whether or not the law of the Republic of Armenia would be applied in the respective foreign state to analogous relations, with the exception of cases when the application of foreign law on the principle of mutuality is provided by a statute of the Republic of Armenia.
- 2.If the application of foreign law depends upon mutuality, it shall be presumed that mutuality exists, unless it is proved otherwise.

#### **Article 1258. Exception for Public Order**

- 1.A norm of foreign law subject to application in accordance with Paragraph 1 of Article 1253 of the present Code shall not be applied when the consequences of its application would clearly contradict the bases legal order (public order) of the Republic of Armenia. In such a case if necessary the respective norm of the law of the Republic of Armenia shall be applied.
- 2.A refusal to apply a norm of foreign law may not be based merely on the difference of the legal, political, or economic system of the respective foreign state from the legal, political, or economic system of the Republic of Armenia.

#### **Article 1259. Application of Imperative Norms**

The rules of the present Division do not affect the effectiveness of those imperative norms of the law of the Republic of Armenia that, in view of an indication in a norm itself or in view of their special significance for ensuring the rights and interests of participants in civil dealings, regulate the respective relations regardless of the law subject to application.

#### **Article 1260. Reference to Foreign Law**

Any reference to foreign law in accordance with the rules of the present Division, must be considered as a reference to the material and not the conflicts law of the respective state.

#### **Article 1261. Retorsion**

The Government of the Republic of Armenia may establish retaliatory limitations (retorsion) with respect to the property and personal non-property rights of citizens and legal persons of those states in which there are special limitations of the property and personal non-property rights of citizens and legal persons of the Republic of Armenia.

## **CHAPTER 81. CONFLICTS NORMS**

### **§ 1. Citizens**

#### **Article 1262. Personal Law of a Citizen**

- 1.The personal law of a citizen shall be considered to be the law of the state whose citizenship this person has. If a person has two or more citizenships, his personal law shall be considered to be the law of the state with which the person is most closely connected.
- 2.The personal law of a person without citizenship shall be considered to be the law of the state in which this person lives permanently.
- 3.The personal law of a refugee shall be considered to be the law of the state that has given asylum.

#### **Article 1263. Legal Capacity of Foreign Citizens and Persons Without Citizenship**

Foreign citizens and persons without citizenship shall enjoy in the Republic of Armenia civil legal capacity equally with citizens of the Republic of Armenia except for cases provided by the Constitution of the Republic of Armenia, the laws of the Republic of Armenia or international treaties of the Republic of Armenia.

#### **Article 1264. The Name of a Foreign Citizen or of a Person Without Citizenship**

Rights of a foreign citizen or a person without citizenship to his name, its use and protection shall be determined by his personal law unless otherwise follows from the rules provided by the second subparagraph of Paragraph 2 and by Paragraph 4 of Article 22, and by Articles 1280 and 1291 of the present Code.

#### **Article 1265. Dispositive Capacity of Foreign Citizens and Persons Without Citizenship**

- 1.The civil dispositive capacity of a foreign citizen or a person without citizenship shall be determined by his personal law.
- 2.A party not enjoying dispositive capacity under his personal law does not have the right to rely on his lack of dispositive capacity if he is of dispositive capacity by the law of the place of making the transaction with the exception of those cases when the other party knew or should have known of the lack of dispositive capacity.
- 3.The civil dispositive capacity of a foreign citizen or a person without citizenship in respect of transactions conducted in the Republic of Armenia and obligations arising as the result of the causing of harm in the Republic of Armenia shall be determined by the law of the Republic of Armenia.

#### **Article 1266. Entrepreneurial Activity of a Foreign Citizen or a Person Without Citizenship**

The ability of a foreign citizen or a person without citizenship to engage in entrepreneurial activity without the formation of a legal person as an individual entrepreneur shall be determined by the law of the state where the foreign citizen or person without citizenship is registered as an individual entrepreneur.

#### **Article 1267. Recognition of a Foreign Citizen or a Person Without Citizenship as Lacking Dispositive Capacity or of Limited Dispositive Capacity**

A foreign citizen or a person without citizenship shall be recognized as lacking dispositive capacity or of limited dispositive capacity according to the law of the Republic of Armenia.

