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Mexican Civil Organizations Under the New Code

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MEXICAN CIVIL ORGANIZATIONS UNDER THE NEW CODE†
FREDERICK F. BARKER* AND JOSEPH M. CORMACK**

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1. INTRODUCTORY

A former article1 presented a survey of the Mexican law of business organizations as it existed under the Civil Code of 1884 and the Code of Commerce of 1889. On October 1, 1932, a new Civil Code became effective in the Federal District and Territories,2 and since then several States of the Mexican Union have adopted this Code with slight modifications.3 It is likely that within the next few years all the States will have adopted new codes following closely the provisions of the new federal Code. The old state codes are, for the most part, reproductions of the federal Code of 1884 and therefore inadequate under modern social conditions.

Since the outbreak of the revolution in 1911, and more particularly since the adoption of the new Federal Constitution in 1917, Mexican legislators have been enacting laws and codes to fit the new social and economic order. The

†[This is the third of a series of articles on Mexican law by these authors. The first article appeared in this Review in November, 1932; the second in March, 1933. Subsequent articles will appear in future issues of the Review.—Ed.]

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1 The Mexican Law of Business Organizations, 6 SOUTHERN CALIFORNIA LAW REVIEW, 181 (1933).

2 The new Civil Code was published August 30, 1928, and became effective October 1, 1932, by presidential decree of August 29, 1932 (Diario Oficial, Sept. 1, 1932). It is entitled “Código Civil para el Distrito y Territorios Federales, en materia comun, y para toda la República en materia Federal.” For an interesting review of the provisions of this Code, see J. Castan Tablasas, El Nuevo Código Civil Mexicano, originally published in 16 Spanish Revista de Derecho Privado (1929), 185 et seq., and reprinted in 1 Mexican Revista General de Derecho y Jurisprudencia (1930), 47 et seq.

3 Up to November 1, 1933, the States which had adopted new civil codes following closely the provisions of the new federal Civil Code were: Querétaro, Coahuila, Morelos, Mexico and San Luis Potosí. Information furnished by the courtesy of the Mexican Department of the Interior.
federal laws governing the ownership of land, waters, mines, oil deposits and other sources of national wealth have been re-written; as also the legislation controlling banking and currency, negotiable instruments and credit operations, insurance, transportation, the property rights of aliens, ecclesiastical affairs and taxation. In regard to labor, a field left entirely to the will of the parties prior to 1917, the new legislation is comprehensive and far-reaching. 4 The tendency in all departments of Mexican law is toward federalization, nationalism and collectivism. 5

The laws governing the formation and conduct of private business organizations have not, until recently, been subjected to reform, except indirectly as a result of the new labor, agrarian, alienship and property legislation. The government has under consideration a new code of commerce embracing all forms of mercantile organization. 6 The provisions of this code, if and when enacted, will be operative throughout the Republic. 7

Mexican jurisprudence distinguishes between civil and commercial organizations, a distinction based upon that between civil and mercantile acts. 8 Speaking in general terms, an organization formed for commercial purposes is mercantile; other organizations are civil. Examples of civil organizations are municipal corporations, professional and other vocational partnerships, and associations formed for recreational, cultural and political purposes. The present paper will treat principally of civil organizations of a private character.

2. JURISTIC INTERPRETATION

A. ABSTRACT APPROACH

As was indicated in an earlier paper, 9 the code language of the Latin American countries is simpler and briefer than in this country. Their legal style is general and abstract, and, to a practitioner trained under the common law system, lacks concretion and specification. This absence of particularity in the codes of the civilians is consonant with their lesser regard for judicial precedents and their greater reliance on legal doctrine. In consequence, the rules in the Mexican codes governing organized groups should be read in the light of accepted general principles of jurisprudence, other rules in the codes not expressly related to such organizations, and the aims of the legislators as set forth in the published Exposiciones of Purposes (Exposiciones de Motivos). 10

Since the adoption of the new Federal Constitution of 1917, the supreme courts of the several States and the higher courts of the Union have shown a

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4Ley Federal del Trabajo; enacted August 18, 1931; effective August 28, 1931. (Diario Oficial, August 28, 1931.)
5Barker and Cormack, The Mercantile Act: A Study in Mexican Legal Approach, 6 SOUTHERN CALIFORNIA LAW REVIEW, 1, 29-30 (1932).
7Cormack and Barker, The Mexican Law of Business Organizations, 6 SOUTHERN CALIFORNIA LAW REVIEW, 187 (1933).
8Barker and Cormack, The Mercantile Act: A Study in Mexican Legal Approach, 6 SOUTHERN CALIFORNIA LAW REVIEW, 1 (1932) passim.
9Study referred to in footnote #8.
10Study referred to in footnote #8, particularly pp. 2, 11-13, 27-30.
strong leaning toward legal interpretations which promote the development of socialistic principles. These principles find expression also in many of the provisions of the new codes.

**B. UNDERLYING PURPOSE OF THE NEW CIVIL CODE**

The underlying purpose of the new federal Civil Code is to harmonize the private law with the socialistic features of the new constitutional régime. The following excerpts are taken from the official Exposition of Purposes formulated by the drafters of the Code.

"Our present Civil Code [Code of 1884]—a product of the economic and juridic needs of other times, framed in an epoch when small business prevailed in the economic field and an exaggerated individualism in the field of law—has become inadequate to the regulation of the new needs sensed and of relations which, although of a private nature, are strongly influenced by the daily conquests of highly organized business and by the progressive triumphs of the principle of social solidarity.

"In order to transform a civil code in which the individualistic criterion predominates, into a Private-Social Code, substantial changes must be made, by the abrogation of everything that favors exclusive private interests to the detriment of the collectivity; and by the introduction of new principles that harmonize with the concept of solidarity.

"There exists no foundation for the view of those who contend that the Civil Law should concern itself exclusively with such of the relations between private persons as do not affect directly society at large, and that, therefore, such relations should be regulated solely in the interest of the parties who contract them. The relations between private persons which do not entail repercussions of public interest are very few, and accordingly all such relations should be regulated with a view to the general interest. The individual, whether he works for his own interest, or as a member of society and for the common weal, cannot avoid regarding himself as a member of a collective whole. His juridic relations should therefore be regulated harmoniously, and the law cannot by any means eliminate their social aspect.

