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UNIDROIT MODEL LAW ON LEASING

(as adopted on 13 November 2008 by the Joint Session of the UNIDROIT General Assembly and the UNIDROIT Committee of governmental experts for the finalisation and adoption of a draft model law on leasing, held in Rome from 10 to 13 November 2008)

THE JOINT SESSION OF THE UNIDROIT GENERAL ASSEMBLY AND THE UNIDROIT COMMITTEE OF GOVERNMENTAL EXPERTS FOR THE FINALISATION AND ADOPTION OF A DRAFT MODEL LAW ON LEASING, MEETING IN ROME ON 13 NOVEMBER 2008,

Recognising that leasing provides developing countries and countries in transition in particular with an important source of capital for the development of infrastructure and small- and medium-sized enterprises;

Aware that many States, and in particular those with developing economies and economies in transition, require a legal framework that will foster the growth of a nascent leasing industry and that other States, whilst already having a well-developed leasing industry, may nevertheless be interested in adopting this Law;

Convinced accordingly as to the usefulness of proposing a model law on leasing for consideration by national legislators, which may adapt it to meet their specific needs;

Committed to the purpose of harmonising legal regulations of leasing on a global basis in order to facilitate trade in capital goods;

Finding that the UNIDROIT Convention on International Financial Leasing, signed in Ottawa on 28 May 1988, has not only removed certain legal impediments to the international financial leasing of equipment, while maintaining a fair balance of interests between the different parties to the transaction for States Parties thereto, but has also frequently served as an important reference for States drafting their first leasing laws;

Considering the legal regimen enshrined in the aforementioned Convention as a useful starting point for the development of a comprehensive model law governing such transactions;

Being of the view that in the preparation of such a model law priority must be given to the establishment of rules governing aspects of leasing other than its fiscal and accounting aspects;

Mindful of the proven usefulness of the UNIDROIT Principles of International Commercial Contracts as a model for legislators in the general context of contract law as opposed to the specific area of that law reserved to leasing;

Taking account of the important contribution made by developing countries and countries in transition which, though not members of UNIDROIT, served on the Committee of governmental experts in the preparation of this Law;

HAS APPROVED THE FOLLOWING TEXT OF THE UNIDROIT MODEL LAW ON LEASING:

CHAPTER I: GENERAL PROVISIONS

Article 1 – Sphere of application

This Law applies to any lease of an asset, if the asset is within [the State], the centre of main interests of the lessee is within [the State] or the lease provides that [the State's] law governs the transaction.

Article 2 – Definitions

In this Law:

Asset means all property used in the craft, trade or business of the lessee, including immovables, capital assets, equipment, future assets, specially manufactured assets, plants and living and unborn animals. The term does not include money or investment securities. No movable shall cease to be an asset for the sole reason that it has become a fixture to or incorporated in an immovable.

Financial lease means a lease, with or without an option to purchase all or part of the asset, that includes the following characteristics:

- (a) the lessee specifies the asset and selects the supplier;
- (b) the lessor acquires the asset in connection with a lease and the supplier has knowledge of that fact; and
- (c) the rentals or other funds payable under the lease take into account or do not take into account the amortisation of the whole or a substantial part of the investment of the lessor.

Large aircraft equipment means all "aircraft objects" as defined in the Protocol to the Convention on International Interests in Mobile Equipment on Matters specific to Aircraft Equipment, signed in Cape Town on 16 November 2001.

Lease means a transaction in which one person provides another person with the right to possess and use an asset for a specific term in return for rentals. The term includes a sub-lease.

Lessee means a person who acquires the right to possess and use an asset under a lease. The term includes a sub-lessee.

Lessor means a person who provides another person with the right to possess and use an asset under a lease. The term includes a sub-lessor.

Person means any legal, private or public entity or an individual.

Supplier means a person from whom a lessor acquires the asset for lease under a financial lease.

Supply agreement means an agreement under which a lessor acquires the asset for lease under a financial lease.

Article 3 – Other laws

1. This Law does not apply to a lease that functions as a security right.
2. This law shall not apply to a lease or a supply agreement for large aircraft equipment unless the lessor, the lessee and the supplier have otherwise agreed in writing.

Article 4 – Interpretation

1. In the interpretation of this Law, regard is to be had to its international origin and to the need to promote uniformity in its application and the observance of good faith.
2. Questions concerning matters governed by this Law which are not expressly settled in it are to be settled in conformity with the general principles on which this Law is based.

Article 5 – Freedom of contract

Except as provided in Articles 7(4) and 22(3) and the law of [this State], the lessor and the lessee may derogate from or vary the effect of this Law and are free to determine the content of a lease.

CHAPTER II: EFFECTS OF A LEASE

Article 6 – Effectiveness between the parties and as against third parties

Except as otherwise provided in this Law:

- (a) a lease is effective and enforceable according to its terms between the parties; and
- (b) the rights and remedies of such parties are enforceable against purchasers of the asset and against creditors of the parties, including an insolvency administrator.