#### **Article 1268. Guardianship and Curatorship**

- 1.Guardianship or curatorship of a minor or a person who is without dispositive capacity or of limited dispositive capacity shall be established and terminated according to the personal law of the person with respect to whom guardianship or curatorship is established or terminated.
- 2.The duty of the guardian (or curator) to accept the guardianship (or curatorship) shall be determined according to the personal law of the person appointed as guardian (or curator).
- 3.The legal relations between the guardian (or curator) and the person under guardianship (or curatorship) shall be determined according to the law of the state whose organization has appointed the guardian (or curator). However, if a person who is under guardianship (or curatorship) lives in the Republic of Armenia, the law of the Republic of Armenia shall be applied if it is more beneficial for this person.

4. Guardianship (or curatorship) established over citizens of the Republic of Armenia living outside the boundaries of the Republic of Armenia shall be recognized as valid in the Republic of Armenia if there are no objections based on law by the respective consular institution of the Republic of Armenia against the establishment of guardianship (or curatorship) or against its recognition.

**Article 1269. Recognition of a Foreign Citizen or of a Person Without Citizenship as Missing and or Dead**

A foreign citizen or a person without citizenship shall be recognized as missing or dead according to the law of the Republic of Armenia.

**Article 1270. Registration of Acts of Civil Status of Citizens of the Republic of Armenia Outside the Boundaries of the Republic of Armenia**

The consular institutions of the Republic of Armenia shall conduct registration of acts of civil status of citizens of the Republic of Armenia living outside the boundaries of the Republic of Armenia, applying the laws and other legal acts of the Republic of Armenia shall be applied.

**Article 1271. Recognition of Documents Issued by Agencies of a Foreign State in the Proof of Acts of Civil Status**

Documents issued by competent bodies of foreign states as proof of acts of civil status done outside the boundaries of the Republic of Armenia under the laws of the respective states with respect to citizens of the Republic of Armenia shall be recognized as valid in the Republic of Armenia on the condition of consular legalization, unless otherwise provided by the international treaties of the Republic of Armenia.

**§ 2. Legal Persons**

**Article 1272. Personal Law of Foreign Legal Persons**

1. The personal law of a foreign legal person is the law of the state where the legal person was founded.
2. On the basis of the personal law of a legal person, there shall be determined, in particular:
  - 1) if this organization is a legal person;
  - 2) the organizational-legal form of the legal person;
  - 3) the requirements for the designation of the legal person;
  - 4) issues of creation and termination of the legal person;
  - 5) issues of reorganization of the legal person, including issues of legal succession;
  - 6) the content of the legal capacity of the legal person;
  - 7) the procedure for the acquisition by the legal person of civil-law rights and the undertaking upon itself of civil-law duties;
  - 8) relations within the legal person, including relations of the legal person with its participants;
  - 9) liability of the legal person.
3. A foreign legal person may not rely upon a limitation of the powers of its body or representative for the making of a transaction if the limitation unknown to the law of the state in which the body or representative of the foreign legal person made the transaction, with the exception of cases when it is proved that the other party to the relation knew or obviously should have known of this limitation.

**Article 1273. National Regime of Activity of Foreign Legal Persons in the Republic of Armenia**

Foreign legal persons shall conduct in the Republic of Armenia entrepreneurial and other activity regulated by civil legislation in accordance with the rules provided by this legislation for such activity by legal persons of the Republic of Armenia, unless a statute of the Republic of Armenia provides otherwise for foreign legal persons.

**Article 1274. Personal Law of Organizations that are Not a Legal Person Under Foreign Law**

The personal law of a foreign organization that is not a legal person under foreign law is the law of the state where the organization was founded.

The rules of the present Code that regulate the activity of legal persons shall be applied to the activity of such organizations, unless otherwise follows from statute, other legal acts, or the nature of the legal relation.

**Article 1275. Participation of the State in Civil-Law Relations With Foreign Persons**

The rules of the present Division shall be applied to the participation of the state in civil-law relations with foreign persons on general bases, unless otherwise provided by statute.