"The need of provision for a better distribution of wealth; the protection which should be afforded to the weak and the ignorant in their relations with the strong and the educated; the unbridled competition which originated with the introduction of machinery; and the gigantic development of big business, which directly affects the working class: all these have made state intervention indispensable in the regulation of juridic-economic relations, thus relegating to second place the until recently triumphant principle that 'the will of the parties is the supreme law of contracts.'

"The celebrated formula of the liberal school—laissez faire, laissez passer—\(^{21}\) is entirely inadequate to the solution of the highly important and complex problems which daily present themselves in contemporaneous life.

"The concept of solidarity is ever taking deeper root in the

\(^{21}\) The student will not need to be reminded that these expressions indicate synonymously the political principle of freedom from governmental interference.
public conscience, diverting into new channels the principles of liberty and equality.

"In the name of freedom of contract, the poorer classes have been iniquitously exploited, and a theoretical proclamation of equality has been relied upon to efface the differences which nature, education, an uneven distribution of wealth, etc., have maintained among the components of society.

"The law must be socialized, because, in the words of a publicist: 'a socialization of the law is an indispensable factor in the socialization of all other activities, in opposition to the selfish individual, thus giving birth to a new and higher type of man: the social man.'"

"The socialization of the law means the extension of the sphere of law from the rich to the poor, from the property holder to the laborer, from the captain of industry to the salaried employee, from the man to the woman, without either restriction or exclusion. The law should not constitute a privilege, or a means of domination by one class over another.

"The fundamental purpose which underlies the Draft [of the new Civil Code] may be briefly expressed in the following terms: To harmonize the interests of the individual with those of society, correcting the excess of individualism which prevails in the Civil Code of 1884."12

C. WAIVERS, SIMULATIONS AND NULLITIES

Waivers. In interpreting the laws of Mexico, there arise frequently questions of possible conflict between the will of the members of an organization and the interests of society when the public interest is involved. The new Civil Code provides:

"Art. 6. The will of the individual does not exempt him from observance of the law, nor does it warrant the alteration or modification of the law. A waiver of private rights is permissible only where these do not directly affect the public interest and such waiver does not prejudice the rights of third parties.

"Art. 7. The waiver authorized in the preceding article produces no effect unless it be made in clear and precise terms, in such a manner as to leave no doubt as to the right waived."

Simulations. The Mexican courts are less disposed than are American courts to go behind the written declarations of the contracting parties. In the past, at least, there has been no piercing of the corporate veil. The legal presumption against fraud or simulation is not easily rebutted, and judicial interpretation is likely to be formalistic. The new Civil Code, however, extends considerably the scope of the provisions of the old code in regard to simulated acts, including contracts. Under the new law, an act is simulated when the parties profess falsely what in fact never happened or what was actually not agreed between them. The simulation is absolute when the simulated act is without any foundation in fact; it is relative when a false appearance is given

12Motivos, Colaboración y Concordancias del Nuevo Código Civil Mexicano, Ignacio García Téllez, ed. (Mexico, 1932), 19–21.
to a juridic act, concealing its true nature. When the simulation is absolute, the act produces no legal effects whatsoever; when the simulation is relative, the act is null only if it contravenes the law. Nullity by reason of simulation may be alleged by a party prejudiced thereby, or by the State's attorney when the simulation was committed in contravention of the law or to the prejudice of the Public Treasury. When a simulated act is annulled, restitution must be made of the thing or right involved, except where it has been conveyed to an innocent third party for valuable consideration.

Nullities. In regard to nullity in general the new Code provides:

"Art. 8. Acts performed against the tenor of prohibitive laws or of laws of public interest are null, except where the law provides otherwise."

With the civilians, the nullity of an act or contract, whether simulated or not, is either absolute or relative, a distinction corresponding closely to our differentiation between void and voidable contracts. The provisions of the new Civil Code in this regard are summarized by the drafters themselves in their Exposition of Purposes:

"In the matter of the nullity of obligations, a clearer and better-founded doctrine has been adopted. As a basic principle it is held that only the law is capable of ordaining nullities. These are classified as absolute or relative, the former resulting from acts which contravene prohibitive laws or are against public interest. All other nullities fall into the second category. An absolute nullity may be declared by the court on its own initiative, should be alleged by the state's attorney, is not susceptible of validation by the will of the parties, and cannot be cured by limitation or prescription. A relative nullity may be alleged only by the party in whose favor it is ordained and may be extinguished by confirmation [by the party]. Juridic relations that are absolutely null produce no effects either before or after the declaration of nullity; whereas those relations affected with relative nullity produce legal effects so long as their nullity is not pronounced by the court."

D. INTERPRETATION BY CLASSIFICATION

The classification of contracts by the civilian, following the Roman jurisprudence, is more rigid and detailed than it is in this country. In the Mexican practice, an identification of the species, or distinguishing nature of the contract, is of paramount importance. The first objective that engages the attention of the jurist, when ruling upon a contract, is to determine its proper category in the body of forty or more species of contractual obligations catalogued and described in the codes. His decision in this regard will govern

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13The reference here is to an intervention by the representative of the State in a civil proceeding.
14New Federal Civil Code, Arts. 2180-2184. The provisions of the Code are but slightly condensed in the above summary.
15See footnote #13, supra.
16Statement of the Drafting Commission, Motivos, Colaboración y Concordancias del Nuevo Código Civil Mexicano, Ignacio García Téllez, ed., 40.
determination of such dependent issues as sufficiency of external form and stamp taxes, and the parties' rights and obligations to the extent that these are not exhaustively set forth in the agreement itself or clearly deducible from its terms.17

When a single document embraces two or more distinct classes of contracts, there is still the same disposition on the part of the jurist to identify them separately before proceeding to an interpretation of individual clauses. The law recognizes, however, the possibility of entering into a lawful agreement that defies exact classification—termed an innominate or nameless contract—but does so in language indicative of the interpretative approach customarily adopted:

"Art. 1858. Contracts not specially regulated in this Code shall be governed by the general rules relative to contracts, by the stipulations of the parties, and, in particulars where such stipulations are lacking, by the provisions of that class of contract regulated in this Code which bears the closest analogy to the contract in question.

