



**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
Rome, 10/13 November 2008**

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DRAFT MODEL LAW ON LEASING

(as reviewed and authorised for transmission to Governments for finalisation and adoption by the UNIDROIT Governing Council, at its 87th session, held in Rome from 21 to 23 April 2008, following the second session of the Committee of governmental experts, held in Muscat from 6 to 9 April 2008):

COMMENTARY ¹

(prepared by the UNIDROIT Secretariat)

I. BACKGROUND

Conscious of the particular aptitude of leasing to provide much-needed finance for the needs, in terms of equipment and infrastructure, of developing countries, in particular in Africa, and countries engaged in the transition to a market economy, the International Institute for the Unification of Private Law (UNIDROIT) has undertaken preparation of a draft model law on leasing designed to facilitate greater access to lease finance by such countries. Throughout the process, both the Secretariat, member States and the non-member States invited to participate in the preparation of the model law in order to ensure that effect was given to its especial purpose have proceeded with that objective in the forefront of their minds.

Following a series of preliminary consultations with the World Bank, the International Finance Corporation (I.F.C.) and the Equipment Leasing and Finance Association of the United States of America (E.L.F.A.) designed to test the need for, and the feasibility of a model law on leasing primarily for developing and transition economies, a preliminary draft model law was prepared by a UNIDROIT Advisory Board ² made up of experts from North Africa and Arabic-speaking countries, sub-Saharan Africa, the Asia-Pacific region, the countries of the Former Soviet Union,

¹ This brief Commentary has been prepared exclusively for the assistance of those Governments and Organisations contemplating participating in the Joint Session; its purpose is, accordingly, quite different from the exhaustive Commentary on the future model law that will be prepared in due course, once the proposed model law has been adopted.

² The Advisory Board held three sessions, at the seat of UNIDROIT, in Rome; the first was held on 17 October 2005, the second on 6 and 7 February 2006 and the third from 3 to 5 April 2006.

Europe, Latin America and North America.³ Convinced of the need to attract leasing investment into those areas where such capital had otherwise been slow to come, the Advisory Board sought to prepare a preliminary draft that would cover leases of the widest variety of assets and whatever kinds of lease such economies might find desirable.

The preliminary draft established by the Advisory Board having been approved for transmission to Governments by the UNIDROIT Governing Council, at its 85th session, held in Rome from 8 to 10 May 2006, a UNIDROIT Committee of governmental experts was convened for the finalisation of the preliminary draft model law. Two sessions of this Committee have been held to date, the first in Johannesburg, at the kind invitation of the Government of South Africa, from 7 to 10 May 2007 and the second in Muscat, at the kind invitation of the Government of Oman, from 6 to 9 April 2008.⁴ The deliberations of the Committee have to date been very much guided by the admonishment of Mr J.H. de Lange, Deputy Minister of Justice and Constitutional Development of South Africa, who, when opening the first session, reminded the Governments and Organisations assembled of the importance for the future model law, in as much as it was designed for developing and transition economies, both to strike an appropriate balance between the interests of the lessee and those of the lessor and to ensure that those countries that implemented it would garner the benefits that the project was intended to bring.

This commentary provides, hereunder, explanatory comments on the title of, the preamble to and each Article of the draft model law on leasing as reviewed by the UNIDROIT Governing Council at its 87th session, held in Rome from 21 to 23 April 2008, following the second session of the Committee of governmental experts. For ease of reference, the title of, the preamble to and each Article of the draft model law are reproduced together with the comment relating thereto.

