

Civil Code (Part I, Part II, and Part III)

(Act No. 89 of April 27, 1896)

Part I General Provisions

Chapter I Common Provisions

(Fundamental Principles)

- Article 1 (1) Private rights must conform to the public welfare.
(2) The exercise of rights and performance of duties must be done in good faith.
(3) No abuse of rights is permitted.

(Standard for Construction)

- Article 2 This Code must be construed in accordance with honoring the dignity of individuals and the essential equality of both sexes.

Chapter II Person

Section 1 Capacity to Hold Rights

- Article 3 (1) The enjoyment of private rights shall commence at birth.
(2) Unless otherwise provided by applicable laws, regulations or treaties, foreign nationals shall enjoy private rights.

Section 2 Capacity to Act

(Age of Majority)

- Article 4 The age of majority is reached when a person has reached the age of 20.

(Juristic Act of Minors)

- Article 5 (1) A minor must obtain the consent of his/her statutory agent to perform any juristic act; provided, however, that, this shall not apply to an act merely intended to acquire a right or to be relieved of a duty.
(2) A juristic act in contravention of the provision of the preceding paragraph may be rescinded.
(3) Notwithstanding the provision of paragraph (1), in cases the statutory agent permits the disposition of property by specifying the purpose thereof, a minor may freely dispose of the same to the extent of such purpose. The same shall apply in cases his/her statutory agent permits the disposition of the property without specifying any purpose.

(Permission for Minors to Carry on Business)

Article 6 (1) A minor who is permitted to carry on one or more kinds of business shall have the same capacity to act as a person of the age of majority as far as such business is concerned.

(2) In the case set forth in the preceding paragraph, if the minor may be unable to perform the relevant business for any reason, his/her statutory agent may revoke or limit permission in accordance with the provisions of Part IV (Relatives).

(Ruling for Commencement of Guardianship)

Article 7 With respect to any person who constantly lacks the capacity to discern right and wrong due to mental disability, the family court may order the commencement of guardianship at the request of the person in question, his/her spouse, any relative within the fourth degree of kinship, the guardian of a minor, the supervisor of the guardian of a minor, the curator, the supervisor of the curator, the assistant, the supervisor of the assistant, or a public prosecutor.

(Adult Ward and Guardian of Adult)

Article 8 A person who has become subject to the ruling of commencement of guardianship shall be an adult ward, and a guardian of an adult shall be appointed for him/her.

(Juristic Act of an Adult Ward under Guardianship)

Article 9 A juristic act performed by an adult ward may be rescinded; provided, however, that, this shall not apply to any act relating to daily life, such as the purchase of daily household items.

(Rescission of Ruling for Commencement of Guardianship)

Article 10 When the cause set forth in Article 7 ceases to exist, the family court must rescind the ruling of the commencement of guardianship at the request of the person in question, his/her spouse, any relative within the fourth degree of kinship, the guardian (hereinafter referring to the guardian of a minor and the guardian of an adult), the supervisor of the guardian (hereinafter referring to the supervisor of the guardian of a minor and the supervisor of the guardian of an adult), or a public prosecutor.

(Ruling of Commencement of Curatorship)

Article 11 With respect to any person who whose capacity is extremely insufficient to appreciate right or wrong due to any mental disability, the family court may order the commencement of curatorship upon a request by

the person in question, his/her spouse, any relative within the fourth degree of kinship, the guardian, the supervisor of the guardian, the assistant, the supervisor of the assistant, or a public prosecutor; provided however, that, this shall not apply to any person in respect of whom a cause set forth in Article 7 exists.

(Person under Curatorship and his/her Curator)

Article 12 A person who has become subject to the ruling of commencement of curatorship shall be the person under curatorship, and a curator shall be appointed for him/her.

(Acts Requiring Consent of Curator)

Article 13 (1) A person under curatorship must obtain the consent of his/her curator if he/she intends to perform any of the following acts; provided, however, that, this shall not apply to the acts provided for in the proviso of Article 9:

(i) receive or use any principal;

(ii) borrow any money or guarantee any obligation;

(iii) perform any act with the purpose of obtaining or relinquishing any right regarding real estate or other valuable property;

(iv) take any procedural action;

(v) make a gift, make any settlement, or agree to arbitrate (referring to the agreement to arbitrate as provided in paragraph (1), Article 2 of the Arbitration Act (Act No. 138 of 2003));

(vi) accept or renounce any inheritance, or partition any estate;

(vii) refuse an offer of a gift, renounce any bequest, accept the offer of gift with burden, or accept any bequest with burden;

(viii) effect any new construction, renovation, expansion, or major repairs; or

(ix) make any lease agreement with a term which exceeds the period set forth in Article 602.

(2) At the request of the person provided in the main clause of Article 11, or any curator or any supervisor of the curator, the family court may make a ruling that the person under curatorship must obtain the consent of his/her curator even in cases he/she intends to perform any act other than those set forth in each item of the preceding paragraph; provided, however, that this shall not apply to the acts provided for in the proviso to Article 9.

(3) With respect to any act which requires the consent of the curator, if the curator does not give consent in cases where the interest of the person under curatorship is unlikely to be prejudiced, the family court may, at the request of the person under curatorship, give permission in lieu of the consent of the curator.

(4) An act which requires the consent of the curator may be rescinded if it was performed without such consent or any permission in lieu thereof.

(Rescission of Ruling of Commencement of Curatorship)

Article 14 (1) When the cause provided in the main clause of Article 11 ceases to exist, the family court must rescind the order of the commencement of curatorship at the request of the person in question, his/her spouse, any relative within the fourth degree of kinship, the guardian of a minor, the supervisor of the guardian of a minor, the curator, the supervisor of the curator, or a public prosecutor.

(2) At the request of the person prescribed in the preceding paragraph, the family court may rescind, in whole or in part, the ruling under paragraph (2) of the preceding Article.

(Ruling of Commencement of Assistance)

Article 15 (1) With respect to any person who has insufficient capacity to appreciate right or wrong due to any mental disability, the family court may rule the commencement of assistance upon a request by the person in question, his/her spouse, any relative within the fourth degree of kinship, the guardian, the supervisor of the guardian, the curator, the supervisor of the curator, or a public prosecutor; provided, however, that, this shall not apply to any person who has the cause set forth in Article 7 or the main clause of Article 11.

(2) The ruling of commencement of assistance at the request of any person other than the person in question shall require the consent of the person in question.

(3) The ruling of commencement of assistance must be made concurrent with the ruling under paragraph (1) of Article 17 or the ruling under paragraph (1) of Article 876-9.

(Person under Assistance and Assistant)

Article 16 A person who has become subject to the ruling of commencement of assistance shall be a person under assistance, and an assistant shall be appointed for him/her.

(Ruling Requiring Person to Obtain Consent of Assistant)

Article 17 (1) At the request of the person provided in the main clause of paragraph (1) of Article 15, or any assistant or supervisor of the assistant, the family court may make the ruling that the person under assistance must obtain the consent of his/her assistant if he/she intends to perform any particular juristic act; provided, however, that the act for which such consent must be obtained pursuant to such ruling shall be limited to the acts provided in paragraph (1) of Article 13.

- (2) The ruling set forth in the preceding paragraph at the request of any person other than the person in question shall require the consent of the person in question.
- (3) With respect to any act which requires the consent of the assistant, if the assistant does not give consent in cases where the interest of the person under assistance is unlikely to be prejudiced, the family court may, at the request of the person under assistance, give permission which is in lieu of the consent of the assistant.
- (4) An act which requires the consent of the assistant may be rescinded if it was performed without such consent or any permission in lieu thereof.

(Rescission of Ruling of Commencement of Assistance)

- Article 18 (1) When the cause provided in the main clause of paragraph (1) of Article 15 ceases to exist, the family court must rescind the ruling of commencement of assistance at the request of the person in question, his/her spouse, any relative within the fourth degree of kinship, the guardian of a minor, the supervisor of the guardian of a minor, the assistant, the supervisor of the assistant, or a public prosecutor.
- (2) At the request of the person prescribed in the preceding paragraph, the family court may rescind, in whole or in part, the ruling under paragraph (1) of the preceding Article.
 - (3) In cases the ruling under paragraph (1) of the preceding Article and the order under paragraph (1) of Article 876-9 are to be rescinded in their entirety, the family court must rescind the ruling of commencement of assistance.

(Relationship between Rulings)

- Article 19 (1) In cases any ruling for commencement of guardianship is to be made, and the person in question is a person under curatorship or the person under assistance, the family court must rescind the ruling of commencement of curatorship or commencement of assistance pertaining to such person in question.
- (2) The provisions of the preceding paragraph shall apply mutatis mutandis in cases where the person in question, upon ruling of commencement of curatorship, is an adult ward or a person under assistance, or in cases where the person in question is, at the time of the ruling for commencement of assistance, an adult ward or a person under curatorship.

(Right of Demand by Person who is Counterparty to Person with Limited Capacity)

- Article 20 (1) The person who is the counterparty to a person with limited capacity (hereinafter referring to any minor, an adult ward, a person under

curatorship, and a person under assistance who has become subject to the ruling under paragraph (1) of Article 17) may, after such person with limited capacity has become a person with capacity (hereinafter referring to a person free of any limitation on capacity to act), issue to such person a notice which demands, by establishing a certain period which is one month or more, that he/she should give a definite answer on whether or not such person will ratify such act which may be rescinded within such period. In such case, if such person fails to send any definite answer within such period, he/she is deemed to have ratified such act.

- (2) The second sentence of the preceding paragraph shall likewise apply in cases where, while such person with limited capacity has not yet become a person with capacity, the person who is the counterparty to the person with limited capacity issues to the statutory agent, curator, or assistant of such person a notice prescribed in the preceding paragraph with respect to any act which is under the authority of any such officer, and the statutory agent, curator or assistant fails to issue any definite answer within the period referred to in such paragraph.
- (3) With respect to any act which requires any special formalities, if no notice to the effect that the perfection of such formalities has been completed is issued within the period set forth in the preceding two paragraphs, it is deemed that such act has been rescinded.
- (4) The person who is the counterparty to a person with limited capacity may issue a notice to any person under curatorship, or to any person under assistance who has been made subject to the ruling under paragraph (1) of Article 17 which demands that he/she should obtain the ratification of his/her curator or assistant, as the case may be, within the period set forth in paragraph (1) above. In such case, if the person under curatorship or person under assistance fails to issue, within the applicable period, a notice to the effect that such ratification has been obtained, it is deemed that such act has been rescinded.

(Fraudulent Means Committed by Person with Limited Capacity)

Article 21 If a person with limited capacity manipulates any fraudulent means to induce others to believe that he/she is a person with capacity, his/her act may not be rescinded.

Section 3 Domicile

(Domicile)

Article 22 The principal place wherein a person lives shall be his/her domicile.

(Residence)

Article 23 (1) If the domicile of a person is unknown, his/her residence is deemed to be his/her domicile.

(2) If a person does not have the domicile in Japan, his/her residence is deemed to be his/her domicile, whether he/she is a Japanese or a foreign national; provided, however, that, this shall not apply where the law of domicile controls in accordance with the applicable provision of laws which provide the governing law.

(Temporary Domicile)

Article 24 If any temporary domicile is selected for any act, such temporary domicile is deemed to be the domicile as far as such act is concerned.

Section 4 Management of Absentee Property and Adjudication of Disappearance

(Administration of Absentee Property)

Article 25 (1) In cases any person who has left his/her domicile or residence (hereinafter referred to as "absentee") did not appoint an administrator of his/her property (hereinafter in this Section referred to simply as "administrator"), the family court may, at the request of any interested person or a public prosecutor, issue an order for necessary actions for the administration of such property. The same shall apply in cases the authority of the administrator ceases to exist during the absence of the absentee.

(2) If, after the issuance of the order pursuant to the provision of the preceding paragraph, the absentee appoints an administrator, the family court must rescind the order at the request of his/her administrator, any interested person, or a public prosecutor.

(Replacement of Administrator)

Article 26 In cases an absentee appoints an administrator, and if it is not clear whether such absentee is dead or alive, the family court may replace such administrator with another at the request of any interested person or a public prosecutor.

(Duties of Administrator)

Article 27 (1) An administrator who is appointed by the family court pursuant to the provision of the preceding two Articles must prepare a list of the property he/she is to administer. In such case, the expenses incurred shall be disbursed from the property of the absentee.

(2) In cases it is not clear whether an absentee is dead or alive, if so requested by

any interested person or a public prosecutor, the family court may also order the administrator appointed by the absentee to prepare the list set forth in the preceding paragraph.

- (3) In addition to provisions of the preceding two paragraphs, the family court may issue an order to the administrator to effect any action which the court may find to be necessary for the preservation of the property of the absentee.

(Authority of Administrator)

Article 28 If an administrator needs to perform any act beyond the authority set forth in Article 103, he/she may perform such act by obtaining the permission of the family court. The same shall likewise apply if the administrator needs to perform any act beyond the authority stipulated by the absentee in cases it is not clear whether the absentee is dead or alive.

(Provision of Security by and Remuneration for Administrator)

Article 29 (1) The family court may require an administrator to provide reasonable security with respect to the administration and return of the property.

- (2) The family court may grant reasonable remuneration to the administrator from the property of the absentee with due regard to the relationship between the administrator and absentee and other circumstances.

(Adjudication of Disappearance)

Article 30 (1) If it is not clear whether the absentee is dead or alive for 7 years, the family court may make the adjudication of disappearance at the request of any interested person.

- (2) The procedure of the preceding paragraph shall likewise apply with respect to any person who was engaged in any war zone, was aboard any vessel which later sank, or was otherwise exposed to any danger which could be the cause of death, if it is not clear whether such person is dead or alive for one year after the end of the war, after the sinking of the vessel, or after the termination of such other danger, as the case may be.

(Effect of Adjudication of Disappearance)

Article 31 Any person who has become the subject of the adjudication of disappearance pursuant to the provision of paragraph (1) of the preceding Article is deemed to have died upon elapse of the period set forth in such paragraph, and a person who is the subject of the adjudication of disappearance pursuant to the provision of paragraph (2) of the same Article is deemed to have died upon the termination of such danger.

(Rescission of Adjudication of Disappearance)

Article 32 (1) If there is any proof that an absentee is alive, or that he/she died at a time differing from that provided in the preceding Article, the family court must, at the request of the absentee himself/herself or any interested person, rescind the adjudication of disappearance. In such case, the rescission shall not affect the validity of any act which was performed without knowledge after the adjudication of disappearance but before the rescission thereof.

(2) Any person who acquired any property by the adjudication of disappearance shall lose its/his/her right upon rescission thereof; provided, however, that such person shall have the obligation to return such property only to the extent he/she is actually enriched.

Section 5 Presumption of Simultaneous Death

Article 32-2 In cases more than one person dies, if it is not clear whether one of the deceased survived the other(s), it is presumed that they all died at the same time.

Chapter III Juridical Persons

Section 1 Establishment of Juridical Persons

(Establishment of Juridical Person)

Article 33 No juridical person can be formed unless it is formed pursuant to the applicable provisions of this Code or other laws.

(Establishment of Public Interest Corporation)

Article 34 Any association or foundation relating to any academic activities, art, charity, worship, religion, or other public interest which is not for profit may be established as a juridical person with the permission of the competent government agency.

(Restrictions on Use of Name)

Article 35 Any person who is neither an incorporated association nor an incorporated foundation shall not use in its name the words "incorporated association" or "incorporated foundation", or other words which is likely to be mistaken for those words.

(Foreign Juridical Person)

Article 36 (1) With the exception of any state, any administrative division of any state, and any commercial corporation, no establishment of a foreign juridical person shall be approved; provided, however, that, this shall not apply to any

foreign juridical person which is approved pursuant to the provisions of a law or treaty.

- (2) A foreign juridical person which is approved pursuant to the provision of the preceding paragraph shall possess the same private rights as may be possessed by the juridical person of the same kind which can be formed in Japan; provided, however, that, this shall not apply to any right which may not be enjoyed by a foreign national, or a right for which special provision is made in a law or treaty.

(Articles of Incorporation)

Article 37 Any person who intends to form an incorporated association must prepare the Articles of incorporation and specify the following matters:

- (i) Purpose(s);
- (ii) Name;
- (iii) Location of the office;
- (iv) Provisions regarding the asset;
- (v) Provisions regarding the appointment and dismissal of directors; and
- (vi) Provisions regarding the acquisition and loss of membership status.

(Change of Articles of Incorporation)

Article 38 (1) The articles of incorporation may be changed only if the consent of three-quarters or more of all members is obtained; provided, however, that, this shall not apply to the cases where it is otherwise provided in the articles of incorporation.

- (2) No change of the articles of incorporation shall take effect unless and until it is approved by the competent government agency.

(Act of Endowment)

Article 39 Any person who intends to form an incorporated foundation must provide for the matters set forth in items (i) to (v) inclusive of Article 37 in the act of endowment which is intended to form such foundation.

(Determination by Court of Name)

Article 40 When the person who intends to form an incorporated foundation dies without determining the name, location of the office, and the procedure of the appointment or dismissal of directors of such foundation, the court must, at the request of the interested person or a public prosecutor, determine such matters.

(Mutatis Mutandis Application of Provisions regarding Gifts and Bequests)

Article 41 (1) The provisions relating to gifts shall apply mutatis mutandis to acts of endowment in the form of inter vivos dispositions to the extent this is

not inconsistent with the nature thereof.

- (2) If an act of endowment is done by a will, the provisions relating to bequests shall apply mutatis mutandis to the extent it is not inconsistent with the nature thereof.

(Time of Vesting of Endowed Property)

Article 42 (1) If an act of endowment was in the form of an inter vivos disposition, the endowed property shall vest in the juridical person at the time permission is given for the establishment of such juridical person.

- (2) If an act of endowment was done by a will, the endowed property shall vest in the applicable juridical person upon effectuation of such will.

(Capacity of Juridical Person)

Article 43 A juridical person shall have rights and assume duties to the extent of the purpose provided in the applicable articles of incorporation or act of endowment subject to the applicable provisions of the laws and regulations.

(Capacity of Juridical Person to Commit Tortious Acts)

Article 44 (1) A juridical person shall be liable for damage caused to others by its directors or other agents during the course of the performance of their duties.

- (2) If any damages are inflicted to others due to any ultra vires act beyond the scope of the purpose(s) of the applicable juridical person, the member(s) and director(s) who consented to the resolution pertaining to such act and the director(s) or other agent(s) who executed such resolution shall be jointly and severally liable for such damages.

(Registration of Establishment of Juridical Person)

Article 45 (1) A juridical person must complete its registration within two weeks from the day of its establishment at the location of its principal office, and within three weeks at any location of its other office.

- (2) The establishment of a juridical person may not be asserted against a third party unless it is registered at the location of its principal office.
(3) If, after the establishment of a juridical person, any new office is established, the registration at the location of such office must be filed within 3 weeks.

(Matters to be Registered upon Registration of Formation and Registration of Change)

Article 46 (1) The following matters shall be registered upon registration of establishment of any juridical person:

- (i) Purpose(s);
- (ii) Name;

- (iii) Location of the office;
 - (iv) Date of the permission of the establishment;
 - (v) Term of existence, if such term is stipulated;
 - (vi) Total amount of assets;
 - (vii) Method of contribution, if such method is defined; and
 - (viii) Name and domicile of each director.
- (2) If there is any change in any matter listed in the respective items of the preceding paragraph, the registration of the change must be filed within two weeks at the location of its principal office, and within three weeks at any location of its other office. In each of the above cases, the change may not be asserted against a third party before its registration.
- (3) If there is any ruling for the provisional disposition which suspends the execution of the duties of any director, or appoints any person who executes such duties in place of a director, or if there is any ruling to change or rescind such provisional disposition, the registration of such fact must be made at the location of the principal office or other office. The provision of the second sentence of the preceding paragraph shall apply mutatis mutandis to such case.

(Period for Registration)

Article 47 The period for the registration of any matter to be registered pursuant to the provision of paragraph (1) of Article 45 and the preceding Article which requires the permission of the government agency shall be calculated commencing from the day of the arrival of such permit.

(Registration of Relocation of Office)

Article 48 (1) In cases a juridical person relocates its principal office, it must, within 2 weeks, register the fact of such relocation at the old location, and the matters listed in the respective items of paragraph (1) of Article 46 at the new location.

(2) In cases a juridical person relocates any office other than its principal office, it must register the fact of such relocation at the old location within 3 weeks, and must register the matters listed in the respective items of paragraph (1) of Article 46 at the new location within 4 weeks.

(3) In cases any office is relocated to any location within the jurisdictional district of the same Registry, it shall be sufficient to register the fact of such relocation.

(Registration of Foreign Juridical Person)

Article 49 (1) The provisions of paragraph (3) of Article 45, Article 46 and the preceding Article shall apply mutatis mutandis to the cases where any foreign juridical person establishes an office in Japan; provided, however, that, the

period of registration for any matter which takes place in any foreign state shall be calculated commencing from the day of the arrival of the notice thereof.

(2) When a foreign juridical person has established an office in Japan for the first time, a third party may deny the establishment of such juridical person until the registration has been completed at the location of such office.

(Domicile of Juridical Person)

Article 50 The domicile of a juridical person shall be at the location of its principal office.

(Inventory of Property and Directory of Members)

Article 51 (1) A juridical person must prepare its inventory of property at the time of its establishment, and at any time between January and March of each year, and must keep it at its principal office at all times; provided, however, that, in cases a juridical person establishes any specific fiscal year, it must prepare the inventory of property at the time of its establishment and at the end of its respective fiscal year.

(2) An incorporated association must keep its directory of members and make necessary changes whenever there is any change in the members.

Section 2 Management of Juridical Persons

(Director)

Article 52 (1) A juridical person must have one or more director(s).

(2) In cases there is more than one director, unless otherwise provided in the articles of incorporation or act of endowment, the business of the juridical person shall be determined by the majority of all directors.

(Representative of Juridical Person)

Article 53 The director(s) shall represent the juridical person with respect to any and all business of the juridical person; provided, however, that the director(s) may not act in contravention of the applicable provisions of the articles of incorporation or the purpose(s) of the act of endowment, and, in cases of an incorporated association, must comply with the applicable resolution of the general meeting.

(Limitation on Director's Authority of Representation)

Article 54 No limitation on a director's authority may be asserted against a third party without knowledge.

(Delegation of Director's Authority)

Article 55 A director may delegate his/her authority on a specific act to other person(s) only in cases such delegation is not prohibited by the applicable articles of incorporation, act of endowment, or resolution of the general meeting of the members.

(Provisional Director)

Article 56 In cases there is any vacancy in the office of directors, if any damage is likely to occur due to the delay in the business, the court must, at the request of any interested person or a public prosecutor, appoint a provisional director.

(Conflict of Interest)

Article 57 A director shall have no authority of representation as to any matter involving a conflict of interest between the juridical person and such director. In such case, the court must, at the request of any interested person or a public prosecutor, appoint a special agent.

(Auditor-Secretary)

Article 58 A juridical person may appoint one or more auditor-secretary(ies) under the authority of the articles of incorporation, act of endowment or the resolution of the general meeting of the members.

(Duties of Auditor-Secretary)

Article 59 The duties of an auditor-secretary shall be:

- (i) to audit the status of the property of the juridical person;
- (ii) to audit the status of the execution of the business by the director(s);
- (iii) to submit a report to the general meeting of the members or to the competent government agency when he/she finds any violation of the applicable laws and regulations, articles of incorporation or act of endowment, or any significant impropriety with respect to the status of the property or the execution of the business; and
- (iv) to convoke a general meeting of the members when it is necessary to submit the report set forth in the preceding item.

(Ordinary General Meeting)

Article 60 The director(s) of an incorporated association must convoke an ordinary general meeting of the members at least once a year.

(Extraordinary General Meeting)

Article 61 (1) The director(s) of an incorporated association may convoke an extraordinary general meeting of the members whenever directors find it

necessary.

- (2) The director(s) must convoke an extraordinary general meeting if one-fifth or more of all members so request by specifying the matter(s) which is/are the purpose(s) of the meeting; provided, however, that a ratio other than one-fifth may be stipulated by the articles of incorporation.

(Convocation of General Meeting)

Article 62 The notice of the convocation of the general meeting must be given at least five days prior to the scheduled day of the meeting in the manner provided in the articles of incorporation by specifying the matter(s) which is/are the purpose(s) of the meeting.

(Execution of Business of the Incorporated Association)

Article 63 The business of the incorporated association shall be carried out pursuant to the applicable resolution of the general meeting, except those delegated to the director(s) or other officer(s) by the articles of incorporation.

(Matters for Resolution of the General Meeting)

Article 64 The general meeting may adopt a resolution only with respect to any matter which is notified in advance pursuant to the provision of Article 62; provided, however, that, this shall not apply where the articles of incorporation provide otherwise.

(Voting Right of Members)

- Article 65 (1) The vote of each member shall be of equal value.
- (2) A member who is not present in the general meeting may vote in writing or by proxy.
 - (3) The provisions of the preceding two paragraphs shall not apply if the articles of incorporation provide otherwise.

(No Right to Vote)

Article 66 In cases any resolution is to be made with respect to the relationship between the incorporated association and any particular member, such member shall have no vote.

(Supervision of Business of Juridical Person)

- Article 67 (1) The business of a juridical person shall be subject to the supervision by the competent government agency.
- (2) The competent government agency may issue to the juridical person any order which shall be necessary for the purpose its supervision.
 - (3) The competent government agency may, by exercising its authority, inspect

the status of the business and property of a juridical person at any time.

Section 3 Dissolution of Juridical Person

(Causes of Dissolution of Juridical Person)

Article 68 (1) A juridical person shall be dissolved because of:

- (i) the occurrence of any cause of dissolution provided in the articles of incorporation or act of endowment, as the case may be;
- (ii) the successful consummation of the business which is the purpose of the juridical person, or the impossibility of such successful consummation;
- (iii) the ruling to commence bankruptcy procedures; or
- (iv) the rescission of the permission of the establishment.

(2) In addition to the causes listed in the respective items of the preceding paragraph, an incorporated association shall be dissolved because of:

- (i) the applicable resolution of the general meeting; or
- (ii) the attrition of all members.

(Resolution for Dissolution of Juridical Person)

Article 69 An incorporated association may not adopt a resolution for dissolution without the affirmative votes of three-fourths or more of all the members; provided, however, that, this shall not apply to the cases where it is provided otherwise in the articles of incorporation.

(Commencement of Bankruptcy Procedures with respect to Juridical Person)

Article 70 (1) In cases a juridical person is unable to pay its debts in full out of its property, the court shall, at the filing of any director or any obligee or by exercising its authority, provide the ruling to commence bankruptcy procedures.

(2) In the case prescribed in the preceding paragraph, the director(s) must immediately file a petition for the commencement of bankruptcy procedure.

(Rescission of Permission of Establishment of Juridical Person)

Article 71 In cases a juridical person carries on any business which is outside the scope of its purpose(s), or violates any conditions on which it obtained the permission of the establishment or any supervisory order issued by the competent government agency, or otherwise commits any act which is to prejudice the public interest, if the purpose of supervision cannot be achieved by any other means, the competent government agency may rescind its permission. The same shall apply if the juridical person, without any justifiable reason, does not conduct any business for three consecutive years or more.

(Vesting of Residual Assets)

Article 72 (1) The assets of a dissolved juridical person shall vest in the person who is designated in the articles of incorporation or act of endowment.

(2) If the articles of incorporation or act of endowment does not designate any person with whom the right should be vested, or does not provide the manner to designate such person, the director(s) may, with the permission of the competent government agency, dispose of the assets of the relevant juridical person for any purpose which is similar to that of such juridical person; provided, however, that, in cases of an incorporated association, the resolution of the general meeting must be obtained.

(3) Any asset which cannot be disposed of pursuant to the provisions of the preceding two paragraphs shall vest in the national treasury.

(Juridical Person under Liquidation)

Article 73 A dissolved juridical person is deemed to still continue to exist to the extent of the purpose of the liquidation until the conclusion of such liquidation.

(Liquidator)

Article 74 Except in cases of dissolution by the operation of the ruling to commence bankruptcy procedures, when a juridical person is dissolved, its director(s) shall become the liquidator(s); provided, however, that, this shall not apply to the cases where an applicable provision of any articles of incorporation or act of endowment otherwise provides, or any person other than the director(s) has been appointed as the liquidator(s) in the general meeting.

(Appointment of Liquidator by Court)

Article 75 If no liquidator is identified pursuant to the provisions of the preceding Article, or if any damage is likely to occur due to the vacancy in the office of a liquidator, the court may appoint a liquidator at the request of any interested person or a public prosecutor, or by exercising its authority.

(Dismissal of Liquidator)

Article 76 If there is any important reason for doing so, the court may dismiss a liquidator at the request of any interested person or a public prosecutor, or by exercising its authority.

(Registration and Filing of Liquidators' Particulars and Dissolution)

Article 77 (1) Except in cases of the ruling to commence bankruptcy procedures and the rescission of the permission of the establishment, the liquidator must register his/her name and domicile as well as the cause and the date of the

dissolution within two weeks from the dissolution at the location of the principal office, and within three weeks from the dissolution at the location of its other office, and file such matter with the competent government agency.

- (2) A liquidator who has assumed his/her office during the course of the liquidation must register his/her name and domicile within two weeks from the assumption of his/her office at the location of the principal office, and within three weeks from the assumption of his/her office at the location of its other office, and file such matter with the competent government agency.
- (3) The provisions of the preceding paragraph shall apply mutatis mutandis to the liquidator who has assumed his/her office in the case of dissolution due to the rescission of the permission of the establishment.

(Duties and Authority of Liquidator)

Article 78 (1) A liquidator shall have the duties to:

- (i) conclude the current business;
- (ii) collect debts and perform obligations; and
- (iii) deliver the residual assets.

- (2) The liquidator may perform any and all acts in order to perform its duties listed in the respective items of the preceding paragraph.

(Request for Filing of Claims)

Article 79 (1) Within two months from the day when he/she takes office, the liquidator(s) must require the relevant obligees, by releasing a public notice on at least three occasions, to file their claims within a stated period, in which case such notice period may not be less than two months.

- (2) The public notice set forth in the preceding paragraph must note that any claim of an obligee shall be excluded from the liquidation procedure unless he/she submits his/her claim within the stated period; provided, however, that that the liquidator may not exclude any known obligee.
- (3) The liquidator must require the filing of the claim to each of the known obligees.
- (4) The public notice pursuant to the provision of paragraph (1) above shall be given by publishing it in the Official Gazette.