"Art. 1859. The legal provisions regarding contracts [in general] shall be applicable to all agreements and other juridic acts, in so far as such provisions are not contrary to the nature of the same or to special provisions of the law relative thereto."18

In the Mexican law, each species of organization, whether civil or mercantile, is in a sub-class by itself, with a distinct nature of its own. A stipulation in the articles of association or by-laws which is repugnant to the intrinsic nature of the form of organization adopted is void. Such a stipulation, in certain cases, may even be ground for a judicial decree declaring that the organization is de facto, and not de jure, thus depriving it of existence as a juridic entity. Attempts to depart from the prescribed legal pattern of a species of contract, including the contracts of association, are perilous in the Mexican practice.

6. THE JURIDIC PERSON

In a former article in this series,19 the distinction in the Mexican law between a natural or physical, and an artificial or juridic, person is emphasized. The characteristic of the latter is that it enjoys a legal existence separate and distinct from that of its individual members. It is an entity, endowed with a collective legal capacity. It may own property; may enter into contracts, both with outsiders and with one or more of its own members; and may sue and be sued in its own name.20 In the Mexican law, a juridic entity is customarily styled a "moral person." The Spanish term moral, when used in this connection, carries no ethical implication, but is employed as an antithesis to fisica (physical).

The new Civil Code groups juridic persons under six heads:

17New Civil Code, Arts. 1851-1859.
18New Civil Code. (Italics added.)
20Study referred to in the last preceding footnote, 183-185.
MEXICAN CIVIL ORGANIZATIONS

"I. The Nation, the States and the Municipalities;
"II. Other corporations [corporaciones] of a public character recognized by the law;
"III. Civil and mercantile partnerships and companies [sociedades];
"IV. Syndicates, vocational associations, and such others as are referred to in Section XVI of Article 123 of the Federal Constitution;
"V. Co-operative and mutual organizations;
"VI. Associations [asociaciones] distinct from those above enumerated and formed for a political, scientific, artistic, recreational, or any other lawful purpose, provided that such associations be not unknown to the law." 21

The first two sections embrace the political entities, the fourth, the trade-unions. The fifth and sixth sections do not call for comment here, except as to the closing words of the sixth section. The category of moral persons is here expressly circumscribed by law. Only such organizations as are clothed in one of the forms recognized by law acquire juristic personality. 22 This article will deal mainly with the civil organizations catalogued above under Sections III and VI.

The civilians have no term for partnership as distinguished from company. The terms asociación (association) and sociedad (company or partnership) together embrace all the forms of private juridic entities, both civil and mercantile. The distinction between these Spanish terms will be indicated presently.

The attributes common to juridic or moral persons of every class are set forth in three articles of the new Civil Code:

"Art. 26. Moral persons may exercise all the rights necessary to realize the purpose of their institution.
"Art. 27. Moral persons operate and obligate themselves through the organs which represent them by virtue of provisions of law or in accordance with the pertinent provisions of their contract of association and by-laws.
"Art. 28. Moral persons are governed by the laws which relate to them, by their contract of association, and by their by-laws." 23

In the Mexican practice, private organizations derive their legal existence from their contract of association, and not from any governmental charter. No such charter is granted to a private organization. 24

4. ORGANIZATIONS AS EITHER CIVIL OR MERCANTILE

Organizations of a private character are either civil or mercantile. 24 A civil organization is formed under the civil code, either state or federal, of its

22 Cf. supra, under D. INTERPRETATION BY CLASSIFICATION.
24 Since the adoption of the new Federal Constitution in 1917, the Federation has enacted several laws governing co-operative associations. The latest of these is styled "General Law of Co-operative Companies" and bears date of May 12, 1933. (Diario Oficial, May 30, 1933.) This form of organization, as prescribed by the law referred to, is hybrid
domicile; a mercantile organization is formed and operates under the Code of Commerce, which is federal, and effective throughout the Republic. The Code of Commerce now in force is that of 1889, but probably it will be replaced by a new mercantile code or codes embodying the revolutionary principles of the Federal Constitution of 1917. The central government already has published a draft or project for such a code.\textsuperscript{25} In the present survey it will be more profitable to compare civil organizations under the new Code with the mercantile organizations as they are prescribed in this official project than to seek a comparison with the forms of mercantile organization set forth in the antiquated Code of Commerce of 1889.

Under the project, the characterization of any given organization as either civil or mercantile is not left to the will of its founders or members but is determined by the law. When the objects of the organization are commercial, even though only in part, or when the organization habitually performs acts of commerce, or when the form of association is one of those prescribed in the mercantile law, the concern is mercantile.\textsuperscript{26} A lawfully formed organization that is not mercantile is civil. The project takes cognizance of imperfectly formed concerns, under the designation of de facto organizations.\textsuperscript{27}

Mercantile organizations are grouped by the project under three heads:

"Art. 9. The following are collective merchants (comerciantes colectivos):

"I. A collectivity organized in the Republic and clothed in one of the forms provided in the mercantile legislation, even though its purpose be civil, and any collectivity which, under the said legislation, is to be deemed a de facto organization;

"II. A collectivity constituted in the Republic under a law distinct from the mercantile laws and having as its purpose the execution of acts of commerce, whether exclusively or jointly with acts of a different nature; and any collectivity [properly] recorded in the Public Register of Commerce;

"III. A collectivity constituted abroad under a foreign law and recorded in the Republic in the proper Public Register of Commerce, in accordance with Article 41.\textsuperscript{28}

One of the effects of the foregoing and related provisions of the project will be to place all organized business, as distinguished from professional and vocational activities, under federal jurisdiction. This accords with Section X of Article 73 of the Federal Constitution, which vests in the National Congress exclusive power to legislate in matters of commerce. Enactment of the project in its present form will render impossible the formation, either in the Federal District or Territories or in any of the States of the Union, of any civil organization whose direct or indirect purpose is commercial profit-making, whether

\textsuperscript{25}Proyecto para el Nuevo Código de Comercio (2 vols., Mexico City, 1929-1930), published by the Secretariat of Industry, Commerce and Labor.