³ The members of the Advisory Board were Mr A. Albensi (European Federation of Equipment Leasing Company Associations), Mr E.M. Bey, UNIDROIT correspondent (France/Tunisia), Mr R. Castillo-Triana, UNIDROIT correspondent (Colombia), Mr R. Clarizia (European Federation of Equipment Leasing Company Associations), Mr C. Dageförde (Germany), Mr R.M. DeKoven, UNIDROIT correspondent (United Kingdom), Mr. R. Downey (E.L.F.A.), Ms R. Freeman (I.F.C.), Ms A. Normantovich (Russian Federation), Chief Mrs T. Oyekunle, UNIDROIT correspondent (Nigeria), Mr F. Peter, UNIDROIT correspondent (Switzerland), Ms Y. Shi (People's Republic of China) and Mr M. Sultanov (I.F.C.). Ms Freeman being unable to attend the second session of the Advisory Board, she was represented by Ms M. Ndonde. Mr Downey being unable to attend the third session of the Advisory Board, E.L.F.A. was represented at that session by Ms I. Cassidy and Mr R. Petta. The Secretariat of the United Nations Commission on International Trade Law (UNCITRAL) was represented as an observer on the Advisory Board by Mr R. Sorieul and Mr S. Bazinas. Chief Mrs Oyekunle was elected Chairman of the Advisory Board and Mr DeKoven Reporter to the Advisory Board.

⁴ 30 Governments have been represented at the two sessions of the Committee of governmental experts held to date (Angola, Australia, Brazil, Bulgaria, Burkina Faso, Burundi, Cameroon, Chile, the People's Republic of China, Colombia, Gambia, Germany, India, Indonesia, the Islamic Republic of Iran, Ireland, Japan, Kuwait, Latvia, Oman, the Islamic Republic of Pakistan, Poland, Portugal, Qatar, the Russian Federation, Rwanda, South Africa, Sudan, the United Republic of Tanzania and the United States of America). Four international Organisations (the Commonwealth Secretariat, the International Chamber of Commerce, I.F.C. and UNCITRAL) and two professional associations (E.L.F.A. and the Latin American Leasing Association) have also been represented at these sessions. The representative of South Africa was elected Chairman of the Committee at its first session; Mr I.S. Thindisa acted as Chairman on that occasion but, in his inability to attend the second session, Mr N.J. Makhubele acted as Chairman on that occasion. Mr DeKoven was again appointed Reporter to the Committee.

II. COMMENTARY ON TITLE OF, PREAMBLE TO AND ARTICLES OF DRAFT MODEL LAW***Title*****Draft model law on leasing****Comment**

The status of the draft model law as a draft reflects the fact that it has been authorised for transmission to Governments for finalisation and adoption. The Governing Council's review of the preliminary draft model law established by the Committee of governmental experts at its second session, in particular from the point of view of the alignment of the two language versions of the text, led to the deletion of the term "commercial" from the title; this in no way alters the fact that it governs leases of "property used in the trade or business of the lessee", as provided in Article 2.

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Preamble

[THE GENERAL ASSEMBLY OF THE INTERNATIONAL INSTITUTE FOR THE UNIFICATION OF PRIVATE LAW (UNIDROIT), IN JOINT SESSION WITH THE UNIDROIT COMMITTEE OF GOVERNMENTAL EXPERTS FOR THE PREPARATION OF A DRAFT MODEL LAW ON LEASING, IN ROME ON....

***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 or non-existent 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 (Ottawa, 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;**

¹ Cf. also Explanatory note to the draft Agenda (J.S. Leasing/W.P. 2).

***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:]

Comment

The preamble simply represents the thoughts of the UNIDROIT Secretariat regarding the sort of elements that the Governments participating in the Joint Session might wish to see encapsulated therein. The fact that it appears in square brackets is designed to indicate that the UNIDROIT Secretariat in no way wished to encroach on the prerogatives of the Joint Session in this regard. The key elements suggested for inclusion in the preamble are, first, the future model law's special vocation, as a means of providing capital for the development of infrastructure and small- and medium-sized enterprises in developing countries and countries in transition, secondly, the fact that it regulates aspects of leasing "other than its fiscal and accounting aspects", thirdly, the aptness of the UNIDROIT Principles of International Commercial Contracts to regulate general contract law aspects of leasing and, fourthly, the special involvement of non-member States from developing countries and countries in transition in its preparation.

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 leasing agreement provides that [the State's] law governs the transaction.

Comment

In order for the future model law to have the widest possible scope, Article 1 provides for the law to "appl[y] to any lease of an asset" so long as the asset or the lessee's centre of main interests is within the State adopting the law or so long as the leasing agreement invokes the law of that State to govern the transaction. Consistent with the purpose of permitting a nascent leasing industry to grow in whatever direction market forces may permit, the future model law is designed to govern commercial leases of all kinds.