(Filing of Claim after Lapse of the Stated Period)

Article 80 Any obligee who submits its claim after the lapse of the period set forth in paragraph (1) of the preceding Article shall be entitled to make its claim only to the assets which, after all debts of the juridical person have been fully paid, is not yet delivered to the person with vested rights.

(Commencement of Bankruptcy Procedure with respect to Juridical Person)

under Liquidation)

Article 81 (1) When it has become apparent during the liquidation procedure that the assets of the relevant juridical person is not sufficient to fully pay its debts, the liquidator must immediately file a petition for the commencement of bankruptcy procedures and make a public notice of such fact.

(2) In cases any juridical person under the liquidation procedure has become subject to the ruling of the commencement of bankruptcy procedures, if the administration of the relevant procedure has been transferred to the trustee in bankruptcy, it is deemed that the liquidator has completed his/her duties.

(3) In the case prescribed in the preceding paragraph, if the juridical person under the liquidation procedure has already paid any money to the obligees, or has delivered any asset to the person with vested rights, the trustee in bankruptcy may retrieve such money or asset.

(4) The public notice pursuant to the provision of paragraph (1) above shall be made by publishing it in the Official Gazette.

(Supervision by the Court)

Article 82 (1) The dissolution and liquidation of a juridical person shall be subject to the supervision of the court.

(2) The court may, by exercising its authority, conduct any inspection which may be necessary for the supervision set forth in the preceding paragraph.

(Filing of Conclusion of Liquidation Procedure)

Article 83 When any liquidation procedure has been concluded, the liquidator must file such fact with the competent government agency.

Section 4 Supplementary Rules

(Delegation of Authorities of Competent Government agency)

Article 84 The authorities of the competent government agency provided in this Chapter may be delegated, in whole or in part, to any government agency of the national government pursuant to the applicable cabinet order.

(Processing of the Business of the Competent Government agency by Executive Agency of Prefectural Government)

Article 84-2 (1) The execution of the authorities of the applicable competent government agency provided in this Chapter may be administered, in whole or in part, by the governor or other executive agency of the relevant prefectural government (hereinafter referred to as "prefectural executive agency") pursuant to the applicable cabinet order.

(2) In the case set forth in the preceding paragraph, the applicable competent

government agency may instruct the applicable prefectural executive agency with respect to the issuance of any order for supervisory purpose or the rescission of the permission of the establishment to the relevant juridical person pursuant to the applicable cabinet order.

- (3) In the case referred to in paragraph (1), the competent government agency may establish the standard to be complied with by the applicable prefectural executive agency in its administration.
- (4) When the applicable competent government agency establishes the standard set forth in the preceding paragraph, they must make a public announcement thereof.

Section 5 Penal Provisions

Article 84-3 (1) A director, auditor-secretary, or liquidator of a juridical person shall be made subject to a civil fine of not more than 500,000 Yen if he/she:

- (i) fails to effect any registration provided in this Chapter;
 - (ii) violates the provision of Article 51, or makes any false entry in the inventory of property or directory of members;
 - (iii) has obstructed any inspection by the competent government agency, any government agency of the national government to which the authorities of the competent government agency are delegated, or any prefectural executive agency which administers the execution of the authorities of the competent government agency, or the court pursuant to the provision of paragraph (3) of Article 67 or paragraph (2) of Article 82;
 - (iv) violates any order for supervisory purpose issued by the competent government agency, any government agency of the national government to which the authorities of the competent government agency are delegated, or any prefectural executive agency which administers the execution of the authorities of the competent government agency pursuant to the provision of paragraph (2) of Article 67;
 - (v) has made any misrepresentation to, or has concealed any fact from, any government agency, any prefectural executive agency which administers the execution of the authorities of the competent government agency, or the general meeting;
 - (vi) fails to file a petition for the commencement of bankruptcy procedures pursuant to the provision of paragraph (2) of Article 70 or paragraph (1) of Article 81; or
 - (vii) has failed to make the public notice required under paragraph (1) of Article 79 or paragraph (1) of Article 81, or has made any improper public notice.
- (2) Any person who violates the provision of Article 35 shall be subject to a civil

fine of not more than Yen 100,000.

Chapter IV Things

(Definition)

Article 85 The term "Things" as used in this Code shall mean tangible thing.

(Real Estate and Movables)

Article 86 (1) Land and any fixtures thereto are regarded as real estate.

(2) Any Thing which is not real estate is regarded as movable.

(3) A bearer certificate of claims is deemed to be movable.

(Principal and Appurtenance)

Article 87 (1) If the owner of a Thing attaches to it any other Thing he/she owns to make other Thing available for the permanent use of the former Thing, such other Thing which was attached is regarded as appurtenance.

(2) Appurtenance shall be subject to the disposition of the principal.

(Natural Fruits and Legal Fruits)

Article 88 (1) Products which are obtained from the intended use of a Thing are regarded as Natural Fruits.

(2) Money or other Thing to be obtained in exchange for the use of any Thing are regarded as Legal Fruits.

(Vesting of Fruits)

Article 89 (1) Natural Fruits shall vest in the person who has the right to obtain them when they are severed from the origin.

(2) Legal Fruits shall be acquired in proportion to the number of days depending on the duration of the right to obtain them.

Chapter V Juristic Acts

Section 1 General Provisions

(Public Policy)

Article 90 A juristic act with any purpose which is against public policy is void.

(Manifestation of Intention Inconsistent with Default Rules)

Article 91 If any party to a juristic act manifests any intention which is inconsistent with a provision in any laws and regulations not related to public policy, such intention shall prevail.

(Custom Inconsistent with Default Rules)

Article 92 In cases there is any custom which is inconsistent with a provision in any law or regulation not related to public policy, if it is found that any party to a juristic act has the intention to abide by such custom, such custom shall prevail.

Section 2 Manifestation of Intention

(Concealment of True Intention)

Article 93 The validity of the manifestation of intention shall not be impaired even if the person who makes the manifestation knows that it does not reflect his/her true intention; provided, however, that, in cases the other party knew, or could have known, the true intention of the person who makes the manifestation, such manifestation of intention shall be void.

(Fictitious Manifestation of Intention)

Article 94 (1) Any fictitious manifestation of intention made in collusion with another party(ies) shall be void.
(2) The nullity of the manifestation of intention pursuant to the provision of the preceding paragraph may not be asserted against a third party without knowledge.

(Mistake)

Article 95 Manifestation of intention has no effect when there is a mistake in any element of the juristic act in question; provided, however, that the person who made the manifestation of intention may not assert such nullity by himself/herself if he/she was grossly negligent.

(Fraud or Duress)

Article 96 (1) Manifestation of intention which is induced by any fraud or duress may be rescinded.
(2) In cases any third party commits any fraud inducing any person to make a manifestation of intention to the other party, such manifestation of intention may be rescinded only if the other party knew such fact.
(3) The rescission of the manifestation of intention induced by the fraud pursuant to the provision of the preceding two paragraphs may not be asserted against a third party without knowledge.

(Manifestation of Intention to Person at a Distance)

Article 97 (1) Manifestation of intention to a person at a distance shall become effective at the time of the arrival of the notice to the other party.

- (2) The validity of manifestation of intention to a person at a distance shall not be impaired even if the person who made the manifestation dies or loses his/her capacity to act after the dispatch of the notice.

(Manifestation of Intention by Public Notice)

Article 98 (1) Manifestation of intention may be made by means of public notice if the person who makes the manifestation is unable to identify the other party or is unable to identify the whereabouts of the other party.

- (2) The public notice set forth in the preceding paragraph shall be effected by posting the notice at the posting area of the relevant court and publishing the fact of such posting in the Official Gazette at least once in accordance with the applicable provisions of the Code of Civil Procedure (Act No. 109 of 1996) regarding the service of the public notice; provided, however, that the court may, if it finds it suitable, order to post the notice at a posting area of the city office, ward office, or town/village office or any facility equivalent to the above in lieu of the publication in the Official Gazette.

- (3) Manifestation of intention by means of public notice is deemed to have arrived at the other party upon elapse of two weeks after the day when the notice was last published in the Official Gazette, or the day on which any posting in lieu of such publication started, whichever comes first; provided, however, that the service of such notice shall not take effect if the person who makes the manifestation is negligent in not identifying the other party or not identifying the whereabouts of the other party.

- (4) The procedure regarding the public notice shall be subject to the jurisdiction of the summary court which has jurisdiction over the area where the person who makes the manifestation of intention has his/her domicile in cases he/she is unable to identify the other party, or over the area of the last known domicile of the other party in cases the whereabouts of the other party cannot be identified.

- (5) The court must require the person who makes the manifestation of intention to prepay the expenses regarding the public notice.

(Capacity to Receive the Manifestation of Intention)

Article 98-2 In cases the other party to the manifestation of intention is a minor or an adult ward at the time when the other party receives such manifestation of intention, the person who made the manifestation of intention may not assert his/her manifestation of intention against such other party; provided, however, that, this shall not apply after the statutory agent of such other party has acquired the knowledge of such manifestation of intention.

Section 3 Agency

(Requirements and Effect of Act of Agent)

Article 99 (1) A manifestation of intention made by an agent representing that the same is made on behalf of the principal within the scope of the agent's authority binds the principal.

(2) The provision of the preceding paragraph shall apply mutatis mutandis to any manifestation of intention made by a third party to an agent.

(Manifestation of Intention made with no Indication that it is made on behalf of the Principal)

Article 100 Any manifestation of intention made by an agent with no indication that it is made on behalf of the principal is deemed to have been made for the agent's own behalf; provided, however, that, in cases the other party knew, or could have known, that the agent is acting on behalf of the principal, the provision of the preceding paragraph shall apply mutatis mutandis.

(Defect in Act of Agent)

Article 101 (1) In cases the validity of a manifestation of intention should be affected by any absence of intention, any fraud, any duress, or any negligence in knowing or not knowing any particular circumstance, whether or not such fact existed shall be determined with reference to the agent.

(2) In cases an agent is entrusted to perform any specific juristic act, if the agent performs such act in accordance with the instructions of the principal, the principal may not assert that the agent did not know a particular circumstance which the principal knew. The same shall apply to any circumstance which the principal did not know due to his/her negligence.

(Agent's Capacity to Act)

Article 102 An agent need not be a person with the capacity to act.

(Authority of Agent with no Specified Authority)

Article 103 An agent who has no specified authority shall have the authority to do the following acts only:

(i) acts of preservation; and

(ii) acts which have the purpose of using or improving any Thing or right which is the subject of the agency to the extent such act does not change the nature of such property or right.

(Appointment of Sub-agent by Agent)

Article 104 A privately appointed agent may not appoint its sub-agent unless the authorization of the principal is obtained or there is an unavoidable reason to

do so.

(Responsibility of Agent Who Appointed Sub-agent)

Article 105 (1) If an agent appoints a sub-agent pursuant to the provisions of the preceding Article, it shall be responsible vis-a-vis the principal for the appointment and supervision of such sub-agent.

(2) A privately appointed agent shall not assume the responsibility set forth in the preceding paragraph if it appointed the sub-agent in accordance with the nomination by the principal; provided, however, that, this shall not apply to the cases where the agent knows that the sub-agent is unsuitable or untrustworthy, and fails to notify the principal thereof or to dismiss the sub-agent.

(Appointment of Sub-agent by Statutory Agent)

Article 106 A statutory agent may appoint a sub-agent on its own responsibility. In such case, if there is any unavoidable reason, it shall assume only the responsibility set forth in paragraph (1) of the preceding Article.

(Authority of Sub-agent)

Article 107 (1) A sub-agent shall represent the principal with respect to any act within the scope of its authority.

(2) A sub-agent shall have the same rights and obligations as those of the agent vis-a-vis the principal and third parties.

(Self-Contract and Representation of both Parties)

Article 108 An agent may not be the agent of the other party or the agent of both parties in the same juristic act; provided, however, that, this shall not apply where the act constitutes the performance of any obligation, or the act is authorized by the principal in advance.

(Apparent Authority due to Manifestation of Grant of Authority of Agency)

Article 109 A person who manifested to a third party that he/she granted certain authority of agency to other person(s) shall be liable for any act performed by such other person(s) with third parties within the scope of such authority, unless such third parties knew, or were negligent in not knowing, that such other person(s) were not granted the authority of agency.

(Apparent Authority of Act Exceeding Authority)

Article 110 The provision of the main clause of the preceding Article shall apply mutatis mutandis to the case where an agent performs any act exceeding its authority and a third party has reasonable grounds for believing that the agent

has the authority.

(Ground of Termination of Authority of Agency)

Article 111 (1) The authority of agency shall be terminated upon:

- (i) death of the principal; and
 - (ii) death of the agent, or ruling of the commencement of bankruptcy procedures or ruling for commencement of guardianship against the agent.
- (2) The authority of a privately appointed agent by mandate shall be terminated, other than on the grounds listed in the respective items of the preceding paragraph, upon the termination of the contract appointing him/her.

(Apparent Authority After Termination of Authority of Agency)

Article 112 Termination of the authority of agency may not be asserted vis-a-vis a third party without knowledge; provided, however, that, this shall not apply to the cases where such third party was negligent in not knowing such fact.

(Unauthorized Agency)

Article 113 (1) Any contract concluded by a person who holds himself/herself out as an agent of others without authority of agency shall be void vis-a-vis the principal unless ratified by the principal.

- (2) Any ratification or refusal to ratify may not be asserted vis-a-vis the counterparty unless it is made to such counterparty; provided, however, that, this shall not apply to the cases where the counterparty has come to know such fact.

(Right of Notice of Counterparty of Unauthorized Agency)

Article 114 In the case referred to in the preceding Article, the counterparty may require the principal, by fixing a reasonable period of time, to make a definite answer on whether or not he/she will ratify within such period of time. In such case, if the principal fails to make any definite answer within such period, he/she is deemed to have refused to ratify.

(Right to Rescind of Counterparty of Unauthorized Agency)

Article 115 A contract concluded by a person without any authority of agency may be rescinded by the counterparty until the principal ratifies it; provided, however, that, this shall not apply to the cases where the counterparty knew at the time of the conclusion of the contract that the agent had no authority of agency.

(Ratification of Act of Unauthorized Agency)

Article 116 Ratification shall be effective retroactively as of the time of the

conclusion of the contract unless other intention is manifested; provided, however, that no right of a third party may be prejudiced.

(Liability of Unauthorized Agent)

Article 117 (1) A person who concluded a contract holding himself/herself out as an agent of another person shall be liable to the counterparty for the performance of the contract or damages as chosen by such counterparty if he/she is unable to prove his/her authority of agency nor obtain the ratification of the principal.

(2) The provisions of the preceding paragraph shall not apply if the counterparty knew, or was negligent in not knowing, that the person who concluded a contract holding himself/herself out as an agent of another person had no authority of agency, or if the person who concluded a contract holding himself/herself out as an agent of another person had no capacity to act.

(Unauthorized Agency in Unilateral Juristic Act)

Article 118 With respect to a unilateral juristic act, the provisions of Articles 113 to the preceding Article inclusive shall apply *mutatis mutandis* only in cases the counterparty, at the time of such act, agrees that the person who holds himself/herself as an agent will act without authority of agency, or did not contest the authority of agency of such person. The above provisions shall also apply *mutatis mutandis* in cases any person performs a unilateral juristic act vis-a-vis any person without authority of agency with the consent of such person.

Section 4 Nullity and Rescission of Acts

(Ratification of Acts which are Void)

Article 119 An act which is void does not become effective by ratification; provided, however, that, if a party ratifies any act knowing that such act is void, it is deemed that he/she acted *de novo*.

(Persons with the Right to Rescind Act)

Article 120 (1) An act which may be rescinded on the grounds of the limited capacity to act of the person who performed such act may be rescinded only by the person whose capacity to act is limited, or its agent, successor, or a person who has the authority to give consent.

(2) An act which may be rescinded on the grounds of fraud or duress may be rescinded only by the person who made such defective manifestation of intention, or his/her agent or successor.

(Effect of Rescission)

Article 121 An act which is rescinded is deemed void ab initio; provided, however, that a person with limited capacity to act shall have the obligation to reimburse to the extent that he/she is actually enriched as a result of such act.

(Ratification of Rescindable Acts)

Article 122 A rescindable act may not be rescinded from the time when the person set forth in Article 120 ratifies it; provided, however, that ratification may not prejudice the rights of third parties.

(Method of Rescission and Ratification)

Article 123 In cases the counterparty to a rescindable act is identified, the rescission or ratification of such act shall be made by the manifestation of intention to such counterparty.

(Requirements for Ratification)

- Article 124 (1) A ratification shall not be effective unless it is made after the circumstance(s) that made the act rescindable ceases to exist.
- (2) If an adult ward recognizes his/her act after he/she has become a person with capacity to act, he/she may ratify such act only after such recognition.
- (3) The provisions of the preceding two paragraphs shall not apply in cases the ratification is made by the statutory agent, or the curator or assistant of the person with limited capacity to act.

(Statutory Ratification)

Article 125 If, after the time when it has become possible to ratify an act pursuant to the provisions of the preceding Article, any of the following events occurs with respect to an act which is otherwise rescindable, it is deemed that ratification has been made, unless any objection is reserved:

- (i) performance of such act, in whole or in part;
- (ii) demand for the performance of such act;
- (iii) novation of such act;
- (iv) provision of security;
- (v) assignment, in whole or in part, of any right acquired as a result of such rescindable act; or
- (vi) compulsory execution of such act.

(Limitation on Period of Right to Rescind)

Article 126 The right to rescind an act shall be extinguished by the operation of the prescription if it is not exercised within five years from the time when it becomes possible to ratify the act. The same shall apply when twenty years has

elapsed from the time of the act.

Section 5 Conditions and Time Limit

(Effect of Fulfillment of Conditions)

Article 127 (1) A juristic act which is subject to a condition precedent shall become effective upon fulfillment of the condition.

(2) A juristic act which is subject to a condition subsequent shall become ineffective upon fulfillment of the condition.

(3) If the party manifests an intention to extend the effect of fulfillment of the condition retroactively to any time prior to the time of the fulfillment, such intention shall prevail.

(Prohibition of Infringement of Interest of Counterparty Pending Fulfillment of Conditions)

Article 128 Neither party to a juristic act which is subject to any condition may infringe the interests of the counterparty which should arise from such juristic act upon fulfillment of the condition while it is uncertain whether or not such condition has been fulfilled.

(Disposition of Rights Pending Fulfillment of Conditions)

Article 129 While it is uncertain whether or not a condition has been fulfilled, the rights and obligations of the party concerned may be disposed of, inherited or preserved, or any security may be provided therefor, in accordance with the usual provisions of the law.

(Prevention of Fulfillment of Conditions)

Article 130 In cases any party who will suffer any detriment as a result of the fulfillment of a condition intentionally prevents the fulfillment of such condition, the counterparty may deem that such condition has been fulfilled.

(Fulfilled Conditions)

Article 131 (1) In cases a certain condition is already fulfilled at the time of the performance of the applicable juristic act, if such condition is a condition precedent, such juristic act shall be unconditional, and if such condition is a condition subsequent, such juristic act shall be void.

(2) In cases it is already established conclusively at the time of the performance of the applicable juristic act that a certain condition will not be fulfilled, if such condition is a condition precedent, such juristic act shall be void, and if such condition is a condition subsequent, such juristic act shall be unconditional.

(3) In the cases referred to in the provisions of the preceding two paragraphs, the provisions of Article 128 and Article 129 shall apply mutatis mutandis while the relevant parties are not aware that the relevant condition has been, or has not been, fulfilled, as the case may be.

(Unlawful Conditions)

Article 132 Juristic act which is subject to an unlawful condition shall be void. The same shall apply to any act which is subject to the condition that an unlawful act not be performed.

(Impossible Conditions)

Article 133 (1) Juristic act subject to a condition precedent which is impossible shall be void.

(2) Juristic act subject to a condition subsequent which is impossible shall be unconditional.

(Potestative Conditions)

Article 134 A juristic act which is subject to a condition precedent shall be void if the condition is dependent upon the will of the obligor.

(Effect of Arrival of Assigned Time)

Article 135 (1) If time of commencement of validity is assigned to a juristic act, the performance of such juristic act may not be demanded before the arrival of such time.

(2) If time of expiration of validity is assigned to a juristic act, the validity of such juristic act shall expire upon the arrival of such time.

(Benefit of Time and Its Waiver)

Article 136 (1) It is presumed that a time specified is provided for the benefit of the obligor.

(2) The benefit of time may be waived; provided, however, that such waiver may not prejudice the interest of the counterparty.

(Forfeiture of Benefit of Time)

Article 137 The obligor may not assert the benefit of time if:

- (i) the obligor has become subject to the ruling of the commencement of bankruptcy procedures;
- (ii) the obligor has destroyed, damaged, or diminished the security; or
- (iii) the obligor fails to provide security when it has the obligation to do so.

Chapter VI Calculation of Period

(Common Rules on Calculation of Period)

Article 138 The method of calculation of a period shall be subject to the provision of this Chapter unless otherwise provided in the laws and regulations or any judicial order, or unless the relevant juristic act otherwise specifies.

(Commencement of Period)

Article 139 When a period is defined by the hour, the period commences immediately at the specified time.

Article 140 When a period is defined by the day, week, month, or year, the first day of the period shall not be included for the purpose of the calculation; provided, however, that, this shall not apply to the cases where the period commences at twelve midnight.

(Expiration of Period)

Article 141 In the case referred to in the preceding Article, the period shall expire at the end of the last day of such period.

Article 142 If the last day of a period falls on a Sunday, a holiday as provided in the Act on National Holidays (Act No. 178 of 1948), or any other holiday, only when it is customary not to do business on such day, the period shall expire on the immediately following day.

(Calculation of Period with Reference to Calendar)

Article 143 (1) When a period is defined by the week, month, or year, the period shall be calculated with reference to the calendar week, month, or year.

(2) When a period does not commence at the beginning of the week, month, or year, such period shall expire in the last week, month, or year on the day immediately preceding the day which corresponds to the commencement day; provided, however, that if the period is defined by the month or year and the last month does not contain the corresponding day, the period shall expire on the last day of such month.

Chapter VII Prescription

Section 1 General Provisions

(Effect of Prescription)

Article 144 The prescription shall take effect retroactively as of the commencement day.

(Invocation of Prescription)

Article 145 The court may not make a judgment relying on the prescription unless the party invokes it.

(Waiver of Benefits of Prescription)

Article 146 The benefits of the prescription may not be waived in advance.

(Ground of Interruption of Prescription)

Article 147 The prescription shall be nullified upon issuance of:

- (i) any claim;
- (ii) any attachment, provisional seizure, or provisional disposition; or
- (iii) any acknowledgment.

(Persons Affected by Interruption of Prescription)

Article 148 The nullification of prescription pursuant to the provision of the preceding Article shall be effective solely among the parties with respect to whom the ground of such interruption arose, and their respective successors.

(Judicial Claims)

Article 149 A judicial claim shall not have the effect of interruption of the prescription in cases where the action is dismissed or withdrawn.

(Demand for Payment)

Article 150 A demand for payment shall not have the effect of interruption of the prescription in cases where it loses its effect because the obligee fails to file for the declaration of provisional execution within the period set forth in Article 392 of the Code of Civil Procedure.

(Filing for Settlement and Conciliation)

Article 151 The filing for settlement or the filing for conciliation under the Civil Conciliation Act (Act No. 222 of 1951) or Family Affairs Adjudication Act (Act No. 152 of 1947) shall not have the effect of interruption of the prescription in cases where, when the counterparty fails to appear in the court or when the settlement or conciliation is not satisfactorily concluded, the action is not brought within one month.

(Participation in Bankruptcy Procedures)

Article 152 Participation in a bankruptcy procedures, participation in a rehabilitation procedures, or participation in a reorganization procedures shall not have the effect of interruption of the prescription when the obligee withdraws its filing, or its filing has been dismissed.

(Demand)

Article 153 A demand shall not have the effect of interruption of the prescription unless a judicial claim, filing for demand of payment, filing for settlement, filing for conciliation under the Civil Conciliation Act or Family Affairs Adjudication Act, participation in bankruptcy procedures, participation in a rehabilitation procedures, participation in a reorganization procedures, attachment, provisional seizure, or provisional disposition is commenced within six months.

(Attachment, Provisional Seizure, and Provisional Disposition)

Article 154 An attachment, provisional seizure, and provisional disposition shall not have the effect of interruption of the prescription if it is avoided at the request of any rights holder, or for failure to comply with any provisions of the law.

Article 155 When an attachment, provisional seizure, or provisional disposition is not effected vis-a-vis a person who acquires any benefit of the prescription, it shall not have the effect of interruption of the prescription unless a notice is given to such person.

(Acknowledgment)

Article 156 An acknowledgment which has the effect of interruption of the prescription shall not require the capacity to act or authority with respect to the disposition of the rights of the counterparty.

(Running of Prescription following Interruption)

Article 157 (1) A prescription which is interrupted shall resume running at the time the applicable grounds for suspension cease to exist.

(2) Any prescription which is interrupted by a judicial claim shall resume running at the time of the final and binding judgment.

(Minor or Adult Ward and Suspension of Prescription)

Article 158 (1) If a minor or an adult ward, as the case may be, has no statutory agent during the period of six months preceding the expiration of period of the prescription, the prescription shall not be completed with respect to such minor or adult ward until six months elapse from the time when such minor or adult ward becomes a person with a capacity to act, or a statutory agent is appointed.

(2) In cases where a minor or an adult ward has any right vis-a-vis his/her father, mother, or guardian who manages his/her property, the prescription shall not be completed with respect to such right until six months elapse from the time

when such minor or adult ward becomes a person with a capacity to act, or a succeeding statutory agent is appointed.

(Suspension of Prescription of Rights Between Husband and Wife)

Article 159 With respect to any right which either husband or wife has vis-a-vis the other spouse, the prescription shall not be completed until six months elapse from the time of the dissolution of the relevant marriage.

(Suspension of Prescription Regarding Inherited Property)

Article 160 With respect to any inherited property, the prescription shall not be completed until six months elapse from the time when the applicable heir is identified, the administrator is appointed, or the ruling of the commencement of bankruptcy procedures is made.

(Suspension of Prescription due to Natural Disaster)

Article 161 If the prescription may not be interrupted upon expiration of period of the prescription due to any natural disaster or other unavoidable contingency, the prescription shall not be completed until two weeks elapse from the time when such impediment has ceased to exist.

Section 2 Acquisitive Prescription

(Acquisitive Prescription of Ownership)

Article 162 (1) A person who possesses any property of another for 20 years peacefully and openly with an intention to own shall acquire the ownership thereof.

(2) A person who possesses any property of another for 10 years peacefully and openly with an intention to own shall acquire the ownership thereof if he/she was without knowledge and was not negligent when the possession started.

(Acquisitive Prescription of Property Rights other than Ownership)

Article 163 A person who exercises any property right other than the ownership peacefully and openly with an intention to do so on his/her own behalf shall acquire such right after the elapse of 20 years or 10 years consistent with the distinction provided in the preceding Article.

(Interruption of Acquisitive Prescription due to Discontinuation of Possession)

Article 164 The prescription pursuant to the provision of Article 162 shall be interrupted when the possessor discontinues the possession voluntarily, or he/she is deprived of his/her possession by others.

Article 165 The provision of the preceding Article shall apply mutatis mutandis to the case under Article 163.

Section 3 Extinctive Prescription

(Running of Extinctive Prescription)

Article 166 (1) The extinctive prescription commences to run when it has become possible to exercise the right.

(2) The provision of the preceding paragraph shall not preclude the commencement of acquisitive prescription for the benefit of a third party who possesses any subject matter which is a right subject to the time of commencement or a right subject to a condition precedent, at the time of commencing such possession; provided, however, that the holder of the right may demand the possessor to give his/her acknowledgment at any time to interrupt the prescription.

(Extinctive Prescription of Claim)

Article 167 (1) A claim shall be extinguished if not exercised for ten years.

(2) Any property right other than the claim or ownership shall be extinguished if not exercised for twenty years.

(Extinctive Prescription of Periodic Payments)

Article 168 (1) A claim for periodic payments shall be extinguished if not exercised for twenty years after the first due date. The same shall apply if not exercised for ten years after the last due date.

(2) The obligee of periodic payments may require its obligor at any time to issue a written acknowledgment in order to acquire the evidence of the interruption of the prescription.

(Short-term Extinctive Prescription of Claim for Periodic Performance)

Article 169 Any claim for the delivery of money or other Thing for periodic performance of one year or shorter shall be extinguished if not exercised for five years.

(Short-term Extinctive Prescription of Three Years)

Article 170 The claims listed below shall be extinguished if not exercised for three years; provided, however, that the prescription of the claims listed in item (ii) shall commence upon completion of the work referred to in the same item:

(i) any claim regarding a diagnosis, assistance in baby delivery, or the preparation of medicine by a doctor, delivery assistant, or pharmacist; or

- (ii) any claim, regarding the construction work, of a person engaged in design, execution, or supervision of the work.

Article 171 An attorney or a legal professional corporation, or a notary shall be relieved of their responsibility for any document received in connection with its/his/her service upon the elapse of three years after the termination of the relevant case with respect to an attorney or a legal professional corporation, and after the execution of his/her duties with respect to a notary.

(Short-term Extinctive Prescription of Two Years)

Article 172 (1) Any claim regarding the duties of an attorney, a legal professional corporation, or a notary shall be extinguished if not exercised for two years after the close of the case which was the cause of such claim.

(2) Notwithstanding the provisions of the preceding paragraph, if five years have elapsed after the close of any particular matter included in the case referred to in such paragraph, the claim regarding such matter shall be extinguished even in the middle of the period set forth in such paragraph.

Article 173 The following claims shall be extinguished if not exercised for two years:

- (i) a claim pertaining to the price of any product or goods sold by a manufacturer, wholesale merchant, or retail merchant;
- (ii) a claim regarding the work of any person whose business is to manufacture any Thing or to perform the work in his/her own workplace for the benefit of others upon placement of an order using his/her own skill; and
- (iii) a claim possessed by any person who provides education in the arts and sciences, or technical skills, with respect to the price of the education, food and clothing and accommodation for students.

(Short-term Extinctive Prescription of One Year)

Article 174 The following claims shall be extinguished if not exercised for one year:

- (i) a claim pertaining to the salary of an employee which is fixed by one month or any shorter period;
- (ii) a claim pertaining to the remuneration of any person whose business is to provide his/her own labor or entertainment, or the price of any Thing supplied by such person;
- (iii) a claim pertaining to freight for transportation;
- (iv) a claim pertaining to room charges, food and beverage charges, admission fees, entrance fees, the price of goods consumed or monies to be reimbursed to any hotel, establishment providing food and beverages, seating hire

facility, or place of amusement; and
(v) a claim pertaining to the rent for movables.