\textsuperscript{26}Project referred to in note \#25, Art. 9.

\textsuperscript{27}Project referred to in footnote \#25, Arts. 981-992.

\textsuperscript{28}Art. 41 of the project relates to the departmental authorization required by foreign companies to do business in the Republic.
in whole or in part, since an organization constituted for the purpose of performing any acts of commerce, even though its principal purpose be civil, will be mercantile. The same project defines and enumerates in considerable detail the acts which are to be deemed commercial, thus settling a number of vexed questions of interpretation. 29

5. CLASSIFICATION OF CIVIL ORGANIZATIONS

The Civil Code recognizes and regulates only two forms of private collective activity: 30 the civil partnership (sociedad civil) 31 and the civil association (asociación civil). The first is preponderantly economic; the second is not. By economic is meant pertaining to the satisfaction of man's material needs. The civil partnership is to be distinguished from the civil association, on the one hand, and from mercantile partnerships and companies, on the other. The civil association is formed for political, social, cultural or recreational purposes; the mercantile organization is formed for the purpose of making profits, or as incidental to profit-making concerns. Between these two extremes lies the civil partnership, the purpose of which is, in general terms, to provide a gainful occupation for its members. To distinguish in law between making profits and earning a livelihood may seem strange to the American reader, but the difference is real in most parts of the world and is fully recognized in the laws of Mexico. 32 Collective organizations for the practice of law, medicine or any other non-mercantile calling clearly fall in the class of civil partnerships. Other examples will be considered presently, but obviously the field of activity for such partnerships is limited.

Charitable, 33 co-operative 34 and mutual 35 organizations are governed by special laws and cannot be formed under the provisions of the Civil Code. The same is true of religious institutions.

6. DOMICILE

Under the new Civil Code, domicile is legal, presumed or conventional. The legal domicile of a person or organization is the place where the law fixes residence for the exercise of rights and the fulfillment of obligations. 36 The legal domicile of a juridic entity is, in general, the place where its administration is established, that is, the location of its directive organs. 37 The new

30 The conjugal partnership (sociedad conyugal) is not treated in this article. The reader may consult the new Civil Code, Art. 183 et seq. Asociaciones momentáneas (momentary associations) and asociaciones en participación (participating associations) are not considered organizations and are not legal entities. Code of Commerce of 1889, Arts. 268-271; Cormack and Barker, The Mexican Law of Business Organizations, 6 Southern California Law Review, 218, 219 (1933).
31 When referring to the sociedad civil, the term "civil partnership," or simply "partnership," will be employed.
33 New Civil Code, Art. 2687.
34 New Civil Code, Art. 2701. See also footnote #24.
35 New Civil Code, Art. 2701.
36 New Civil Code, Art. 31.
37 New Civil Code, Art. 33, first paragraph.
Code does not leave a civil entity free to fix its legal domicile at any other place. But where the administration of a legal entity is located abroad or in one of the States of the Union, and it has performed juridic acts in the Federal District or in one of the Federal Territories, it has a presumed domicile at the place where such acts were performed, in all matters relating thereto.48

A branch office situated outside the domicile of the home office is deemed to be domiciled where it operates, in regard to all matters relative to the fulfillment of its contracts.59

The above rules are subject to an important exception. The law permits stipulation in a contract that performance thereunder shall be demandable only at a certain designated place. That place is then termed a conventional domicile.60

7. THE CIVIL ASSOCIATION

The new Civil Code defines a civil association (asociación civil) in the following terms:

“Art. 2670. When several individuals agree to unite, in a manner that is not entirely transitory, for the purpose of realizing some common end not prohibited by the law, and the nature of which is not preponderantly economic, they constitute an association.”

This is a new class of organization, not contemplated in the former civil codes of Mexico. It is designed to meet the needs of casinos, social, cultural and recreational clubs, political organizations, Bar associations and other like professional bodies, including workmen's unions, provided, in every case, that the object of association is not mainly economic. When the objective is preponderantly economic, recourse must be had to the form either of a civil partnership or of one of the several mercantile organizations. The Code gives no definition of the term economic. Its interpretation, as indicated earlier in this study, must be gathered from the entire body of Mexican jurisprudence, until it has assumed exact legal meaning under decision and commentary.

Although a civil association is a legal entity, the relations among its members are of a distinctly personal nature. Membership is non-transferable.62 Admission and expulsion of members are governed by the by-laws.63 The supreme power resides in the general meeting of members, the director or directors being vested only with the powers granted to them under the by-laws, or, in accordance with these, by the general meeting.64 The voting at meetings is per capita, each member having but one vote, regardless of the amount of his subscription.65 This accords with the basic conception that the association

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48New Civil Code, Art. 33, second paragraph.
49New Civil Code, Art. 33, third paragraph.
50New Civil Code, Art. 34.
51See above under “5. CLASSIFICATION OF CIVIL ORGANIZATIONS.”
52New Civil Code, Art. 2694.
53New Civil Code, Arts. 2672, 2681.
54New Civil Code, Art. 2674.
55New Civil Code, Art. 2678.
is personal in character. Members who resign or who are expelled lose all
rights in the assets. 46

The contract of association and the by-laws, and any amendments thereto,
must be reduced to writing, 47 and, to be effective as against third parties, must
be recorded in the Public Register. 48 If so provided therein, the contract of
association and by-laws may be amended by the general meeting of members. 49

Upon dissolution of the association, the assets are distributed in accord­
ance with the by-laws, or, lacking provision therein, by the general meeting.
In the latter event, only the assets contributed by the associates may be dis­
tributed among them; any balance remaining must be devoted to some other
association or foundation of a similar character. 50 This rule is in accord with
the fundamental character of a civil association, its objects being essentially
social or cultural and not economic or commercial.

