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**LIMITED LIABILITY AND ADDITIONAL LIMITED COMPANY – AS A SUBJECT OF  
CIVIL LAW**

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**Annotation:**

This article provides a detailed overview of the legal status, rights, and obligations of liability-limited organizations and additional liability companies, as well as their compliance with legal and regulatory documents, the formation of their charter capital, and the establishment of internal audit services.

**Keywords:** covered include liability-limited organization, additional liability company, charter capital, internal audit service, company name, abbreviation, and more.

During the 31 years of independence, Uzbekistan has been actively implementing reforms aimed at ensuring sustainable development and achieving specific goals and objectives. The promotion of private property and entrepreneurship, in particular, has become a significant priority in order to foster economic growth. In this context, it is crucial to eliminate all obstacles and barriers that hinder the development of private ownership and private entrepreneurship. This issue requires urgent attention, as the future prospects of the country, the well-being of its population, and the quality of life are directly linked to its successful resolution. The effectiveness and importance of this matter lie in its continuous relevance and its impact on the future progress and living standards of our nation.

Today, every reform undertaken is aimed at benefiting the people and serving their interests.

At the same time, the president of our state Sh.M.Working on the basis of Mirziyoev's ideas that "human interest is above all else,"<sup>1</sup> made it possible to more reliably protect the rights of our people, entrepreneurs.

According to Article 62 of the Civil Code of the Republic of Uzbekistan, a liability-limited organization is defined as a company or several individuals established with a designated charter capital, which is divided into shares of specified amounts. The participants of a liability-limited organization are not personally liable for the obligations of the organization and are responsible only within the limits of their contributed shares for the damage caused by the activities of the organization.

Participants who have not fully paid their share in the capital of the organization are jointly liable for the unpaid portion of each participant's share in accordance with their obligations. The name of a liability-limited organization must include the term "limited liability".

The legal status, rights, and obligations of a liability-limited organization and its participants are determined by the Civil Code and other applicable laws.<sup>2</sup>

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<sup>1</sup> Sh.M.Mirziyoev .Ensuring the rule of law and human interests is a guarantee of the development of the land and the welfare of the people .- T: "Uzbekistan", 2017, 26.P

<sup>2</sup> Civil Code of the Republic of Uzbekistan. (With amendments and additions until March 1, 2021). National database of legislative acts of the Republic of Uzbekistan [www.lex.uz](http://www.lex.uz) (official source). Tashkent " legal literature publish" 2021.

<https://lex.uz/docs/111189>

Article 62 of the FK of the Republic of Uzbekistan provides basic provisions on a limited liability company. Currently, LLC is considered one of the most common and most mass organizational and legal forms of a legal entity carrying out entrepreneurial activity in our country. The possibility of making a profit and distributing it among the participants of LLC is the main goal of the society's activities.

LLC has the right to carry out any (not prohibited by legislation) type of activity, but in accordance with Law<sup>3</sup> No. 310-II of the Republic of Uzbekistan "on limited and additional limited liability companies" of December 6, 2001, the Charter of LLC must establish what this LLC operates, that is, its special legal capacity is established.

In our opinion, this situation is not conducive to the market economy and entrepreneurial activity because it restricts the freedom of choice for the entrepreneurial subject. This is because the founders define and determine in advance all types of activities that the entrepreneurial subject may engage in, which makes it difficult to imagine.

A limited liability company (LLC) can be established by one or several individuals. The founders can be citizens and/or legal entities. It should be noted that the participation of certain categories of individuals as members of an LLC is restricted or prohibited by legislation. Also, if not otherwise specified in the legal documents, the state authorities and management bodies cannot be participants of an LLC. An LLC can be established by a single individual, in which case this person becomes its sole participant. An LLC can also be transformed into a joint-stock company if it has temporarily had a single participant. However, a legal entity cannot be the sole participant of an LLC.

The number of participants in an LLC can exceed fifty. A limited liability company is a commercial organization that has a charter capital divided into shares, and the participants are independent in fulfilling their obligations.

The share of a participant in an LLC is determined in percentages or fractional units, and its nominal value must be equal to the proportion of the LLC's charter capital. Additionally, LLC participants are not personally liable for their obligations, except as provided for in Articles 48 and 67, Parts Four and Six of the Civil Code of the Republic of Uzbekistan.

For example, it is indicated that the acceptance of a court decision on securing a claim of an LLC participant regarding the seizure of property owned by the LLC is not possible.

