Research on "Legitimate Interests" in Third-Party Performance

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Abstract: Article 524 of the Civil Code establishes the system of third-party performance, with the core requirement being the legitimate interests of the third party. However, the definition of "legitimate interests" in this provision is somewhat vague, leading to debates in academic circles over whether to interpret it broadly or strictly. From a comparative law perspective, different countries and regions have varying scopes of application for "legitimate interests." China may appropriately expand the scope in its interpretation but must strictly control it. A strict interpretation of "legitimate interest" has multiple implications: it allows third parties to bypass the principle of contractual relativity, provides strong protection for third parties after they perform on behalf of others, and helps distinguish this system from others like unjust enrichment, preventing confusion in its application. Therefore, the definition of "legitimate interest" should consider multiple factors comprehensively to achieve a balance of interests, ensuring the stable operation of the market economy and the accuracy of legal application.

Keyword: Third-Party Performance; Legitimate Interests; Relativity of Obligations; Assignment of Statutory Claims; Breaking through the Relativity of Debt; Unjust Enrichment; Right to Compensation

1. Issues with the Third-Party Subrogation System

Article 524 of the Civil Code, as a newly added provision, establishes the system of third-party performance. The subject of this provision is the third party with a legitimate interest under the traditional civil law theory of third-party discharge. Therefore, the third party having a legitimate interest is the core element of its constitutive requirements. However, the provision on "legitimate interest" is rather vague, and there is controversy over whether "legitimate interest" should be interpreted broadly or narrowly. To effectively apply this provision in judicial practice, it is necessary to further interpret this essential element.

1.1 The Vague Definition of "Legitimate Interests"

1.1.1 Controversy in the academic community regarding "legitimate interests"

When establishing the subrogation system, the Civil Code imposes a fundamental requirement on third parties eligible to participate in repayment: such third parties must have a "legitimate interest" in the performance of the debt. Thus, how to interpret "legitimate interest" has become the core issue in determining whether a third party qualifies and can apply this system. However, current legal provisions do not provide a clear definition, resulting in vague wording that leads to inconsistent interpretations and inconsistent application standards in judicial practice. From a legislative perspective, China uses the term "legitimate interest," which essentially aligns with the traditional civil law concept of "interest." Professor Liang Huixing has pointed out that if a third party derives some benefit from subrogating the debtor's obligations or avoids certain liabilities or burdens, it can be deemed to have an interest in the debt. For example, situations where a guarantor, partner, or mortgagee repays the debt on behalf of the debtor all fall under this category [1]. Japanese scholar Wakatsuki Ei also expressed a similar view, arguing that persons with a vested interest include the assignees of mortgaged or pledged property, security providers, subsequent mortgagees, and ordinary creditors, and advocating for a broad interpretation of "vested interest." [2]The Legislative Affairs Commission of the

National People's Congress also mentioned in its relevant interpretation that when interpreting the concept of "legitimate interest," one should comprehensively consider the interests of all parties and gradually summarize and generalize based on specific cases in judicial practice.[3] The Supreme People's Court tends to adopt a relatively lenient attitude, holding that as long as the purpose of the third party in fulfilling the debt is legitimate and does not violate the prohibitive provisions of laws and regulations, it can be deemed to have a "legitimate interest."[4]

As such, the legal community has yet to reach a unified understanding of the specific meaning of "legitimate interests," with differing viewpoints coexisting and disputes persisting. Therefore, it is necessary to further clarify relevant standards to promote consistency between theory and practice, thereby better guiding judicial practice operations.

1.1.2 The definition of "legitimate interest" in comparative law

From a comparative law perspective, Germany, Switzerland, Japan, and Taiwan have differing interpretations and expressions of the concept of "legitimate interest" in their civil laws. For example, Section 268(1)(1) of the German Civil Code states that a third party may be deemed to have a legitimate interest if they risk losing their rights or possession of a specific item due to enforcement measures taken by the creditor.[5] Article 11 of the Swiss Debt Act contains a similar provision, stating that in cases where a third party provides security, if the third party repays the debt to release the burden on the security, this also constitutes a legitimate interest. [6] From the legislation of these two countries, the scope of application of "legitimate interest" is relatively limited, emphasizing specific circumstances directly related to one's own interests. In contrast, the relevant provisions in Japan and Taiwan are more broadly defined. Both regions use "legitimate interest" or "interest" as the standard for judgment and incorporate it into general legal provisions. For example, Article 474(2) of the Japanese Civil Code explicitly divides a third party's payment into two categories: with interest and without interest, and stipulates that if the third party has no interest in the debt, they may not unilaterally discharge the debt against the debtor's will.