8. THE CIVIL PARTNERSHIP

A. OBJECTS

The distinguishing characteristic of the civil partnership (sociedad civil)
is that its purpose is chiefly economic, that is, with a view to the material
benefit of its members, but excluding commercial profit, in the sense pointed
out. The Code states the intrinsic elements of the civil partnership in these
terms:

"Art. 2688. By virtue of the contract of association of a part­
nership, the members mutually obligate themselves to combine their
resources or their efforts for the realization of a common end, of a
character preponderantly economic, but not constituting a mercantile
speculation." 51

The phrase "mercantile speculation," as here used, denotes any profit­
seeking venture and does not carry our connotation of abnormal risk. In the
Mexican jurisprudence, the underlying purpose of commerce is to make profits;
whereas the chief or predominating aim of a civil partnership is the material
benefit or advantage of its members, but without engaging in commerce. A
combination lawfully formed under the Civil Code for the practice of law,
medicine or any other liberal profession is unquestionably a civil partnership;
so also is such a combination formed by artisans for the joint exercise of their
calling; and so likewise is one formed exclusively for the administration and
conservation (by leasing, for instance) of real estate owned by its members.
Upon adoption of the projected new Code of Commerce, 52 probably but few

46 New Civil Code, Art. 2682.
47 New Civil Code, Art. 2671. The Code does not expressly require that such writing
shall be in the form of a notarial instrument. Manuel Andrade, in his commentary on
Articles 2670 and 2671 (Herrero Edition of the Code), states that a notarial instrument is
required; but this conclusion is not supported by the terms used in Articles 2671 and 3002,
both of which he relies. A comparison with the language employed in Article 2690
points to a conclusion contrary to that reached by the commentator.
48 New Civil Code, Arts. 2673, 3002 (VI), 3003.
49 New Civil Code, Arts. 2674, 2676 (V).
50 New Civil Code, Art. 2686.
51 See above under "4. ORGANIZATIONS AS EITHER CIVIL OR MERCANTILE";
also Art. 611 of the project.
organizations formed now or hereafter for any purpose other than the exercise of a profession or other non-mercantile calling will be able to qualify as civil partnerships.

B. FORMATION

The contract of association of a civil partnership must be reduced to writing and is required to be in the form of a notarial instrument in any case where a member contributes property the conveyance of which requires such an instrument. A contracts of association must state the names of the founders, the name of the firm, the purpose and capital and the subscriptions or contributions of the members. A failure to comply with the legal requisites of form or of content renders the partnership subject to liquidation at any time at the instance of any of its members; but pending such liquidation the contract binds them, and the lack of proper constitution cannot be set up against third parties who have contracted with the partnership.

To be effective as against third parties, the contract of association, and any amendment thereof, must be recorded in the Public Register of Civil Partnerships. The contract can not be amended except by the unanimous consent of the partners, for the reason that the organization is deemed to be \textit{intuitu personae} rather than \textit{intuitu capitalis}.

The Code does not provide expressly that a full compliance with technical requisites in the formation of a civil partnership is necessary to give it existence as a juridic entity. But, since the contract of association is not effective as against third parties until inscribed in the Public Register, and defects in the contract would prove a bar to its legal recordation, the practical result of such defects is to imperil one of the important benefits commonly sought, namely, exemption from individual liability on the part of non-managing members.

A partnership formed for an unlawful purpose will be declared null at the instance of any of its members or of any third party in interest and will be liquidated forthwith. After the payment of its debts and the return of the contributions made by its members, any profits remaining will be devoted to the public charitable organizations established at its domicile.

The Code provides that a partnership of a civil nature organized in one of the forms provided for mercantile organizations is subject to the provisions of the Code of Commerce. For most practical purposes such a partnership will be mercantile.

The name of the organization must be followed by the words \textit{Sociedad Civil}.

\begin{itemize}
\item \textsuperscript{52}\textit{New Civil Code}, Art. 2690.
\item \textsuperscript{53}\textit{New Civil Code}, Art. 2693.
\item \textsuperscript{54}\textit{New Civil Code}, Arts. 2691, 2693.
\item \textsuperscript{55}\textit{New Civil Code}, Arts. 2694, 2696 (VI), 3003.
\item \textsuperscript{56}\textit{New Civil Code}, Art. 2698.
\item \textsuperscript{57}This distinction is discussed in a former article of the series: \textit{The Mexican Law of Business Organizations}, \textit{Southern California Law Review}, 185, 186 (1933).
\item \textsuperscript{58}\textit{New Civil Code}, Arts. 2694, 2704.
\item \textsuperscript{59}\textit{New Civil Code}, Art. 2692.
\item \textsuperscript{60}\textit{New Civil Code}, Art. 2695.
\end{itemize}
(Civil Partnership). The Code places no restrictions upon the term of duration of a civil partnership, nor upon the amount of its capitalization. The keeping of a minute book of the meetings of members is not prescribed by law but is to be recommended. The carrying of accounting books is governed by the income tax legislation.

Any or all of the members of a civil partnership may be foreigners, subject to the limitations imposed by the provisions of Article 27 of the Federal Constitution and its regulatory laws. Subject to these same provisions, a civil partnership may acquire real estate.

C. RIGHTS AND OBLIGATIONS OF PARTNERS

In the absence of an express stipulation to that effect in the contract of association, the partners may not be assessed, beyond their original subscriptions, for the purpose of extending the firm's operations. When an increase in the capital is voted by a majority of the members, non-assenting members may withdraw from the partnership.

The managing partners of the organization are liable, subsidiarily as joint and several guarantors, for its debts and obligations; in the absence of stipulations to the contrary, other partners are liable only to the extent of their contributions or subscriptions, as in the common law limited partnership. The reasons given by commentators for this discrimination are that the managers, unlike the other partners, are charged with the conduct of the partnership affairs and therefore should be fully aware of its financial condition at all times, and that the public enters into contracts with the firm largely in view of the personal standing of its representatives.

