



**SZECSKAY
ÜGYVÉDI IRODA - ATTORNEYS AT LAW**

H-1055 BUDAPEST, KOSSUTH TÉR 16-17
(MAIL: H-1245 BUDAPEST PF/POB 1228)
HUNGARY

TEL: +36 (1) 472 3000 • FAX +36 (1) 472 3001 • INFO@SZECSKAY.COM • WWW.SZECSKAY.COM

**CHANGES TO CORPORATE LAW
IN THE NEW HUNGARIAN CIVIL CODE**

The new Civil Code will introduce some important changes in the field of corporate law. It is a change in principle that the new Civil Code allows – as a general rule –business partners to freely determine the relationship between the shareholders and the company and between each other. Furthermore, they are free to agree on the rules concerning the functioning and the operation of the company.

When the new Civil Code enters into force, the corporate law rules will not be regulated in a separate act anymore, but will rather be incorporated into the Civil Code as part of its Third Book on legal persons. It will be a fundamental change that the new Civil Code will allow – as a general rule –business partners to freely determine the relationship between the shareholders and the company and between each other. Furthermore, they will be free to agree on the rules concerning the functioning and the operation of the company.

The new Hungarian Civil Code, which enters into force on March 15, 2014, will contain provisions on corporate law that are currently regulated in a separate act. In this field, the main change will be that the new Civil Code will allow – as a general rule –business partners to freely determine the relationship between the shareholders and the company and between each other. Furthermore, they will be free to agree on the rules concerning the functioning and the operation of the company. The Act IV of 2006 on Business Associations, which is in force right now, only allows departure from its provisions where it is expressly stated. Of course, there are some exceptions from that in the new Civil Code in order to protect the rights of others. For example, it is going to be prohibited to differ from the provisions of the Civil Code in a way that infringes the rights or interests of third parties, which impairs the rights of minorities or which obstructs the supervision of lawful operations. However, it will be the task of judicial practice to work out the details of these exceptions.

The new Civil Code will keep the company forms that are used now and most of the detailed rules will be familiar as well. The majority of the changes were made in order to simplify and make the operation of companies easier and more reasonable. An example of such a provision is that even if a shareholders' meeting was not convened or held in accordance with the rules, resolutions adopted at such a shareholders meeting can be declared valid afterwards, if the shareholders or members unanimously agree on that. It is also worth mentioning that the legislator decided to raise the minimum capital requirement of private limited-liability companies (LLC) from HUF 500,000 to HUF 3,000,000.

In the case of the foundation of an LLC, the articles of association can allow a member (i) to pay less than half of his cash contribution until submission of the application for registration or (ii) to pay his remaining cash contribution within a time limit longer than 1 year after the registration of the company. In such a case, it is an important guarantee rule that the company is not allowed to pay dividends to its members until all of the cash contributions have been paid in full, and the members are liable for the company's debts to the amount of the cash contribution which has not been paid by then.

At the same time the goal of some changes is the protection of creditors. Thus, for example if the company has performed an unlawful payment to one of its shareholders when the company's financial position would not make that possible, the company can reclaim the payment regardless of the good or bad faith of the shareholder. This is a significant change compared to the current provisions in force, because at present the company can only reclaim the payment if it can prove that the shareholder was acting in bad faith.

The new Civil Code will keep the distinction between public and private joint stock companies but it states that joint stock companies may only be founded as private companies in the future. This will not bring a significant change in practice, as the foundation of joint stock companies as public companies was very rare. If a private joint stock company has already been founded and its shares become listed on the Budapest Stock Exchange or admitted to another regulated market, it shall be deemed to become a public joint stock company.

It is important to see that, as a result of these new provisions, it is going to be necessary to amend the related procedural and insolvency law rules as well. But the plans for these changes are not yet known.

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Dr. András László (andras.laszlo@szecskay.com)

Dr. László Pók (laszlo.pok@szecskay.com)

Tel: +36 (1) 472 3000 • Fax +36 (1) 472 3001 • www.szecskay.com