The second part of this article states that participants who have not fully paid their shares in an LLC are jointly liable in proportion to the value of the unpaid portion of each participant's share. This establishes joint liability for any participant of an LLC who has not paid their share, including the possibility of enforcing a claim for the unpaid portion. In this case, the solidary liability established in accordance with the Civil Code of the Republic of Uzbekistan applies. The solidary liability of participants differs from complete solidarity in that it does not extend to the entire amount of the unpaid charter capital, but only to the unpaid portion of the respective participant's share. This type of joint liability has a certain degree of similarity to joint liability but is distinguished by the fact that it is limited to the extent of the participant's share in the unpaid charter capital. The specific features of this type of joint liability are somewhat similar to general joint liability, but the LLC participants are not liable for the obligations of creditors based on their obligations but rather in proportion to their share in the unpaid charter capital. This means that, in accordance with general rules, the seizure of property owned by an LLC

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<sup>3</sup> <https://lex.uz/docs/22525>

participant who is liable for an entrepreneurial activity based on a decision adopted by an economic court is not possible.

According to the law of the Republic of Uzbekistan<sup>4</sup> “on the names of firms”, the name of the firm is the individual name of a commercial organization that is a legal entity, the exclusive right to which arises at the time of state registration of a legal entity.

A legal entity may also have ownership in a shortened form of the company name.

The company name of a legal entity should indicate its organizational and legal form.

According to them, it is necessary for a private enterprise in the state language and at the same time to have ownership in the full company name in other languages, based on the society's demand, and the ownership in the abbreviated company name is also justified.

The full company name of a registered society should include the full name of the society and the words "registered society". The abbreviated company name of a registered society should include its full or abbreviated name and the words "registered society" or the abbreviation LLC.

The company name of a society should include its organizational and legal form, including other designations and abbreviations derived from foreign languages, unless otherwise specified by law. For example, the use of abbreviations such as "Navruz" Ltd. in both Russian and foreign languages at the same time is not allowed, such as "Navruz" Ltd., a registered society.

The company name of a society established with the participation of foreign countries may indicate its affiliation to which state. The company name of an LLC should be expressed in the state language and indicate the address of the society. The company name of a society may be used in other languages, including its full or abbreviated name, in its seal. An LLC has the right to have its company name on stamps and forms, its emblem, a registered trademark, and other designated symbols in a specified manner.

The legal status of an LLC and the rights and obligations of its participants, its structure, establishment, and termination procedures are determined by the Law of the Republic of Uzbekistan on "Registered and Additional Liability Companies". The above-mentioned law sets out the legal status of an LLC, the rights and obligations of its participants, as well as its establishment, reorganization, and liquidation procedures.

The legislation on registered companies also includes other legal documents.

An LLC cannot raise funds through the issuance of shares for its development.

Therefore, loans are considered as the main source of additional resources for an LLC.

To obtain them, the participants of an LLC cannot use the advantages of the subsidiary liability of a company associated with the subsidiary liability of a joint-stock company.

When the authorized capital is small, the participants of an LLC cannot assume responsibility for loans of an LLC and ensure the fulfillment of other obligations accepted by an LLC with their guarantee, as well as take loans, lease agreements, and other financial transactions and transfer property based on monetary obligations.

According to Article 62 of the Civil Code of the Republic of Uzbekistan, an additional liability company is a company established by one or more persons, and the amount specified in the founding documents

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<sup>4</sup> <https://lex.uz/docs/1055517>

as the charter capital is divided into shares, which are equal for all participants, and it is considered as an additional liability company.

In such a company, the participants, in terms of their obligations, have jointly and severally solidary liability based on the value of their contributions, which they have joined with their property, specified in the founding documents of the company.

When one of the participants becomes insolvent (bankrupt), their liability for the obligations of the company and the distribution of liability among other participants is determined in a different order than specified in the founding documents of the company, their shares are distributed proportionally among other participants in a manner consistent with their contributions.

The name of the additional responsibility society should include the name of the society as well as the words "additional responsibility" taken together. If the rules of the responsible society established by this Code are not otherwise specified, they shall apply to the additional responsibility society.

The additional responsibility society is considered as a separate legal entity from the responsible society established by the Civil Code. However, both RLCs and LLCs have many common aspects. The possibility for these organizational and legal forms to be applicable to additional responsibility societies was provided by the regulations of the Civil Code of the Republic of Uzbekistan on responsible societies, except for cases where the responsibility is contrary to the legal procedure.

It should be noted that according to the recommendatory legislative act "On Responsible Society" adopted by the Inter-Parliamentary Assembly of CIS in November 2, 1996 (IPA Newsletter, 1996, No. 12), LLCs are assessed as one of the types of RLCs.

As mentioned above, the main difference between LLCs and RLCs lies in the way liability is attributed. Unlike RLCs, the participants of LLCs are jointly and severally liable for their debts. This means that the creditor can claim the full or partial repayment of the debt from any of the participants, including each of them separately, apart from demanding the full repayment of the debt. The claim of the society against one of the participants, which has not been fully executed, is rightfully carried out by the remaining participants.

