



COMPANY CENTER & CORPORATE SERVICES

HIGHLIGHTS OF COMPANY LAW IN HUNGARY

2017

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1.1 Business Organizations

1.1.1 Founders

Business organizations can be established by Hungarian resident and non-resident natural persons, legal persons, as well as business organizations, to engage in business operations. Further, such persons can join business organizations as members or acquire participation therein.

1.1.2 Forms of business organizations

Business organizations can only be established in the company forms regulated in the Companies Act. Currently, the following types of business organizations can be established under the current Companies Act:

- (a) limited liability company (in Hungarian: 'korlátolt felelősségű társaság', i.e. 'Kft.');
- (b) private joint stock company (in Hungarian: 'zártkörűen működő részvénytársaság', i.e. 'Zrt. ');
- (c) public joint stock company (in Hungarian: 'nyilvánosan működő részvénytársaság', i.e. 'Nyrt. ');
- (d) general partnership (in Hungarian: 'közkereseti társaság', i.e. 'Kkt. ');
- (e) limited partnership (in Hungarian: 'betéti társaság', i.e. 'Bt. ').

1.2 General attributes of business organizations

1.2.1 Limited Liability Companies ('Korlátolt Felelősségű Társaság' or 'Kft.')

(a) *General rules*

A Kft is a business organization which is established with a predetermined amount of initial capital provided by the quotaholders.

(b) *Capitalization requirements*

The minimum capital required to establish a limited liability company is HUF 3.000.000. The registered capital consists of the capital contributions of the quotaholders, which can be a contribution in cash or in kind.

(c) *Liability of quotaholders*

In general, the liability of the quotaholders of the company extend only to the provision of their capital contributions and other contributions set out in the articles of association, and usually they are not held responsible for the liabilities of the company.

(d) *Transfer of the quota*

Most quotas are freely transferrable among the quotaholders of the company, excluding the company's own quotas.

1.2.2 Joint Stock Companies ('Részvénytársaság' or 'Rt.')

(a) *General Rules*

A joint stock company is a business organization established with a predetermined amount of share capital, represented by shares of a predetermined number and nominal value. The liability of the shareholders of a Joint Stock Company is limited to the value of their contribution to the joint stock company's share capital, i.e. to the value of their share(s).

With respect to the form of operation of joint stock companies, two types of joint stock companies can be distinguished.

Private Joint Stock Company

A private joint stock company shall mean a company, the shares of which are not offered to the public.

Public Joint Stock Company

A public joint stock company is a company the shares of which (all or some) are traded publicly in accordance with the conditions set out in the act on securities.

(b) *Capitalization Requirements*

Private Joint Stock Company

The registered capital of a private joint stock company shall not be less than HUF 5.000.000. Private joint stock companies can be also established with cash-contribution and/or with in-kind contributions.

Public Joint Stock Company

A public joint stock company can be established by share subscription through a public procedure regulated in capital market and other relevant legislations. The registered capital of a public joint stock company shall be at least HUF 20.000.000.

1.2.3 General partnership ('Közkereseti társaság' or 'Kkt.')

The general partnership is a business organization with a legal personality. Members of a general partnership shall jointly engage in business operations with unlimited and joint and several liability, and provide to the partnership the capital contribution necessary for the activities of the partnership.

1.2.4 Limited partnership ('Betéti társaság' or 'Bt.')

The limited partnership is a business organization with legal personality. The limited partnership shall have at least two members: one general partner and one limited partner.

Members of a limited partnership shall undertake to jointly engage in business operations, where the liability of at least one member (the general partner) for the obligations not covered by the assets of the partnership is unlimited, and is joint and several with all other general partners, while at least one other member (limited partner) is only obliged to provide capital contribution and in principle, not liable for the obligations of the partnership.

1.2.5 Hungarian Commercial Representative Office of a Foreign Company ('Kereskedelmi képviselő' or 'CRO')

Permitted Scope of Activities

The CRO Act recognizes and authorizes the 'CRO' as a legal form through which the following may operate in Hungary:

- a foreign legal person,
 - a foreign organization having no legal personality, and
 - other entrepreneurs registered abroad
- (each referred to as a 'Founder').