In Article 312 of Taiwan's Civil Code, it is explicitly stated that any third party with a legal interest in the fulfillment of the debt may acquire a right of subrogation after making a substitute payment. When using the term "interest," legislators in that region typically require interpretation in conjunction with the entire legal system, with the primary purpose being to distinguish between third parties with and without an interest. In other words, only those who are genuinely connected to the fulfillment of the debt may obtain the status of a creditor after completing the payment, while third parties without such a connection do not possess this right.

In contrast, the relevant legal provisions in China differ. Due to differences in legislative approach, Article 524 of the Civil Code does not explicitly stipulate whether third parties without a legitimate interest are entitled to subrogation rights, which has to some extent affected the practical understanding and interpretation of the scope of "legitimate interest." Additionally, unlike Japan and Taiwan, which tend to interpret "legitimate interest" through the overall legal framework, China does not impose strict systemic constraints when applying this concept. Instead, it places greater emphasis on actual circumstances and appropriately broadens the definition of its meaning to better accommodate the diverse needs of judicial practice.

1.2 Strict Determination of "Legitimate Interests" is Required

1.2.1 Third parties with "legitimate interests" have the right to override the relativity of debt

Under the principle of the relativity of debt, a contract is generally regarded as a legal relationship established through mutual agreement between specific parties. According to this principle, third parties are generally not entitled to intervene in the performance of the debt. The debtor is only required to fulfill their obligations to the creditor, and the creditor is only required to accept repayment from the debtor. The creditor has the right to refuse any performance by a third party.[7] However, as economic activities become increasingly frequent and transaction structures grow more complex, strictly adhering to the principle of the relativity of debt has become difficult to align with practical needs, and it may hinder the efficient circulation of resources and the creation of value, or even obstruct the achievement of the objectives that contract law aims to promote.[8] In practice, creditors are more concerned with whether the debt is actually fulfilled, rather than whether the performer is the debtor themselves.[9] Even so, this does not mean that any third party can arbitrarily intervene in another party's debt arrangements. Third parties may only participate under specific conditions, one of which is that the third party has a "legitimate interest" in the performance of the debt.

Article 524 of the Civil Code explicitly states that when a third party has a "legitimate interest," they "have the right" to perform the debt on behalf of the debtor to the creditor. The term "have the right" here means that the third party may proactively complete the repayment without seeking the consent of the creditor or debtor. In other words, as long as the third party has a legitimate interest, they have the right to participate in the creditor-debtor relationship between others based on their own will. This right gives rise to two legal consequences: on the one hand, the debtor cannot prevent the third party from fulfilling the debt, regardless of whether the debtor agrees; on the other hand, the creditor may not unreasonably refuse to accept the third party's fulfillment, otherwise they may be deemed to have delayed acceptance.

From a general legal perspective, actions taken without the consent of others should not bind them, as this could infringe upon their right to autonomy of will. However, in specific circumstances, if a third party has a legitimate interest, the law, out of consideration for protecting their legitimate rights and interests, permits them to bypass the restrictions of contractual relativity and voluntarily participate in debt fulfillment. The existence of a legitimate interest constitutes the legitimate basis for a third party to intervene in another party's debt relationship, as failing to grant them the right to intervene may instead result in the infringement of their legitimate rights and interests.

Nevertheless, this approach does challenge the principle of relativity in traditional debt law and may exceed the original expectations of the original debtor and creditor. For this reason, while recognizing the third party's right to intervene, it is essential to strictly define the specific scope of "legitimate interest" to avoid uncertainty arising from overly broad interpretations. Only in this way can the third party's legitimate interests be protected while maintaining the stability and predictability of existing debt-creditor relationships.