Article 2 – Definitions

In this Law:

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

Centre of main interests means the place where a person conducts the administration of its interests on a regular basis. In the absence of proof to the contrary, the registered office of the person, or habitual residence in the case of an individual, is presumed to be the centre of main interests of the person.

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

- (a) the lessee specifies the asset and selects the supplier;
- (b) the lessor acquires the asset or the right to possession and use of 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 leasing agreement take into account or do not take into account the amortisation of the whole or a substantial part of the investment of the lessor.

Lease means a transaction in which a person grants a right to possession and use of the asset to another person for a specific term in return for rentals. Unless the context indicates otherwise, the term includes a sub-lease.

Lessee means a person who acquires the right to possession and use of the asset under a lease. Unless the context indicates otherwise, the term includes a sub-lessee.

Lessor means a person who grants the right to possession and use of the asset under a lease. Unless the context indicates otherwise, 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 or the right to possession and use of the asset for lease under a financial lease.

Supply agreement means an agreement under which a lessor acquires the asset or the right to possession and use of the asset for lease under a financial lease.

Comment

Among the draft model law's many definitions, two are most important. Both the Advisory Board and the Committee of governmental experts have defined the term "asset" to permit leases of nearly any kind of asset, in order that the future model law facilitate investment in whatever equipment a particular economy might find to need financing. The draft model law further defines "financial lease", a sub-set of "lease", broadly, in particular by treating as financial leases certain leases that do not amortise the whole investment of the lessor. By treating leases with shorter terms as financial leases, the Committee sought to create additional incentives for financiers to enter new markets and encourage additional types of leasing.

Article 3 – Other laws

1. This Law does not apply to a leasing agreement that creates a security right or an acquisition security right, as defined in the UNCITRAL Legislative Guide on Secured Transactions.

2. A leasing agreement subject to this Law is also subject to any law of [this State] applicable to real property or public notice with respect to a leasing agreement or an asset subject to a leasing agreement.

[3. This Law does not apply to a lease of aircraft, aircraft engines, helicopters, railway rolling stock, ships or space assets if the lease is governed by another law of [the State] or an international agreement to which [the State] is a party.]

Comment

Article 3 seeks to ensure that the future model law works harmoniously with other laws governing real property, public notice and secured transactions. Article 3(3) reflects a proposal submitted on the last day of the second session of the Committee of governmental experts, after it had already completed its second reading, and that sought to exclude several types of asset from coverage under the future model law, regardless of whether the State had another law that conflicted with this one. Because of the lateness of this proposal and concern that the developing and transition economies for which the future model law was intended would very much benefit from having a law that governed lease transactions of such critical infrastructure equipment as aircraft, aircraft engines, helicopters, railway rolling stock, ships, space assets or, indeed, any other category of mobile equipment, the Committee agreed to give further consideration to whether such transactions should be wholly excluded from a law designed to encourage growth at its following session and for the time being, therefore, decided to place the paragraph in square brackets.²

² Cf. Resolution (87)1 passed by the UNIDROIT Governing Council at its 87th session, reproduced in Appendix II to the Explanatory note to the draft Agenda (J.S. Leasing/W.P. 2).

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.

Comment

Because a uniform leasing law can encourage development not only within individual countries but also across a region, Article 4 instructs domestic courts to interpret the future model law with due regard for the interpretations of other countries and the future model law's purpose.

Article 5 – Freedom of contract

Except as provided in Articles 7(3), 16(1)(a), 16(2) 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 leasing agreement.

Comment

Article 5 reflects the Advisory Board and the Committee of governmental experts' determination that only those provisions that are essential for protecting the rights of the weaker party should be made mandatory, as parties should otherwise be free to create the kind of transaction that they would find most economically beneficial.

Article 6 – Enforceability

Except as otherwise provided in this Law:

(a) a leasing agreement 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.

Comment

Article 6 seeks to ensure the enforceability of the leasing agreement and the parties' rights and remedies between the parties and against purchasers of the asset and against creditors.

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

1. (a) 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.