Article 7 – Lessee under financial lease as beneficiary of supply agreement

1. In a financial lease, the duties of the supplier under the supply agreement shall also be owed to the lessee as if the lessee were a party to that agreement and as if the asset were to be supplied directly to the lessee. The supplier shall not be liable to both the lessor and the lessee in respect of the same damage.
2. At the request of the lessee, the lessor shall assign its rights to enforce the supply agreement to the lessee. If the lessor does not, the lessor is deemed to have assumed the duties of the supplier.
3. The rights of the lessee under this Article with respect to a supply agreement that was approved by the lessee shall not be affected by a variation of any term of such agreement unless consented to by the lessee. If the lessee did not consent to such variation, the lessor is deemed to have assumed the duties of the supplier to the lessee that were so varied to the extent of the variation.
4. The parties may not derogate from or vary the effect of the provisions of paragraphs 1, 2 and 3.
5. Nothing in this Article shall entitle the lessee to negotiate a modification, termination or rescission of the supply agreement without the consent of the lessor.

Article 8 – Priority of liens

Except as otherwise provided by the law of [this State]:

- (a) a creditor of the lessee and the holder of any interest in land or personal property to which the asset becomes affixed take subject to the rights and remedies of the parties to the lease and cannot impair any interest arising under the lease; and
- (b) a creditor of the lessor takes subject to the rights and remedies of the parties to the lease.

Article 9 – Exclusion of liability of the lessor

In a financial lease, the lessor when acting in its capacity of lessor and as owner within the limits of the transaction, as documented under the supply agreement and the lease, shall not be liable to the lessee or third parties for death, personal injury or damage to property caused by the asset or the use of the asset.

CHAPTER III: PERFORMANCE

Article 10 – Irrevocability and independence

1. (a) In a financial lease, the duties of the lessor and lessee become irrevocable and independent when the asset subject to the lease has been delivered to and accepted by the lessee.

(b) In a lease other than a financial lease, the lessor and lessee may agree to make any of their duties irrevocable and independent by specifically identifying each duty that is irrevocable and independent.

2. Except as otherwise provided in Article 23(1)(c), a duty that is irrevocable and independent must be performed, regardless of the performance or non-performance of any other party, unless the party to whom the duty is owed terminates the lease.

Article 11 – Risk of loss

1. In a financial lease:

(a) risk of loss passes to the lessee when the lease is entered into; and

(b) when an asset is not delivered, is partially delivered, is delivered late or fails to conform to the lease and the lessee enforces its remedies under Article 14, the lessee, subject to Article 18(1), may treat the risk of loss as having remained with the supplier.

2. In a lease other than a financial lease, risk of loss is retained by the lessor and does not pass to the lessee.

Article 12 – Damage to the asset

1. In a financial lease, when an asset subject to a lease is damaged without fault of the lessee or lessor before the asset is delivered to the lessee, the lessee may demand inspection and either accept the asset with due compensation from the supplier for the loss in value or seek such other remedies as are provided by law.

2. In a lease other than a financial lease, when an asset subject to a lease is damaged without fault of the lessee or lessor before the asset is delivered to the lessee,

(a) if the loss is total, the lease is terminated; and

(b) if the loss is partial, the lessee may demand inspection and either treat the lease as terminated or accept the asset with due allowance from the rentals payable for the balance of the lease term for the loss in value but without further right against the lessor.

Article 13 – Acceptance

1. Acceptance of an asset occurs when the lessee signifies to the lessor or supplier that the asset conforms to the agreement, fails to reject the asset after a reasonable opportunity to inspect it or uses the asset.

2. After a lessee has accepted an asset,

(a) in a financial lease, the lessee is entitled to damages from the supplier if the asset does not conform to the supply agreement; and

(b) in a lease other than a financial lease, the lessee is entitled to damages from the lessor if the asset does not conform to the lease.

Article 14 – Remedies

1. In a financial lease, when an asset is not delivered, is partially delivered, is delivered late or fails to conform to the lease, the lessee may demand a conforming asset from the supplier and seek such other remedies as are provided by law.

2. (a) In a lease other than a financial lease, when an asset is not delivered, is partially delivered, is delivered late or fails to conform to the lease, the lessee has the right to accept the asset, to reject the asset or, subject to this paragraph and Article 23, to terminate the lease. Notice of rejection or termination must be given by the lessee within a reasonable time after the non-conforming delivery.

(b) In a lease other than a financial lease, once a lessee has accepted the asset, the lessee may reject the asset under the preceding sub-paragraph only if the non-conformity substantially impairs the value of the asset and either

(i) the lessee accepted the asset without knowledge of the non-conformity, owing to the difficulty of discovering it, or

(ii) the acceptance by the lessee was induced by the assurances of the lessor.

(c) In a lease other than a financial lease, when the lessee rejects an asset in accordance with this Law or the lease, the lessee is entitled to withhold rentals until the non-conforming delivery has been remedied and to recover any rentals and other funds paid in advance, less a reasonable sum corresponding to any benefit the lessee has derived from the asset.