(Extinctive Prescription of Right Established in Judgment of Court)

Article 174-2 (1) The period of prescription of any right established in a unappealable judgment shall be ten years even if any period of prescription shorter than ten years is provided. The same shall apply to any right which is established in a settlement in a court proceeding or conciliation, or any other action which has the effect equivalent to that of the unappealable judgment.
(2) The provision of the preceding paragraph shall not apply to any claim which is not yet due and payable yet at the time when the judgment becomes unappealable.

Part II Real Rights

Chapter I General Provisions

(Establishment of Real Rights)

Article 175 No real rights can be established other than those prescribed by laws including this Code.

(Creation and Transfer of Real Rights)

Article 176 The creation and transfer of real rights shall take effect solely by the manifestations of intention of the relevant parties.

(Requirements of Perfection of Changes in Real Rights concerning Immovable properties)

Article 177 Acquisitions of, losses of and changes in real rights concerning immovable properties may not be asserted against third parties, unless the same are registered pursuant to the applicable provisions of the Real Estate Registration Act (Act No. 123 of 2004) and other laws regarding registration.

(Requirements of Perfection of Transfer of Real Rights concerning Movables)

Article 178 The transfers of real rights concerning movables may not be asserted against third party, unless the movables are delivered.

(Confusion of Rights)

Article 179 (1) If ownership and other real rights with respect to the same Thing have vested in the same person, such other real rights shall be extinguished; provided, however, that, this shall not apply to cases where that Thing is, or such other real rights are, the object of the rights of a third party.
(2) If any real rights other than ownership and other rights for which those real

rights are the object have vested in the same person, such other rights shall be extinguished. In such cases, the provisions of the proviso to the preceding paragraph shall apply mutatis mutandis.

(3) The provisions of the preceding two paragraphs shall not apply to possessory rights.

Chapter II Possessory Rights

Section 1 Acquisition of Possessory Rights

(Acquisition of Possessory Rights)

Article 180 Possessory rights shall be acquired by holding Thing with an intention to do so on one's own behalf.

(Possession by Agents)

Article 181 Possessory rights may be acquired by an agent.

(Actual Delivery and Summary Delivery)

Article 182 (1) The transfers of possessory rights shall be effected by the delivery of the Thing possessed.

(2) In cases where a transferee or his/her agent actually holds a Thing, the transfers of possessory rights may be effected by the parties' manifestations of intention alone.

(Constructive Transfers)

Article 183 If an agent manifests an intention that The thing possessed by it shall thenceforward be possessed on behalf of its principal, the principal shall thereby acquire possessory rights.

(Transfers of Possession by Instructions)

Article 184 In cases where a Thing is in an agent's possession, if the principal orders that agent to thenceforward possess that Thing on behalf of a third party, and such third party consents thereto, that third party shall acquire possessory rights.

(Change in Nature of Possession)

Article 185 In cases where it is assumed, due to the nature of the title, that a possessor does not have the intention to own, the nature of the possessor's possession shall not change unless that possessor manifests to the person who made him/her possess the Thing that he/she has the intention of ownership, or commences possession under a new title with an intention to own from that time.

(Presumption regarding Nature of Possession)

Article 186 (1) It shall be presumed that a possessor possesses Thing with the intention to own, in good faith peacefully and in public.

(2) If there is evidence of possession at two different points in time, it shall be presumed that possession continued during the interval.

(Succession to Possession)

Article 187 (1) A successor to a possessor may, at the option of the successor, assert either his/her possession only, or his/her possession together with that of the predecessor.

(2) In cases where a person asserts the possession of the predecessor together with his/her own, he/she shall also succeed to defects in the same.

Section 2 Effect of Possessory Rights

(Presumption of Lawfulness of Rights Exercised with respect to Possessed Thing)

Article 188 It shall be presumed that a possessor lawfully has the rights that a possessor exercises with respect to Thing in his/her possession.

(Acquisition of Fruits by Possessor in Good Faith)

Article 189 (1) A possessor in good faith shall acquire fruits derived from Thing in his/her possession.

(2) If a possessor in good faith is defeated in an action on the title, he/she shall be deemed to be a possessor in bad faith as from the time when such action was brought.

(Return of Fruits by Possessors in bad faith)

Article 190 (1) A possessor in bad faith shall be obligated to return fruits, and reimburse the price of fruits that he/she has already consumed, has damaged due to negligence or has failed to collect.

(2) The provisions of the preceding paragraph shall apply mutatis mutandis to persons who possess Thing through violence or duress, or by concealing the same.

(Compensation for Damages by Possessors)

Article 191 If possessed Thing has suffered loss or damage due to reasons attributable to the possessor, a possessor in bad faith shall be liable to compensate the person recovering the loss for the entire loss, and a possessor in good faith shall be liable to compensate such person for the loss to the extent

he/she is actually enriched as a result of such loss or damage; provided, however, that a possessor who does not have the intention of holding as owner must compensate the entire loss, even if he/she is in good faith.

(Immediate Acquisition)

Article 192 A person who commences the possession of movables peacefully and openly by a transactional act acquires rights to exercise with respect to such movables immediately if he/she is in good faith and faultless.

(Recovery of Stolen or Lost Goods)

Article 193 In the cases provided for in the preceding Article, if the possessed Thing is lost or stolen goods, the victim or person who lost the Thing may demand the recovery of that Thing from the possessor within two years from the time of the loss or theft.

Article 194 If a possessor purchased lost or stolen goods in good faith at an auction or in a public market, or from a merchant who sells similar Things, the victim or person who lost the Thing may not recover the Thing unless he/she reimburses the possessor for the price paid.

(Acquisition of Rights through Possession of Animals)

Article 195 A person who possesses a non-domestic animal bred by others acquires rights to exercise with respect to that animal if he/she was in good faith at the beginning of the possession, and if recovery is not demanded by the owner of the animal within one month of the time when that animal left the possession of its owner.

(Possessors' Claims for Reimbursement of Expenses)

Article 196 (1) In cases where a possessor returns Thing in his/her possession, he/she may have the person recovering the Thing reimburse necessary expenses including amounts paid to preserve that Thing, provided, however, that, if the possessor has acquired fruits, ordinary necessary expenses shall be borne by the possessor.

(2) With respect to beneficial expenses including amounts paid by a possessor to improve Thing in his/her possession, limited to cases where there is a current increase in value, the possessor may, at the choice of the person recovering the Thing, have the person recovering the Thing reimburse monies the possessor paid or the amount of the increased value; provided, however, that, with regard to a possessor in bad faith, the court may, at the request of the person recovering the Thing, grant a reasonable period for same.

(Possessory Actions)

Article 197 A possessor may bring a possessory action in accordance with the provisions of the following Article through Article 202. The same shall apply to a person who takes possession on behalf of others.

(Actions for Maintenance of Possession)

Article 198 When a possessor is disturbed in his/her possession, he/she may claim for the discontinuation of the disturbance and compensation for damages by bringing an action for maintenance of possession.

(Actions for Preservation of Possession)

Article 199 When a possessor is likely to be disturbed of his/her possession, he/she may claim either for the prevention of the disturbance or for the submission of security for the compensation for damages by bringing an action for preservation of possession.

(Actions for Recovery of Possession)

Article 200 (1) When a possessor is forcibly dispossessed, he/she may claim for the restoration of the Thing and compensation for damages by bringing an action for recovery of possession.

(2) An Action for recovery of possession cannot be filed against a specific successor of the usurper of possession; provided, however, that this shall not apply if that successor had knowledge of the fact of usurpation.

(Periods of Time for Bringing Possessory Actions)

Article 201 (1) Actions for maintenance of possession must be brought during the disturbance or within one year after the disturbance is extinguished; provided, however, that, in cases where possessed Thing is damaged due to construction, if one year has elapsed from the time when that construction started or if that construction has been completed, such action cannot be brought.

(2) Actions for preservation of possession may be brought so long as the danger of disturbance exists. In such cases, the proviso to the preceding paragraph shall apply mutatis mutandis if possessed Thing is likely to be damaged by construction.

(3) Actions for recovery of possession must be brought within one year of the time when possession was unlawfully usurped.

(Relationship with Actions on Title)

Article 202 (1) Possessory Actions do not preclude actions on title, and actions on title do not preclude possessory actions.

(2) With respect to possessory actions, no judgment may be made based on

reasons relating to title.

Section 3 Extinction of Possessory Rights

(Grounds for Extinction of Possessory Rights)

Article 203 Possessory rights shall be extinguished when the possessor renounces his/her intention to possess, or loses possession of the possessed Thing; provided, however, that this shall not apply if the possessor brings an action for recovery of possession.

(Grounds for Extinction of Agent's Possessory Rights)

Article 204 (1) In cases where a person possesses a Thing through an agent, possessory rights shall be extinguished on the grounds listed below:

- (i) That the principal renounces his/her intention to have his/her agent possess;
- (ii) That the agent manifests his/her intention to the principal to thenceforward possess the possessed Thing on behalf of himself/herself or a third party; or
- (iii) That the agent has lost the direct control over the possessed Thing.

(2) Possessory rights shall not be extinguished solely as a result of the extinction of the power of representation.

Section 4 Quasi-Possession

Article 205 The provisions of this Chapter shall apply mutatis mutandis to cases where a person exercises his/her property rights with an intention to do so on his/her own behalf.

Chapter III Ownership

Section 1 Extent of Ownership

Subsection 1 Content and Scope of Ownership

(Content of Ownership)

Article 206 An owner has the rights to freely use, obtain profit from and dispose of the Thing owned, subject to the restrictions prescribed by laws and regulations.

(Scope of Ownership in Land)

Article 207 Ownership in land shall extend to above and below the surface of the land, subject to the restrictions prescribed by laws and regulations.

Article 208 Deleted

Subsection 2 Neighboring Relationships

(Requests for Use of Neighboring Land)

Article 209 (1) An owner of land may request the use of the neighboring land to the extent necessary for constructing or repairing walls or buildings on or in the vicinity of the boundary; provided, however, that he/she may not enter the dwelling house of the neighbor without the approval of the same.

(2) In the cases provided for in the preceding paragraph, if the neighbor sustained damages, he/she may claim compensation.

(Right of Passage over Other Land for Access to Public Roads)

Article 210 (1) An owner of land that is surrounded by other land and has no access to public roads may pass through the other land that surrounds his/her land to reach the public roads.

(2) The preceding paragraph shall likewise apply in cases where an owner cannot access the public roads unless he/she passes through ponds, lakes, rivers, waterways or seas, or in cases where there is a considerable difference in height between the land and the public road on account of a cliff.

Article 211 (1) In the cases provided for in the preceding Article, the location and method of passage must be so chosen as to meet the needs of the person who is entitled to the right of passage under the provisions of that Article, and cause the least damage to the other land.

(2) A person who holds the right of passage under the provisions of the preceding Article may construct a road if necessary.

Article 212 A person who is entitled to the right of passage pursuant to the provisions of Article 210 must pay compensation for damage caused to the other land that he/she passes through; provided, however, that, except for damage arising from the construction of a road, compensation may be paid on an annual basis.

Article 213 (1) If the partition of land creates a parcel of land that has no access to public roads, the owner of such parcel of land may pass to the public roads only through the lands owned by others who participated in the partition. In such cases, it shall not be necessary to pay compensation.

(2) The provisions of the preceding paragraph shall apply mutatis mutandis to cases where the owner of land assigns part of his/her land to others.

(Prohibition of Obstruction of Natural Water Streams)

Article 214 A landowner may not interfere with a natural water stream flowing from neighboring land.

(Removal of Barriers to Water Streams)

Article 215 If a stream is blocked at low-lying ground due to a natural disaster or other unavoidable event, an owner of higher ground may carry out construction work necessary to remove the barrier to the stream at his/her own expense.

(Repairs of Structures related to Streams)

Article 216 If land suffers, or is likely to suffer, damage due to destruction or blockage of a structure installed on other land to store, discharge or draw water, the owner of that land may have the owners of such other lands repair the structure or remove the barriers, or, if necessary, have the same carry out preventive construction work.

(Customs with respect to Allocation of Expenses)

Article 217 In the cases provided for in the preceding two Articles, if there are other customs with respect to the allocation of expenses, those customs shall prevail.

(Prohibition of Installation of Structures that Discharge Rainwater to Neighboring Lands)

Article 218 A landowner may not install any structure including a roof that discharges rainwater directly onto neighboring land.

(Changes to Streams)

Article 219 (1) An owner of land containing a stream including a channel or moat may not change the course or width of the same if the land on the other side is owned by others.

(2) If the land on both sides of a stream is owned by the owner of the land containing the stream, that owner may change the course or the width of the same; provided, however, that he/she must return the stream to its natural course at the point where the stream meets neighboring land.

(3) If there are customs that differ from the provisions of the preceding two paragraphs, those customs shall prevail.

(Running Water through Lower Ground for Discharge)

Article 220 An owner of a higher ground may run water through lower grounds to dry out his/her higher ground in cases where that land is flooded, or to discharge surplus water for household or agricultural or industrial use until

the water meets a public stream or sewage system. In such cases, the location and method that cause the least damage to the lower ground must be selected.

(Use of Structures to Direct Water)

Article 221 (1) A landowner may use structures established by owners of higher ground or lower ground in order to cause water from his/her land to pass through the same.

(2) In the cases provided for in the preceding paragraph, the person who uses the structures of others must bear the expenses of the establishment and preservation of the structures in proportion to the benefit he/she enjoys.

(Construction and Use of Dams)

Article 222 (1) If the owner of land containing a stream needs to construct a dam, he/she may construct that dam by fixing it to the other side even if the land on the other side is owned by others; provided, however, that he/she must pay compensation for damages arising as a result.

(2) The owner of the land on the other side may use the dam under the preceding paragraph if he/she owns part of the land containing the stream.

(3) The provisions of paragraph (2) of the preceding Article shall apply *mutatis mutandis* to the cases provided for in the preceding paragraph.

(Installation of Boundary Markers)

Article 223 A landowner may install boundary markers, sharing the expenses with the owner of the neighboring land.

(Expenses of Installation and Preservation of Boundary Markers)

Article 224 The expenses of installation and preservation of boundary markers shall be borne equally by neighbors; provided, however, that measuring expenses shall be borne in proportion to the sizes of the relevant land parcels.

(Installation of Fences)

Article 225 (1) If two buildings are owned by different owners and there is an open lot between them, each owner may install a fence on the boundary, sharing the expenses with the other owner.

(2) If no agreement can be reached between the parties, the fence under the preceding paragraph must be wooden fencing, bamboo fencing or fencing made of similar material and must be two meters high.

(Expenses of Installation and Preservation of Fences)

Article 226 The expenses of installation and preservation of the fences under the preceding Article shall be borne equally by the neighbors.

(Installation of Fences by One of Neighbors)

Article 227 One of neighboring owners may install a fence using materials better than those provided for in paragraph (2) of Article 225 or elevating the height provided for under the same paragraph; provided, however, that he/she must bear the increase in expenses arising as a result of the same.

(Customs relating to Installation of Fences)

Article 228 If there are customs that differ from the provisions of the preceding three Articles, those customs shall prevail.

(Presumption of Co-ownership of Boundary Markers)

Article 229 Boundary markers, fences, walls, channels and moats installed on boundary lines shall be presumed to be co-owned by the neighbors.

Article 230 (1) The provisions of the preceding Article shall not apply to a wall on a boundary line that forms a part of a building.

(2) If the height of a wall that separates two neighboring buildings of different heights is higher than the height of the lower building, the preceding paragraph shall likewise apply with respect to such portion of that wall that is higher than the lower building; provided, however, that this shall not apply to fire walls.

(Construction Work raising Height of Co-owned Walls)

Article 231 (1) One of neighboring owners may raise the height of a co-owned wall; provided, however, that, if the wall cannot withstand the construction work, he/she must reinforce that wall as necessary or rebuild the same.

(2) If the height of a wall is raised under the provisions of the preceding paragraph, the raised portion shall be owned solely by the person who carried out the construction work.

Article 232 In the cases provided for in the preceding Article, if a neighbor suffers damage, he/she may demand compensation for the same.

(Cutting of Branches and Roots of Trees and Bamboo)

Article 233 (1) If a tree or bamboo branch from neighboring land crosses a boundary line, the landowner may have the owner of that tree or bamboo sever that branch.

(2) If a tree or bamboo root from neighboring land crosses a boundary line, the owner of the land may sever that root.

(Restrictions on Buildings near Boundary Lines)

Article 234 (1) In order to construct a building, the building must be distanced 50 centimeters or more away from the boundary line.

(2) If a person attempts to construct a building in violation of the provisions of the preceding paragraph, the owner of the neighboring land may have construction suspended or changed; provided, however, that, if one year has lapsed from the time when such construction started or if that building has been completed, the owner may only claim damages.

Article 235 (1) A person who installs a window or porch (hereinafter in this and the following paragraph including a veranda) at a distance of less than one meter from a boundary line allowing the observation of the residential land of others, must put up a privacy screen.

(2) The distance under the preceding paragraph shall be calculated by measuring the length of a straight line from the point on the window or porch closest to the neighboring land to where it reaches the boundary line at a right angle.

(Customs relating to Construction near Boundary Lines)

Article 236 If there are customs that differ from the provisions of the preceding two Articles, those customs shall prevail.

(Restrictions on Digging near Boundary Lines)

Article 237 (1) In order to dig a well, service water pit, sewage pit or compost pit, the same must be distanced two or more meters from the boundary line, and in order to dig a pond, cellar or urine pit, the same must be distanced one or more meters from the boundary line.

(2) In order to bury water pipes, or dig a channel or moat, the same must be distanced from the boundary line by a measurement equivalent to at least half the depth of the same; provided, however, that the distance is not required to be more than one meter.

(Duty of Care regarding Digging near Boundary Lines)

Article 238 When construction under the preceding Article is to be carried out near a boundary line, necessary care must be taken to ensure the prevention of earth collapses or leakages of water or contaminated liquids.

Section 2 Acquisition of Ownership

(Ownership in Ownerless Thing)

Article 239 (1) Ownership of movables without an owner shall be acquired by possessing the same with the intention to own.

(2) Ownership of real estate without an owner shall vest in the National Treasury.

(Finding of Lost Property)

Article 240 If the owner of lost property is not identified within three months of the time when public notice thereof is effected as prescribed by the Lost Property Act (Act No. 73 of 2006), the person who found the lost property shall acquire ownership in the same.

(Discovery of Hidden Treasure)

Article 241 If the owner of hidden treasure is not identified within six months of the time when public notice thereof is effected as prescribed by the Lost Property Act, the finder shall acquire ownership in the same; provided, however, that, with respect to hidden treasure discovered in a Thing belonging to other person, the finder and such other person shall acquire equally proportionate ownership in the same.

(Accession to Real Estate)

Article 242 The owner of real estate shall acquire ownership in a Thing that has been attached thereto as its accessory; provided, however, that the rights of the other person who attached such Thing by virtue of his/her title shall not be precluded.

(Accession to Movables)

Article 243 If two or more movables with different owners are so joined to each other that they can no longer be separated without damaging the same, ownership of the composite Thing shall vest in the owner of the principal movables. The same shall apply if excessive expense would be required to separate the same.

Article 244 If the distinction of principal and accessory cannot be made between the joined movables, the owner of each movable shall co-own the composite Thing in proportion to the respective price current at the time of the accession.

(Mixture)

Article 245 The provisions of the preceding two Articles shall apply mutatis mutandis to cases where the Things of different owners are mixed together and can no longer be distinguished.

(Processing)

Article 246 (1) If a person (hereinafter in this Article referred to as "Processor")

contributes work to the movables of others, ownership of the Thing so worked up shall vest in the owner of the materials; provided, however, that, if the value derived from the work significantly exceeds the value of the materials, the Processor shall acquire ownership in the processed Thing.

(2) In the cases provided for in the preceding paragraph, if the Processor supplies a portion of the materials, the Processor shall acquire ownership in the processed Thing, limited to if the value of such supplied materials plus the value derived from the work exceeds the value of the materials of others.

(Effect of Accession, Mixture or Processing)

Article 247 (1) If the ownership of a Thing is extinguished in accordance with the provisions of Article 242 through the preceding Article, other rights in existence in relation to such Thing shall also be extinguished.

(2) In the cases provided for in the preceding paragraph, if the owner of a Thing has become the sole owner of the Thing formed by accession, mixture or processing (hereinafter in this paragraph referred to as "composite Thing"), other rights in existence in relation to such Thing shall thereafter exist in relation to the composite Thing, and if the owner of the Thing becomes a co-owner of the composite Thing, other rights in existence in relation to such Thing shall thereafter exist in relation to his/her share in the same.

(Demands for Compensation in conjunction with Accession, Mixture or Processing)

Article 248 A person who suffers loss because of the application of the provisions of Article 242 through the preceding Article may demand compensation in accordance with the provisions of Article 703 and Article 704.

Section 3 Co-Ownership

(Use of property in co-ownership)

Article 249 Each co-owner may use the entire property in co-ownership in proportion to his/her share.

(Presumption of Proportion of Co-owner's Shares)

Article 250 Each co-owner's share shall be presumed to be equal.

(Changes to Co-owned Thing)

Article 251 No co-owner may make any alteration to the property in co-ownership without the consent of the other co-owners.

(Management of Co-owned Thing)

Article 252 Matters regarding the management of property in co-ownership shall be determined by a majority of the value of the shares of the co-owners, except for cases provided for in the preceding paragraph; provided, however, that any co-owner may carry out acts of preservation.

(Obligations to bear Burdens regarding property in co-ownership)

Article 253 (1) Each co-owner shall pay the expenses of management and otherwise bear burdens regarding the property in co-ownership, in proportion to his/her share.

(2) If a co-owner does not perform the obligations under the preceding paragraph within one year, other co-owners may acquire the share of such person by paying reasonable compensation.

(Claims on property in co-ownership)

Article 254 A claim that one of co-owners holds against other co-owners with respect to the property in co-ownership may be exercised against their specific successors.

(Renunciation of Shares and Death of Co-owners)

Article 255 If one of co-owners renounces his/her share or dies without an heir, his/her share shall vest in other co-owners.

(Demands for Partition of property in co-ownership)

Article 256 (1) Each co-owner may demand the partition of property in co-ownership at any time; provided, however, that this shall not preclude concluding a contract to the effect that a partition will not occur for a period within five years.

(2) The contract under the proviso to the preceding paragraph may be renewed; provided, however, that the period thereof may not exceed five years from the time of the renewal.

Article 257 The provisions of the preceding Article shall not apply to the property in co-ownership provided for in Article 229.

(Partition of property in co-ownership by Judgment)

Article 258 (1) If no agreement is reached among co-owners with respect to the partition of property in co-ownership, a demand for partition of the same may be submitted to the court.

(2) In cases provided for in the preceding paragraph, if the property in co-ownership cannot be partitioned in kind, or it is likely that the value thereof will be significantly reduced by the partition, the court may order the sale of

the same at auction.

(Performance of Obligations regarding Co-ownership)

Article 259 (1) If one of the co-owners holds a claim regarding co-ownership against other co-owners, upon partition, the portion of the property in co-ownership that vests in the obligors may be appropriated for the performance of the same.

(2) If it is necessary to sell the portion of the property in co-ownership that vests in the obligors to obtain the performance under the preceding paragraph, the obligee may demand the sale of the same.

(Participation in Partition of property in co-ownership)

Article 260 (1) Persons who hold rights with respect to property in co-ownership and the obligee of any co-owner may participate in partitions at their own expense.

(2) If, notwithstanding a request for participation under the provisions of the preceding paragraph, partition is effected without allowing the participation of the person who submitted the request, that partition may not be asserted against the person who submitted the request.

(Co-owners' Warranties upon Partitions)

Article 261 Each co-owner shall bear, in proportion to his/her share, the responsibility of warranty that a seller would have as to the Thing other co-owners have acquired by partition.

(Documents regarding property in co-ownership)

Article 262 (1) If a partition has been completed, each person who participated in the partition must retain the documents regarding the Thing he/she acquired.

(2) Documents regarding the Thing that is partitioned for some or all co-owners must be retained by the person who acquired the largest portion of that Thing.

(3) In the cases provided for in the preceding paragraph, if no person acquired the largest portion, the person who is to retain the documents shall be determined by mutual agreement among the persons who participated in the partition. If no agreement is reached, the court shall designate the same.

(4) The person who is to retain the documents must allow other persons who participated in the partition to use the documents at the request of the same.

(Rights of Common with Nature of Co-ownership)

Article 263 Rights of common that have the nature of co-ownership shall be governed by local custom and shall otherwise be subject to the application of

the provisions of this Section.

(Quasi Co-ownership)

Article 264 The provisions of this Section shall apply mutatis mutandis to the cases where two or more persons share property rights other than the ownership; provided, however, that this shall not apply if laws and regulations provide otherwise.

Chapter IV Superficies

(Content of Superficies)

Article 265 A superfiiciary shall have the right to use the land of others in order to own structures, or trees or bamboo, on that land.

(Rents)

Article 266 (1) The provisions of Articles 274 through 276 shall apply mutatis mutandis to cases where the superfiiciary must pay periodical rent to the owners of the land.

(2) In addition to the provisions of the preceding paragraph, provisions on leasehold shall apply mutatis mutandis to rent to the extent that application is not inconsistent with the nature of the same.

(Mutatis Mutandis Application of Provisions regarding Neighboring Relationships)

Article 267 The provisions of Subsection 2, Section 1 of the preceding Chapter (Neighboring Relationships) shall apply mutatis mutandis between superfiiciaries or between a superfiiciary and a landowner; provided, however, that the mutatis mutandis application of the provisions of Article 229 to holders of superficities shall be limited to cases where structures on the boundary line are installed after the creation of the superficities.

(Duration of Superficies)

Article 268 (1) In cases where the duration of superficities is not fixed by the act that established the same, if there is no other custom, the superfiiciary may renounce their rights at any time; provided, however, that, if rent must be paid, the superfiiciary must give notice one year or more in advance or pay rent for one year that has not yet become due and payable.

(2) If the superfiiciary does not renounce its rights in accordance with the provisions of the preceding paragraph, the court may, at the request of the parties concerned, fix a duration of twenty years or more but not more than fifty years, taking into consideration the kind and status of the structures, or

trees or bamboo and other circumstances at the time of the creation of the superficies.

(Removal of Structures)

Article 269 (1) When the right of the superficiary is extinguished, he/she may restore the land to its original condition and remove structures and trees or bamboo on the same; provided, however, that, if the owner of the land gives notice that he/she will purchase the same by offering to pay an amount equivalent to the market price, the superficiary may not refuse that offer without justifiable grounds.

(2) If there are customs that differ from the provisions of the preceding paragraph, those customs shall prevail.

(Superficies for Underground or Overhead Space)

Article 269-2 (1) Underground or overhead space may be used as the object of superficies in order to own structures by specifying limits in the vertical dimension. In such cases, restrictions on the use of that land may be added in the act that establishes superficies for the purpose of facilitating the exercise of the superficies.

(2) The superficies under the preceding paragraph may be established even in cases where third parties hold rights to use or receive profits from land if all persons who hold those rights or rights underlying the same consent. In such cases, persons who hold the rights to use or receive profits from the land cannot preclude the exercise of the superficies to the same.

Chapter V Emphyteusis

(Content of Emphyteusis)

Article 270 An emphyteuta shall have the right to engage in cultivation or livestock farming on the land of others by paying rent.

(Restrictions on Alterations to Land by Emphyteutas)

Article 271 An emphyteuta may not make any alteration of the land that will result in irreparable damage.

(Transfer of Emphyteusis or Leasing of Land)

Article 272 An emphyteuta may assign his/her rights to others, or lease the land during the duration of his/her rights to cultivate or farm livestock; provided, however, that this shall not apply if such acts are prohibited by the act that established his/her rights.

(Mutatis Mutandis Application of Provisions regarding Lease)

Article 273 In addition to the provisions of this Chapter and those provided for in the act that established the emphyteusis, provisions regarding lease shall apply mutatis mutandis to the obligations of a emphyteuta, to the extent that application is not inconsistent with the nature of the same.

(Rent Reductions or Exemptions)

Article 274 An emphyteuta may not demand an exemption from or reduction in the rent even if a loss of profits has been suffered due to force majeure.

(Waiver of Emphyteusis)

Article 275 If an emphyteuta has gained no profit whatsoever for three or more consecutive years or has gained profits less than the rent for five or more consecutive years due to force majeure, he/she may surrender his/her rights.

(Demand for Extinction of Emphyteusis)

Article 276 If an emphyteuta fails to pay the rent for two or more consecutive years, the landowner may demand the extinction of the emphyteusis.

(Customs regarding Emphyteusis)

Article 277 If there are customs that differ from the provisions of Article 271 through the preceding Article, those customs shall prevail.

(Duration of Emphyteusis)

Article 278 (1) The duration of the emphyteusis shall be twenty years or more but no more than fifty years. Even if an act establishing emphyteusis provides for a period longer than fifty years, the duration shall be fifty years.
(2) The establishment of emphyteusis may be renewed; provided, however, that the duration of the same may not exceed fifty years from the time of renewal.
(3) If an act establishing emphyteusis does not provide for the duration of the emphyteusis, the duration of the same shall be thirty years unless there is a custom to the contrary.

(Removal of Structures)

Article 279 The provisions of Article 269 shall apply mutatis mutandis to emphyteusis.

Chapter VI Servitudes

(Content of Servitudes)

Article 280 A person entitled to a servitude shall have the right to make lands of

others available for the benefit of their own lands in accordance with purposes prescribed in the acts establishing the servitudes; provided, however, that those rights should not violate the provisions (limited to those that relate to public policy) under Section 1 of Chapter III (Extent of Ownership).

(Appurtenant Nature of Servitudes)

Article 281 (1) Servitudes are appurtenant to ownership in the dominant land (hereinafter referring to the land of a person entitled to a servitude, enjoying benefits from the land of others) and shall be transferred together with that ownership, or shall be the subject of other rights that exist in relation to the dominant land; provided, however, that this shall not apply if the act establishing the servitude provides otherwise.

(2) Servitudes may neither be assigned nor made the subject of other rights apart from the dominant land.

(Indivisibility of Servitudes)

Article 282 (1) One of the co-owners of land may not extinguish, with respect to his/her own share, a servitude that exists on behalf of or in relation to the land.