1.2.2 Third parties with "legitimate interests" who perform on behalf of others are subject to a high level of protection

From the perspective of interest coordination, whether the definition of "legitimate interest" should be strict or lenient should be determined comprehensively based on whether the third party can obtain adequate legal remedies after performing the debt. In other words, "legitimate interest" serves as a threshold to screen which third parties can intervene in the creditor-debtor relationship; whether the third party has the right of subrogation or the right of reimbursement is the key guarantee for the realization of their rights. If stringent requirements are imposed on "legitimate interests" during the eligibility assessment phase, only third parties with a direct and substantial connection to the debt fulfillment process would qualify to assume the debt. In such cases, subsequent institutional arrangements could provide stronger rights protection for such third parties, such as more explicit reimbursement mechanisms or direct acquisition of creditor status. Conversely, if the back-end has already established a relatively well-developed reimbursement pathway, enabling third parties to successfully seek reimbursement even without a clear interest, then the front-end assessment of "legitimate interests" should be more cautious and stringent. Otherwise, if, on the one hand, the interpretation of "legitimate interests" is relaxed, easily recognizing third parties' eligibility to intervene in debt relationships, while on the other hand granting them strong legal protection, this would result in excessive favoritism toward third parties. As a result, the originally stable creditor-debtor relationship may be frequently subject to external interference, with any third party claiming to have a "legitimate interest" potentially intervening in the original debt relationship at any time, while creditors and debtors can only passively accept this and cooperate in fulfilling the corresponding legal obligations. This not only disrupts the parties' anticipated arrangements but may also harm their legitimate rights and interests, thereby violating the basic legal principles of fairness and reasonableness. This interlinked and mutually restraining institutional design approach is also reflected in some foreign legislations. For example, while German law permits third parties without legitimate interests to participate in debt repayment, such actions do not automatically result in the transfer of the creditor's rights; however, for third parties with genuine legitimate interests, their fulfillment of obligations can directly produce legal consequences similar to the transfer of creditor's rights, thereby granting them stronger status protection. As such, the existence of "legitimate interests" directly impacts the strength of the rights enjoyed by third parties and further determines the extent of protection to be afforded to their right of reimbursement. Therefore, in the process of institutional design, the scope of "legitimate interests" must be considered in conjunction with rights protection measures.

Returning to the provisions of Article 524 of China's Civil Code, whether to adopt a broad interpretation or strict standard for "legitimate interests" largely depends on the level of protection afforded to third parties' claims under this provision. From the wording of the provision, although there are various academic views on the legal consequences of a third party's performance, from a literal interpretation, Article 524 stipulates that "the creditor's claim against the debtor is automatically transferred to the third party," effectively adopting the position of "statutory assignment of claims." In other words, unless otherwise agreed, once the third party has completed valid performance, they generally acquire legal status equivalent to that of the original creditor and are entitled to assert rights against the debtor in their own name. This institutional arrangement significantly enhances the protection of third-party rights, offering greater efficacy than general mechanisms for seeking restitution or compensation [10]. For this reason, in practical application, the interpretation and application of the prerequisite condition of "legitimate interests" must be handled with greater rigor to prevent imbalances in rights. Only by effectively controlling who can intervene and under what conditions can we balance the encouragement of transactions and the facilitation of performance with the stability and predictability of the original creditor-debtor relationship, ultimately achieving a substantive balance of interests.

1.2.3 Strictly controlling the "legitimate interest" requirement helps to clarify the distinction between systems

In the absence of a special agreement (such as a commission or gift), regardless of whether the third party has a "legitimate interest," their act of discharging the debt on behalf of the debtor can be deemed as unjust enrichment. Historically, as early as the Roman law period, the law permitted third parties who were capable and willing to assist debtors in alleviating their debt burdens to voluntarily discharge others' debts. If a third party voluntarily handles debt matters without being commissioned, they are entitled to make corresponding claims against the debtor under the unjust enrichment regime. The German Civil Code also contains similar provisions, allowing third parties to fulfill obligations under the unjust enrichment regime. Article 979 of China's Civil Code on unjust enrichment further supports this view, indicating that a third party's fulfillment of obligations can indeed constitute unjust enrichment.

When a third party has a "legitimate interest," on the one hand, pursuant to Article 524 of the Civil Code, they may obtain the right of subrogation arising from the statutory assignment of claims; on the other hand, they may also assert ordinary claims for necessary expenses, etc., based on unjust enrichment. These two rights coexist, forming a conflict of claims, and the third party may choose to exercise one of them. In practice, in most cases, third parties tend to prefer the right of subrogation, as this right provides stronger protection, enabling the third party to assert rights against the debtor in the capacity of a creditor. However, when the third party lacks a "legitimate interest," the situation is different. First, the third party cannot arbitrarily intervene in the performance, i.e., they cannot perform without regard to the wishes of the creditor or debtor. Second, even if the performance is completed, such conduct does not fall under the "right to perform" as defined in Article 524 of the Civil Code, but rather constitutes a third party's performance without a legitimate interest. Such performance is typically accepted because the debtor has not objected and the creditor has not refused. In such cases, the third party may only seek reimbursement of necessary expenses from the debtor based on unjust enrichment, and cannot obtain the effect of assignment of the claim. As such, third parties with "legitimate interests" not only enjoy the ordinary right to claim reimbursement under the doctrine of unjust enrichment but also obtain additional protection through a stronger right of subrogation. In contrast, third parties without "legitimate interests" can only rely on the right to claim reimbursement of necessary expenses under the doctrine of unjust enrichment. Therefore, the condition of "legitimate interests" directly affects the extent of protection afforded to third parties.