The volume of the additional liability of the participant is directly determined: it is not the participant's entire personal property, but only its specified part, and the value of the share capital of the relevant participant in the LLC can be determined by one, two, three or more times. This indicator is the same for all participants. Generally, in addition to guaranteeing the interests of creditors, it leads to the increase of the minimum amount of property of the LLC, except for the share capital of the society.

In this regard, the additional liability of the participants in the society can be seen as a means of securing the credit as an additional advantage when obtaining the loan for the LLC participants. The peculiarity of the additional responsibility society lies in the fact that if one of its participants goes bankrupt, the remaining participants of the society's liability are divided in a different order, either in accordance with the rights and obligations specified in the constituent documents or separately, specifically in relation to their shares.

According to Article 63 of the Civil Code of the Republic of Uzbekistan, due to the discussion on the subsidiary liability of LLC participants, the regulations of Article 329 of the Civil Code of the Republic of Uzbekistan are applied to establish the procedure for implementing such liability.

In addition, the LLC provides convenience to its creditors not only by specifying the subsidiary liability of its participants in terms of the society's obligations but also by providing the characteristics of joint

and several liability. Therefore, the creditor of the LLC has the right to apply to any of the LLC participants or jointly to some of them, regardless of the specific requirements, to demand the execution of the society's monetary obligations (the obligation to pay money) in an amount less than or equal to the value of the participant's share, or if there is no relevant requirement from all participants, to a single or some participants, in an amount exceeding the amount of the increased coefficient of the share capital, which is determined by the proportion of the subsidiary liability of the LLC participants.

The specific characteristics of shaping the LLC's name, as well as issues related to them, do not differ significantly from those that arise based on the name of the LLC itself.

According to Section 6, Parts 1, 3, 4, and 5 of the Law of the Republic of Uzbekistan "On Associations with Additional Liability and Additional Responsibility Societies," it is necessary for ARL societies to have a full-fledged company name in the state language and, at the same time, have the right to use an abbreviated name. The full-fledged company name of an ARL society should include the full name of the society and the words "ARL society." The abbreviated name of an ARL society should include either the full or abbreviated name of the society and the words "ARL society" or the abbreviation ARL.

The name of the society, including its organizational-legal form, may not include other terms or abbreviations taken from foreign languages unless otherwise provided by law.

In the case of a society formed with the participation of foreign nationals, it is possible to indicate the country to which its founders belong in the company name.

An ARL society in the state language should have a full-fledged company name that reflects its registered address. The company name may also be used in other languages according to the society's preference.

Regarding the supervision system of controlled associations, firstly, it addresses issues related to the mechanisms for monitoring the activities of such societies. In general, the governing bodies of the society, as well as its internal audit and control system, are considered the first instance responsible for overseeing the activities of ARL societies, focusing on comprehensive support and development of their activities.

Furthermore, the establishment of such a supervision system contributes to the strengthening of legal and regulatory procedures in ARL societies. The supervision system of ARL societies, in addition to the activities of its governing bodies, covers the analysis of issues related to internal audits, auditing, and inspection commissions in these societies, both from a theoretical and practical perspective.

Currently, ARL societies are not adequately evaluated in terms of important resources such as internal audit, and the proper utilization of these resources contributes to the further strengthening of the supervision system in societies. It is believed that this would enhance the effectiveness of the activities of ARL societies and contribute to the reinforcement of the supervision system.

In the context of global practice, if external audit institutions encounter serious shortcomings, they may even lead significant enterprises, including those occupying strong positions, to bankruptcy. Effective corporate governance is an essential indicator for investors and creditors, as it serves to enhance the investment attractiveness of the enterprise. The uninterrupted functioning of such corporate governance is considered as part of the internal audit.

The adoption of the decision of the president of the Republic of Uzbekistan on September 27, 2006 PD-475 "on measures for the further development of the Securities Market"<sup>5</sup> initiated the formation process of the Institute of internal auditors in Uzbekistan. According to the "Law on Joint Stock Companies with Limited Liability and Additional Liability" of the Republic of Uzbekistan, internal audit services are established in companies where the balance value of assets exceeds one billion Uzbekistan's sums.

The company's supervisory board establishes the internal audit service and appoints its employees. The internal audit service is accountable to the company's supervisory board.

Currently, in order to meet the requirements for the development of corporate governance standards, there is a demand to further improve the normative legal framework related to corporate governance in responsibility-based companies. The main reason for this is that corporate governance in responsibility-based companies operates on very simple and straightforward mechanisms. Therefore, the development of a concept for the improvement of corporate governance legislation is consistent with the goal. Corporate governance is an essential part of this concept. It serves to address the issues in this direction and primarily ensures the protection of the rights of stakeholders in responsibility-based companies.<sup>6</sup>

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