(2) In cases where land is partitioned or a portion thereof is assigned to others, a servitude shall exist on behalf of or in relation to the respective portions of the same; provided, however, that this shall not apply if the servitude, by its nature, relates only to a portion of the land.

(Acquisition of Servitudes by Prescription)

Article 283 A servitude can be acquired by prescription so long as it is continuously exercised and can be externally recognized.

Article 284 (1) If one of the co-owners of land acquires a servitude by prescription, the other co-owners shall also acquire the same.

(2) Interruption of prescription shall not be effected against co-owners unless it is made against each co-owner who exercises the servitude.

(3) In cases where there are two or more co-owners who exercise a servitude, even if there is cause to suspend the prescription with respect to one of them, the prescription shall run in favor of each co-owner.

(Water Servitude)

Article 285 (1) If water on servient land (hereinafter referring to a land of any person other than the one entitled to the servitude, made available for the benefit of the dominant land) subject to a water servitude is insufficient for the demand of the dominant land and the servient land, the water shall be used in proportion to the demand on each parcel of land, firstly for household purposes

with the remaining portion used for other purposes; provided, however, that this shall not apply if the act establishing the servitude provides otherwise.

(2) If more than one water servitude is created with respect to the same servient land, the persons subsequently entitled may not prevent the use of water by those previously entitled.

(Obligations of Owners of Servient Land to Install Structures)

Article 286 If the owner of servient land has assumed obligations to install or repair structures for the exercise of a servitude at his/her own expense by the act establishing the servitude or by a contract executed after the same, specific successors of the owner of the servient land shall also assume those obligations.

Article 287 An owner of servient land may be exempted from obligations of the preceding Article at any time by abandoning the ownership in the portion of the land necessary for the servitude and transferring the same to the person entitled to a servitude.

(Use of Structures by the Owner of Servient Lands)

Article 288 (1) The owner of a servient land may use structures installed on the servient land for the exercise of the servitude to the extent his/her use does not obstruct the exercise of that servitude.

(2) In the cases provided for in the preceding paragraph, the owner of the servient land must bear the expense for the installation and preservation of the structures in proportion to the benefit he/she receives.

(Extinction of Servitude by Acquisition by Prescription of Servient Lands)

Article 289 If the possessor of servient land has so possessed the same as to satisfy the requirements for acquisitive prescription, the servitude shall be extinguished thereby.

Article 290 The extinctive prescription of the preceding Article is nullified by the person entitled to the servitude exercising his/her rights.

(Extinctive Prescription of Servitudes)

Article 291 The period of the extinctive prescription provided for in paragraph (2) of Article 167 shall commence upon the final exercise of the servitude if the servitude is not exercised continuously, and upon the occurrence of a fact that prevents the exercise of the servitude if the servitude is exercised continuously.

Article 292 In cases where dominant land is co-owned by more than one person, if there is a suspension or interruption of prescription in favor of one co-owner,

such suspension or interruption shall also be effective for the benefit of other co-owners.

Article 293 If a person entitled to a servitude does not exercise a portion of his/her rights, only that portion shall be extinguished by prescription.

(Rights of Common without the Nature of Co-Ownership)

Article 294 Rights of common that do not have the nature of co-ownership shall be governed by local customs and shall otherwise be subject to the mutatis mutandis application of the provisions of this Section.

Chapter VII Rights of Retention

(Content of Rights of Retention)

Article 295 (1) If a possessor of a Thing belonging to another person has a claim that has arisen with respect to that Thing, he/she may retain that thing until that claim is satisfied; provided, however, that this shall not apply if such claim has not yet fallen due.

(2) The provisions of the preceding paragraph shall not apply in cases where possession commenced by means of a tortious act.

(Indivisibility of Rights of Retention)

Article 296 A holder of a right of retention may exercise his/her rights against the whole of the Thing retained until his/her claim is satisfied in its entirety.

(Collection of Fruits by Holders of Rights of Retention)

Article 297 (1) A holder of a right of retention may collect fruits derived from the Thing retained, and appropriate the same to the satisfaction of his/her claim prior to other obligees.

(2) The fruits under the preceding paragraph must be appropriated first to the payment of interest on the claim, and any remainder must be appropriated to the satisfaction of the principal.

(Keeping the Thing Retained by Holders of Rights of Retention)

Article 298 (1) A holder of a right of retention must possess the Thing retained with the care of a good manager.

(2) A holder of rights of retention may not use, lease or give as a security the Thing retained unless he/she obtains the consent of the obligor; provided, however, that this shall not apply to uses necessary for the preservation of that Thing.

(3) If the holder of a right of retention violates the provisions of the preceding

two paragraphs, the obligor may demand that the right of retention be extinguished.

(Demands for Reimbursement of Expenses by Holders of Rights of Retention)

Article 299 (1) If a holder of a right of retention incurs necessary expenses with respect to the Thing retained, he/she may have the owner reimburse the same.
(2) If a holder of a right of retention incurs beneficial expenses with respect to the Thing retained, to the extent that there is currently an increase in value as a result of the same, he/she may have the expenses incurred or the increase in value reimbursed at the owner's choice; provided, however, that the court may, at the request of the owner, grant a reasonable period for the reimbursement of the same.

(Exercise of Rights of Retention and Extinctive Prescription of Claims)

Article 300 The exercise of a right of retention shall not preclude the running of extinctive prescription of claims.

(Extinction of Rights of Retention by Tender of Security)

Article 301 An obligor may demand that a right of retention be extinguished by tendering reasonable security.

(Extinction of Rights of Retention by Loss of Possession)

Article 302 A right of retention shall be extinguished if the holder of the right of retention loses possession of the Thing retained; provided, however, that this shall not apply if the Thing retained is leased or it is made the subject of a pledge in accordance with the provisions of paragraph (2) of Article 298.

Chapter VIII Statutory Liens

Section 1 General Provisions

(Content of Statutory Liens)

Article 303 A holder of a statutory lien shall have the rights to have his/her own claim satisfied prior to other obligees out of the assets of the relevant obligor in accordance with the provisions of laws including this Act.

(Extension of Security Interest to Proceeds of Collateral)

Article 304 (1) A statutory lien may also be exercised against Things including monies that the obligor is to receive as a result of the sale, lease or loss of, or damage to, the subject matter of the statutory lien; provided, however, that the holder of the statutory lien must attach the same before the payment or delivery of the monies or other Thing.

(2) The provisions of the preceding paragraph shall likewise apply to the consideration for real rights established by the obligor on the subject matter of the statutory lien.

(Indivisibility of Statutory Liens)

Article 305 The provisions of Article 296 shall apply mutatis mutandis to statutory liens.

Section 2 Kinds of Statutory Liens

Subsection 1 General Statutory Lien

(General Statutory Lien)

Article 306 A person who has a claim that arose from the causes listed below shall have a statutory lien over the entire property of the obligor:

- (i) Expenses for the common benefit;
- (ii) An employer-employee relationship;
- (iii) Funeral expenses; or
- (iv) The supply of daily necessities.

(Statutory Liens for Expenses for Common Benefit)

Article 307 (1) Statutory liens for expenses for the common benefit shall exist with respect to the expenses of preservation, liquidation or distribution of the property of the obligor incurred for the common benefit of all obligee.

(2) With respect to expenses that were not beneficial for all obligees, a statutory lien shall exist solely for obligees who received a benefit as a result of such expenses.

(Statutory Liens for Employer-Employee Relationships)

Article 308 Statutory liens for employer-employee relationships shall exist with respect to salaries and other claims that arose under the employer-employee relationship between the obligor and his/her employee.

(Funeral Expenses)

Article 309 (1) Statutory liens for funeral expenses shall exist with respect to the reasonable expenses of a funeral observed for the obligor.

(2) The statutory lien under the preceding paragraph shall also exist with respect to the reasonable expenses of a funeral observed by the obligor for a relative whom the obligor is bound to support.

(Statutory Liens for Household Items)

Article 310 Statutory liens for daily necessities shall exist with respect to the

supply of food and drink items, fuel and electricity for the most recent six months required for the household of the obligor or his/her relatives who reside with the obligor and whom the obligor is bound to support and the domestic servants of the same.

Subsection 2 Statutory Liens over Movables

(Statutory Liens over Movables)

Article 311 A person who has a claim that arose from the causes listed below shall have a statutory lien over certain movables of the obligor:

- (i) A lease of immovable property;
- (ii) A lodging at a hotel or inn;
- (iii) The transportation of passengers or luggage;
- (iv) The preservation of movables;
- (v) The sale of movables;
- (vi) The supply of seed or fertilizer (hereinafter including eggs of silkworms or mulberry leaves used to feed silkworms);
- (vii) Agricultural labor; or
- (viii) Industrial labor.

(Statutory Liens for Leases of Immovable Properties)

Article 312 Statutory liens for a lease of immovable property shall exist with respect to the movables of the lessee in connection with obligations of the lessee that arose from the lease relationship including rent for that immovable property.

(Scope of Subject Matter of Statutory Liens for Leases of Immovable Properties)

- Article 313 (1) The statutory lien of a lessor of land shall exist with respect to movables furnished to that land or buildings for the use of that land, movables provided for the use of that land, and fruits of that land in the possession of the lessee.
- (2) The statutory lien of a lessor of a building shall exist with respect to movables furnished to that building by the lessee.

Article 314 In the cases of assignment of lessee's rights or subleasing, the statutory lien of the lessor shall extend to the movables of the assignee or sublessee. The same shall apply to monies that the assignee or sublessee is to receive.

(Scope of Secured Claims under Statutory Liens for Leases of Immovable

Properties)

Article 315 In cases where all of the lessee's property is to be liquidated, the statutory lien of the lessor shall exist only with respect to obligations, including rent, for the previous, current and next terms, and obligations to compensate for damage that arose in the previous and current terms.

Article 316 In cases where a lessor has received a security deposit, he/she shall have a statutory lien solely in respect of the portion of his/her claim that will not be satisfied by that security deposit.

(Statutory Liens for Lodging at Hotels)

Article 317 Statutory lien for lodging at hotels shall exist with respect to the hand luggage of a hotel guest left at that hotel, in connection with room charges, and food and beverage charges, that should be borne by the hotel guest.

(Statutory Liens for Transportation)

Article 318 Statutory liens for transportation shall exist with respect to luggage in the possession of the transporter, in connection with transportation charges for passengers or luggage and expenses incidental to the same.

(Mutatis Mutandis Application of Provisions on Immediate Acquisition)

Article 319 The provisions of Articles 192 through 195 shall apply mutatis mutandis to statutory liens under the provisions of Article 312 through the preceding Article.

(Statutory Liens for Preservation of Movable)

Article 320 Statutory liens for the preservation of movables shall exist with respect to movables, in connection with expenses required for the preservation of those movables, or expenses required for the preservation, approval or execution of rights regarding those movables.

(Statutory Liens for Sale of Movable)

Article 321 Statutory liens for the sale of movables shall exist with respect to movables, in connection with the price of those movables and interest on the same.

(Statutory Liens for Supply of Seed or Fertilizer)

Article 322 Statutory liens for the supply of seed or fertilizer shall exist with respect to fruits (including eggs of silk worms or any Thing derived from the use of mulberry leaves used to feed silkworms) derived from land where the

seed or fertilizer was used, within one year of that use, in connection with the price of that seed or fertilizer and interest on the same.

(Statutory Liens for Agricultural Labor)

Article 323 Statutory liens for agricultural labor shall exist, with respect to fruits derived from labor, in connection with the most recent year's wages of the person who engages in that labor.

(Statutory Liens for Industrial Labor)

Article 324 Statutory liens for industrial labor shall exist, with respect to manufactured things derived from labor, in connection with the most recent three months' wages of the person who engages in that labor.

Subsection 3 Statutory Liens for Immovable Properties

(Statutory Liens for Immovable Properties)

Article 325 A person who has a claim that arose from the causes listed below shall have a statutory lien over certain immovable property of the obligor:

- (i) The preservation of immovable property;
- (ii) Construction work for immovable property; or
- (iii) The sale of immovable property.

(Statutory Liens for Preservation of Immovable Properties)

Article 326 Statutory liens for the preservation of immovable property shall exist with respect to immovable property, in connection with the expenses required for the preservation of that immovable property or the expenses required for the preservation, approval or execution of rights regarding that immovable property.

(Statutory Liens for Construction Work for Immovable Properties)

Article 327 (1) Statutory lien for construction work for immovable property shall exist, with respect to immovable property, in connection with the expenses of construction work performed by a person who designs, carries out or supervises construction work regarding the immovable property of the obligor.

(2) The statutory liens under the preceding paragraph shall exist, in cases where there is a current increase in the value of the immovable property resulting from the construction work, with respect to that increased value.

(Statutory Liens for Sales of Immovable properties)

Article 328 Statutory liens for sales of immovable properties shall exist, with respect to immovable property, in connection with the price of that immovable

property and interest on the same.

Section 3 Order of Priority of Statutory Liens

(Order of Priority of General Statutory Liens)

Article 329 (1) In cases where there is conflict among general statutory liens, the order of priority shall follow the order listed in each item of Article 306.

(2) In cases where there is conflict between a general statutory lien and a special statutory lien, the special statutory lien shall prevail over the general statutory lien; provided, however, that statutory liens on expenses for the common benefit shall have the effect of prevailing over all obligees who received the benefit of the same.

(Order of Priority of Statutory Liens over Movables)

Article 330 (1) In cases where there is conflict among special statutory liens with respect to the same movables, the order of priority shall follow the order listed below. In such cases, if there are two or more preservers with respect to the statutory liens for preservation of movables listed in item (ii), a new preserver shall prevail over previous preservers.

(i) Statutory liens for leases of immovable properties, lodging at hotels and transportation;

(ii) Statutory liens for the preservation of movables; and

(iii) Statutory liens for the sale of movables, the supply of seed or fertilizer, agricultural labor and industrial labor.

(2) In the cases provided for in the preceding paragraph, if a holder of a statutory lien ranked first knew at the time he/she acquired that claim of the existence of a holder of a statutory lien of the second or third rank, he/she cannot exercise his/her rights against those persons. The same shall likewise apply against persons who preserved Things on behalf of the holder of a statutory lien of the first rank.

(3) Regarding fruits, the first rank shall belong to persons who engage in agricultural labor, the second rank shall belong to persons who supply seed or fertilizer, and the third rank shall belong to lessors of land.

(Order of Priority of Statutory Liens over Immovable properties)

Article 331 (1) In cases where there is conflict among special statutory liens with respect to the same immovable properties, the order of priority shall follow the order of the items of Article 325.

(2) In cases where successive sales are made with respect to the same immovable properties, the order of priority of the statutory liens for the sale of the immovable properties among sellers shall follow the chronological order of the

sales.

(Statutory Liens with Same Priority)

Article 332 If there are two or more holders of statutory liens with the same priority with respect to the same object, the holders of statutory liens shall be paid in proportion to the amounts of their claims.

Section 4 Effect of Statutory Liens

(Statutory Liens and Third-party Acquirers)

Article 333 Statutory liens may not be exercised with respect to the movables that are the subject matter of the same after the obligors have delivered those movables to third-party acquirers.

(Conflict between Statutory Liens and Pledges of Movables)

Article 334 In cases where there is conflict between a statutory lien and a pledge of movables, the pledgee of such movables shall have the same rights as those of the holder of a statutory lien of the first rank under Article 330.

(Effect of General Statutory Liens)

- Article 335 (1) Holders of general statutory liens cannot be paid out of immovable properties unless they are first paid out of property other than immovable properties and a claim that is not satisfied remains.
- (2) With respect to immovable properties, holders of general statutory liens must first be paid out of those that are not the subject matters of special security.
- (3) If holders of general statutory liens fail to participate in distributions in accordance with the provisions of the preceding two paragraphs, they cannot exercise their statutory liens against registered third parties with respect to amounts that would have been paid to them if they had participated in the distribution.
- (4) The provisions of the preceding three paragraphs shall not apply to cases where the proceeds of immovable properties are distributed prior to the proceeds of assets other than immovable properties, or the proceeds of immovable properties that is the subject matter of a special security are distributed prior to the proceeds of other immovable properties.

(Perfection of General Statutory Liens)

Article 336 General statutory liens may be asserted against obligees without special security, even if the liens are not registered with respect to the relevant immovable property; provided, however, that this shall not apply to registered third parties.

(Registration of Statutory Liens for Preservation of Immovable Properties)

Article 337 In order to preserve the effectiveness of statutory liens for preservation of immovable properties, registration must be carried out immediately after the completion of the act of preservation.

(Registration of Statutory Liens for Construction Work for Immovable Properties)

Article 338 (1) In order to preserve the effectiveness of statutory liens for construction work for immovable properties, the budgeted expenses of the construction work must be registered prior to the commencement of the same. In such cases, if the expenses of the construction work exceed the budgeted amount, a statutory lien shall not exist with respect to the amount in excess of the same.

(2) The amount of increase in value of immovable properties that resulted from construction work must be evaluated by an appraiser selected by the court at the time of the participation in the distribution.

(Registered Statutory Liens for Preservation of Immovable Properties or Construction Work for Immovable Properties)

Article 339 Statutory liens registered in accordance with the provisions of the preceding two Articles may be exercised prior to mortgages.

(Registration of Statutory Liens for Sales of Immovable Properties)

Article 340 In order to preserve the effectiveness of statutory liens for the sale of immovable properties, a statement to the effect that the price of the immovable properties or interest on the same has not been paid must be registered simultaneously with the execution of the sales contract.

(Mutatis Mutandis Application of Provisions regarding Mortgages)

Article 341 In addition to the provisions of this Section, the provisions regarding mortgages shall apply mutatis mutandis to the effects of statutory liens, to the extent that application is not inconsistent with the nature of the same.

Chapter IX Pledges

Section 1 General Provisions

(Content of Pledges)

Article 342 Pledgees shall have the right to possess Thing received from obligors or third parties as security for their claims and to have their own claims paid prior to other obligees out of that Thing.

(Subject Matter of Pledges)

Article 343 Pledges cannot be created over a Thing that cannot be assigned to others.

(Creation of Pledges)

Article 344 The creation of a pledge shall take effect by delivering the subject matter of the same to the obligee.

(Prohibition of Possession by Pledgors as Agents)

Article 345 A pledgee may not allow a pledgor to possess the Thing pledged on behalf of the pledgee.

(Scope of Secured Claims under Pledges)

Article 346 Pledges shall secure the principal, interest, penalties, expenses of executing the pledge, expense of preserving the Thing pledged and the compensation of damage arising from failure to perform obligations or latent defects in the Thing pledged; provided, however, that this shall not apply if the act establishing the pledge provides otherwise.

(Retention of the Thing Pledged)

Article 347 Pledgees may retain the Thing pledged until the claims provided for in the preceding Article are satisfied; provided, however, that this right cannot be asserted against obligees who have priority over the pledgees.

(Sub-pledges)

Article 348 Pledgees may sub-pledge the Thing pledged within the duration of their rights, upon their own responsibility. In such cases, the pledgees shall be responsible for any loss arising from the -pledge even if the same is caused by force majeure.

(Prohibition on Disposition of the Thing Pledged by Contract)

Article 349 Pledgors cannot, either by the acts establishing pledges or by contracts made prior to the due dates for performance of their obligations, allow pledgees to acquire ownership of the Thing pledged as payment, nor promise to allow pledgees to dispose of it in any manner other than is prescribed by law.

(Mutatis Mutandis Application of Provisions on Rights of Retention and Statutory Liens)

Article 350 The provisions of Articles 296 through 300 and those of Article 304

shall apply mutatis mutandis to pledges.

(Third Party Pledgors' Rights to Obtain Reimbursement)

Article 351 If persons who created pledges to secure the obligations of others have performed those obligations or have lost ownership of the Thing pledged due to the execution of the pledges, they shall have the right to obtain reimbursement from the obligors in accordance with the provisions regarding guarantee obligations.

Section 2 Pledges of Movable

(Requirements for the Perfection of Pledges of Movable)

Article 352 Pledgees of movable cannot assert their pledges against third parties unless they are in continuous possession of the Thing pledged.

(Recovery of Possession of the Thing Pledged)

Article 353 Pledgees of movable may, if the pledged Thing is usurped, recover the same solely by bringing actions for recovery of possession.

(Execution of Pledges of Movable)

Article 354 If claims of pledgees of movable are not performed, they may, limited to cases where there are reasonable grounds, demand from a court immediate appropriation of the Thing pledged to the performance of the claims in accordance with the evaluation of an appraiser. In such cases, the pledgees of movable must notify the obligors in advance of the demand.

(Order of Priority of Pledges of Movable)

Article 355 If more than one pledge is created with respect to the same movable, the order of priority of those pledges shall follow the chronological order of their creation.

Section 3 Pledges of Immovable Properties

(Use and Profit by Pledgees of Immovable Properties)

Article 356 Pledgees of immovable property may use and receive the profits from the immovable property that is the subject matter of a pledge, in accordance with the method of its use.

(Management Expenses Borne by Pledgees of Immovable Properties)

Article 357 Pledgees of immovable properties shall pay the expenses of management and otherwise bear burdens in relation to the immovable

properties.

(Prohibition on Charging of Interest by Pledges of Immovable Properties)

Article 358 Pledges of immovable properties cannot demand interest on their claims.

(Cases of Other Provisions in Act of Establishment)

Article 359 The provisions of the preceding three Articles shall not apply in cases where the acts establishing pledges provide otherwise or execution against profits derived from the immovable properties as collateral (hereinafter referring to the execution against profits from secured immovable properties provided for in item (ii) of Article 180 of the Civil Execution Act (Act No. 4 of 1979)) has been commenced.

(Duration of Pledges of Immovable Properties)

Article 360 (1) The duration of pledges of immovable properties cannot exceed ten years. Even if a longer period is provided for in the act establishing the pledge, the duration of the same shall be ten years.

(2) The creation of pledges may be renewed; provided, however, that the duration of the same cannot exceed ten years from the time of the renewal.

(Mutatis Mutandis Application of Provisions on Mortgages)

Article 361 In addition to the provisions of this Section, the provisions of the next Chapter shall apply mutatis mutandis to pledges of immovable properties to the extent that application is not inconsistent with the nature of the same.

Section 4 Pledges of Rights

(Subject Matter of Pledges of Rights)

Article 362 (1) Pledges may have property rights for their subject matters.

(2) In addition to the provisions of this Section, the provisions of the preceding three Sections (General Provisions, Pledges of Movables and Pledges of Immovable properties) shall apply mutatis mutandis to pledges under the preceding paragraph, to the extent that application is not inconsistent with the nature of the same.

(Creation of Pledges over Claims)

Article 363 When a pledges is to be created over a claim, and the delivery of an instrument evidencing it is required for its assignment, the creation of the pledge shall take effect by the delivery of such instrument.

(Requirements for Perfection of Pledges over Nominative Claims)

Article 364 If a pledge is created over a nominative claim, that pledge cannot be asserted against third parties including third party obligors unless notice of the creation of the pledge is given to third party obligors in accordance with the provisions of Article 467, or unless the third party obligors acknowledge the same.

(Requirements for Perfection of Pledges over Debts Payable to Order)

Article 365 If a pledge is created over debts payable to order, that pledge cannot be asserted against third parties unless the creation of the pledge is endorsed on the instrument of the same.

(Collection of Claims by Pledgees)

Article 366 (1) A pledgee may directly collect the claim that is the subject matter of the pledge.

(2) If monies are the subject matter of a pledged claim, the pledgee may collect the same to the extent of the portion that corresponds to the amount of the pledgee's own claim.

(3) If the due date of the pledged claim under the preceding paragraph arrives prior to the due date of the claim of the pledgee, the pledgee may have the third party obligor deposit that amount to be paid to the pledgee. In such cases, the pledge shall exist over the amount so deposited.

(4) If the subject matter of the pledged claim is not monies, the pledgee shall have the pledge over the Thing received as performance of the obligation.

Article 367 Deleted

Article 368 Deleted

Chapter X Mortgages

Section 1 General Provisions

(Content of Mortgages)

Article 369 (1) A Mortgagee shall have the right to receive the performance of his/her claim prior to other obligees out of the immovable properties that the obligor or a third party provided to secure the obligation without transferring possession.

(2) Superficies and emphyteusis can be the subject matter of a mortgage. In such cases, the provisions of this Chapter shall apply mutatis mutandis.

(Scope of Effect of Mortgages)

Article 370 A mortgage shall extend to the Things that is an integral part of immovable properties that is the subject matter of the mortgage (hereinafter referred to as "Mortgaged Immovable Properties") except for buildings on the mortgaged land; provided, however, that this shall not apply in cases where the act establishing the mortgage provides otherwise or the obligee can rescind the act of the obligor in accordance with the provisions of Article 424.

Article 371 If there is a default with respect to a claim secured by a mortgage, the mortgage shall extend to the fruits of the Mortgaged Immovable Properties derived after the default.

(Mutatis Mutandis Application of Provisions on Right of Retention)

Article 372 The provisions of Article 296, Article 304 and Article 351 shall apply mutatis mutandis to mortgages.

Section 2 Effect of Mortgages

(Order of Priority of Mortgages)

Article 373 If more than one mortgage is created with respect to the same immovable properties, the order of priority of those mortgages shall follow the chronological order of their registration.

(Changes in Order of Priority of Mortgages)

Article 374 (1) The order of priority of mortgages may be changed with the agreement of all mortgagees; provided, however, that, if there are interested persons, the consent of the same must be obtained.

(2) The changes in order under the preceding paragraph shall not take effect unless registered.

(Scope of Secured Claims under Mortgages)

Article 375 (1) If mortgagees have rights to demand periodic payments including interest, they may exercise their mortgages solely with respect to payments that have fallen due in the most recent two years; provided, however, that, if special registration is effected with respect to prior periodical payments that have fallen due, the mortgagees shall not be precluded from exercising their mortgages as from the time of that registration.

(2) In cases where mortgagees have rights to demand the compensation for damages resulting from defaults in obligations, the provisions of the preceding paragraph shall apply mutatis mutandis to the damages of the most recent two years; provided, however, that the aggregate period including the interest and other periodical payments may not exceed two years.

(Disposition of Mortgages)

Article 376 (1) A mortgagee may apply his/her mortgage to secure other claims, or assign or waive his/her mortgage, or its order of priority, for the benefit of other obligees of the same obligor.

(2) In the cases provided for in the preceding paragraph, if a mortgagee disposes of his/her mortgage for the benefit of two or more persons, the order of priority of the rights of persons who receive the benefit of that disposition shall follow the chronological order noted in the registration of the mortgage.

(Requirements for Perfection of Disposition of Mortgages)

Article 377 (1) In the cases in the preceding Article, in accordance with the provisions of Article 467, mortgagees cannot assert the disposition of mortgages against principal obligors, guarantors, mortgagors or their respective successors unless the disposition is notified to the primary obligors or the principal obligors acknowledge that disposition.

(2) If the principal obligors have received the notice or given acknowledgement under the provisions of the preceding paragraph, performance effected without the approval of the persons who receive the benefit of the disposition of mortgages cannot be asserted against those beneficiaries.

(Payment of Mortgage Proceeds)

Article 378 If a third party who purchases the ownership or superficies of Mortgaged Immovable Properties pay the price of the same to the relevant mortgagee at the request of the mortgagee, the mortgage shall be extinguished for the benefit of that third party.

(Claims for Extinction of Mortgages)

Article 379 A third party acquirer of Mortgaged Immovable Properties may make a claim for the extinction of a mortgage as prescribed in Article 383.

Article 380 No primary obligor, guarantor or successor of the same may make a claim for the extinction of a mortgage.

Article 381 A third party acquirer of Mortgaged Immovable Properties that is subject to a condition precedent may not make a claim for the extinction of a mortgage whilst whether or not the condition precedent is satisfied is still undetermined.

(Timing of Claims for Extinction of Mortgages)

Article 382 A third party acquirer of Mortgaged Immovable Properties must

make a claim for the extinction of a mortgage before attachment by auction as a result of the execution of the mortgage takes effect.

(Procedures for Claims for Extinction of Mortgages)

Article 383 If a third party acquirer of Mortgaged Immovable Properties intends to make a claim for the extinction of a mortgage, he/she must send the documents listed below to each registered obligee:

- (i) A document that specifies the cause and date of the acquisition, the name and address of the assignor and the acquirer, the nature, location and price of the Mortgaged Immovable Properties and burdens of the acquirer;
- (ii) A certificate of registered matters regarding the Mortgaged Immovable Properties (limited to certificates certifying all registered matters currently in effect); and
- (iii) A document to the effect that, if the obligee does not file a petition for auction by executing the mortgage within two months, the third party acquirer of the immovable properties will pay or deposit the price provided for in item (i) or an amount specifically designated in accordance with the order of priority of claims.

(Deemed Approval of Obligees)

Article 384 In the cases listed below, obligees who have received the documents listed in each item of the preceding Article shall be deemed to have approved the price or amount that the third party acquirer of Mortgaged Immovable Properties has offered as stated in the document listed in item (iii) of that Article:

- (i) If the obligee does not file a petition for auction by executing the mortgage within two months after receipt of the documents listed in each item of the preceding Article;
- (ii) If the obligee withdraws a petition under the preceding item;
- (iii) If a ruling dismissing a petition under item (i) has become final and binding; or
- (iv) If a ruling rescinding auction procedures based on a petition under item (i) (excluding rulings under the provisions of paragraph (3) of Article 63 or paragraph (3) of Article 68-3 of the Civil Execution Act applied mutatis mutandis under Article 188 of the same Act, or under the provisions of paragraph (2) of Article 183 of the same Act in cases where the certified copy under item (v), paragraph (1) of the same Article is provided) has become final and binding.

(Notice of Petitions for Auction)

Article 385 If an obligee who has received the documents listed in each item of

Article 383 files a petition under item (i) of the preceding Article, he/she must give notice to such effect to the obligor and assignor of the Mortgaged Immovable Properties within the period under that item.

(Effect of Claims for Extinction of Mortgages)

Article 386 A mortgage shall be extinguished if all registered obligees approve the price or amount offered by the third party acquirer of the Mortgaged Immovable Properties , and the third party acquirer of the Mortgaged Immovable Properties has paid or deposited the price or amount approved.

(Perfection of Leases with Registered Consent of Mortgagees)

Article 387 (1) If all persons holding mortgages, the registrations of which precede the registration of a lease, give their consent, and such consents are registered, the lease so registered can be asserted against those mortgagees who gave their consent.

(2) For a mortgagee to give the consent under the preceding paragraph, the approval of the persons who hold rights for which the mortgage is the object and other persons who will suffer detriment as a result of the consent of the mortgagee must be obtained.