Unless otherwise provided in the contract of association, a member may not assign his interest in the partnership, except with the previous and unanimous consent of the other members; and like restrictions are placed upon the introduction of new members. Even where a member is permitted by the contract of association to assign his interest, the other members may acquire the interest on the terms of its proposed assignment—a preferential right of acquisition known as el derecho del tanto. This right can not be waived in the contract of association and is exercisable even in a case where the proposed assignment is to a fellow partner. Where several partners desire to exercise the preferred right of acquisition, they are entitled to do so in the proportion of the amounts of their several interests in the partnership. The period allowed for the exercise of the privilege is eight days, reckoned from the date of notification by the prospective assignor. The application of the principle
of preferential right of acquisition to the assignment of interests in a civil partnership indicates the essentially personal nature of the organization.

A member may not be expelled from the partnership except by unanimous resolution of the other members.\textsuperscript{69} Such expulsion must be provided for in the by-laws and based on a serious charge.\textsuperscript{70} An expelled partner is liable for his share of any losses already incurred.\textsuperscript{71}

The new Civil Code makes no mention of share certificates. If such certificates are issued, their transfer will be subject to the preferred right of acquisition above referred to, as also to the general provisions of the Code governing assignment of civil rights.\textsuperscript{72} The issuance of registered share certificates would merely facilitate, in a measure, the transfer of interests; it would not modify the legal characteristics of the partnership nor the basic rights and obligations of its members. The issuance of bearer shares by a civil partnership would be incompatible with the intrinsic legal nature of such an organization and therefore unlawful.\textsuperscript{73}

D. ADMINISTRATION

The affairs of the partnership are conducted either by all its members or by one or more managing partners (socios administradores).\textsuperscript{74} The latter, if appointed in the contract of association, may not be removed except with the assent of all the partners; or by a court for fraud, negligence or incapacity. Other managers may be removed by a majority vote.\textsuperscript{75}

The managing partners exercise the powers necessary to the conduct and development of the business which constitutes the object of the firm.\textsuperscript{76} Unless otherwise stipulated, they need the express authorization of the other partners to convey any of the firm’s assets, except where such conveyance is the purpose of the organization.\textsuperscript{77} Such authorization is required also to pledge, mortgage or encumber the assets or to borrow funds.\textsuperscript{78} Obligations contracted by the managing members in excess of their powers may be repudiated by the partnership, except to the extent that benefits have accrued therefrom to the latter.\textsuperscript{79}

The powers not vested in the managing partners reside in the body of members and may be exercised by a majority vote, computed by interests, except that where a single partner holds a majority interest and the total number of partners exceeds three, the vote must be concurred in by at least one-third of the total per capita membership.\textsuperscript{80} The purpose of the exception is to preclude the control of the organization by one individual, or by a few individuals, to the prejudice of the minority interests.\textsuperscript{81} All partners have the irrenunciable right to investigate at any time the status of the firm’s affairs and to require the exhibition of books and records to that end.\textsuperscript{82}

\begin{itemize}
\item \textsuperscript{69}New Civil Code, Art. 2706.
\item \textsuperscript{70}New Civil Code, Art. 2707.
\item \textsuperscript{71}New Civil Code, Arts. 2059–2050.
\item \textsuperscript{72}See above under "D. INTERPRETATION BY CLASSIFICATION."
\item \textsuperscript{73}New Civil Code, Art. 2708.
\item \textsuperscript{74}New Civil Code, Art. 2709.
\item \textsuperscript{75}New Civil Code, Art. 2711.
\item \textsuperscript{76}New Civil Code, Art. 2712.
\item \textsuperscript{77}New Civil Code, Art. 2713.
\item \textsuperscript{78}Motivos, Colaboración y Concordancias del Nuevo Código Civil Mexicano, Ignacio García Telles, ed. (1932), 46.
\item \textsuperscript{79}New Civil Code, Art. 2710.
\item \textsuperscript{80}New Civil Code, Art. 2711.
\item \textsuperscript{81}New Civil Code, Art. 2712.
\item \textsuperscript{82}New Civil Code, Art. 2713.
\end{itemize}
E. DISSOLUTION AND LIQUIDATION

Among the causes of dissolution of the civil partnership is the withdrawal of one of its members, provided that no period of duration has been stipulated in the contract of association, that the remaining members do not desire to continue to be associated together, and that the withdrawal is not "malicious" or "inopportune." A withdrawal is malicious when done to obtain personal profits or to avoid personal losses which should be shared in common; it is inopportune if done at a time when the affairs of the partnership are in such a condition that a dissolution might be prejudicial to its interests.

Other causes of dissolution are: a unanimous vote to that effect by the members; and the achievement, or evident impossibility, of the partnership purpose. Where the contract of association provides that upon the death of a member the partnership shall continue to function with the survivors, a settlement must be made with the estate of the deceased. In such a settlement the heirs of the deceased receive the capital and profits to which the deceased was entitled at the time of his death.

To be effective as against third parties, the dissolution must be recorded in the Public Register of Organizations. Even when so recorded, it does not modify outstanding obligations to third parties.

Upon dissolution of the partnership, its assets are placed in liquidation. After payment of the debts, the contributions made by the several partners are returned to them and distribution is made of any remaining assets in accordance with the contract of association. The Code contains detailed provisions governing the distribution of assets when the contract is silent in this regard.

In the absence of agreement to the contrary, an industrial member, that is, one who furnishes services in lieu of a property contribution to the capital, is not liable for losses.

9. FOREIGN CIVIL ORGANIZATIONS

A foreign partnership or association of a civil character requires a permit from the Department of Foreign Relations to operate in the Federal District and Territories. This permit will not be issued until it has been shown that the concern is formed in accordance with the laws of its country of origin, that its constitution and by-laws contain nothing repugnant to the Mexican laws, and that it has a duly empowered representative domiciled at the place where it plans to operate. Upon issuance of the permit, the constitution and by-laws must be recorded in the Public Register.