The CRO Act permits the CRO to perform only the following activities:

- mediate contracts
- prepare contracts
- perform information, advertisement and promotional activities.

However, the CRO must not engage in any other, entrepreneurial activities. The CRO - being an entity without legal personality - acts in the name of and on behalf of the Founder. Thus, the CRO is entitled to enter into contracts only in the name of and on behalf of the foreign company and only in connection with matters relating to the operation of the CRO.

1.2.6 Hungarian Branch of a Foreign Company

The CRO Act recognizes and authorizes the 'branch' as an entity form (without legal personality) through which the following may operate in Hungary:

- (a) a foreign legal person,
- (b) a foreign organization having no legal personality, and
- (c) other entrepreneurs registered abroad.

1.2.7 European Public Liability Companies

At an EU-level, European Public Limited Liability Companies are regulated by Council Regulation (EC) No 2157/2001 on the Statute for a European Company (SE).

Public limited-liability companies formed under the law of a Member State, with registered offices and head offices within the Community may form an SE by means of a merger provided that at least two of them are governed by the law of different Member States.

The subscribed capital of an SE shall not be less than EUR 120,000; the capital shall be expressed in Euro. The capital of an SE shall be divided into shares. No shareholder shall be liable for more than the amount he has subscribed.

1.3 **General rules on the operation**

1.3.1 Business activities

A business organization may pursue any business activities that are not prohibited or restricted by law. Certain specific economic activities set out by Hungarian laws can only be pursued in specific company forms. Just to mention an example, banks can only be established in the form of a joint stock company.

1.3.2 Registered seat

All business organizations must have a registered seat. The registered office of a business organization generally functions as the business organization's headquarters. The registered office also functions as the business organization's mailing address, where all business and official documents are received, filed, safeguarded and archived, and where the obligations set out in specific other legislation for corporate headquarters are satisfied. Corporate headquarters are to be marked by a company sign.

1.3.3 Representation and Signatory Rights

'Power of representation' means authority to represent a business organization by signing in its name and on its behalf.

Signatory authority may be conferred on a single person or on several persons acting jointly. If conferred upon several persons, the form of authorization may be stipulated as to granting individual authority to certain officers and joint authority to others, or that one of the signatories is always a specific person.

1.4 **Establishment, Registration**

1.4.1 Establishment

A business organization is established by (i) concluding an articles of association¹; and (ii) registration with the court of registration.

The articles of association shall be signed by all founders and shall be prepared either as a public document prepared by a public notary or as a private document countersigned by a lawyer or the legal counsel of the founder. The content of the articles of association is primarily determined by the Companies Act; however, the quotaholders/shareholders may include in the articles of association any additional provisions which do not conflict with the regulations of the Companies Act.

1.4.2 Registration mechanisms

Business organizations shall be considered to be established at the time of their registration at the trade registry, effective as of the date of such registration. The registration application shall be filed with the court of registration within 30 days from the date of the signing of the articles of association. However, in case an official authorization is required to perform the business activities, the deadline for the submission of the registration application shall be 15 days.

¹ Articles of association has a different name depending on the company form; it is called as 'deed of foundation' in case of public and private joint stock companies and wholly-owned companies and 'articles of association' in case of multi-owned limited liability companies.

Currently, two registration mechanisms are available:

- (a) general registration process or
- (b) simplified registration process.

The length of the registration process depends on which mechanism is chosen to register the company. If a general registration process is chosen, the registration can occur within 15 working days. If the simplified registration process is used, the registration can occur within about 1 working day. In each case, the days are counted from the submission of all required documents, assuming the trade registry judge has no questions about those documents and does not require any additional documents.

The simplified registration process leads to quicker registration but has potential disadvantages. To be able to proceed with the simplified process, the so called Template Founding Document must be used as the articles of association of the company. The provisions of the Template Founding Document are set out by the law, and those may not be changed in any way. Pursuant to this rule, a company, which is registered through such process, must be established with (i) a financial year which corresponds to the calendar year; and (ii) must use Hungarian Forint as its accounting currency.

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