(Statutory Superficies)

Article 388 In cases where land and a building on the land belong to the same owner, if a mortgage is created with respect to that land or building, and the execution of that mortgage results in the creation of different owners, it shall be deemed that a superficies has been created with respect to that building. In such cases, the rent shall be fixed by the court at the request of the parties.

(Auction of Buildings on Mortgaged Lands)

Article 389 (1) If a building is constructed on mortgaged land after the creation of a mortgage, the mortgagee may auction the building together with the land; provided, however, that his/her right of priority may be exercised solely against the proceeds of the land.

(2) The provisions of the preceding paragraph shall not apply in cases where the owner of that building has rights with respect to the possession of the mortgaged land that can be asserted against the mortgagee.

(Purchases of Mortgaged Immovable Properties by Third Party Acquirers)

Article 390 A third party acquirer of Mortgaged Immovable Properties may be the purchaser at the auction of the same.

(Claims for Reimbursement of Expenses by Third Party Acquirers of Mortgaged

Immovable Properties)

Article 391 If a third party acquirer of Mortgaged Immovable Properties has incurred necessary or beneficial expenses with respect to the Mortgaged Immovable Properties, he/she shall be entitled to obtain reimbursement of the same out of the proceeds of the Mortgaged Immovable Properties prior to other obligees, in accordance with the distinctions in Article 196.

(Distribution of Proceeds in cases of Joint Mortgage)

Article 392 (1) In cases where an obligee holds mortgages on several immovable properties to secure the same claim, if the proceeds of those immovable properties are to be distributed simultaneously, the obligee shall divide the burden of the claim in proportion to the value of each immovable property.

(2) In cases where an obligee holds mortgages on several immovable properties to secure the same claim, if the proceeds from a particular immovable property alone are to be distributed, the mortgagee may receive the payment of his/her entire claim out of those proceeds. In such cases, subordinated mortgagees may exercise their mortgages in subrogation of that mortgagee, up to the amount that that mortgagee who receives payment would otherwise be entitled to receive from the proceeds of other immovable properties, in accordance with the provisions of the preceding paragraph.

(Note in Registration of Subrogation in case of Joint Mortgages)

Article 393 A person who exercises a mortgage by way of subrogation under the provisions of the second sentence of paragraph (2) of the preceding Article may note his/her subrogation in the registration of that mortgage.

(Payment from Assets other than Mortgaged Immovable Properties)

Article 394 (1) A mortgagee may receive payment from assets other than the Mortgaged Immovable Properties, limited to the extent of the portion of his/her claim not paid from the proceeds of that Mortgaged Immovable Properties.

(2) The provisions of the preceding paragraph shall not apply to cases where the proceeds of other assets are to be distributed prior to the proceeds of the Mortgaged Immovable Properties. In such cases, each other obligee may demand that the amount to be distributed to the mortgagee be deposited in order to have the mortgagee receive payment under the provisions of that paragraph.

(Suspension of Delivery by Users of Mortgaged Buildings)

Article 395 (1) Any person who uses or receives profits from a building subject to a mortgage by virtue of a lease that cannot be asserted against the mortgagee, and who is listed as follows (in the following paragraph referred to as

"Mortgaged Building User") shall not be required to deliver that building to the purchaser thereof until six months have elapsed from the time when the purchaser purchased that building at auction:

- (i) A person who has been using or receiving profits from the building since prior to the commencement of auction procedures; or
- (ii) A person who is using or receiving profits from the building by virtue of a lease given after the commencement of auction procedures by the administrator of compulsory administration or execution against profits from secured immovable properties.

(2) The provisions of the preceding paragraph shall not apply in cases where the purchaser issues a notice to the Mortgaged Building User demanding payment of consideration for a period of one month or more with respect to the use of the building in that paragraph that has occurred after the time of purchase by the purchaser, establishing a reasonable period, and no payment is made within that reasonable period.

Section 3 Extinction of Mortgages

(Extinctive Prescription of Mortgages)

Article 396 No mortgage shall be extinguished by prescription in relation to obligors and mortgagors unless it is extinguished simultaneously with the claim the mortgage secures.

(Extinction of Mortgages by Acquisition by Prescription of Mortgaged Immovable Properties)

Article 397 If a person who is neither an obligor nor a mortgagor has possessed the Mortgaged Immovable Properties in complete conformity with the requirements for acquisitive prescription, the mortgage shall be extinguished thereby.

(Renouncement of Mortgaged Superficies)

Article 398 Even if a holder of superficies or a emphyteuta who created mortgage on his/her superficies or emphyteusis renounces his/her rights, the renouncement cannot be asserted against the mortgagee.

Section 4 Revolving Mortgages

(Revolving Mortgages)

Article 398-2 (1) Mortgages may be created, by an establishing act, in order to secure unspecified claims of a certain scope, up to the limit of a maximum amount.

- (2) The scope of the unspecified claims to be secured by the mortgage under the provisions of the preceding paragraph (hereinafter referred to as "Revolving Mortgage") must be prescribed by limiting the scope to claims arising from specific contracts with the obligor for continuous transactions or other claims arising from certain kinds of transactions with the obligor.
- (3) Claims that accrue continuously with the obligor pursuant to a specific cause, or claims on negotiable instruments or checks may be treated as claims that are to be secured by a Revolving Mortgage, notwithstanding the provisions of the preceding paragraph.

(Scope of Secured Claims under Revolving Mortgages)

Article 398-3 (1) A revolving mortgagee may exercise his/her Revolving Mortgage up to the maximum amount with respect to all fixed payments of principal as well as periodical payments including interest and compensation for damages resulting from failure to perform obligations.

- (2) In cases where a claim on a negotiable instrument or check acquired by way of causes other than the transactions with the obligor is treated as a claim to be secured by a Revolving Mortgage, if any of the following grounds exist, such Revolving Mortgage may be exercised only with respect to claims acquired before such grounds arose; provided, however, that even with respect to claims acquired after such grounds arose, the exercise of the Revolving Mortgage shall not be precluded as far as the claims were acquired without knowledge of those grounds:

- (i) The suspension of payments by the obligor;
- (ii) A petition for the commencement of bankruptcy procedures, the commencement of rehabilitation procedures, the commencement of reorganization procedures or the commencement for special liquidation with respect to the obligor; or
- (iii) A petition for auction in relation to Mortgaged Immovable Properties or attachment for delinquent taxes.

(Alterations in Scope of Secured Claims under Revolving Mortgages and of Obligors)

- Article 398-4 (1) The scope of the claims to be secured by a Revolving Mortgage may be altered if the alteration is effected before the principal is fixed. The same shall likewise apply with respect to alterations of obligors.
- (2) In order to effect the alterations under the preceding paragraph, it is not required that the approval of third parties including subordinated obligees be obtained.
 - (3) If the alteration under paragraph (1) is not registered before the principal is fixed, it shall be deemed that such alteration was not effected.

(Alterations in Maximum Amounts of Revolving Mortgages)

Article 398-5 Alterations in the maximum amount of a Revolving Mortgage cannot be made unless the approval of the interested parties is obtained.

(Provision of Date for Fixing Principal of Revolving Mortgage)

Article 398-6 (1) With respect to the principal secured by a Revolving Mortgage, the date when the principal is to be fixed may be prescribed or changed.

(2) The provisions of paragraph (2) of Article 398-4 shall apply mutatis mutandis to the cases under the preceding paragraph.

(3) The date under paragraph (1) must be within five years of the day when the date was prescribed or changed.

(4) If registration with respect to an alteration in the date under paragraph (1) is not effected before the old date, the principal secured shall be fixed on that old date.

(Assignments of Secured Claims under Revolving Mortgages)

Article 398-7 (1) A person who acquires a claim from a revolving mortgagee before the principal is fixed may not exercise the Revolving Mortgage with respect to such claim. The same shall likewise apply to a person who made payment for or on behalf of an obligor before the principal was fixed.

(2) If an obligation is assumed before the principal is fixed, the revolving mortgagee may not exercise his/her Revolving Mortgage with respect to the obligation of the person who assumes the obligation.

(3) If any novation due to a change of obligee or obligor is effected before the principal is fixed, the parties may not transfer the Revolving Mortgage to the obligations after the novation, notwithstanding the provisions of Article 518.

(Inheritances of Revolving Mortgagees or Obligors)

Article 398-8 (1) If an inheritance of a revolving mortgagee commences before the principal is fixed, the Revolving Mortgage shall secure the claims that exist at the time of the commencement of the inheritance and shall otherwise secure claims the heir prescribed by agreement between the heirs and the revolving mortgagor acquires after the commencement of the inheritance.

(2) If an inheritance of an obligor commences before the principal is fixed, the Revolving Mortgage shall secure the obligations that exist at the time of the commencement of the inheritance and shall otherwise secure the claims that the heir prescribed by agreement between the revolving mortgagee and the revolving mortgagor assumes after the commencement of the inheritance.

(3) The provisions of paragraph (2) of Article 398-4 shall apply mutatis mutandis to cases where an agreement is made under the preceding two paragraphs.

(4) If the agreements under paragraph (1) and paragraph (2) are not registered within six months of the commencement of the inheritance, principal secured shall be deemed to have been fixed at the time of the commencement of the inheritance.

(Mergers of Revolving Mortgagees or Obligors)

Article 398-9 (1) If there is a merger with respect to a revolving mortgagee before the principal is fixed for that revolving mortgagee, the Revolving Mortgage shall secure the claims that exist at the time of the merger and shall otherwise secure claims that a juridical person that survives the merger or a juridical person that is incorporated by the merger acquires after the merger.

(2) If there is a merger with respect to an obligor before the principal is fixed for that obligor, the Revolving Mortgage shall secure the obligations that exist at the time of the merger and shall otherwise secure the obligations that a juridical person that survives the merger or a juridical person that is incorporated by the merger assumes after the merger.

(3) In the cases provided for in the preceding two paragraphs, the revolving mortgagor may demand that the principal secured be fixed; provided, however, that this shall not apply, in the cases provided for in the preceding paragraph, if the relevant obligor is the revolving mortgagor.

(4) If a demand is made in accordance with the provisions of the preceding paragraph, the principal secured shall be deemed to have been fixed at the time of the merger.

(5) The demand under the provisions of paragraph (3) may not be made if two weeks have elapsed since the day when the revolving mortgagor acquired knowledge of the merger. The same shall apply if one month has elapsed from the day of the merger.

(Company Splits of Revolving Mortgagees or Obligors)

Article 398-10 (1) If, before the principal is fixed, a split in which the relevant revolving mortgagee is the company to be split is effected, the Revolving Mortgage shall secure the claims that exist at the time of the split and shall otherwise secure claims acquired after the split by the split company and the company incorporated by the split, or claims acquired after the split by the company that succeeded to some or all of the rights and obligations of the split company regarding its business.

(2) If, before the principal is fixed, a split in which the relevant obligor is the company to be split is effected, the Revolving Mortgage shall secure the obligations that exist at the time of the split and shall otherwise secure obligations that are assumed after the split by the split company and the company incorporated by the split, or claims acquired after the split by the

company that assumed some or all of the rights and obligations of the split company regarding its business.

(3) The provisions of paragraphs (3) through (5) of the preceding Article shall apply mutatis mutandis to cases under the preceding two paragraphs.

(Disposition of Revolving Mortgages)

Article 398-11 (1) Before the principal is fixed, a revolving mortgagee cannot dispose of a Revolving Mortgage under the provisions of paragraph (1) of Article 376; provided, however, that he/she shall not be precluded from applying that Revolving Mortgage to secure other claims.

(2) The provisions of paragraph (2) of Article 377 shall not apply to payments made before the principal is fixed in the cases provided for in the proviso to the preceding paragraph.

(Assignments of Revolving Mortgages)

Article 398-12 (1) Before the principal is fixed, a revolving mortgagee may assign a Revolving Mortgage, with the approval of the revolving mortgagor.

(2) A revolving mortgagee may divide his/her Revolving Mortgage into two Revolving Mortgages and assign either of the same in accordance with the provisions of the preceding paragraph. In such cases, the rights for which that Revolving Mortgage is the subject matter shall be extinguished with respect to the Revolving Mortgage that was assigned.

(3) In order to effect an assignment under the provisions of the preceding paragraph, the approval of the person who holds the rights for which that Revolving Mortgage is the subject matter must be obtained.

(Partial Assignments of Revolving Mortgages)

Article 398-13 Before the principal is fixed, a revolving mortgagee may, with the approval of the revolving mortgagor, effect a partial assignment of the Revolving Mortgage (hereinafter in this Section referring to assignments of Revolving Mortgages that the assignor effects without dividing the Revolving Mortgage in order to co-own the same with the assignee).

(Co-ownership of Revolving Mortgages)

Article 398-14 (1) Co-owners of a Revolving Mortgage shall be paid in proportion to the amount of their respective claims; provided, however, that, if before the principal is fixed, a proportion other than the above is agreed, or if it is agreed that a certain person should be paid prior to the others, that agreement shall prevail.

(2) A co-owner in a Revolving Mortgage may, with the consent of the other co-owners, assign rights of the same in accordance with the provisions of

paragraph (1) of Article 398-12.

(Assignments or Waivers of Order of Priority of Mortgages and Assignments or Partial Assignments of Revolving Mortgages)

Article 398-15 If a revolving mortgagee who has accepted an assignment or waiver of the order of priority of a mortgage has assigned or partially assigned his/her Revolving Mortgage, the assignee shall receive the benefit of the assignment or waiver of that order of priority.

(Joint Revolving Mortgages)

Article 398-16 The provisions of Articles 392 and 393 shall apply with respect to Revolving Mortgages, limited to cases where, simultaneously with the establishment of the same, it is registered that a Revolving Mortgage has been established on several immovable properties to secure the same claim.

(Alterations of Joint Revolving Mortgages)

Article 398-17 (1) An alteration in the scope, obligors or maximum amount of the claims to be secured, or assignment or partial assignment of the Revolving Mortgages for which registration is effected in accordance with the preceding Article shall not take effect unless registration is effected with respect to all immovable properties over which that Revolving Mortgages are established.
(2) The principal that is to be secured by the Revolving Mortgages for which the registration under the preceding Article is effected shall be fixed even where grounds that would fix the same with respect to one immovable property alone arise.

(Aggregate Revolving Mortgages)

Article 398-18 A person who has Revolving Mortgages on several immovable properties may exercise his/her right of priority with respect to the proceeds of each immovable property up to the respective maximum amounts, except for cases provided for in Article 398-16.

(Requests for Fixing of Principal of Revolving Mortgages)

Article 398-19 (1) If three years have elapsed from the time of the creation of a Revolving Mortgage, the revolving mortgagor may request the fixing of the principal secured. In such cases, the principal secured shall be fixed when two weeks have elapsed since the time of that request.
(2) A revolving mortgagee may request the fixing of the principal secured at any time. In such cases, the principal secured shall be fixed on the request of the same.
(3) The provisions of the preceding two paragraphs shall not apply in cases where

the date on which the principal secured is to be fixed is prescribed.

(Grounds for Fixing of Principal of Revolving Mortgages)

Article 398-20 (1) The principal secured by a Revolving Mortgage shall be fixed in the following cases:

- (i) If the revolving mortgagee has filed, with respect to the Mortgaged Immovable Properties, a petition for auction or execution against profits from secured immovable properties or the attachment under the provisions of Article 304 cited in Article 372; provided, however, that this provision shall apply only in cases where the commencement of either auction procedures or execution procedures against secured immovable properties to realize profits, or an attachment has been effected;
 - (ii) If the revolving mortgagee has effected an attachment for delinquent taxes against the Mortgaged Immovable Properties;
 - (iii) If two weeks have elapsed from the time when the revolving mortgagee acquired knowledge of the commencement of auction procedures or attachment for delinquent taxes against the Mortgaged Immovable Properties; or
 - (iv) If the obligor or revolving mortgagor has become subject to a ruling for the commencement of bankruptcy procedures.
- (2) If the effect of the commencement of auction procedures, the attachment under item (iii) of the preceding paragraph or the ruling to commence bankruptcy procedures under item (iv) of that paragraph has been extinguished, it shall be deemed that the principal secured was not fixed; provided, however, that this shall not apply if any person has acquired that Revolving Mortgage or a right for which the Revolving Mortgage is the subject matter on the assumption that the principal was fixed.

(Requests for Reductions in Maximum Amount of Revolving Mortgages)

Article 398-21 (1) After the principal is fixed, the revolving mortgagor may request a reduction in the maximum amount of that Revolving Mortgage, to the amount of the obligations actually in existence plus the amount of the periodical payments including interest and the amount of damages due to default in obligations that will arise in the following two years.

- (2) As to reductions in the maximum amount of Revolving Mortgages for which registration under Article 398-16 has been effected, the request under the preceding paragraph shall be sufficient if made with respect to one of those immovable properties.

(Requests for Extinction of Revolving Mortgages)

Article 398-22 (1) If the amount of the obligations actually in existence after the

principal is fixed exceeds the maximum amount of the Revolving Mortgage, a person who created his/her Revolving Mortgage to secure obligations of others or a third party who acquired ownership, superficies, emphyteusis or a lease that can be asserted against any third party with respect to the Mortgaged Immovable Properties, may request the extinction of that Revolving Mortgage by tendering or depositing an amount equivalent to that maximum amount. In such cases, that tender or deposit shall have the effect of payment.

- (2) Revolving Mortgages for which registrations are effected under Article 398-16 shall be extinguished if the request for extinction in accordance with the preceding paragraph is made with respect to one immovable property.
- (3) The provisions of Articles 380 and 381 shall apply mutatis mutandis to the requests for extinction under paragraph (1).

Part III Claims

Chapter I General Provisions

Section 1 Subject of Claim

(Subject of Claim)

Article 399 Even a matter that cannot be given an estimated monetary value may be the subject of a claim.

(Duty of Care in cases of Delivery of Specified Things)

Article 400 If the subject of a claim is the delivery of any specified things, the obligor must take custody of such property with due care of a prudent manager until the completion of such delivery.

(Fungible Claim)

Article 401 (1) In cases the subject of the claim is specified only with reference to a type and if the quality of such property cannot be identified due to the nature of the juristic act or intention of the relevant party(ies), the obligor must deliver the property of intermediate quality.

- (2) In the case set forth in the preceding paragraph, if the obligor has completed the acts necessary to deliver the Thing, or has identified the Thing he/she is to deliver with the consent of the obligee, such Thing shall thenceforth constitute the subject of the claim.

(Monetary Claim)

Article 402 (1) If the subject of the claim is money, the obligor may, at his/her choice, make the payment in currency of any kind; provided, however, that, this shall not apply to the cases where the delivery of specific kind of currency is identified as the subject of the claim.

- (2) If the specific kind of currency that is the subject of the claim is no longer in mandatory circulation at the time of the payment, the obligor must make payment in other currency.
- (3) The provisions of the preceding two paragraphs shall apply mutatis mutandis to the cases where the delivery of the currency of a foreign state is the subject of the claim.

Article 403 When the amount of the claim is specified in the currency of a foreign state, the obligor may make the payment in the legal currency of Japan using the foreign exchange rate current in the place of the performance.

(Statutory Interest Rate)

Article 404 Unless the parties otherwise manifest their intention with respect to a claim which bears interest, the rate of such interest shall be 5% per annum.

(Incorporation of Interest into Principal)

Article 405 In cases the payment of interest corresponding to one year or more is delayed, and if the obligor does not pay such interest notwithstanding the demand by the obligee, the obligee may incorporate such interest into the principal.

(Attribution of Right of Choice in cases of Alternative Obligation)

Article 406 If the subject of the claim is to be identified by way of choice among more than one performance, the right to make the choice shall vest in the obligor.

(Exercise of Right of Choice)

Article 407 (1) The right of choice under the preceding Article shall be exercised by manifesting the intention to the counterparty.

(2) The manifestation of intention set forth in the preceding paragraph may not be revoked without the acknowledgment of the counterparty.

(Transfer of Right of Choice)

Article 408 In cases a claim is due and, notwithstanding a demand by the counterparty stipulating a reasonable period of time, the party who holds the right of choice does not exercise the right within such period of time, the right of choice shall be transferred to the counterparty.

(Right of Choice of Third Party)

Article 409 (1) In cases a third party holds the right of choice, such choice shall be made by manifesting its intention to either the obligee or the obligor.

(2) In the case prescribed in the preceding paragraph, if the third party is unable to make the choice or has no intention to make the choice, the right of choice shall be transferred to the obligor.

(Identification of Alternative Obligation due to Impossibility)

Article 410 (1) If any performance which is included in the subject of a claim is impossible from the beginning, or later becomes impossible, the claim shall exist to the extent of the performance which still remains.

(2) If any performance has become impossible due to the negligence of any party who does not have any right of choice, the provision of the preceding paragraph shall not apply.

(Effect of Choice)

Article 411 The choice shall become effective retroactively as of the time of the accrual of the claim; provided, however that this shall not prejudice the rights of a third party.

Section 2 Effect of Claims

Subsection 1 Responsibility for Default

(Time for Performance and Delay in Performance)

Article 412 (1) If any specified due date is assigned to the performance of an obligation, the obligor shall be responsible for the delay on and after the time of the arrival of such time limit.

(2) If any unspecified due date is assigned to the performance of a claim, the obligor shall be responsible for the delay on and after the time when he/she becomes aware of the arrival of such time limit.

(3) If no time limit is assigned to the performance of an obligation, the obligor shall be responsible for the delay on and after the time he/she receives the request for performance.

(Obligee's Delay in Acceptance)

Article 413 If the obligee refuses, or is unable, to accept the tender of the performance of any obligation, the relevant obligee shall be responsible for the delay on and after the time of the tender of the performance.

(Enforcement of Performance)

Article 414 (1) If an obligor voluntarily fails to perform any obligation, the obligee may request the enforcement of specific performance from the court; provided, however, that, this shall not apply to the cases where the nature of the obligation does not permit such enforcement.

- (2) In cases the nature of the obligation does not permit the enforcement of the specific performance, if it is an obligation for an act, the obligee may request the court to cause a third party to perform such act at the expense of the obligor; provided, however, that with respect to any obligation for any juristic act, the manifestation of intention of the obligor may be achieved by a judgment.
- (3) With respect to any obligation for an inaction, a request may be made to the court at the expense of the obligor seeking the removal of the outcome of the action performed by the obligor, or an appropriate ruling against any future action.
- (4) The provisions of the preceding three paragraphs shall not preclude demanding damages.

(Damages due to Default)

Article 415 If an obligor fails to perform consistent with the purpose of its obligation, the obligee shall be entitled to demand damages arising from such failure. The same shall apply in cases it has become impossible to perform due to reasons attributable to the obligor.

(Scope of Damages)

- Article 416 (1) The purpose of the demand for the damages for failure to perform an obligation shall be to demand the compensation for damages which would ordinarily arise from such failure.
- (2) The obligee may also demand the compensation for damages which arise from any special circumstances if the party did foresee, or should have foreseen, such circumstances.

(Method of Compensation for Damages)

Article 417 Unless other intention is manifested, the amount of the damages shall be determined with reference to monetary value.

(Comparative Negligence)

Article 418 If the obligee is negligent regarding the failure of performance of the obligation, the court shall determine the liability for damages and the amount thereof by taking such elements into consideration.

(Special Provisions for Monetary Debt)

Article 419 (1) The amount of the damages for failure to perform any obligation for the delivery of any money shall be determined with reference to the statutory interest rate; provided, however, that, in cases the agreed interest rate exceeds the statutory interest rate, the agreed interest rate shall prevail.

- (2) The obligee shall not be required to prove his/her damages with respect to the damages set forth in the preceding paragraph.
- (3) The obligor may not raise the defense of force majeure with respect to the damages referred to in paragraph (1).

(Liquidated Damages)

Article 420 (1) The parties may agree on the amount of the liquidated damages with respect to the failure to perform the obligation. In such case, the court may not increase or decrease the amount thereof.

- (2) The liquidated damages shall not preclude the demand for performance or the exercise of the cancellation right.
- (3) Any penalty is presumed to constitute liquidated damages.

Article 421 The provisions of the preceding Article shall apply mutatis mutandis to the cases where the parties agree in advance to allocate anything other than money to the compensation for damages.

(Subrogation for Damages)

Article 422 If an obligee receives the full value of any Thing or right which is the subject of the claim as the compensation for damages, the obligor shall be subrogated to the creditor in relation to such property or right by operation of law.

Subsection 2 Obligees' Subrogation Right and Obligees' Right to Demand Rescission of Fraudulent Act

(Obligee's Subrogation Right)

Article 423 (1) An obligee may exercise the right vested in the obligor in order to preserve his/her own claim; provided, however, that, this shall not apply to rights which are exclusive and personal to the obligor.

- (2) Until exercised by way of subrogation admitted in a judicial proceeding, the obligee may not exercise the right set forth in the preceding paragraph unless and until his/her claim has become due; provided, however, that, this shall not apply to any act of preservation.

(Obligee's Right to Demand the Rescission of Fraudulent Act)

Article 424 (1) An obligee may demand the court to rescind any juristic act which an obligor commits knowing that it will prejudice the obligee; provided, however, that, this shall not apply to the cases where any person who benefits from such act, or any person who succeeds to such benefit, did not know, at the time of such act or succession, the fact that the obligee is to be prejudiced.

(2) The provision of the preceding paragraph shall not apply to a juristic act with a subject other than property rights.

(Effect of Rescission of Fraudulent Act)

Article 425 The rescission pursuant to the provision of the preceding Article shall have an effect for the benefit of all obligees.

(Limitation Period of Obligee's Right to Rescind Fraudulent Act)

Article 426 The right to rescind pursuant to the provision of Article 424 shall be extinguished by operation of prescription if not exercised within two years from the time that the obligee acquired knowledge of the cause of the rescission. The same shall apply if twenty years pass from the time of the act.

Section 3 Claims and Obligations of Multiple-Parties

Subsection 1 General Provisions

(Divisible Claims and Divisible Obligations)

Article 427 In cases there are more than one obligee or obligor, unless any other intention is manifested, each obligee or each obligor shall have the equally proportionate rights or obligations.

Subsection 2 Indivisible Claims and Indivisible Obligations

(Indivisible Claim)

Article 428 In cases the subject of a claim is indivisible by its nature or due to the manifestation of intention of the parties involved, if there are more than one obligees, each obligee may demand the performance for the benefit of all obligees, and the relevant obligor may tender its performance to each obligee for the benefit of all obligees.

(Effect of Circumstances on Particular Circumstance which Arises with respect to One Indivisible Obligee)

Article 429 (1) Even in cases where there is a novation or release between one indivisible obligee and the obligor, other indivisible obligee(s) may request the obligor to tender the entire performance. In such cases, the benefit which would have been allocated to the above-mentioned one indivisible obligee if he/she did not lose his/her right must be reimbursed to the relevant obligor.
(2) Other than as prescribed in the preceding paragraph, any act of one indivisible obligee, or any circumstance which arises with respect to one indivisible obligee shall not have any effect on the other indivisible obligee(s).

(Indivisible Obligation)

Article 430 The provisions of the preceding Article, and the provisions of the following Subsection 3 (Joint and Several Obligation)(excluding the provisions of Articles 434 to 440 inclusive) shall apply mutatis mutandis to the cases where more than one person bears any indivisible obligation.

(Changing into Divisible Claims or Divisible Obligations)

Article 431 If any indivisible claim becomes a divisible claim, each obligee may request the performance only to the extent of such portion of the claim on which he/she has his/her own right, and if any indivisible obligation becomes a divisible obligation, each obligor shall bear his/her responsibility only to the extent of the portion of the obligation which he/she bears.

Subsection 3 Joint and Several Obligations

(Request for Performance)

Article 432 If more than one person bears a joint and several obligation, the obligee may request one of the joint and several obligors, or all of such joint and several obligors, simultaneously or successively, to perform the obligation, in whole or in part.

(Invalidity of Juristic Act with respect to One Joint and Several Obligor)

Article 433 Even if there are any grounds for the voidance or rescission of a juristic act with respect to only one joint and several obligor, the validity of the obligation(s) of other joint and several obligor(s) shall not be impaired.

(Request for Performance to One Joint and Several Obligor)

Article 434 A request for performance made to one joint and several obligor shall also be effective with respect to other joint and several obligor(s).

(Novation with One Joint and Several Obligor)

Article 435 If there is any novation between one joint and several obligor and the obligee, the claim shall be extinguished for the benefit of all joint and several obligors.

(Setoffs by One Joint and Several Obligor)

Article 436 (1) In cases one joint and several obligor has a claim vis-a-vis the obligee, if such joint and several obligor invokes a setoff, the claim shall be extinguished for the benefit of all joint and several obligors.

(2) So long as the joint and several obligor who has the claim set forth in the preceding paragraph does not invoke the set-off, other joint and several

obligor(s) may invoke the set-off solely to the extent of the portion of the obligation which is borne by such joint and several obligor.

(Releases of One Joint and Several Obligor)

Article 437 A release of an obligation effected for one joint and several obligor shall also be effective for the benefit of other joint and several obligor(s) solely to the extent of the portion of the obligation which is borne by such joint and several obligor.

(Merger with One Joint and Several Obligor)

Article 438 If there is any merger between one joint and several obligor and the relevant obligee, it is deemed that such joint and several obligor has performed his/her obligation.

(Completion of Prescription with respect to One Joint and Several Obligor)

Article 439 If the prescription is completed with respect to one joint and several obligor, the other joint and several obligors also shall be relieved of liability to the extent of the portion of the obligation which is borne by such joint and several obligor.

(Principle of Relative Effect)

Article 440 Except as set forth in Articles 434 to the preceding Article inclusive, any circumstance which arises with respect to one joint and several obligor shall be void vis-a-vis other joint and several obligor(s).

(Commencement of Bankruptcy Procedures for Joint and Several Obligors)

Article 441 When some or all of the joint and several obligors have become subject to the ruling of the commencement of bankruptcy procedures, the obligee may participate in the distribution of each bankruptcy estate with respect to the entire amount of his/her claim.

(Right to Obtain Reimbursement among Joint and Several Obligors)

Article 442 (1) If one joint and several obligor performs the obligation, or has otherwise acquired any common discharge in exchange for his/her own property, such joint and several obligor shall have right to obtain reimbursement from other joint and several obligors to the extent of the respective portion of the obligations which is borne by each of other joint and several obligors.
(2) The reimbursement pursuant to the provision of the preceding paragraph shall include the compensation of the statutory interest which accrue on or after the day of the performance of the obligation or other discharge, any unavoidable expenses, and other damages.