A foreign organization domesticated under the above provisions enjoys, in general, the same civil rights as a Mexican civil organization, and suffers from

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83 New Civil Code, Art. 2720 (VI).
84 New Civil Code, Art. 2723.
85 New Civil Code, Art. 2724.
86 New Civil Code, Art. 2720.
87 New Civil Code, Art. 2722.
88 New Civil Code, Art. 2720.
89 New Civil Code, Art. 2726.
90 New Civil Code, Art. 2728.
91 New Civil Code, Arts. 2728-2734.
92 New Civil Code, Art. 2735.
93 New Civil Code, Art. 2736.
94 New Civil Code, Art. 2737.
the same disabilities.\textsuperscript{97} It can not, accordingly, engage in commerce.\textsuperscript{98} Furthermore, it is subject to the property laws governing alien ownership.\textsuperscript{99} For these reasons and because organizations for charitable, co-operative, mutual and ecclesiastical purposes are subject to special legislation,\textsuperscript{100} but very few foreign organizations of a civil character seek domestication in Mexico.

10. SUMMARY OF CHANGES EFFECTED BY THE NEW CODE

Only the more important innovations of the new Code affecting civil organizations will be summarized here.\textsuperscript{101}

The new Code makes no mention of the universal civil partnership (societad civil universal), involving all the property and efforts of the members, treated in the old Code.\textsuperscript{102} Such a partnership can not now be formed, because its objects would transcend the permitted purposes of a civil organization.\textsuperscript{103}

The old Code, while it allowed the formation of civil organizations for recreative, cultural and political purposes, did not accord them juridic capacity.\textsuperscript{104} Under the new Code such organizations, if formed in accordance with its provisions, enjoy all the advantages of a legal existence distinct from that of their members.\textsuperscript{105}

Under the old Code, a civil organization required for its valid existence the execution of a notarial instrument, unless it involved a capital not in excess of three hundred pesos, in which case it could be formed orally.\textsuperscript{106} Under the new Code, the contract of association must be in writing, but no notarial instrument is required unless there is a contribution of property of a kind which can not be conveyed without such an instrument.\textsuperscript{107}

In regard to the indispensable contents of a contract of association, the old Code was silent. In the new Code the required contents are expressly enumerated and a failure to satisfy the prescribed requirements lays the organization open to a judicial declaration of nullity at the instance of any of its members.\textsuperscript{108}

In the matter of the objects or purposes of a civil organization, the old Code was in some respects more liberal than is the new. Formerly a civil organization could be formed for engagement in both commercial and non-commercial activities and still retain its civil character.\textsuperscript{109} This is not possible under the new Code, since a civil organization can not engage in commerce.\textsuperscript{110}

Under the old Code, a civil organization could select any place within the

\textsuperscript{97}The Civil Code and Code of Civil Procedure for the Federal District are applicable to foreign juridic persons of a civil character, to the exclusion of the codes of the several States. See Edward Schuster, The Judicial Status of Non-registered Foreign Corporation in Latin America—Mexico, 7 Tulane L.Rev., 315, 342 (1933).
\textsuperscript{98}New Civil Code, Art. 2670, 2688.
\textsuperscript{99}New Civil Code, Art. 2700.
\textsuperscript{100}A concordance, article by article, of the new legislation with the old will be found in Téllez’ Motivos, Colaboración y Concordancias del Nuevo Código Civil Mexicano, 104–168.
\textsuperscript{101}Civil Code (1884), Arts. 2238–2251.
\textsuperscript{102}New Civil Code, Arts. 2670, 2688.
\textsuperscript{103}New Civil Code, Arts. 2671, 2690, 2691.
\textsuperscript{104}New Civil Code, Arts. 25 (IV & VI).
\textsuperscript{105}New Civil Code, Arts. 2670, 2688.
\textsuperscript{106}New Civil Code, Arts. 2671, 2690, 2691.
\textsuperscript{107}New Civil Code, Arts. 2670, 2688. Motivos, Colaboración y Concordancias del Nuevo Código Civil Mexicano, Ignacio García Téllez, ed., 46.
MEXICAN CIVIL ORGANIZATIONS

territorial jurisdiction of the Code as its domicile. Now the law fixes the legal domicile at the place where the administration of the organization is established.

As concerning transfers of interest in a civil organization, the innovations of the new Code are more apparent than real. Under it, as previously, in a civil association the right of membership is non-transferable. In a civil partnership, however, a member may transfer his interest if so provided in the contract of association. But the right of preferential purchase (el derecho del tanto) has been retained. Accordingly, regardless of the provisions of the contract of association, a partner can not transfer his interest without first giving his fellow partners an opportunity to purchase on the terms of the proposed assignment. The new Code omits the provisions of the old in reference to the issuance of share certificates. There is nothing, however, in the law to prevent their issuance. Such share certificates, whether issued under the old Code or under the new, are always burdened with the preferred right of purchase to which reference has been made.

In regard to the liability of the managing partners for obligations incurred by a civil partnership, the old Code stated but did not define this liability. The new Code provides that the partnership's obligations are guaranteed subsidiarily by the unlimited joint and several liability of the managing members. Under this provision a partnership creditor must exhaust his remedies against the organization itself before proceeding against any of the managers.

One of the most radical innovations in the new Code is that which governs voting at meetings of members of a civil partnership. Under the old Code it was permissible to provide in the contract of association that such voting should be on the basis of the interests held by the members. Under the new Code, in cases where a single partner holds a majority interest and the total number of partners exceeds three, the vote of such majority interest holder requires the assent of at least one-third of the total per capita membership.

The old Code did not require civil organizations to be inscribed in any public register. The new Code establishes a Public Register for this among other purposes. An unrecorded contract of association produces no effects as against third parties.

No express provisions in regard to foreign civil organizations are to be found in the old Code. Under the new Code a foreign organization of a civil character, in order to operate within the territorial jurisdiction of the Code, must obtain authorization from the Secretariat of Foreign Relations and record its articles and by-laws in the Public Register.