**§ 3. Property Rights**

**Article 1276. General Provisions on the Law Subject to Application to Property Rights**

1. The content of the right of ownership and other property rights to immovable and movable property, their exercise and protection shall be determined according to the law of the state where this property is located.

2.The classification of property as immovable or movable, and also other legal characterization of property shall be determined according to the law of the state where this property is located.

#### **Article 1277. Origin and Termination of Property Rights**

1.The origin and termination of the right of ownership of and other property rights to property be shall determined according to the law of the state where this property was located at the time when the activity or other circumstance happened that served as the basis for the origin or termination of the right of ownership and other property rights, unless otherwise provided by the statutes of the Republic of Armenia.

2.The origin and termination of the right of ownership and other property rights to property that is the subject of a transaction shall be determined by the law of the state applicable to the given transaction unless otherwise established by agreement of the parties.

3.The origin of the right of ownership to property as the result of acquisitive prescription shall be determined by the law of the state where the property was at the time of ending of the time period of acquisitive prescription.

#### **Article 1278. Property Rights to Means of Transport and Other Property Subject to State Registration**

The right of ownership of and other property rights to means of transport and other property subject to state registration shall be determined by the law of the state where the rights to means of transport or property has been entered in the state registry.

#### **Article 1279. Property Rights to Movable Property in Transit**

The origin and termination of the right of ownership and of other property rights to movable property under a transaction that is in transit shall be determined by the law of the state from which this property was sent, unless otherwise provided by agreement of the parties.

### **§ 4. Personal Non-property Rights**

#### **Article 1280. Protection of Personal Non-Property Rights**

The law of the state where the activity or other circumstance serving as the basis for the demand for the protection of such rights took place shall be applied to personal non-property rights.

### **§ 5. Transactions, Representation, Limitation of Actions**

#### **Article 1281. Form of a Transaction**

1.The form of a transaction shall be determined by the law of the state where it is made. However a transaction made abroad may not be recognized as invalid as the result of nonobservance of form if the requirements of the law of the Republic of Armenia were observed.

2.A foreign economic transaction in which even one of the participants is a citizen or legal person of the Republic of Armenia shall be made, regardless of the place of conclusion of the transaction, in written form.

3.The form of a transaction with respect to immovable property shall be determined by the law of the state where this property is located.

#### **Article 1282. Power of Attorney**

The form and time period of effectiveness of a power of attorney shall be determined by the law of the state where the power of attorney was issued. However, a power of attorney may not be recognized as invalid as the result of the nonobservance of form if the requirements of the law of the Republic of Armenia were observed.

#### **Article 1283. Limitation of Actions**

Limitation of actions shall be determined by the law of the state applicable for the regulation of the respective relation.

### **§ 6. Contract Obligations**

#### **Article 1284. Choice of Law by Agreement of Parties to a Contract**

1.A contract shall be regulated by the law of the state chosen by agreement of the parties.

2.The parties to a contract may choose the law subject to application both for the contract as a whole and for individual parts of it.

3.A choice of the law to be applied may be made by the parties to the contract at any time, both at the conclusion of the contract and later. The parties may also at any time agree on changing the law applicable to the contract.

4.A choice of applicable law made after the conclusion of the contract shall have retroactive force and is considered effective from the time of its conclusion.

5.An agreement of the parties on the choice of the applicable law must be clearly expressed or directly follow from the conditions of the contract.

6.If trade terms accepted in international commerce are used in a contract, then, in the absence of other indications in the contract, it shall be considered that the parties have agreed to the application to their relations of the customs of commerce existing with respect to the respective trade terms.