(Limitation on Reimbursement to Joint and Several Obligor who Failed to give Notice)

- Article 443 (1) When one joint and several obligor performs his/her obligation or has otherwise acquired any common discharge in exchange for his/her own property without giving to the other joint and several obligor(s) a notice that there was the request for the performance from the relevant obligee, if any of the other joint and several obligor(s) has any defense vis-a-vis the obligee, such joint and several obligor may raise such defense vis-a-vis the joint and several obligor who acquired the discharge to the extent of the portion of the obligation which is borne by himself/herself. In such case, if any defense vis-a-vis the joint and several obligor who acquired the discharge is raised on the grounds of set-off, the negligent joint and several obligor may request the relevant obligee to perform the obligation which should have been extinguished due to set-off.
- (2) When one joint and several obligor performs the obligation or has otherwise acquired any common discharge in exchange for his/her own property and has failed to give notice of such fact to other joint and several obligor(s), and as a result of such failure, any other joint and several obligor acquires discharge by performing the obligation or otherwise in exchange for an act performed for consideration without knowledge, the joint and several obligor who was so discharged shall be entitled to regard his/her act to perform or other act to acquire the discharge as effective.

(Allocation of Portion of Person who does not have Sufficient Financial Resources for Reimbursement)

- Article 444 If there is any person among the joint and several obligors who does not have the sufficient financial resources to make the reimbursement, the portion that cannot be reimbursed shall be borne among the person(s) who demand(s) the reimbursement and other person(s) who has/have the financial resources, in proportion to the respective portion which is borne by each of such persons; provided, however, that the person who requests the reimbursement may not demand other joint and several obligor(s) to bear the burden if he/she is negligent.

(Release from Joint and Several Obligations and Allocation of Portion of Burden of Person who does not have Sufficient Financial Resources to Pay)

- Article 445 In cases any one joint and several obligor is released from the joint and several obligation, if there is any person among other joint and several obligors who does not have the sufficient financial resources to pay the obligation, the obligee shall bear such portion of the obligation which may not be performed by such person without sufficient financial resources as should

have been borne by the person who was released from the joint and several obligation.

Subsection 4 Guarantee Obligation
Division 1 General Provisions

(Responsibility of Guarantor)

Article 446 (1) A guarantor shall have the responsibility to perform the obligation of the principal obligor when the latter fails to perform such obligation.

(2) No contract of guarantee shall be effective unless it is made in writing.

(3) If a contract of guarantee is concluded by electromagnetic record (meaning a record produced by electronic means, magnetic means, or any other means unrecognizable by natural sensory functions that is for computer data-processing use) which records the contents thereof, the contract of guarantee is deemed to be made in writing, and the provision of the preceding paragraph shall apply.

(Scope of Guarantee Obligation)

Article 447 (1) The guarantee obligation shall include interest, penalty and compensation for damages in connection with the principal obligation, and all other charges incidental to such obligation.

(2) A guarantor may stipulate the amount of penalty or compensation for damages with regard to his/her own guarantee obligation only.

(Cases where Burden of Guarantor is More Onerous than That of the Principal Obligor)

Article 448 If the burden of a guarantor is more onerous than that of the principal obligor as to either its subject or its terms, it shall be reduced to the extent of the principal obligation.

(Guarantee of Rescindable Obligation)

Article 449 If a guarantor, who has guaranteed an obligation which may be rescinded by reason of the principal obligor's limited capacity to act, was aware, at the time of entering into a contract guarantee, of the cause for its voidability, such guarantor shall be presumed to have assumed an independent obligation of the same subject in the event of nonperformance by the principal obligor or rescission of the obligation.

(Requirements for Guarantor)

Article 450 (1) Where an obligor has the obligation to furnish a guarantor, such

guarantor must:

- (i) be a person with capacity to act; and
 - (ii) have sufficient financial resources to pay the obligation.
- (2) If the guarantor ceases to meet the requirement set forth in item (ii) of the preceding paragraph, the obligee may demand that some other person meeting the requirements listed in any item of such paragraph be substituted for such guarantor.
- (3) The provisions of the preceding two paragraphs shall not apply in the case the obligee has designated the guarantor.

(Providing Other Security)

Article 451 If the obligor is unable to furnish a guarantor meeting the requirements listed in any item of paragraph (1) of the preceding Article, he/she may furnish other security in lieu thereof.

(Defense of Demand)

Article 452 If an obligee has demanded performance of an obligation from the guarantor, the guarantor may demand the obligee to demand performance of the principal obligor first; provided, however, that, this shall not apply to the cases where the principal obligor has received a ruling for the commencement of bankruptcy procedures or where his/her whereabouts are unknown.

(Defense of Reference)

Article 453 Even after the obligee has made a demand to the principal obligor in accordance with the provision of the preceding Article, the obligee must first execute on the property of the principal obligor if the guarantor has proved that the principal obligor has the financial resource to pay his/her obligation and that the execution would be easily performed.

(Special Provisions for Joint and Several Guarantee)

Article 454 If a guarantor has assumed an obligation jointly and severally with the principal obligor, the guarantor shall not have the rights set forth in the preceding two Articles.

(Effect of Defense of Demand and Defense of Reference)

Article 455 Where demand has been made or proof has been given by a guarantor pursuant to the provisions of Article 452 or Article 453, if the obligee fails to demand or to levy execution and is subsequently unable to obtain full performance from the principal obligor, the guarantor shall be relieved of liability to the extent that the obligee would have received performance if the obligee had immediately demanded or levied execution.

(Cases where More Than One Guarantor Exists)

Article 456 Where there is more than one guarantor for a single obligation, the provision of Article 427 shall apply even if they have assumed their obligations by separate acts.

(Effect of Circumstance which Arises with respect to the Principal Obligor)

Article 457 (1) The nullification of prescription by operation of a demand vis-a-vis the principal obligor or on any other grounds shall also be effective vis-a-vis the guarantor.

(2) A guarantor may raise a defense vis-a-vis the obligee by setting off any claim which the principal obligor may have vis-a-vis the obligee.

(Effect of Circumstance which Arises with respect to Jointly and Severally Liable Guarantor)

Article 458 The provisions of Articles 434 to 440 inclusive shall apply mutatis mutandis to the cases where the principal obligor assumes an obligation jointly and severally with the guarantor.

(Right to Obtain Reimbursement of Guarantor Entrusted by the Principal Obligor)

Article 459 (1) In cases where a guarantor has given a guarantee as entrusted by the principal obligor, if he/she has, without negligence, had a judgment ordering him/her to perform the obligation to the obligee, or has performed the obligation on behalf of the principal obligor, or has otherwise in exchange for his/her own property performed any other act intended to cause the obligation to be extinguished, such guarantor shall have a right to obtain reimbursement from the principal obligor.

(2) The provision of paragraph (2) of Article 442 shall apply mutatis mutandis to the cases set forth in the preceding paragraph.

(Entrusted Guarantor's Right to Obtain Reimbursement in Advance)

Article 460 In cases where a guarantor has given a guarantee as entrusted by the principal obligor, the guarantor may exercise in advance his/her right to obtain reimbursement vis-a-vis the principal obligor if:

- (i) the principal obligor is subject to a ruling for the commencement of bankruptcy procedures, and the obligee does not participate in the distribution of the bankruptcy estate;
- (ii) the obligation is due; provided, however, that, no extension of time granted by the obligee to the principal obligor after the conclusion of the contract of guarantee may be raised as a defense vis-a-vis the guarantor; and

(iii) ten years have elapsed after the conclusion of the contract of guarantee in the cases where the time for performing the obligation is uncertain and even its maximum duration cannot be ascertained.

(Cases where Principal Obligor Reimburses Guarantor)

Article 461 (1) In cases where a principal obligor reimburses a guarantor pursuant to the provisions of the preceding two Articles, the principal obligor may demand the guarantor to provide security or to obtain the discharge of the principal obligor until and unless the obligee has received the full satisfaction of the entire obligation.

(2) In the case prescribed in the preceding paragraph, the principal obligor may be relieved of liability for reimbursement by making a deposit with an official depository, by providing security, or by procuring the discharge of the liabilities of the guarantor.

(Right to Obtain Reimbursement of Guarantor Not Entrusted by Principal Obligor)

Article 462 (1) If a person, who has become a guarantor without the entrustment of the principal obligor, has performed the obligation or has otherwise in exchange for his/her own property procured the release from liability of the principal obligor, the principal obligor must reimburse the guarantor to the extent that the principal obligor was enriched at the time of such performance of the obligation.

(2) A person who has become a guarantor against the will of the principal obligor shall have the right to obtain reimbursement only to the extent that the principal obligor is actually enriched. In such case, if the principal obligor asserts that he/she had, prior to the day of the demand for reimbursement, grounds for set-off against the obligee, the guarantor may demand that the obligee perform the obligation which would have been extinguished by operation of such set-off.

(Limitation on Reimbursement for Guarantor who Failed to give Notice)

Article 463 (1) The provisions of Article 443 shall apply mutatis mutandis to a guarantor.

(2) In cases where a guarantor has become a guarantor as entrusted by the principal obligor, if he/she performed the obligation or otherwise in exchange for his/her own property performed any act to cause the obligation to be extinguished without knowledge, the provision of Article 443 shall apply mutatis mutandis also with respect to the principal obligor.

(Right to Obtain Reimbursement of Guarantor for Jointly and Several

Obligation or Indivisible Obligation)

Article 464 A person who has become a guarantor for one of the jointly and several obligors or for one of the indivisible obligors shall have the right to obtain reimbursement from the other obligors only to the extent of such portion of the obligation which he/she bears.

(Right of Joint Guarantors to Obtain Reimbursement for One Obligation)

Article 465 (1) Where there are several guarantors, if one guarantor has paid the entire amount of the obligation or any amount exceeding the portion which is borne by such guarantor because the principal obligation is indivisible, or because there is a special provision that each guarantor should pay the entire amount, the provisions of Articles 442 to 444 inclusive shall apply mutatis mutandis.

(2) Except in cases provided in the preceding paragraph, if one of the guarantors who are not jointly and severally liable has paid the entire amount or any amount exceeding the portion to be borne by that guarantor, the provisions of Article 462 shall apply mutatis mutandis.

Division 2 Revolving Guarantee on Loans

(Liability of Guarantor of Contract for Revolving Guarantee on Loans)

Article 465-2 (1) A guarantor to a contract of guarantee the principal obligation of which is one or more unidentified obligations within a certain specified scope (hereinafter referred to as a "contract for revolving guarantee") whereby the scope of such obligation includes any obligation which is incurred as a result of the transaction of lending money or accepting discount of a negotiable instrument (hereinafter referred to as an "loan obligation")(excluding any contract in which the guarantor is a juridical person, hereinafter referred to as a "contract for revolving guarantee on loans") shall be liable for the satisfaction of the amount of the principal of the relevant principal obligation, interest, any penalty and damages in connection with such principal obligation, and all other amounts incidental to such obligation, as well as the amount of any penalty and damages which are agreed on with regard to such guarantee obligation, which liability shall be limited in aggregate, however, to a certain maximum amount which pertains to all of the above-mentioned amounts.

(2) A contract for revolving guarantee on loans shall not be effective unless the maximum amount set forth in the preceding paragraph is stipulated.

(3) The provisions of paragraph (2) and paragraph (3) of Article 446 shall apply mutatis mutandis to the stipulation of a maximum amount in a contract for revolving guarantee on loans provided in paragraph (1).

(Principal Determination Date for Contract for Revolving Guarantee on Loans)

- Article 465-3 (1) In the cases where a contract for revolving guarantee on loans provides the date on which the principal of the principal obligation should be determined (hereinafter referred to as the "principal determination date"), if it is provided that such principal determination date shall fall on any day on and or after the day on which five years have elapsed after the day of the conclusion of the relevant contract for the revolving guarantee on loans, such provision for the principal determination date shall not be effective.
- (2) In the cases where a contract for revolving guarantee on loans does not provide a principal determination date (including cases where the provision on the principal determination date is not effective pursuant to the provision of the preceding paragraph), the principal determination date thereof shall fall on the day on which three years have elapsed after the day of the conclusion of the relevant contract for revolving guarantee on loans.
- (3) In the cases where any change of the principal determination date provided in a contract for revolving guarantee on loans is to be effected, if the principal determination date as changed falls on a day on and or after the day on which five years have elapsed after the day of such change, such change of the principal determination date shall not be effective; provided, however, that, this shall not apply to the cases where the change of the principal determination date is effected within two months immediately preceding the principal determination date, and the principal determination date as changed falls on a day within five years from the original principal determination date.
- (4) The provisions of paragraph (2) and paragraph (3) of Article 446 shall apply mutatis mutandis to the provisions of a principal determination date set forth in a contract for revolving guarantee on loans and a change thereof (excluding any provision which provides to the effect that the principal determination date shall fall on a day within three years from the day of the conclusion of such contract for revolving guarantee on loans, and any change which is intended to change the principal determination date to a day preceding the original principal determination date).

(Grounds for Determination of Principal in Contract for Revolving Guarantee on Loans)

Article 465-4 The principal for the principal obligation under a contract for revolving guarantee on loans shall be determined if:

- (i) an obligee has filed a petition for compulsory execution or exercise of any security interest with respect to a claim the subject- matter of which is payment of money on any property of the relevant principal obligor or guarantor; provided, however, that this provision shall apply only in cases where the proceedings for the compulsory execution or exercise of the

- security interest have been commenced;
- (ii) the relevant principal obligor or guarantor has become subject to a ruling of the commencement of bankruptcy procedures; or
- (iii) the relevant principal obligor or guarantor has died.

(Right to Obtain Reimbursement in Contract for Revolving Guarantees for Loan Obligation in cases where Guarantor is Juridical Person)

Article 465-5 In cases of a contract for revolving guarantee under which the guarantor is a juridical person and the scope of the principal obligation thereof includes an obligation on loans, if the maximum amount provided in paragraph (1) of Article 465-2 is not provided, if the principal determination date is not specified, or if the provision on the determination date or any change thereof would not be effective should the provisions of paragraph (1) or paragraph (3) of Article 465-3 be applied, a contract of guarantee with regard to the right to obtain reimbursement of the guarantor for the contract for revolving guarantee against the principal obligor (excluding cases where the guarantor is a juridical person) shall not be effective.

Section 4 Assignment of Claims

(Assignability of Claims)

- Article 466 (1) A claim may be assigned; provided, however, that, this shall not apply to the cases where its nature does not permit the assignment.
- (2) The provisions of the preceding paragraph shall not apply in cases where the parties have manifested their intention to the contrary; provided, however, that such manifestation of intention may not be asserted against a third party without knowledge.

(Requirement for Assertion of Assignment of Nominative Claim against Third Parties)

- Article 467 (1) The assignment of a nominative claim may not be asserted against the applicable obligor or any other third party, unless the assignor gives a notice thereof to the obligor or the obligor has acknowledged the same.
- (2) The notice or acknowledgement set forth in the preceding paragraph may not be asserted against a third party other than the obligor unless the notice or acknowledgement is made using an instrument bearing a fixed date.

(Defense of Obligor upon Assignment of Nominative Claim)

Article 468 (1) In the cases where the obligor has given the acknowledgement referred to in the preceding Article without objection, even if there are grounds which could have been raised as a defense against the assignor, he/she may not

raise such grounds as a defense against the assignee. In such case, if the obligor has paid any money or delivered anything or assumed a new obligation to or for the benefit of the assignor to obtain the extinction of his/her obligation, the obligor may recover the money paid or other thing delivered, or may deem that the new obligation had not been assumed, as the case may be.

(2) In cases where the assignor has merely given notice of the assignment, the obligor may raise any ground as a defense against the assignee which accrues vis-a-vis the assignor before he/she receives such notice as a defense against the assignee.

(Requirement for Assertion of Assignment of Debt Payable to Order against Third Parties)

Article 469 The assignment of any debt payable to order may not be asserted against the relevant obligor or any other third party unless the certificate representing such claim is tendered to the assignee with the endorsement of the relevant assignment.

(Examination Right of Obligor of Debt Payable to Order)

Article 470 The obligor of any debt payable to order shall have the right, but not the obligation, to examine the authenticity of the identity of the bearer of the relevant certificate and the signature and seal affixed thereon; provided, however, that the performance of the applicable obligation shall be void if the obligor has knowledge or is grossly negligent.

(Examination Right of Obligor of Claim Payable to Obligee or Holder)

Article 471 The provisions of the preceding Article shall apply mutatis mutandis to the cases where any certificate regarding the claim specifies the name of the obligee and note that the payment should be made to the bearer of such certificate.

(Limitation on Defense of Obligor in cases of Assignment of Debt Payable to Order)

Article 472 The obligor of a debt payable to order may not use any grounds which could have been raised as defenses against the obligee before the assignment of the relevant debt payable to order as defenses against an assignee without knowledge, except for the matter specified on the relevant certificate or any result which necessarily arises from the nature of such certificate.

(Limitation on Defense of Obligor in cases of Assignment of Bearer Certificate of Claims)

Article 473 The provisions of the preceding Article shall apply mutatis mutandis to a bearer certificate of claims.

Section 5 Extinction of Claims

Subsection 1 Performance

Division 1 General Provisions

(Performance by Third Parties)

Article 474 (1) The performance of an obligation may be effected by a third party; provided, however, that, this shall not apply in cases where the nature of such obligation does not permit such performance or the parties have manifested their intention to the contrary.

(2) A third party who has no interest in an obligation may not perform the obligation against the will of the obligor.

(Recover of any Property Tendered to Perform Obligation)

Article 475 In cases where a person who performed his/her obligation delivered any property owned by others as the performance of the obligation, the person who made such performance may not recover such property unless he/she effects an effective performance de novo.

Article 476 In cases where any possessor who has limited capacity to act with respect to the act of assignment delivers any property to perform any obligation, and later rescinds such performance, the relevant possessor may not recover such property unless he/she effects an effective performance de novo.

(Effect of Performance in cases Any Property Delivered to Perform Obligation is Consumed or Assigned)

Article 477 In the case referred to in the preceding two Articles, if an obligee without knowledge consumes or assigns any property which he/she received as the performance of the obligation, such performance shall be effective. In such case, if the relevant obligee has received any request for compensation from a third party, he/she shall not be precluded from seeking reimbursement from the person who performed the obligation.

(Performance to a Holder of Quasi-Possession of Claim)

Article 478 Any performance made vis-a-vis a holder of quasi-possession of the claim shall remain effective to the extent the person who performed such obligation acted without knowledge, and was free from any negligence.

(Performance to Person Without Authority to Receive Performance)

Article 479 Except as provided in the preceding Article, any performance made vis-a-vis any person who has no authority to receive the performance shall have the effect only to the extent the relevant obligee is enriched as a result thereof.

(Performance to Bearer of Receipt)

Article 480 A bearer of a receipt is deemed to have the authority to accept performance; provided, however, that, this shall not apply to the cases where the person who made the performance knew, or was negligent in not knowing, that the bearer did not have the authority.

(Performance by Third-party Obligor who had been Ordered to Suspend Payment)

Article 481 (1) If a third-party obligor who has been enjoined from making payment has paid his/her obligation to his/her own obligee, the relevant attaching obligee shall be entitled to request such third-party obligor to make payment de novo to the extent he/she suffered the damages.
(2) The provision of the preceding paragraph shall not preclude the relevant third-party obligor from exercising his/her right to obtain reimbursement from his/her obligee.

(Substitute Performance)

Article 482 If an obligor, in lieu of the performance he/she originally incurred, provided any other type of performance with the acknowledgment of the obligee, such performance shall have the same effect as that of the original performance.

(Delivery of Specific Thing in its Existing State)

Article 483 If the subject of a claim is the delivery of a specific thing, the person who intends to effect any performance must deliver such thing on an "as-is" basis as of the time when the delivery is due.

(Place of Performance)

Article 484 Unless any other intention is manifested with respect to the place where the performance should take place, the delivery of a specific thing must be effected at the place where such thing was located when the relevant claim accrued, and the discharge of any other obligation must be effected at the current domicile of the obligee, respectively.

(Expense of Performance)

Article 485 Unless any other intention is manifested with respect to the expense of performance, such expenses shall be borne by the obligor; provided, however, that, in cases the relevant obligee caused the expense of performance to increase by relocating his/her domicile or taking any other actions, such incremental amount shall be borne by the obligee.

(Request for Issuance of Receipt)

Article 486 Any person who made the performance shall be entitled to request the person who received the performance to issue a receipt.

(Request for Return of Claim Instrument)

Article 487 In the cases where there is any instrument which evidences the claim, if the person who makes the performance has completed his/her entire performance, he/she may demand the return of such instrument.

(Designation of Obligations to be Performed)

Article 488 (1) In the cases where an obligor owes to a single obligee more than one obligations which requires the performance of the same kind, if any performance tendered to discharge the obligation is not sufficient to extinguish all obligations, the person who tenders the performance may, at the time of such tender, designate particular obligations to which such performance should be allocated before any others.

- (2) If the person who tenders the performance does not make the designation pursuant to the provision of the preceding paragraph, the person who receives the performance may, at the time of such receipt, designate a particular obligation to which such performance should be allocated before any others; provided, however, that, this shall not apply to the cases where the person who tenders the performance immediately raises his/her objection to such allocation.
- (3) The designation of the performance under the preceding two paragraphs shall be effected by manifesting the intention to the counterparty.

(Statutory Allocation)

Article 489 In cases where neither the person who tenders the performance nor the person who receives such performance does not designate the allocation of performance pursuant to the provision of the preceding Article, the allocation shall be effected as stipulated in each of the following items:

- (i) if the obligations include those which are due and those which are not due yet, the applicable performance shall be allocated to those which are due;
- (ii) if all obligations are due, or none of the obligations are due, the applicable performance shall be allocated in the order of the obligations which shall result in more benefit to the obligor when performed;

- (iii) if all obligations would have equal benefit to the obligor when performed, the applicable performance shall be allocated in the order of the obligations which have, or should have, the earliest due date; and
- (iv) the performance of obligations which are equal in terms of the matters listed in the preceding two items shall be allocated in proportion to the amount of each obligation.

(Allocation in cases More than One Performance Should be Tendered)

Article 490 In the cases where more than one performance should be tendered to discharge a single obligation, if the person who must perform tenders any performance which is not sufficient to extinguish such obligation in its entirety, the provision of the preceding two Articles shall apply mutatis mutandis.

(Allocation in cases Principal, Interest, and Expenses Should be Paid)

Article 491 (1) In cases where the obligor should pay the principal as well as the applicable interest and expenses with respect to one or more obligation(s), if the person who must perform tenders any performance which is not sufficient to extinguish such obligation in its entirety, such performance must be allocated first to the expense, and then to the interest and principal, in this order.

(2) The provision of Article 489 shall apply mutatis mutandis to the cases set forth in the preceding paragraph.

(Effect of Tender of Performances)

Article 492 Upon tendering the performance, the relevant obligor shall be relieved from any and all responsibilities which may arise from the nonperformance of the obligation.

(Method of Tender of Performances)

Article 493 The tender of the performance must be made actually consistent with the main purport of the obligation; provided, however, that, if the obligee refuses to accept such performance in advance, or any act is required on the part of the obligee with respect to the performance of the obligation, it shall be sufficient if the obligor demands the acceptance thereof by giving a notice that the tender of the performance has been prepared.

Division 2 Deposit of Subject-Matter of Performance

(Deposit)

Article 494 If an obligee refuses, or is unable, to accept the performance, the person who can make the performance (hereinafter in this Division referred to

as the "performer") may be relieved from his/her obligation by depositing the subject-matter of the performance with an official depository. The same shall apply in cases the performer is unable to ascertain the obligee without any negligence on the part of the performer.

(Method of Deposit)

Article 495 (1) The deposit pursuant to the provision of the preceding Article must be made with the official depository having jurisdiction over the district where the relevant obligation must be performed.

(2) In cases where there is no specific provision in the laws and regulations with respect to the official depository, the court must, at the request of the performer, designate the depository and appoint a custodian of the property to be deposited.

(3) A person who has effected a deposit pursuant to the provision of the preceding Article must notify the obligee of the deposit without delay.

(Recovery of Deposited Property)

Article 496 (1) As long as the obligee does not accept the deposit, or the judgment which pronounces that the deposit is effective does not become unappealable, the performer may recover the deposited property. In such case, it is deemed that no deposit has been effected.

(2) The provision of the preceding paragraph shall not apply in cases any pledge or mortgage has been extinguished due to the deposit.

(Property Not Suitable for Deposit)

Article 497 If any subject of the performance is not suitable for deposit, or such property is likely to suffer any loss or damage, the performer may, with the permission of the court, sell such property at public auction and deposit the proceeds of such sales with the official depository. The same shall apply in cases excessive expenses are required for the preservation of such property.

(Requirements for Acceptance of Deposited Property)

Article 498 In cases where the obligor is required to perform in exchange for the performance of the obligee, the obligee may not accept the relevant deposited property unless he/she tenders his/her performance.

Division 3 Subrogation by Performance

(Voluntary Subrogation)

Article 499 (1) A person who has performed the obligation for the benefit of an obligor may be subrogated to the claim of the obligee by acquiring the

acknowledgment of the obligee upon such performance.

(2) The provision of Article 467 shall apply mutatis mutandis to the case set forth in the preceding paragraph.

(Statutory Subrogation)

Article 500 A person who has legitimate interest in effecting performance shall be subrogated by operation of law to the claim of the obligee by effecting performance.

(Effect of Subrogation by Performance)

Article 501 A person who is subrogated to the claim of the obligee pursuant to the provisions of the preceding two Articles may exercise any and all rights possessed by such obligee as the effect of, and as a security for, such right to the extent he/she may seek reimbursement under his/her own right; provided, however, that:

- (i) unless the fact of subrogation is noted in advance in the register of an applicable statutory lien, pledge of real estate, or mortgage, a guarantor may not be subrogated to the claim of the obligee vis-a-vis any third party acquirer of the real estate which is encumbered by such statutory lien, pledge of real estate, or mortgage;
- (ii) a third party acquirer may not be subrogated to the claim of the obligee vis-a-vis the guarantor;
- (iii) one of the third party acquirers of the real estate shall be subrogated to the claim of the obligee vis-a-vis other third party acquirers in proportion to the value of each real estate;
- (iv) one of the third party pledgors shall be subrogated to the claim of the obligee vis-a-vis other third party pledgors in proportion to the value of each property;
- (v) as between a guarantor and a third party pledgor, the subrogation to the claim of the obligee shall be effected depending on the number of such persons involved; provided, however, that, if there are more than one third party pledgor, such persons shall be subrogated to the claim of the obligee in proportion to the value of each property with respect only to the residual amount which remains after deduction of the portion to be borne by the guarantor; and
- (vi) in the cases referred to in the preceding item, if the property in question is real estate, the provisions of item (i) shall apply mutatis mutandis.

(Subrogation by Partial Performance)

Article 502 (1) If any performance by subrogation occurs with respect to any portion of a claim, the subrogee shall exercise his/her right together with the

obligee in proportion to the value of his/her performance.

- (2) In the case set forth in the preceding paragraph, the cancellation of a contract based on the failure to perform the obligation may be effected only by the obligee. In such case, the obligee must reimburse to the subrogee the value of the performance he/she effected plus interest.

(Delivery of Claim Instrument by Obligee)

- Article 503 (1) An obligee who has received full performance by way of performance by subrogation must deliver to the subrogee the instruments regarding the claim and any security he/she possesses.
- (2) In cases where any performance by subrogation occurs with respect to any portion of a claim, the obligee must enter such subrogation in the instruments regarding the claim and allow the subrogee to supervise the preservation of the security he/she possesses.

(Loss of Security by Obligee)

- Article 504 In cases where there exists a person who has the right of subrogation pursuant to the provision of Article 500, if the obligee lost, or diminished, his/her security due to his/her intentional act or negligence, the person who has the right of subrogation shall be relieved to the extent he/she can no longer seek the reimbursement due to such loss or diminution.

Subsection 2 Set-offs

(Requirements for Set-offs)

- Article 505 (1) In cases where two persons mutually owe to the other any obligation with the same kind of purpose, if both obligations are due, each obligor may be relieved from his/her own obligation by setting off each value thereof against the corresponding amount of the obligation of the other obligor; provided, however, that, this shall not apply to the cases where the nature of the obligation does not permit such set-off.
- (2) The provisions of the preceding paragraph shall not apply in cases where the relevant party manifests his/her intention to the contrary; provided, however, that such manifestation of intention may not be asserted against a third party without knowledge.

(Method and Effect of Set-offs)

- Article 506 (1) Set-offs shall be effected by means of manifestation of one party's intention to the other. In such case, no condition or time limit may be added to such manifestation of intention.
- (2) The manifestation of intention set forth in the preceding paragraph shall take

effect retroactively as of the time when the obligations of both parties became due and suitable for set-off.

(Set-offs between Obligations with Different Places of Performance)

Article 507 Set-offs may be effected even if the place of performance of both obligations are different. In such case, the party who intends to effect the set-off shall be liable for any damages suffered by the counterparty as result of such set-off.

(Set-offs Intended to Invoke a Claim Extinguished by Prescription)

Article 508 In cases where any claim which was extinguished by a prescription had been suitable for set-off prior to such extinguishment, the relevant obligee may effect the set-off.

(Prohibition of Effecting Set-offs Against Any Claim Arising from Tortious Acts)

Article 509 If any claim arises from a tortious act, the relevant obligor may not assert the set-off against the obligee.

(Prohibition of Set-offs Against Any Claim Immune from Attachment)

Article 510 If any claim is immune from any attachment, the relevant obligor may not assert the set-off against the obligee.

(Prohibition of Set-offs Against Any Claim Subject to Injunction)

Article 511 A third-party obligor who has been enjoined from making payment may not assert the set-off against any after-acquired claim against the relevant attaching obligee.

(Allocation of Set-off)

Article 512 The provisions of Articles 488 to 491 inclusive shall apply mutatis mutandis to the set-off.

Subsection 3 Novation

(Novation)

Article 513 (1) If the parties conclude a contract which changes any element of an obligation, such obligation shall be extinguished by novation.

(2) It is deemed that an element of obligation has been changed if a conditional obligation is made an unconditional obligation, if a condition is added to an unconditional obligation, or if any condition on an obligation is changed.

(Novation by Substitution of Obligor)

Article 514 A novation by substitution of obligor may be effected between the obligee and a person who becomes the obligor after the novation; provided, however, that, this shall not apply to the cases where it is contrary to the intention of the obligor prior to the novation.

(Novation by Substitution of Obligee)

Article 515 A novation by substitution of obligee may not be asserted against a third party unless it is made using an instrument bearing a fixed date.

Article 516 The provisions of paragraph (1) of Article 468 shall apply mutatis mutandis to the novation by substitution of obligee.