(b) The extension of the duties of the supplier to the lessee under the preceding sub-paragraph does not modify the rights and duties of the parties to the supply agreement, whether arising therefrom or otherwise, or impose any duty or liability under the supply agreement on the lessee.

(c) Where the absence of a contract between the lessee and supplier prevents the lessee from enforcing the duties of the supplier under the supply agreement, the lessor shall be bound to take commercially reasonable steps to assist the lessee. If the lessor does not take such steps, the lessor is deemed to have assumed the duties of the supplier.

2. 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.

3. The parties may not derogate from or vary the effect of the provisions of paragraphs 1 and 2.

4. Nothing in this Article shall entitle the lessee to modify, terminate or rescind the supply agreement without the consent of the lessor.

Comment

Article 7 ensures that, because the lessee in a financial lease may have no direct contractual relationship with the supplier, the lessee is able to enforce the rights of one who is party to the supply agreement. This provision recognises that the underlying substantive transaction is one in which the lessee acquires an asset or the use and possession of an asset from the supplier and that the lessor should remain a mere financier.

Article 8 – Priority of liens

1. 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 leasing agreement and cannot attach any interest arising under the leasing agreement.

2. Except as otherwise provided by the law of [this State], a creditor of the lessor takes subject to the rights and remedies of the parties to the leasing agreement.

Comment

Article 8 provides rules for the treatment of creditors of the lessee and lessor with respect to the lease.

Article 9 – Limitation of liability of the lessor.

In a financial lease, the lessor shall not, in its capacity of lessor, 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.

Comment

Article 9 limits the liability of the financial lessor in his capacity of lessor for death, personal injury or damage to property caused by the asset or use of the asset. In order that the future model law not conflict with existing domestic laws regarding products liability, Article 9 does not affect the lessor's liability in any other capacities, such as that of owner.

Article 10 – Irrevocability

1. (a) In a financial lease, the duties of the parties become irrevocable and independent when the leasing agreement has been entered into.

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

2. 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 leasing agreement or otherwise explicitly agrees.

Comment

Recognising the financial lessor's role as a financier and not as a guarantor or manager of equipment, Article 10 makes the parties' duties irrevocable and independent when the leasing agreement has been entered into. This Article is considered necessary in order to promote an equal footing between other financiers, such as banks, and lessors.

Article 11 – Risk of loss

1. (a) In a financial lease, risk of loss passes to the lessee. If the time of passage is not stated, the risk of loss passes to the lessee when the leasing agreement has been entered into.

(b) In a financial lease, when an asset is not delivered, is partially delivered, is delivered late or fails to conform to the leasing agreement and the lessee invokes its remedies under Article 14, the lessee, subject to paragraph 1 of Article 18, may treat the risk of loss as having remained with the supplier from the beginning.

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

Comment

Article 11 gives the lessee the risk of loss, thus ensuring that the lessee has the capacity to insure its interest in the product and protect itself against any damage to the asset.

Article 12 – Damage to the asset

1. In a financial lease, when an asset subject to a leasing agreement is damaged without fault of the lessee or lessor before the asset is delivered to the lessee, the lessee may demand inspection and at the option of the lessee either accept the asset with due compensation from the supplier for the loss in value or, subject to Article 10, seek such other remedies as are provided by law. The parties may agree that such compensation shall be remitted to the lessor and applied to reduce the rentals owed by the lessee.

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

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

(b) if the loss is partial, the lessee may demand inspection and at the option of the lessee either treat the leasing agreement 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.

Comment

Article 12 provides rules to govern the circumstance in which an asset is damaged without fault of the lessee or lessor before the asset is delivered to the lessee. Inasmuch as the provision clarifies the rights and duties of the parties, provisions such as Article 12 aim to reduce transactions costs and disputes.

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. (a) Once a lessee in a financial lease has accepted an asset, the lessee is entitled to damages from the supplier if the asset does not conform to the supply agreement. The parties may agree that such compensation shall be remitted to the lessor and applied to reduce the rentals owed by the lessee.