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111 Civil Code (1884), Art. 36.
112 New Civil Code, Art. 33. This rule is subject to certain exceptions, as set forth above under "6. Domicile."
113 New Civil Code, Arts. 2684.
114 New Civil Code, Art. 2705.
116 New Civil Code, Art. 2704.
117 New Civil Code, Art. 2705.
118 New Civil Code, Arts. 2292, 2297, 2298.
119 New Civil Code, Art. 2713.
120 New Civil Code, Arts. 2736-2738.
Civil organizations formed under the Civil Code of the Federal District and Territories of 1884 became subject to the new federal Civil Code as from its effective date, October 1, 1932. A like rule, mutatis mutandis, applies to organizations formed under the old civil code of any State which has adopted as its own the provisions of the new federal Civil Code. The pertinent articles of the Code read:

"[Transitory] Art. 2. Its provisions [the provisions of this Code] shall govern the juridic effects of acts performed prior to its effective date, provided that the application thereof does not violate acquired rights."

"[Transitory] Art. 3. The juridic capacity of persons is governed by the provisions of this Code, even though these provisions modify or annul a juridic capacity previously enjoyed; but acts consummated by capacitated persons remain valid, even though such persons become incapacitated according to the present Code."

The word "persons," as here employed, includes juridic entities or moral persons. Accordingly, civil organizations are embraced within the terms of Transitory Article 3 of the Code translated above.

The provisions of the two articles cited, in their application to civil organizations formed prior to October 1, 1932, may be summarized as follows:

1. The juridic capacity of such organizations is governed by the provisions of the new Code.
2. Previously acquired property and contractual rights are inviolate.
3. Acts previously consummated by capacitated persons are valid.

As a consequence of the first rule, a pre-existing private civil association (asociación civil) must qualify as such under the new Civil Code in order to acquire capacity as a juridic entity. A pre-existing civil partnership (sociedad civil) which fails to qualify as such under the new Code is in danger of loss of its status as a juridic entity. Such a partnership, if organized without the requisites prescribed by the new Code, is liable at any time to a judicial declaration of nullity at the instance of any of the partners or of the state's attorney. Whether a pre-existing civil partnership formed for both civil and commercial purposes retains capacity as a juridic entity is doubtful. A pre-existing civil partnership clothed in one of the forms prescribed for mercantile organizations is governed by the provisions of the Code of Commerce and for most practical purposes may be considered mercantile.

Assuming that a previously formed organization is able to qualify under the new Code either as a civil association or as a civil partnership, or that the

124 New Civil Code, Art. 25.
125 Civil Code (1884), Arts. 38 (II & III), 42; new Civil Code, Transitory Art. 3.
126 This and following conclusions reached do not apply to civil partnerships formed under the Civil Code of a State which has not adopted the provisions of the new federal Civil Code.
127 New Civil Code, Arts. 2690, 2691, 2693, Transitory Art. 3.
128 New Civil Code, Arts. 25 (III), 2698, 2692, 2696, 2720 (III), Transitory Art. 3.
129 New Civil Code, Art. 2695.
question of qualification is not raised by any member of the organization, it
must still conform all its acts and operations to the corresponding mandatory
provisions of this Code. 130 It is required to register as a civil organization for
its acts to be effective as against third parties. 131 Its domicile will be the place
where its administration is established, regardless of any provision to the con­
trary in its contract of association. 132 If it be a civil association, each member
will be entitled to but one vote at general meetings. 133 If it be a civil partner­
ship of four or more partners, and a single partner holds a majority interest,
a two-thirds majority vote of the per capita membership may override his
wishes. 134 Where the rules of the new Code are not mandatory, the provisions
of the contract of association and by-laws will govern. Where these are silent,
the precepts of the new Code will be applicable. 135 In the absence of such pre­
ccepts, principles of jurisprudence in harmony with the newly established Code
provisions will be applied.

Under the second rule set forth in the summary above, property and con­
tractual rights acquired prior to the effective date of the new Code are stated
to be inviolate; 136 but obviously their enjoyment will be modified fundamentally
if the organization is declared null, with a consequent distribution of assets.
Even when the organization is not declared null, the enjoyment of such inviolate
rights may be curtailed in important particulars as a result of the enactment
of the new Code. 137

Under the third rule, acts performed by capacitated civil organizations
prior to the effective date of the new Code remain valid. 138 Among such acts
may be enumerated conveyances of property, the execution of contracts, the
issuance of shares and the appointment of officers. Here again, while the valid­
ity of such acts is not impaired by the provisions of the new Code, their practical
consequences may be affected seriously thereby. 139

The officially published project for a new Code of Commerce contains
provisions which, if enacted, will make it impossible for many of the civil
organizations now in operation to continue in existence as such, even though
formed under a state code. These provisions will affect particularly civil
organizations formed for the purpose of evading the new agrarian and nation­
alistic policies. 140

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130 New Civil Code, Transitory Arts. 2, 3, 9.
131 New Civil Code, Arts. 2673, 2694.
132 New Civil Code, Art. 33.
133 New Civil Code, Transitory Arts. 1, 2, 9.
134 New Civil Code, Transitory Art. 2.
135 See code references under the preceding paragraph.
136 New Civil Code, Transitory Arts. 3.
137 Some leading Mexican jurists are of the opinion that certain of the provisions of
Transitory Article 3 of the new Civil Code are unconstitutional. These jurists hold that the
status of juridic personality once lawfully acquired can not be annulled as a consequence
of subsequent legislation, since such annulment is repugnant to the provisions of Article 14
of the Federal Constitution. A discussion of this question here would carry us beyond the
scope of the present article. See Fernando González Roa, Las Cuestiones Fundamentales de
Actualidad en México (Mexico, 1927), 105–106; Eduardo G. Batiz and Salvador Chávez
Hayhoe, Anticonstitucionalidad de los Artículos 12 y 4 Transitorio del Código Civil, La
Justicia, No. 54 (April 30, 1933), published also in Los Tribunales, Nos. 5 and 6 of Vol. X
(March and April, 1933); Trinidad García, La Retroactividad de las Leyes en la Con­
stitución de 1917, La Justicia Nos. 4 and 6 (March 15 and April 15, 1931); Moreno Cora,
De la Ley Civil, 1906, Mexico City, pp. 56–130.
138 See above under "4. ORGANIZATIONS AS EITHER CIVIL OR MERCANTILE." For
further details the reader may consult the project itself, particularly Arts. 7–12, 298,
299, 610–612.