(Cases where Obligations Existing Prior to Novation are not Extinguished)

Article 517 If any obligation which arises by novation is not established or is rescinded on the ground of illegality or due to reasons unknown to the parties, the obligation which existed prior to the novation shall not be extinguished.

(Conversion of Security to Obligation After Novation)

Article 518 To the extent of the purpose of the obligation in effect prior to the novation, the parties to the novation may convert the pledge or mortgage created as the security of such obligation to the obligation in effect after the novation; provided, however, that, in cases where any third party created such security, the acknowledgment of such third party must be obtained.

Subsection 4 Release

Article 519 If an obligee manifests his/her intention to release an obligation to the obligor, such obligation shall be extinguished.

Subsection 5 Merger

Article 520 If a claim and obligation becomes vested in the same person, such claim shall be extinguished; provided, however, that, this shall not apply to the cases where such claim is the subject-matter of the right of a third party.

Chapter II Contracts

Section 1 General Provisions

Subsection 1 Formation of Contracts

(Offers that Specify Period for Acceptance)

Article 521 (1) An offer which specifies a period for acceptance may not be revoked.

(2) If an offeror does not receive notice of acceptance of the offer set forth in the preceding paragraph within the period referred to in the same paragraph, the offer shall cease to be effective.

(Late Arrival of Notices of Acceptance)

Article 522 (1) Even in cases where the notice of acceptance of the offer under paragraph (1) of the preceding Article arrives after the lapse of the period referred to in the same paragraph, if the offeror is in a position to know that the notice was dispatched at a time which, under normal circumstances, would have allowed the notice to arrive within that period, the offeror must dispatch a notice of late arrival to the other party without delay; provided, however, that this shall not apply when the offeror dispatches the notice of delay before the arrival of the notice of acceptance.

(2) When the offeror fails to give the notice of late arrival referred to in the main clause of the preceding paragraph, the notice of acceptance shall be deemed to have arrived within the period referred to in paragraph (1) of the preceding Article.

(Effect of Delayed Acceptance)

Article 523 The offeror may deem a delayed acceptance to be a new offer.

(Offers that do not Specify Period for Acceptance)

Article 524 An offer made to a person at a distance without specifying a period for acceptance may not be revoked until the lapse of a reasonable period for the offeror to receive a notice of acceptance.

(Offeror's Death or Loss of Capacity to Act)

Article 525 The provisions of paragraph (2) of Article 97 shall not apply where the offeror expresses his/her intention to the contrary, or the other party has come to know the fact of the offeror's death or loss of capacity to act.

(Time of Formation of Contract between Persons at Distance)

Article 526 (1) A contract between persons at a distance shall be formed upon dispatch of the notice of acceptance.

(2) In cases where no notice of acceptance is required due to the offeror's manifestation of intention or usage of trade, the contract shall be formed upon the occurrence of any fact which ought to be regarded as a manifestation of intention of acceptance.

(Late Arrival of Notices of Revocation of Offer)

Article 527 (1) Even if a notice to revoke an offer arrives after the dispatch of the acceptance notice, if the offeree is in a position to know that the notice was dispatched at a time which, under normal circumstances would have allowed the notice to arrive before the dispatch of the acceptance notice, the offeree must dispatch a notice of the late arrival to the offeror without delay.

(2) If the offeree fails to give the notice of late arrival referred to in the preceding paragraph, it shall be deemed that no contract was formed.

(Acceptances which Modify Offer)

Article 528 If the offeree has accepted the offer by adding any condition or by making any other modification, it shall be deemed that the offeree has refused the offer and has made a new offer.

(Advertisements Offering Prizes)

Article 529 A person who places an advertisement to the effect that any person who performs a defined act will be given a set reward (hereinafter in this Subsection referred to as an "advertiser offering prizes") shall be obligated to give the reward to the person who has performed the act.

(Revocation of Advertisements Offering Prizes)

Article 530 (1) In the case set forth in the preceding Article, the advertiser offering prizes may revoke its advertisement using a method identical to that used for the above advertisement whilst no person has completed the designated act; provided, however, that this shall not apply when a statement to the effect that the offer will not be revoked was made in the advertisement.

(2) Where revocation may not be carried out by the method provided in the main clause of the preceding paragraph, the revocation may be carried out by another method. In such cases, the revocation shall only be effective against persons with knowledge of the revocation.

(3) If the advertiser offering prizes specifies the period during which the designated act must be performed, it shall be presumed that the advertiser has waived its right to revoke.

(Right to Receive Rewards in Advertisements Offering Prizes)

Article 531 (1) If more than one person has performed the act designated in the advertisement, only the person who performed the act first shall be entitled to receive the reward.

(2) Where two or more persons have performed the act set forth in the preceding paragraph simultaneously, each shall be entitled to receive an equal share of the reward; provided, however, that the person entitled to the reward shall be

selected by lot if the reward is by nature indivisible, or the advertisement provides that only one person is entitled to receive the reward.

- (3) The provisions of the preceding two paragraphs shall not apply if the advertisement expresses any intention to the contrary.

(Advertisement Offering Prizes to Most Outstanding Applicant)

Article 532 (1) If, in cases where two or more persons have performed the act designated in the advertisement, the reward is to be given only to the most outstanding applicant, the advertisement shall be effective only if it specifies the application period.

- (2) In the cases of the preceding paragraph, the most outstanding applicant shall be judged by the person specified in the advertisement and if no such person is specified in the advertisement, by the person who places the advertisement.

(3) Applicants may not raise any objection to the judge's decision referred to in the preceding paragraph.

- (4) The provision of the second paragraph of the preceding Article shall apply mutatis mutandis to cases where the acts of two or more persons are judged to be equal.

Subsection 2 Effect of Contracts

(Defense for Simultaneous Performance)

Article 533 A party to a bilateral contract may refuse to perform his/her own obligation until the other party tenders the performance of his/her obligation; provided, however, that this shall not apply if the obligation of the other party is not yet due.

(Obligees to Assume Risk)

Article 534 (1) In cases where the purpose of a bilateral contract is the creation or transfer of real rights regarding specified things, if the things have been lost or damaged due to reasons not attributable to the obligor, such loss or damage shall fall on the obligee.

- (2) The provisions of the preceding paragraph shall apply to any contract regarding unspecified things from the time when the things have been identified in accordance with the provisions of paragraph (2) of Article 401.

(Assumption of Risk in Bilateral Contract with Condition Precedent)

Article 535 (1) The provisions of the preceding Article shall not apply where the subject matter of a bilateral contract with conditions precedent is lost whilst the conditions are pending.

- (2) If the subject matter of a bilateral contract with conditions precedent has

been lost or damaged due to reasons not attributable to the obligor, the loss or damage shall fall on obligee.

- (3) In cases where the subject matter of a bilateral contract with conditions precedent has been lost or damaged due to reasons attributable to the obligor, if the condition has been satisfied, the obligee may, at his/her choice, demand performance or exercise the obligee's right to cancel. In such cases, claims for damages shall not be precluded.

(Obligors' Assumption of Risk)

Article 536 (1) Except in the cases provided for in the preceding two Articles, if the performance of any obligation has become impossible due to reasons not attributable to either party, the obligor shall not have the right to receive performance in return.

- (2) If the performance of any obligation has become impossible due to reasons attributable to the obligee, the obligor shall not lose his/her right to receive performance in return. In such cases, if the obligor gains any benefit as a result of being released from his/her own obligation, the obligor must reimburse the obligee for the benefit.

(Contracts for the Benefit of Third Parties)

Article 537 (1) If one of the parties promises in a contract that he/she will tender a certain performance to any third party, the third party shall have the right to claim that performance directly from the obligor.

- (2) In the cases set forth in the preceding paragraph, rights of the third party shall accrue when the third party has expressed his/her intention to the obligor to enjoy the benefit of the contract under that paragraph.

(Determination of Rights of the Third Party)

Article 538 After rights of the third party have come into existence in accordance with the provisions of the preceding Article, the parties may not modify or extinguish those rights.

(Obligors' Defense)

Article 539 The obligor may raise the defense founded on the contract referred to in paragraph (1) of Article 537 against a third party who is to enjoy the benefit of the contract.

Subsection 3 Cancellation of Contracts

(Exercise of Right to Cancel)

Article 540 (1) If one of the parties has a right to cancel in accordance with the

provisions of the contract or law, the cancellation shall be effected by manifestation of intention to the other party.

(2) The manifestation of intention under the preceding paragraph may not be revoked.

(Right to Cancel for Delayed Performance)

Article 541 In cases where one of the parties does not perform his/her obligations, if the other party demands performance of the obligations, specifying a reasonable period and no performance is tendered during that period, the other party may cancel the contract.

(Right to Cancel for Delayed Performance where Time is of the Essence)

Article 542 In cases where, due to the nature of the contract or a manifestation of intention by the parties, the purpose of the contract cannot be achieved unless the performance is carried out at a specific time and date or within a certain period of time, if one of the parties has failed to perform at the time that period lapses, the other party may immediately cancel the contract without making the demand referred to in the preceding Article.

(Right to Cancel for Impossibility of Performance)

Article 543 If performance has become impossible, in whole or in part, the obligee may cancel the contract; provided, however, that this shall not apply if the failure to perform the obligation is due to reasons not attributable to the obligor.

(Indivisible Nature of Right to Cancel)

Article 544 (1) If one party is constituted of two or more persons, the cancellation of the contract may be effected only by, or against, all of those persons.

(2) In the case set forth in the preceding paragraph, if the right to cancel is extinguished with respect to one of the persons who constitute a party, it shall also be extinguished with respect to the other persons.

(Effect of Cancellation)

Article 545 (1) If one of the parties exercises his/her right to cancel, each party shall assume an obligation to restore the other party to that other party's original position; provided, however, that this shall not prejudice the rights of a third party.

(2) In the case set forth in the main clause of the preceding paragraph, if any monies are to be refunded, interest must accrue from the time of the receipt of those monies.

(3) The exercise of the right to cancel shall not preclude claims for damages.

(Cancellation of Contract and Simultaneous Performance)

Article 546 The provisions of Article 533 shall apply mutatis mutandis to the preceding Article.

(Extinguishment of Right to Cancel by Demand)

Article 547 If no period is provided for the exercise of the right to cancel, the other party may issue a notice of demand to the holder of the right to cancel, specifying a reasonable period, to the effect that the holder of the right to cancel is to give a definite answer as to whether or not the right will be exercised within that period. In such cases, if no notice of cancellation is received within that period, the right to cancel shall be extinguished.

(Extinguishment of Right to Cancel by Acts of Holder of Right to Cancel)

Article 548 (1) The right to cancel shall be extinguished if the holder of the right to cancel has significantly damaged, or has become unable to return, the subject matter of the contract due to his/her act or negligence, or has converted the subject matter into any other kind of thing by processing or alteration.

(2) The right to cancel shall not be extinguished if the subject matter of the contract has been lost or damaged due to reasons not attributable to any act or negligence of the holder of the right to cancel.

Section 2 Gifts

(Gifts)

Article 549 Gifts shall become effective by the manifestation by one of the parties of his/her intention to give his/her property to the other party gratuitously, and the acceptance of the other party thereof.

(Revocation of Gift Not in Writing)

Article 550 Gifts not in writing may be revoked by either party; provided, however, that this shall not apply to any portion of the gift for which performance has been completed.

(Warranty by Donor)

Article 551 (1) The donor shall not be liable for any defect in or absence of the thing or right that is the subject matter of the gift; provided, however, that this shall not apply if the donor has knowledge of the defect or absence and fails to inform the donee thereof.

(2) With respect to encumbered gifts, the donor shall assume a warranty

identical to that borne by the seller, to the extent of that encumbrance.

(Periodic Gifts)

Article 552 Periodic gifts shall lose its effect on the death of the donor or the donee.

(Encumbered Gifts)

Article 553 With respect to gifts with burden, in addition to the provisions of this Section, the provisions regarding bilateral contracts shall apply mutatis mutandis, to the extent those provisions are not inconsistent with the nature of gifts with burden.

(Gifts on Donor's Death)

Article 554 With respect to gifts that become effective on the death of the donor, the provisions regarding testamentary gifts shall apply mutatis mutandis, to the extent they are not inconsistent with the nature of gifts that become effective on the death of the donor.

Section 3 Sale

Subsection 1 General Provisions

(Sale)

Article 555 A sale shall become effective when one of the parties promises to transfer a certain real rights to the other party and the other party promises to pay the purchase money for it.

(Pre-contract of Sales Exercisable by One Party)

Article 556 (1) A pre-contract to sell or purchase made by one party shall take the effect of a sale when the other party has manifested his/her intention to complete such sale.

(2) If no period is provided in relation to the manifestation of intention set forth in the preceding paragraph, the other party to the pre-contact may issue a notice of demand to the other party, specifying a reasonable period, to the effect that the other party is to give a definite answer as to whether or not he/she will complete the sale within that period. In such cases, if the other party fails to give a definite answer within that period, the pre-contract of sale by one party shall lose its effect.

(Earnest Money)

Article 557 (1) When the buyer delivers earnest money to the seller, the buyer may cancel the contract by forfeiting his/her earnest money or the seller may

cancel the contract by reimbursing twice its amount, until either party commences performance of the contract.

(2) The provisions of paragraph (3) of Article 545 shall not apply to cases set forth in the preceding paragraph.

(Expenses of Contracts for Sale)

Article 558 The expenses of contracts for sale shall be borne equally by both parties.

(Mutatis Mutandis Application to Contracts for Value)

Article 559 The provisions of this Section shall apply mutatis mutandis to contracts for value other than contracts for sale; provided, however that this shall not apply when it is not permitted by the nature of the contract for value.

Subsection 2 Effect of Sale

(Seller's Obligation when Selling Rights of Others)

Article 560 If the subject matter of the sale is the rights of others, the seller shall assume an obligation to acquire the rights and transfer the same to the buyer.

(Seller's Warranty when Selling Rights of Others)

Article 561 In the cases set forth in the preceding Article, if the seller cannot acquire and transfer to the buyer the rights the seller has sold, the buyer may cancel the contract. In such cases, if the buyer knew, at the time of the contract, that the rights did not belong to the seller, the buyer may not demand compensation for damages.

(Innocent Seller's Right of Cancellation in a Sale of Others' Rights)

Article 562 (1) In cases where the seller, at the moment of the contract, does not know that the rights the seller has sold do not belong to him/her, if the seller cannot acquire the rights and transfer the same to the buyer, the seller may cancel the contract by compensating any damages.

(2) In the cases set forth in the preceding paragraph, if the buyer, at the moment of the contract, knows that the rights the buyer has bought do not belong to the seller, the seller may cancel the contract by simply notifying the buyer to the effect that the seller cannot transfer the rights sold.

(Seller's Warranty where Rights Partially Belonged to Others)

Article 563 (1) If the seller cannot transfer any part of the rights which are the subject matter of the sale because the part of the rights belongs to others, the

seller may demand a reduction of the purchase money in proportion to the value of the part in shortage.

- (2) In the cases set forth in the preceding paragraph, a buyer in good faith may cancel the contract if the buyer would not have bought the rights if the rights consisted only of the remaining portion.
- (3) A demand for the reduction in the purchase money or cancellation of the contract shall not preclude a buyer in good faith from making a claim for damages.

Article 564 The rights under the preceding Article must be exercised within one year from the time when the buyer knew the facts if the buyer was in good faith, or within one year from the time of the contract if the buyer had knowledge, as the case may be.

(Seller's Warranty in Cases of Shortage in Quantity or Partial Loss of Object)

Article 565 The provisions of the preceding two Articles shall apply mutatis mutandis in cases where there is any shortage in the object of a sale made for a designated quantity, or in cases where part of the object was already lost at the time of the contract, if the buyer did not know of the shortage or loss.

(Seller's Warranty in cases of Superficies or Other Rights)

Article 566 (1) In cases where the subject matter of the sale is encumbered with for the purpose of a superficies, an emphyteusis, an easement, a right of retention or a pledge, if the buyer does not know the same and cannot achieve the purpose of the contract on account thereof, the buyer may cancel the contract. In such cases, if the contract cannot be cancelled, the buyer may only demand compensation for damages.

- (2) The provisions of the preceding paragraph shall apply mutatis mutandis in cases where an easement that was referred to as being in existence for the benefit of immovable property that is the subject matter of a sale, does not exist, and in cases where a leasehold is registered with respect to the immovable property.
- (3) In the cases set forth in the preceding two paragraphs, the cancellation of the contract or claim for damages must be made within one year from the time when the buyer comes to know the facts.

(Seller's Warranty in cases of Mortgage or Other Rights)

Article 567 (1) If the buyer loses his/her ownership of immovable property that is the object of a sale because of the exercise of an existing statutory lien or mortgage, the buyer may cancel the contract.

- (2) If the buyer preserves his/her ownership by incurring expenditure for costs,

he/she may claim reimbursement of those costs from the seller.

- (3) In the cases set forth in the preceding two paragraphs, the buyer may claim compensation if he/she suffered loss.

(Warranty in cases of Compulsory Auctions)

Article 568 (1) The successful bidder at compulsory auction may cancel the contract or demand a reduction from the purchase money against the obligor in accordance with the provisions from Article 561 through to the preceding Article.

- (2) In the cases set forth in the preceding paragraph, if the obligor is insolvent, the successful bidder may demand total or partial reimbursement of the proceeds against the obligees who received the distribution of the proceeds.

- (3) In the cases set forth in the preceding two paragraphs, if obligors knew of the absence of the object or right and did not disclose the same, or if obligors knew of the absence but demanded an auction, the successful bidder may demand compensation for damages against those persons.

(Seller's Warranty for Claims)

Article 569 (1) If the seller of a claim warrants the solvency of the obligor, it shall be presumed that the seller warranted the solvency as at the time of the contract.

- (2) If the seller of a claim which is not due yet warrants the future solvency of the obligor, it shall be presumed that he/she warranted the solvency as at the due date.

(Seller's Warranty against Defects)

Article 570 If there is any latent defect in the subject matter of a sale, the provisions of Article 566 shall apply *mutatis mutandis*; provided, however, that this shall not apply in cases of compulsory auction.

(Seller's Warranty and Simultaneous Performance)

Article 571 The provisions of Article 533 shall apply *mutatis mutandis* to the cases set forth from Article 563 through to Article 566 and in the preceding Article.

(Special Agreement Disclaiming Warranty)

Article 572 Even if the seller makes a special agreement to the effect that the seller will not provide the warranties set forth from Article 560 through to the preceding Article, the seller may not be released from that responsibility with respect to any fact that the seller knew but did not disclose, and with respect to any right that the seller himself/herself created for or assigned to a third party.

(Due Date for Payment of Purchase money)

Article 573 If there is a due date for the delivery of the subject matter of the sale, it shall be presumed that the same due date was also agreed for the payment of the purchase money.

(Place of Payment of Purchase money)

Article 574 If the purchase money is to be paid simultaneously with delivery of the subject matter of the sale, the payment must be made at the place of delivery.

(Ownership in Fruit and Payment of Interest on Purchase money)

Article 575 (1) If any subject matter of a sale that is not delivered yet bears any fruit, the fruit shall vest in the seller.

(2) The buyer shall assume an obligation to pay the interest on the purchase money from the day of delivery; provided, however, that, if a due date is provided for the payment of the purchase money, it shall not be necessary to pay the interest until that due date arrives.

(Refusal by Buyer to Pay Purchase money where Loss of Rights is Likely)

Article 576 If the buyer is likely to lose the rights he/she has bought, in whole or in part, due to the existence of persons who assert rights to the subject matter of the sale, the buyer may refuse to pay the purchase money, in whole or in part, in proportion to the extent of that likelihood; provided, however, that this shall not apply if the seller has provided reasonable security.

(Refusal by Buyer to Pay Purchase money in cases of Registered Mortgage)

Article 577 (1) If any mortgage is registered on immovable property that has been purchased, the buyer may refuse to pay the purchase money until the completion of the procedures of the claim for extinguishment of the mortgage. In such cases, the seller may demand that the buyer file the claim for extinguishment of the mortgage without delay.

(2) The provisions of the preceding paragraph shall apply mutatis mutandis to cases where a statutory lien or pledge is registered on the immovable property that has been bought.

(Seller's Demand for Deposit of Purchase money)

Article 578 In the cases of the preceding two paragraphs, the seller may demand that the buyer deposit the purchase money.

Subsection 3 Redemption

(Special Agreement on Redemption)

Article 579 The buyer of immovable property may cancel the sale by refunding the purchase money and costs of the contract paid by the buyer in accordance with a special agreement on redemption executed simultaneously with the contract for sale. In such cases, unless a contrary intention is manifested by the parties, it shall be deemed that the fruit of the immovable property and the interest on the purchase money have been set off against each other.

(Period for Redemption)

Article 580 (1) The period for the redemption may not exceed ten years. If any special agreement provides for any period longer than the above, the period shall be ten years.

(2) If a period for the redemption is agreed, no further extension may be effected subsequently.

(3) If no period for the redemption is agreed, the redemption must be effected within five years.

(Perfection of Special Agreement on Redemption)

Article 581 (1) If the special agreement on redemption is registered simultaneously with the contract for sale, the redemption shall also be effective against third parties.

(2) The rights of a lessee who effected registration can be asserted against the seller while the lease remains effective, limited to a period not exceeding one year; provided, however, that this shall not apply if the lease is entered into with the purpose of harming the seller.

(Exercise of Right of Redemption by way of Subrogation)

Article 582 If an obligee of the seller intends to effect redemption on behalf of the seller in accordance with the provisions of Article 423, the buyer may extinguish the right of redemption by paying the debts of the seller, to the extent of the balance obtained by deducting the amount the seller is to pay from the current value of the immovable property as evaluated by a court-appointed appraiser, and, if any positive balance remains, by refunding the same to the seller.

(Implementation of Redemption)

Article 583 (1) A seller may not effect redemption unless the seller provides the purchase money and the costs of the contract within the period provided for in Article 580.

(2) If a buyer or subsequent acquirer incurs expenses with respect to immovable

property, the seller must reimburse those expenses in accordance with the provisions of Article 196; provided, however, that, with respect to useful expenses, the court may, at the seller's request, grant a reasonable period for the reimbursement.

(Sale of Co-ownership Interest with Special Agreements on Redemption)

Article 584 If one of the co-owners of immovable property sells his/her equity interest with special agreements on its redemption and the immovable property is then divided or subjected to auction, the seller may redeem the portion or purchase money that the buyer receives or is to receive; provided, however, that any division or auction effected without notice to the seller may not be asserted against the seller.

Article 585 (1) In the cases of the preceding Article, if the buyer is the successful bidder at the auction of the immovable property, the seller may effect the redemption by paying the auction price and the costs provided for in Article 583. In such cases, the seller shall acquire full ownership of the immovable property.

(2) If the buyer has become the successful bidder at an auction as the result of the request of division by other joint owner(s), the seller may not effect the redemption with respect only to his/her own share.

Section 4 Exchange

Article 586 (1) An exchange shall become effective by the mutual promises by the parties to transfer any property right other than the ownership of money.

(2) In cases where one of the parties promises to transfer the ownership of money together with other rights, the provisions regarding purchase money for sale contracts shall apply mutatis mutandis to that money.

Section 5 Loans for Consumption

(Loans for Consumption)

Article 587 A loan for consumption shall become effective when one of the parties receives money or other things from the other party by promising that he/she will return by means of things that are the same in kind, quality and quantity.

(Quasi-loans for Consumption)

Article 588 In cases where any person has an obligation to provide money or other things under any arrangement which is not a loan for consumption, if the

parties agree to regard such things as the subject matter of a loan for consumption, it shall be deemed that this establishes a loan for consumption.

(Pre-contract of Loans for Consumption and Commencement of Bankruptcy Procedures)

Article 589 The pre-contract of a loan for consumption shall lose its effect if a ruling for the commencement of bankruptcy procedures is subsequently made against one of the parties.

(Lender's Warranty)

Article 590 (1) If there is any latent defect in any borrowed Thing in a loan for consumption with interest, the lender must replace it with another Thing without defect. In such cases, claims for damages shall not be precluded.

(2) In a loan for consumption without interest, the borrower may return the value of a borrowed Thing that is defective. In such cases, the provisions of the preceding paragraph shall apply mutatis mutandis if the lender knew of the defect but did not disclose the same to the borrower.

(Timing of Returns)

Article 591 (1) If the parties do not define the time for return of borrowed Things, the lender may demand their return, specifying a reasonable period.

(2) The borrower may return borrowed Things at any time.

(Reimbursement of Value)

Article 592 If the borrower has become unable to return Things in the same kind, quality and quantity as that of the Things the borrower received from the lender, the borrower must return the current value of the Things; provided, however, that this shall not apply in the cases provided for in paragraph (2) of Article 402.

Section 6 Loans for Use

(Loans for Use)

Article 593 A loan for use shall become effective when one of the parties receives a defined Thing from the other party by promising that he/she will return the Thing after he/she has gratuitously made use of and taken the profits of the same.

(Borrower's Use and Profit)

Article 594 (1) A borrower must make use of and take the profits of the Thing in compliance with the method of use specified by the contract or by the nature of

the Thing which is the subject matter of the contract.

- (2) A borrower may not allow third parties to make use of or take the profits of the Thing without obtaining the approval of the lender.
- (3) If a borrower has made use of or taken the profits of the Thing in violation of the preceding two paragraphs, the lender may cancel the contract.

(Responsibility for Costs of Borrowed Things)

Article 595 (1) The borrower shall bear the ordinarily necessary costs of borrowed Things.

- (2) The provisions of paragraph (2) of Article 583 shall apply *mutatis mutandis* to costs other than the ordinarily necessary costs under the preceding paragraph.

(Lender's Warranty)

Article 596 The provisions of Article 551 shall apply *mutatis mutandis* to loans for use.

(Timing of Returns of Borrowed Things)

Article 597 (1) A borrower must return borrowed Things at the time specified in the contract.

- (2) When the parties have not specified a time for return, the borrower must return the borrowed Things when he/she has completed to make use of or take the profits of the same in compliance with the purposes provided for in the contract; provided, however, that the lender may demand the immediate return of the borrowed Things even before the completion of using or taking profits if a period sufficient for using or taking profits has elapsed.
- (3) If the parties have not specified the timing of the return and the purposes of the using and taking profits, the lender may demand the return of the borrowed Things at any time.

(Removal by Borrower)

Article 598 A borrower may restore a borrowed Thing to its original condition and remove anything attached to the same.

(Termination of Loan for Use upon Death of Borrower)

Article 599 Loans for use shall lose its effect on the death of the borrower.

(Restriction on Period of Rights to Demand Compensation for Damages and Reimbursement of Costs)

Article 600 Claims for compensation for damages resulting from using or taking profits of the Thing inconsistent with the main purport of the contract, and for the reimbursement of costs incurred by the borrower, must be submitted

within one year from the time when the lender receives the return of the borrowed Things.

Section 7 Leases

Subsection 1 General Provisions

(Leases)

Article 601 A lease shall become effective when one of the parties promises to make a certain Thing available for the using and taking the profits by the other party and the other party promises to pay rent for the same.

(Short-term Leases)

Article 602 In cases where a person with limited capacity to act or a person with no authority with respect to the act of disposition makes a lease contract, the leases listed in the following items shall not exceed the terms prescribed respectively in those items:

- (i) Leases of forest for the purpose of planting or felling trees: 10 years;
- (ii) Leases of land other than the leases listed in the preceding item: 5 years;
- (iii) Lease of a building: 3 years; and
- (iv) Lease of a movable: 6 months.

(Renewal of Short-term Leases)

Article 603 The terms prescribed in the preceding Article may be renewed; provided, however, that the renewal must be carried out within one year prior to the expiration of the term for land, and within 3 months prior to the expiration of the term for a building, and within 1 month prior to the expiration of the term for a movable.

(Duration of Lease)

Article 604 (1) The duration of a lease may not exceed twenty years. Even if the contract prescribes a longer term, the term shall be 20 years.

(2) The duration of a lease may be renewed; provided, however, that such period may not exceed twenty years from the time of the renewal.

Subsection 2 Effect of Lease

(Perfection of Leasehold)

Article 605 A lease of immovable property, when registered, shall also be effective against a person who subsequently acquires real rights with respect to the immovable property.

(Repairs of Leased Things)

Article 606 (1) A lessor shall assume an obligation to effect repairs necessary for using and taking the profits of the leased Things.

(2) The lessee may not refuse if the lessor intends to engage in any act that is necessary for the preservation of the leased Thing.

(Act to Preserve against the Will of the Lessee)

Article 607 In cases where the lessor intends to engage in an act to preserve the leased Thing against the will of the lessee, if the lessee cannot achieve the purpose of the lease as a result of the same, the lessee may cancel the contract.

(Lessee's Demand for Reimbursement of Costs)

Article 608 (1) If a lessee has defrayed necessary expenses with respect to the leased Thing which ought to be borne by the lessor, the lessee may immediately demand the reimbursement of the same from the lessor.

(2) If the lessee has incurred useful expenses with respect to the leased Thing, the lessor must reimburse those expenses on termination of the lease in compliance with the provisions of paragraph (2) of Article 196; provided, however, that the court may, at the lessor's request, grant a reasonable period for the reimbursement of the same.

(Demand for Reduction of Rent due to Decrease in Profits)

Article 609 A lessee of land for the purpose of profit making may, if he/she obtains profits less than the rent due to force majeure, demand that the amount of the rent be reduced to the level of the amount of the profits; provided, however, that this shall not apply with respect to leases of residential land.

(Termination due to Decrease in Profits)

Article 610 In the cases of the preceding Article, the lessee referred to in that Article may cancel the contract if he/she has made profits less than the rent for at least two consecutive years due to force majeure.

(Demands for Reduction of Rent due to Partial Loss of Leased Thing)

Article 611 (1) If any part of a leased thing is lost due to reasons not attributable to the negligence of the lessee, the lessee may demand a reduction of the rent in proportion to the value of the lost part.

(2) In the cases set forth in the preceding paragraph, if the lessee cannot achieve the purpose of the lease with the remaining portion only, the lessee may cancel the contract.

(Restrictions on Assignment and Subleasing of Leasehold)

Article 612 (1) A lessee may not assign the lessee's rights or sublease a leased Thing without obtaining the approval of the lessor.

(2) If the lessee allows any third party to make use of or take the profits of a leased Thing in violation of the provisions of the preceding paragraph, the lessor may cancel the contract.

(Effect of Subleases)

Article 613 (1) If a lessee lawfully subleases a leased Thing, the sublessee shall assume a direct obligation to the lessor. In such cases, advance payment of rent may not be asserted against the lessor.