If the determination of "legitimate interest" is too lenient in practice, and many situations that should be regulated by the unjust enrichment system are instead included within the scope of Article 524 of the Civil Code, third parties may prioritize the application of Article 524 to assert their rights, thereby marginalizing the functions of the unjust enrichment system. This would not only create an imbalance between legal systems but also potentially lead to excessive protection of third parties. Therefore, it is necessary to strictly define the scope of "legitimate interest" to avoid the negative consequences of overly broad interpretations. Only in rare cases where there are valid reasons sufficient to override the principle of contractual relativity should Article 524 of the Civil Code be applied, thereby granting third parties stronger subrogation rights. This approach preserves the applicability of traditional systems such as unjust enrichment, prevents judges from blindly applying Article 524, and avoids legal application deviations and improper favoritism toward third parties.

In practice, the lack of a unified and clear standard for determining "legitimate interests" often leads to inconsistent judicial rulings, and in some cases, Article 524 is applied indiscriminately to resolve legal relationships that should be governed by the doctrine of unjust enrichment, thereby granting third parties protection beyond reasonable limits. For example, in cases of private lending and other monetary debts, it is common for third parties to repay loans on behalf of debtors out of familial, friendly, or convenience-based considerations. In such cases, third parties often do not possess genuine "legitimate interests" but merely fulfill their obligations under the premise that the creditor has not objected. In such situations, it is sufficient to grant them basic reimbursement claims through the unjust enrichment system, without resorting to Article 524 of the Civil Code to provide enhanced protection.

In summary, Article 524 of the Civil Code should only be applied when the third party's "legitimate interest" is sufficiently significant to justify breaching the relativity of the debt and warrants the high level of legal protection afforded by the statutory assignment of claims. Such a institutional arrangement helps maintain the order of the market economy, ensures consistency within the legal system, avoids functional overlaps or misalignments among various systems, and truly achieves fairness and efficiency in the application of the law.

2. Conclusion

The third-party performance system established under Article 524 of the Civil Code has positive significance in judicial practice, particularly in promoting debt repayment and enhancing transaction efficiency. However, in the process of its application, some practical issues have emerged, the most prominent of which is the lack of a clear definition of the core element of "legitimate interest." Since the legal provisions do not provide a specific explanation, there are significant discrepancies in the understanding of "legitimate interest" among various parties in both theoretical research and practical operations. Different courts may also make entirely different rulings when handling similar cases, thereby affecting the consistency and predictability of legal application.

From a comparative law perspective, many countries and regions adopt a strict interpretation of "legitimate interest" when addressing third-party intervention in debt relationships, to prevent third parties from arbitrarily intervening in contractual relationships between others and disrupting the stable structure of creditor-debtor relationships. Considering China's current legal system and institutional logic, it is equally necessary to exercise caution in interpreting "legitimate interest." Only in this way can the legitimate rights and interests of third parties be protected while also safeguarding the legitimate rights and interests of the original creditors and debtors, thereby avoiding imbalances caused by excessive intervention. Furthermore, if the definition of "legitimate interest" is too broad, it may not only lead to the abuse of third-party rights but also cause the system to deviate from its original purpose, evolving into a universal debt substitution mechanism that undermines the principle of contractual relativity.

Therefore, in judicial practice, courts should consider the actual degree of connection between the third party and the performance of the debt, and determine whether the third party has a legitimate reason to intervene. In the future, it is recommended that the legislative branch or the Supreme People's Court issue relevant judicial interpretations or guiding cases to further refine the criteria for determining "legitimate interests," providing more operational guidelines for judgment. This will help unify judicial standards, enhance the stability and transparency of legal application, and also facilitate the better functioning of the third-party substitute performance system in a market economy environment, truly achieving the legislative purpose of encouraging transactions and ensuring the smooth realization of creditors' rights.

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