#### **Article 1285. The Law Applicable to a Contract in the Absence of Agreement of the Parties**

1.In the absence of agreement of the parties to a contract on the applicable law, the law of the state shall be applied of where the party was founded, has its residence or basic place of activity who is:

- 1) the pledgor–in a contract of pledge
- 2) the surety–in a contract of suretyship;
- 3) the seller–in a contract of purchase and sale;
- 4) the donor–in a contract of gift;
- 5) the lessor–in a contract of lease;
- 6) the lender–in a contract of uncompensated use of property;
- 7) the contractor–in a work contract;
- 8) the agent–in an agency contract;
- 9) the commission agent–in a contract of commission;
- 10) the delegate–in a contract of delegation;
- 11) the storing party–in a contract of storage;
- 12) the carrier–in a contract of carriage;
- 13) the freight forwarder–in a contract for transport freight forwarding;
- 14) the creditor–in a contract of loan or other credit contract;
- 15) the finance agent–in a contract of financing with the assignment of a monetary claim;
- 16) the bank–in a contract of bank contribution or a contract of bank account;
- 17) the right-holder–in a contract of system license;
- 18) the insurer–in a contract of insurance;
- 19) the licensor – in a license contract for the use of exclusive rights.

2.In the absence of agreement of the parties to the contract on the applicable law, regardless of the provisions of Paragraph 1 of the present Article:

- 1) the law of the state where the property is located shall be applied to a contract whose subject is immovable property and also to a contract of entrusted management of property;
- 2) the law of the state where the results envisioned by the contract are achieved shall apply to a contract for construction services and to a contract of services for the conduct of design and exploratory work;
- 3) the law of the state where the activity is to be conducted shall be applied to a contract for joint activity;
- 4) the law of the state where the auction or competition was conducted shall be applied to a contact concluded at an auction or a competition.

3.To contracts not listed in Paragraphs 1 and 2 of the present Article, in the absence of agreement of the parties on the applicable law, the law of the state shall be applied where the party was founded, has his residence or its basic place of activity who conducts the performance having decisive significance for the content of the contract. If it is impossible to determine the performance having decisive significance for the content of the contract, the law of the state shall be applied with which the contract is most closely connected.

#### **Article 1286. The Law Applicable to a Contract for the Creation of a Legal Person With Foreign Participation**

The law of the state where the legal person is to be founded shall be applied to a contract for the creation of a legal person with foreign participation.

#### **Article 1287. Area of Effectiveness of Law Applied**

The law applied to a contract by virtue of the provisions of the present section shall include in particular:

- 1) the interpretation of the contract;
- 2) the rights and duties of the parties;
- 3) the performance of the contract;
- 4) the consequences of nonperformance or improper performance of the contract;
- 5) the termination of the contract;
- 6) the consequences of the voidness or invalidity of the contract;
- 7) the assignment of claims and the transfer of a debt in connection with the contract.

### **§ 7. Obligations Arising from Unilateral Actions**

#### **Article 1288. Obligations from Unilateral Transactions**

The law of the state where the transaction was made shall be applied to obligations from unilateral transactions.

## **§ 8. Obligations Arising as the Result of Causing of Harm and Unjust Enrichment**

### **Article 1289. Obligations Arising as the Result of Causing Harm**

Rights and duties under obligations arising as the result of causing harm shall be determined according to the law of the state where the activity or other circumstance took place that serves as the basis for the claim for compensation for harm, unless otherwise provided by agreement of the parties.

### **Article 1290. Obligations Arising as the Result of Unjust Enrichment**

The law of the state where the enrichment took place shall be applied to obligations arising as the result of unjust enrichment, unless otherwise provided by agreement of the parties.

## **§ 9. Intellectual Property**

### **Article 1291. Rights to Intellectual Property**

1. The law of the state where protection of these rights is sought shall be applied to intellectual property rights.
2. The law determined according to the provisions of the present Division on contractual obligations shall be applied to contracts on the transfer or use of intellectual property rights.

## **§ 10. Inheritance Law**

### **Article 1292. Inheritance**

1. Relations for inheritance shall be determined by the law of the state where the donor of the inheritance had the last place of residence unless the testator has selected in the will the law of the state of which he is a citizen.
2. The ability of a person to compile and revoke a will and also the form of a will and the act of its revocation shall be determined according to the law of the state where the testator had his place of residence at the time of compilation the legal document. However a will or its revocation may not be recognized as invalid as the result of failure to observe a form if the form satisfies the requirement of the place of compilation the legal document or the requirements of the law of the Republic of Armenia
3. Inheritance of immovable property shall be determined by the law of the state where this property is located.