(d) If the lessee rejects an asset in accordance with paragraph 2 and the time for performance has not expired, the lessor or supplier has the right to remedy its failure within the agreed time.

Article 15 – Transfer of rights and duties

1. (a) (i) The rights of the lessor under the lease may be transferred without the consent of the lessee.

(ii) The lessor and lessee may agree that the lessee shall not raise against a transferee any of its defences or rights of set-off against the lessor other than those arising from the incapacity of the lessee.

(iii) Nothing in this sub-paragraph shall affect the lessee's ability to assert its rights against the lessor.

(b) The duties of the lessor under the lease may be transferred only with the consent of the lessee, which may not be unreasonably withheld.

2. The rights and duties of the lessee under the lease may be transferred only with the consent of the lessor, which may not be unreasonably withheld, and subject to the rights of third parties.

3. The lessee, lessor and third parties may consent to such transfers in advance.

Article 16 – Warranty of quiet possession

1. In a financial lease:

(a) the lessor warrants that the quiet possession of the lessee will not be disturbed by a person who has a superior title or right or who claims a superior title or right and acts under the authority of a court, where such title, right or claim derives from a negligent or intentional act or omission of the lessor; and

(b) a lessee that furnishes specifications to a lessor or a supplier shall hold the lessor and the supplier harmless against any claim of infringement that arises out of compliance with the specifications.

2. In a lease other than a financial lease, the lessor warrants that the quiet possession of the lessee will not be disturbed by a person who has a superior title or right, who claims a superior title or right and acts under the authority of a court or who makes a claim by way of infringement.

3. Except as otherwise provided by Article 23(1)(c), the sole remedy for a disturbance of the quiet possession of the lessee under sub-paragraph (a) of paragraph 1 and under paragraph 2 is an action for damages against the lessor.

Article 17 – Warranty of acceptability and fitness for purpose

1. In a financial lease, the supplier warrants that the asset will be at least such as is accepted in the trade under the description in the lease and is fit for the ordinary purposes for which an asset of that description is used. Subject to Article 7(2), the warranty is enforceable only against the supplier.

2. In a lease other than a financial lease, the lessor warrants that the asset will be at least such as is accepted in the trade under the description in the lease and is fit for the ordinary purposes for which an asset of that description is used if the lessor regularly deals in assets of that kind.

Article 18 – Duties of the lessee to maintain and return the asset

1. (a) The lessee shall take proper care of the asset, use the asset reasonably in the light of the manner in which such assets are ordinarily used and keep the asset in the condition in which it was delivered, subject to fair wear and tear.

(b) When a lease sets forth a duty to maintain the asset or the manufacturer or supplier of the asset issues technical instructions for the use of the asset, the compliance by the lessee with such agreement or instructions shall satisfy the requirements of the preceding sub-paragraph.

2. When the lease comes to an end or is terminated, the lessee, unless exercising a right to buy the asset or to hold the asset on lease for a further period, shall return the asset to the lessor in the condition specified in the preceding paragraph.

CHAPTER IV: DEFAULT AND TERMINATION

Article 19 – Definition of default

1. The parties may agree to the events that constitute a default or otherwise give rise to the rights and remedies specified in this Chapter.
2. In the absence of agreement, default for the purposes of this Law occurs when one party fails to perform a duty arising under the lease or this Law.

Article 20 – Notices

An aggrieved party shall give a defaulting party notice of default, notice of enforcement, notice of termination and a reasonable opportunity to cure.

Article 21 – Damages

Upon default, the aggrieved party is entitled to recover such damages as will, exclusively or in combination with other remedies provided by this Law or the lease, place the aggrieved party in the position in which it would have been had the agreement been performed in accordance with its terms.

Article 22 – Liquidated damages

1. When the lease provides that a defaulting party is to pay to the aggrieved party a specified sum or a sum computed in a specified manner for such default, the aggrieved party is entitled to such sum.
2. Such sum may be reduced to a reasonable amount where it is grossly excessive in relation to the harm resulting from the default.
3. The parties may not derogate from or vary the effect of the provisions of this Article.

Article 23 – Termination

1. (a) Subject to sub-paragraph (b), a lease may be terminated by operation of law, by operation of Article 12, by agreement of the parties or by an aggrieved party upon fundamental default by the lessee or lessor.
(b) Except as otherwise provided in sub-paragraph (c), after the asset subject to the lease has been delivered to and accepted by the lessee, the lessee in a financial lease may not terminate the lease upon fundamental default by the lessor or the supplier but is entitled to such other remedies as are provided by the agreement of the parties and by law.
(c) In the event of a fundamental default by the lessor in respect of the warranty of quiet possession referred to in Article 16, the lessee in a financial lease may terminate the lease.

2. Subject to Article 10, on termination all duties under the lease that are executory on both sides, except for duties intended to take effect upon termination, are discharged but any right based on prior default or performance survives.

Article 24 – Possession and disposition

After the lease comes to an end or is terminated, the lessor has the right to take possession of the asset and the right to dispose of the asset.