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

Comment

Article 13 seeks to identify the time at which “acceptance” occurs, as well as, in conjunction with Article 14, certain consequences of acceptance. Including the concept of “acceptance” in the future model law is designed to ensure that transactions governed by this law can also rely, where necessary, on a State’s law of sales in so far as many States’ sales law utilises the concept.

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 leasing agreement, 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 leasing agreement, the lessee has the right to accept the asset, to reject the asset or, subject to this paragraph and Article 23, to terminate the leasing agreement. Rejection or termination must be 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 leasing agreement, 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.

3. If the lessee rejects an asset in accordance with this Article and the time for performance has not expired, the lessor or supplier has the right to remedy its failure within the agreed time.

Comment

Article 14 provides further clarity regarding the parties’ rights and duties when an asset is not delivered, is partially delivered, is delivered late or fails to conform to the leasing agreement.

Article 15 – Transfer of rights and duties

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

(ii) The leasing agreement may provide 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].

(b) The duties of the lessor under the leasing agreement 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 leasing agreement 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.

Comment

In order to facilitate the growth of a deeper financial market in States where such markets may be underdeveloped, Article 15 provides for the transfer of the lessor's rights. Article 15 also provides for the transfer of the lessee's rights and the transfer of both parties' duties.

Article 16 – Warranty of quiet possession

1. (a) In 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 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. The parties may not derogate from or vary the effect of the provisions of this sub-paragraph.

(b) In a financial lease, a lessee that furnishes specifications to a lessor or a supplier shall hold the lessor and the supplier harmless against any claim of infringement or the like 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. The parties may not derogate from or vary the effect of the provisions of this paragraph.

3. 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.

Comment

Article 16 requires a lessor to warrant that the lessee's quiet possession will not be disturbed and further makes clear that, if such warranty is broken, the lessee may bring an action for damages against the lessor but has no other remedy under the draft model law.

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 leasing agreement and is fit for the ordinary purposes for which an asset of that description is used. Subject to sub-paragraph (c) of paragraph 1 of Article 7, 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 leasing agreement 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.

Comment

Article 17 requires the lessor or, in a financial lease, the supplier to warrant that the asset being leased meets certain minimum requirements for such an asset in the trade.

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 leasing agreement 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 leasing agreement 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.

Comment

In order that the lessor recover the asset in a condition showing only such reasonable wear and tear as might be expected given ordinary use of such an asset, Article 18 specifies the level of care required of the lessee in respect of the asset.

Article 19 – Definition of default

1. The parties may at any time agree as 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 leasing agreement or this Law.

Comment

For those unusual instances in which a leasing agreement does not identify those acts that would constitute a default, Article 19 provides a definition of default but permits the parties to employ whatever other definition they may prefer.

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.

Comment

In order that a lessee or other defaulting party may have an opportunity to cure any non-compliance with its duties, Article 20 requires the other party to send a notification of any default, enforcement or termination and provide an opportunity for such non-compliance to be cured.

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 leasing agreement, place the aggrieved party in the position in which it would have been had the agreement been performed in accordance with its terms.

Comment

Article 21 provides clarity for those parties who fail to identify a measure of damages in the agreement.

Article 22 – Liquidated damages

1. When the leasing agreement 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.

Comment

In order to limit disputes over the amount of any damages owed in the event of default, Article 22 permits the parties to agree to a liquidated damages award for any default, so long as the liquidated damages figure is reasonable.

Article 23 – Termination

1. (a) **Subject to sub-paragraph (b), a leasing agreement 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) **The lessee in a financial lease may not terminate the leasing agreement 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.**

2. **Subject to Article 10, on termination all duties under the leasing agreement 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.**

Comment

Article 23 permits a party to terminate the agreement, and thus discharge all the parties' future duties, only upon a fundamental default by the other party. By requiring a "fundamental default" before termination is permitted, the Committee of governmental experts sought to ensure that a leasing agreement was not terminated upon, for example, a very short delay in payment or other such trivial non-compliance.

Article 24 – Possession and disposition

After the leasing agreement 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.

Comment

While leaving the manner in which repossession is to be accomplished to the law of a particular State, Article 24 makes clear that the lessor does have the right to take possession of the leased asset at the end of the lease.