(2) The provisions of the preceding paragraph shall not preclude the lessor from exercising his/her rights against the lessee.

(Timing of Payment of Rent)

Article 614 Rent must be paid at the end of the month with respect to movables, buildings and land for residential purpose, and at the end of the year with respect to other land; provided, however, that, with respect to anything with a harvest season, the rent must be paid without delay after that season.

(Obligation of Lessee to Give Notice)

Article 615 If the leased Thing requires any repair, or if any person asserts rights with respect to the leased Thing, the lessee must notify the lessor without delay; provided, however, that this shall not apply if this is already known to the lessor.

(Mutatis Mutandis Application of Loans for Use)

Article 616 The provisions of paragraph (1) of Article 594, paragraph (1) of Article 597 and Article 598 shall apply mutatis mutandis to leases.

Subsection 3 Termination of Leases

(Offers to Terminate Leases with Indefinite Terms)

Article 617 (1) If the parties do not specify the term of a lease, either party may request to terminate it at any time. In such cases, the leases listed in the following items shall terminate on the expiration of the respective periods from the day of the request to terminate prescribed respectively in those items:

(i) Leases of land: one year;

(ii) Leases of buildings: three months; and

(iii) Leases of movables and seating hire facilities: one day.

(2) With respect to leases of land with harvest seasons, the request to terminate

must be made after the end of that season and before the next start of cultivation.

(Reservation of Rights to Terminate Leases with Definite Terms)

Article 618 Even if the parties specify the term of a lease, the provisions of the preceding Article shall apply mutatis mutandis if one party reserves, or both parties reserve, the right to terminate during that period.

(Presumption of Renewal of Leases)

Article 619 (1) In cases where a lessee continues to make use or take the profits of the Thing after the expiration of the term of the lease, if a lessor who knows of the same raises no objection, it shall be presumed that a further lease is entered into under conditions identical to those of the previous lease. In such cases, each party may request to terminate in accordance with the provisions of Article 617.

(2) If one of the parties has provided security for the previous lease, the security shall be extinguished upon expiration of the term; provided, however, that this shall not apply to a security deposit.

(Effect of Cancellations of Leases)

Article 620 In cases where a lease is cancelled, the cancellation shall be effective solely toward the future. In such cases, if one of the parties is negligent, claims for damages against that party shall not be precluded.

(Limitation on Periods of Rights to Demand Compensation for Damages and Reimbursement of Costs)

Article 621 The provisions of Article 600 shall apply mutatis mutandis to leases.

Article 622 deleted

Section 8 Employment

(Employment)

Article 623 An employment contract shall become effective when one of the parties promises to the other party that he/she will engage in work and the other party promises to pay remuneration for the same.

(Timing of Payment of Remuneration)

Article 624 (1) An employee may not demand remuneration until the work he/she promised to perform has been completed.

(2) Remuneration specified with reference to a period may be claimed on the

expiration of that period.

(Restrictions on Assignment of Employer's Rights)

Article 625 (1) An employer may not assign his/her rights to third parties unless the employer obtains the employee's consent.

(2) An employee may not cause any third party to work on his/her behalf unless the employee obtains the employer's consent.

(3) If an employee causes any third party to work in violation of the provisions of the preceding paragraph, the employer may cancel the contract.

(Cancellation of Employment with a Definite Term)

Article 626 (1) If the term of employment exceeds five years, or employment is to continue during the life of either party or any third party, either party may cancel the contract at any time after the expiration of five years; provided, however, that said five years shall be ten years with respect to employment for the purpose of apprenticeship in commerce and industry.

(2) If a person intends to cancel a contract under the provisions of the preceding paragraph, he/she must give notice three months in advance.

(Offer to Terminate Employment with Indefinite Term)

Article 627 (1) If the parties have not specified the term of employment, either party may request to terminate at any time. In such cases, employment shall terminate on the expiration of two weeks from the day of the request to terminate.

(2) If remuneration is specified with reference to a period, the request to terminate may be made with respect to the following period of time onward; provided, however, that the request to terminate must be made in the first half of the current period.

(3) If remuneration is specified with reference to a period of six months or more, the request to terminate under the preceding paragraph must be made three months before the termination.

(Cancellation of Employment due to Unavoidable Reasons)

Article 628 Even in cases where the parties have specified the term of employment, if there are unavoidable reasons, either party may immediately cancel the contract. In such cases, if the reasons arise from the negligence of either one of the parties, that party shall be liable to the other party for damages.

(Presumption of Renewal of Employment)

Article 629 (1) In cases where an employee continues to engage in his/her work

after the expiration of a term of employment, if an employer knows of the same and raises no objection, it shall be presumed that the further employment is entered into under conditions identical to those of the previous employment. In such cases, each party may request to termination under the provisions of Article 627.

(2) If either party has provided security for the previous employment, the security shall be extinguished on the expiration of the term; provided, however, that this shall not apply to fidelity bonds.

(Effect of Cancellation of Employment)

Article 630 The provisions of Article 620 shall apply mutatis mutandis to employment.

(Request to Terminate due to Commencement of Bankruptcy Procedures for Employer)

Article 631 In cases where the employer is subject to a ruling for the commencement of bankruptcy procedures, the employee or the trustee in bankruptcy may request to terminate under the provisions of Article 627 even if the employment is for a definite term. In such cases, neither party may claim compensation from the other party for damages suffered as a result of the termination.

Section 9 Contracts for Work

(Contracts for Work)

Article 632 A contract for work shall become effective when one of the parties promises to complete work and the other party promises to pay remuneration for the outcome of the work.

(Timing of Payment of Remuneration)

Article 633 Remuneration must be paid simultaneously with delivery of the subject matter of work performed; provided, however, that, if no delivery of a Thing is required, the provisions of paragraph (1) of Article 624 shall apply mutatis mutandis.

(Contractor's Warranty)

Article 634 (1) If there is any defect in the subject matter of work performed, the party ordering the work may demand that the contractor repair the defect, specifying a reasonable period; provided, however, that this shall not apply if the defect is not significant and excessive costs would be required for the repair.
(2) The party ordering the work may demand compensation for damages in lieu of,

or in addition to, the repair of the defect. In such cases, the provisions of Article 533 shall apply *mutatis mutandis*.

Article 635 If there is any defect in the subject matter of work performed and the purpose of the contract cannot be achieved because of the defect, the party ordering the work may cancel the contract; provided, however, that this shall not apply to a building or other structure on land.

(No Application of Provisions on Contractor's Warranty)

Article 636 The provisions of the preceding two Articles shall not apply if the defect in the subject matter of the work arises due to the nature of the materials supplied by, or instructions given by, the party ordering the work; provided, however, that this shall not apply if the contractor knew that the materials or instructions were inappropriate but did not disclose the same.

(Duration of Contractor's Warranty)

Article 637 (1) The demand for repair or claim for damages and cancellation of the contract under the preceding three Articles must be made within one year from the time of the delivery of the subject matter of the work.

(2) Where no delivery of the subject matter is required, the period referred to in the preceding paragraph commences to run from the time of the completion of the work.

Article 638 (1) A contractor for a building or other structure on land shall be liable for a warranty against defects in the structure or ground for the period of five years from delivery; provided, however, that the period shall be ten years for structures made of stone, earth, bricks, concrete, steel and other similar structures.

(2) If any structure is lost or damaged due to the defects set forth in the preceding paragraph, the party ordering the work must exercise the rights under the provisions of Article 634 within one year from the time of the loss or damage.

(Extension of Duration of Warranty)

Article 639 The periods set forth in Article 637 and paragraph (1) of the preceding Article may be extended by contract so long as they do not exceed the period of time provided for the extinctive prescription under the provisions of Article 167.

(Special Agreement of No Warranty)

Article 640 Even if the contractor agrees to a special agreement to the effect that

the contractor will not be liable for the warranty provided in Article 634 or Article 635, the contractor may not be released from the contractor's liability with respect to facts the contractor knew and did not disclose.

(Cancellation of Contract by Party Ordering Work)

Article 641 The party ordering work may cancel the contract at any time whilst the contractor has not completed the work by compensating any damages.

(Cancellation on Commencement of Bankruptcy Procedures for Party Ordering Work)

Article 642 (1) In cases where the party ordering work is subject to a ruling for the commencement of bankruptcy procedures, the contractor or the trustee in bankruptcy may cancel the contract. In such cases, the contractor may participate in the distribution of the bankrupt estate with respect to remuneration for the work already performed and any costs not included in that remuneration.

(2) In the cases set forth in the preceding paragraph, claims for damages suffered as a result of the cancellation of the contract shall be permitted only for contractors under contracts cancelled by the trustee in bankruptcy. In such cases, the contractors shall participate in the distribution of the bankrupt estate with respect to such damages.

Section 10 Mandates

(Mandates)

Article 643 A mandate shall become effective when one of the parties mandates the other party to perform a juristic act, and the other party accepts the mandate.

(Duty of Care of Mandatary)

Article 644 A mandatary shall assume a duty to administer the mandated business with the care of a good manager compliance with the main purport of the mandate.

(Reports by Mandatary)

Article 645 A mandatary must, if so requested by the mandator, report the current status of the administration of the mandated business at any time, and must report the process and results without delay upon completion of the mandate.

(Delivery of Received Things by Mandatary)

Article 646 (1) The mandatary must deliver to the mandator monies and other Things that he/she has received during the course of administering the mandated business. The same shall apply to fruits the mandatary has reaped.
(2) The mandatary must transfer to the mandator rights the mandatary has acquired in his/her own name on behalf of the mandator.

(Mandatary's Responsibility for Consumption of Monies)

Article 647 If the mandatary has consumed monies for his/her personal benefit that the mandatary is to deliver to the mandator, or any monies that are to be used for the benefit of the mandator, the mandatary must pay interest for the period from the day of that consumption. In such cases, if any damages still remain, the mandatary shall be liable to compensate for the same.

(Remuneration for Mandatary)

Article 648 (1) In the absence of any special agreements, the mandatary may not claim remuneration from the mandator.
(2) In cases where the mandatary is to receive remuneration, the mandatary may not claim the same until and unless he/she has performed the mandated business; provided, however, that if the remuneration is specified with reference to period, the provisions of paragraph (2) of Article 624 shall apply *mutatis mutandis*.
(3) If the mandate terminates during performance due to reasons not attributable to the mandatary, the mandatary may demand remuneration in proportion to the performance already completed.

(Mandatary's Claims for Advance for Costs)

Article 649 If costs will be incurred in administering the mandated business, the mandator must, at the request of the mandatary, pay an advance for those costs.

(Mandatary's Claims for Reimbursement of Expense)

Article 650 (1) If the mandatary has incurred costs found to be necessary for the administration of the mandated business, the mandatary may claim reimbursement of those costs from the mandator and any interest on the same from the day the costs were incurred.
(2) If the mandatary has incurred any obligation found to be necessary for the administration of the mandated business, the mandatary may demand that the mandator perform the obligation on the mandatary's behalf. In such cases, if the obligation has not yet fallen due, the mandatary may require the mandator to tender reasonable security.
(3) If the mandatary suffers any loss due to the administration of the mandated

business without negligence in the mandatary, he/she may claim compensation for the loss from the mandator.

(Cancellation of Mandate)

Article 651 (1) A mandate may be cancelled by either party at any time.

(2) If one of the parties cancels a mandate at a time that is detrimental to the other party, the former party must compensate the damages suffered by the other party; provided, however, that this shall not apply if there are unavoidable grounds.

(Effect of Cancellation of Mandate)

Article 652 The provision of Article 620 shall apply mutatis mutandis to mandates.

(Grounds for Termination of Mandate)

Article 653 A mandate shall terminate when:

- (i) The mandator or mandatary dies;
- (ii) The mandator or mandatary is subject to a ruling for the commencement of bankruptcy procedures;
- (iii) The mandatary is subject to an order for the commencement of guardianship.

(Disposition after Termination of Mandate)

Article 654 In cases where a mandate has terminated, if there are pressing circumstances, the mandatary or his/her heir or legal representative must effect necessary dispositions until the time when the mandator or his/her heir or legal representatives is able to take charge of the mandated business.

(Requirement for Perfection of Termination of Mandate)

Article 655 The grounds of termination of mandate may not be asserted against the other party unless the other party was notified of or knew of the same.

(Quasi-Mandate)

Article 656 The provisions of this Section shall apply mutatis mutandis to mandates of business that do not constitute juristic acts.

Section 11 Deposits

(Deposits)

Article 657 A deposit shall become effective when one of the parties receives a certain Thing by promising that he/she will retain it for the other party.

(Use of Deposited Thing and Retention by Third Parties)

Article 658 (1) A depositary may not use, or allow third parties to retain, the Thing deposited without obtaining the consent of the depositor.

(2) The provisions of Article 105 and paragraph (2) of Article 107 shall apply mutatis mutandis to cases where a depositary may allow third parties to retain deposited Things.

(Duty of Care of Gratuitous Depositary)

Article 659 A person who has undertaken a deposit gratuitously shall assume a duty to retain the Thing deposited exercising care identical to that he/she exercises for his/her own property.

(Obligation of Depositary to Give Notice)

Article 660 If a third party asserting rights with respect to the Thing deposited has brought a lawsuit against the depositary, or has effected an attachment, provisional attachment, or provisional disposition, the depositary must notify the depositor of that fact without delay.

(Compensation of Damages by Depositor)

Article 661 The depositor must compensate the depositary for damages that occur due to the nature of or defects in the Thing deposited; provided, however, that this shall not apply if the depositor did not, without negligence, know of such nature or defect, or the depositary knew of the same.

(Depositor's Demand for Return)

Article 662 Even if the parties specify the time for the return of the Thing deposited, the depositor may demand the return of the same at any time.

(Timing of Return of the Thing Deposited)

Article 663 (1) If the parties have not specified the timing of the return of the Thing deposited, the depositary may return the same at any time.

(2) If the timing of the return is specified, the depositary may not return the deposited goods prior to the due date unless there are unavoidable grounds.

(Place of Return of the Thing Deposited)

Article 664 The place for the return of the Thing deposited must be at the place where they are to be retained; provided, however, that, if the depositary has changed the place of retention on reasonable grounds, the return may be made at that current place of retention.

(Mutatis Mutandis Application of Provisions on Mandate)

Article 665 The provisions of Article 646 to Article 650 (excluding paragraph (3) of this Article) shall apply mutatis mutandis to deposits.

(Deposits for Consumption)

Article 666 (1) The provisions of Section 5 (Loans for Consumption) shall apply mutatis mutandis to cases where a depositary may, under the contract, consume the Thing deposited.

(2) Notwithstanding the provisions of paragraph (1) of Article 591 which shall apply mutatis mutandis under the preceding paragraph, if the contract referred to in the preceding paragraph does not specify the timing of the return, the depositor may demand the return at any time.

Section 12 Partnerships

(Partnership Contracts)

Article 667 (1) A partnership contract shall become effective when each of the parties promises to engage in joint business by making a contribution.

(2) The subject of the contribution may be services.

(Joint Ownership in Partnership Property)

Article 668 The contributions of the partners and other partnership property shall be jointly owned by all partners.

(Responsibility for Failure to Provide Monetary Contribution)

Article 669 In cases where monies are the subject of the contribution, if any partner fails to contribute his/her share of the contribution, he/she must pay interest on the same and otherwise compensate for damages.

(Method of Business Management)

Article 670 (1) The management of partnership business shall be determined by the majority of the partners.

(2) If more than one person is delegated to manage the business referred to in the preceding paragraph under the partnership contract (referred to in the following paragraph as "Operating Officers"), the same shall be determined by majority.

(3) Notwithstanding the provisions of the preceding two paragraphs, the ordinary business of a partnership may be performed by each partner or each Operating Officer individually; provided, however, that this shall not apply if other partners or Operating Officers raise objections prior to the completion of the business.

(Mutatis Mutandis Application of Provisions on Mandates)

Article 671 The provisions of Article 646 to Article 650 shall apply mutatis mutandis to partners who manage the business of a partnership.

(Resignations and Dismissals of Operating Partners)

Article 672 (1) If one or more partners are delegated to manage partnership business under the partnership contract, those partners may not resign without reasonable grounds.

(2) The partners referred to in the preceding paragraph may be dismissed by the unanimous agreement of the other partners, limited to cases where there are justifiable grounds.

(Inspections by Partners of Condition of Partnership Business and Property)

Article 673 Each partner may inspect the condition of the business and property of the partnership even if he/she does not have the right to manage the business of the partnership.

(Proportions of Partners' Distributions of Profits and Losses)

Article 674 (1) If partners have not specified the proportions of the distributions of the partnership's profits and losses, the proportions shall be determined in proportion to the value of each partner's contribution.

(2) If the proportions of the distributions are specified solely with respect to either profits or losses, it shall be presumed that the proportions are common to profits and losses.

(Exercise of Right of Creditors of the Partnership against Partners)

Article 675 If a creditor of a partnership did not, when his/her claim arose, the proportions of the partners' shares of losses, the creditor may exercise his/her rights against each partner in equal proportions.

(Disposal Partners' Shares and Division of Partnership Property)

Article 676 (1) If a partner disposes of his/her share with respect to the partnership property, the disposal may not be asserted against the partnership and third parties who had dealings with the partnership.

(2) A partner may not seek the division of the partnership property before the same is liquidated.

(No Set-off by Obligor of Partnership)

Article 677 An obligor of a partnership may not set off his/her obligation against his/her claim against the partners.

(Withdrawal of Partners)

Article 678 (1) If a partnership contract does not specify the duration of the partnership, or specifies that the partnership is to continue for the life of a certain partner, each partner may withdraw at any time; provided, however, that, unless there are unavoidable grounds, a partner may not withdraw at a time that is detrimental to the partnership.

(2) Even in cases where the duration of the partnership is specified, each partner may withdraw if there are unavoidable grounds.

Article 679 In addition to the cases referred to in the preceding Article, partners shall withdraw on the following grounds:

- (i) The partner dies;
- (ii) The partner is subject to a ruling for the commencement of bankruptcy procedures;
- (iii) The partner is subject to an order for the commencement of guardianship;
- (iv) The partner has been expelled.

(Expulsion of Partners)

Article 680 The expulsion of a partner may be effected by the unanimous agreement of the other partners, limited to cases where there are justifiable grounds; provided, however, that the expulsion may not be asserted against a partner who is expelled unless a notice to that effect is given to that partner.

(Refunds of Shares of Withdrawing Partners)

Article 681 (1) Accounts as between the withdrawing partner and other partners must be settled according to the condition of the partnership property as at the time of the withdrawal.

(2) The share of the withdrawing partner may be refunded in money, regardless of the kind of his/her contribution.

(3) With respect to any matter not yet completed at the time of the withdrawal, accounts may be made up subsequent to the completion of that matter.

(Causes of Dissolution of Partnerships)

Article 682 A partnership shall be dissolved on the successful completion of the business that is its object, or by the impossibility of such successful completion.

(Request for Dissolution of Partnerships)

Article 683 Each partner may request the dissolution of the partnership if there are unavoidable grounds.

(Effect of Cancellation of Partnership Contracts)

Article 684 The provisions of Article 620 shall apply mutatis mutandis to partnership contracts.

(Liquidation of Partnerships and Appointment of Liquidators)

Article 685 (1) When a partnership is dissolved, the liquidation shall be administered jointly by all partners or by a liquidator appointed by the same.
(2) A liquidator shall be appointed by a majority of all partners.

(Method of Management of Liquidators' Business)

Article 686 The provisions of Article 670 shall apply mutatis mutandis to cases where there is more than one liquidator.

(Resignations and Dismissals of Liquidators who are Partners)

Article 687 The provisions of Article 672 shall apply mutatis mutandis to cases where the liquidator is appointed from among the partners under the partnership contract.

(Duties and Authority of Liquidators and Method of Division of Residual Assets)

Article 688 (1) A liquidator shall have the duties to:

- (i) conclude the current business
- (ii) collect debts and perform obligations; and
- (iii) deliver the residual assets.

(2) The liquidator may perform any and all acts in order to perform its duties listed in the respective items of the preceding paragraph.

(3) Residual assets shall be distributed in proportion to the value of the contributions of each partner.

Section 13 Life Annuities

(Life Annuities)

Article 689 Life annuities shall become effective when one of the parties promises to deliver monies or other Things to the other party or a third party periodically until the death of the first party, the other party or the third party.

(Accounting for Life Annuities)

Article 690 Life annuities shall be calculated on a daily basis.

(Cancellation of Contracts for Life Annuities)

Article 691 (1) In cases where the obligor in a life annuity has received the

principal for the life annuity, if the obligor fails to pay the life annuity or fails to perform other obligations, the other party may demand the return of the principal. In such cases, the other party must return the amount of the life annuity he/she has already received to the obligor of the life annuity, less the amount of the interest on that principal.

(2) The provisions of the preceding paragraph shall not preclude claims for damages.

(Cancellation of Contracts for Life Annuities and Simultaneous Performance)

Article 692 The provisions of Article 533 shall apply mutatis mutandis to cases referred to in the preceding Article.

(Declaration of Continuation of Claim for Life Annuity)

Article 693 (1) If a death provided for in Article 689 occurs due to grounds attributable to the obligor in a life annuity, the court may, at the request of the obligee in the life annuity or the obligee's heirs, declare that the life annuity claim shall continue for a reasonable period.

(2) The provisions of the preceding paragraph shall not preclude the exercise of the rights provided in Article 691.

(Testamentary Gifts of Life Annuities)

Article 694 The provisions of this Section shall apply mutatis mutandis to testamentary gifts of life annuities.

Section 14 Settlements

(Settlements)

Article 695 A settlement shall become effective when the parties to a dispute promise to settle the dispute through reciprocal concessions.

(Effect of Settlements)

Article 696 In cases where it is admitted at settlement that one of the parties has the rights that are the subject of the dispute, or that the other party did not have the rights, if conclusive evidence is obtained to the effect that the first party did not have the rights in the past, or that the other party did have the rights, the rights are regarded as either transferred to the first party or extinguished at settlement.

Chapter III Negotiorum Gestio (Management of Business)

(Negotiorum Gestio (Management of Business))

Article 697 (1) A person who commences the management of a business for another person without being obligated to do so (hereinafter in this Chapter referred to as "Manager") must manage that business (hereinafter referred to as "Management of Business") in accordance with the nature of the business, using the method that best conforms to the interests of that another person (the principal).

(2) The Manager must engage in Management of Business in accordance with the intentions of the principal if the Manager knows, or is able to conjecture that intention.

(Urgent Management of Business)

Article 698 If a Manager engages in the Management of Business in order to allow a principal to escape imminent danger to the principal's person, reputation or property, the Manager shall not be liable to compensate for damages resulting from the same unless he/she has acted in bad faith or with gross negligence.

(Obligation of Managers to Give Notice)

Article 699 A Manager must notify the principal that the Manager has commenced the Management of Business; provided, however, that this shall not apply if the principal already knows of the same.

(Continuation of Management of Business by Managers)

Article 700 A Manager must continue the Management of Business until the principal or his/her heirs or legal representatives can undertake it; provided, however, that this shall not apply in cases where it is evident that the continuation of the Management of Business is contrary to the intentions of the principal, or is disadvantageous to the principal.

(Mutatis Mutandis Application of Provisions on Mandates)

Article 701 The provisions from Article 645 through to Article 647 shall apply mutatis mutandis to the Management of Business.

(Managers' Claims for Reimbursement of Costs)

Article 702 (1) If a Manager has incurred useful expenses for a principal, the Manager may claim reimbursement of those costs from the principal.

(2) The provisions of paragraph (2) of Article 650 shall apply mutatis mutandis to cases where a Manager has incurred useful obligations on behalf of the principal.

(3) If a Manager has engaged in the Management of Business against the intention of the principal, the provisions of the preceding two paragraphs shall

apply mutatis mutandis, solely to the extent the principal is actually enriched.

Chapter IV Unjust Enrichment

(Obligation to Return Unjust Enrichment)

Article 703 A person who has benefited (hereinafter in this Chapter referred to as "beneficiary") from the property or labor of others without legal cause and has thereby caused loss to others shall assume an obligation to return that benefit, to the extent the benefit exists.

(Obligation of Beneficiaries in Bad Faith to Return)

Article 704 A Beneficiary in bad faith must return the benefit received together with interest thereon. In such cases, if any damages still remain, the Beneficiary shall be liable to compensate for the same.

(Performance knowing of Absence of Obligation)

Article 705 A person who has tendered anything as performance of an obligation may not demand the return of the thing tendered if the person knew, at the time, that the obligation did not exist.

(Performance before Due Date)

Article 706 If an obligor has tendered anything as performance of an obligation that has not yet fallen due, the obligor may not demand the return of the thing tendered; provided, however, that, if the obligor tendered anything by mistake, the obligee must return the benefit gained as a result.

(Performance of Obligations of Others)

Article 707 (1) In cases where a person who is not an obligor has performed an obligation by mistake, if the obligee has, in good faith, allowed the instrument to be lost, damaged the instrument, waived the security or lost the claim by prescription, the person who performed the obligation may not demand the return of the performance.

(2) The provisions of the preceding paragraph shall not preclude the person who performed an obligation from exercising his/her right of subrogation against the obligor.

(Performance for Illegal Causes)

Article 708 A person who has tendered performance of an obligation for an illegal cause may not demand the return of the thing tendered; provided, however, that this shall not apply if the illegal cause existed solely in relation to the Beneficiary.

Chapter V Torts

(Damages in Torts)

Article 709 A person who has intentionally or negligently infringed any right of others, or legally protected interest of others, shall be liable to compensate any damages resulting in consequence.

(Compensation for Damages Other than Property)

Article 710 Persons liable for damages under the provisions of the preceding Article must also compensate for damages other than those to property, regardless of whether the body, liberty or reputation of others have been infringed, or property rights of others have been infringed.

(Compensation for Damages to Next of Kin)

Article 711 A person who has taken the life of another must compensate for damages to the father, mother, spouse and children of the victim, even in cases where the property rights of the same have not been infringed.

(Capacity for Liability)

Article 712 In cases where a minor has inflicted damages on others, if the minor does not have sufficient intellectual capacity to appreciate his/her liability for his/her own act, the minor shall not be liable to compensate for that act.

Article 713 A person who has inflicted damages on others while he/she lacks the capacity to appreciate his/her liability for his/her own act due to mental disability shall not be liable to compensate for the same; provided, however, that this shall not apply if he/she has temporarily invited that condition, intentionally or negligently.

(Liability of Person Obligated to Supervise a Person without Capacity)

Article 714 (1) In cases where a person without capacity to assume liability is not liable in accordance with the provisions of the preceding two Articles, the person with the legal obligation to supervise the person without capacity to assume liability shall be liable to compensate for damages that the person without capacity to assume liability has inflicted on a third party; provided, however, that this shall not apply if the person who has the obligation to supervise did not fail to perform his/her obligation or if the damages could not have been avoided even if he/she had not failed to perform his/her obligation.

(2) A person who supervises a person without capacity to assume liability, on behalf of a person who has the obligation to supervise, shall also assume the

liability under the preceding paragraph.

(Liability of Employers)

Article 715 (1) A person who employs others for a certain business shall be liable for damages inflicted on a third party by his/her employees with respect to the execution of that business; provided, however, that this shall not apply if the employer exercised reasonable care in appointing the employee or in supervising the business, or if the damages could not have been avoided even if he/she had exercised reasonable care.

(2) A person who supervises the business on behalf of the employer shall also assume the liability under the preceding paragraph.

(3) The provisions of the preceding two paragraphs shall not preclude the employer or supervisor from exercising their right to obtain reimbursement against the employee.

(Liability of Party Ordering Work)

Article 716 A party ordering work shall not be liable for the damages a contractor inflicted on a third party with respect to his/her work; provided, however, that this shall not apply if the party ordering work is negligent in his/her order or instructions.

(Liability of Possessor and Owner of Structure on Land)

Article 717 (1) If any defect in the installation or preservation of any structure on land causes damages to others, the possessor of such structure shall be liable to the victims to compensate for those damages; provided, however, that, if the possessor has used necessary care to prevent the damages arising, the owner must compensate for the damages.

(2) The provisions of the preceding paragraph shall apply mutatis mutandis to cases where there is any defect in the planting or support of bamboos and trees.

(3) In the cases of the preceding two paragraphs, if there is another person who is liable for the cause of the damages, the possessor or owner may exercise their right to obtain reimbursement against such person.

(Liability of Possessor of Animal)

Article 718 (1) A possessor of an animal shall be liable to compensate for the damages that the animal has inflicted on others; provided, however, that this shall not apply if he/she managed the animal with reasonable care according to the kind and nature of the animal.

(2) A person who manages the animal on behalf of the possessor shall also assume the liability under the preceding paragraph.

(Liability of Joint Tortfeasors)

Article 719 (1) If more than one person has inflicted damages on others by their joint tortious acts, each of them shall be jointly and severally liable to compensate for those damages. The same shall apply if it cannot be ascertained which of the joint tortfeasors inflicted the damages.

(2) The provisions of the preceding paragraph shall apply to any person who incited or was an accessory to the perpetrator, by deeming him/her to be one of the joint tortfeasors.

(Self-Defense and Aversion of Present Danger)

Article 720 (1) A person who, in response to the tortious act of another, unavoidably commits a harmful act to protect himself/herself, the rights of a third party, or any legally protected interest, shall not be liable for damages; provided, however, that the victim shall not be precluded from claiming damages against the person who committed the tortious act.

(2) The provisions of the preceding paragraph shall apply mutatis mutandis to cases where a Thing belonging to others is damaged to avoid imminent danger arising from that Thing.

(Fetus' Capacity to Hold Rights regarding the Right to Demand Compensation for Damages)

Article 721 An unborn child shall be deemed to have been already born with respect to the right to demand compensation for damages.

(Method of Damages and Comparative Negligence)

Article 722 (1) The provisions of Article 417 shall apply mutatis mutandis to compensation for damages in tort.

(2) If a victim is negligent, the court may determine the amount of compensation by taking that factor into consideration.

(Recovery in Defamation)

Article 723 The court may, at the request of the victim, order a person who defamed others, to effect appropriate measures to restore the reputation of the victim in lieu of, or in addition to, damages.

(Restriction of Period of Right to Demand Compensation for Damages in Tort)

Article 724 The right to demand compensation for damages in tort shall be extinguished by the operation of prescription if it is not exercised by the victim or his/her legal representative within three years from the time when he/she comes to know of the damages and the identity of the perpetrator. The same shall apply when twenty years have elapsed from the time of the tortious act.