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Iran's new stock market legislation

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On November 23 2005, the Iranian Guardian Council ratified the new bill on the stock market into law. As of the date of enforcement of the new law (March 23 2006), the old law – the Law on the Establishment of the Stock Exchange Market, dated May 17 1966 – became void.

According to the new law, the Stock Exchange Organization (the Organization) is a non-governmental public organization headed by a committee (the Committee) comprised of the minister of finance and economic affairs, the minister of commerce, the head of the Iranian Central Bank, the heads of the Iranian Chamber of Commerce and Chamber of Cooperation, the head of the Organization, the attorney-general (or his representative), representatives of brokers, fund managers, consultants and investors' organizations, three financial experts from the private sector introduced by the minister of finance and economic affairs and approval of the council of ministers, and one financial expert from the public sector introduced by the head of the relative ministry and approved by the counsel of ministers for every sector of products traded in the market.

Among other duties and responsibilities, the Committee has the authority to authorize: (i) Iranian companies to trade their stocks in markets outside of Iran; (ii) foreign companies to offer their stocks through the Iranian Stock Exchange Market; and (iii) transactions of foreign persons in the Iranian Stock Exchange Market.

As well as the Committee, the Organization will also have a board of directors (the Board), comprising five members elected from reputable financial experts introduced by the head of the Committee and approved by the Committee. The Board will be responsible for, among other things, regulating bylaws for implementation of the Stock Exchange Law and monitoring all foreign investment activities in the Stock Exchange Market.

For the first time in the history of Iran's stock exchange market, modern trade and financial terms and instruments, such as online trading, derivative transactions, investment banking, holding companies and fund management, are defined and regulated by the law.

Since the enactment of this law, the establishment of all financial institutes active in the stock market – including but not limited to brokerage firms, fund management companies, investment banking firms and financial consultants – is subject to registration with the Organization. All the activities of these firms must be supervised

by the Organization. The professional competence of their directors, as well as their minimum share capital, scope of activities and financial reporting details must be approved by the Organization.

The law further expands the sovereignty of the Organization by delegating to it the authority to approve the incorporation and capital increase of all public joint-stock companies, as well as entrusting the duties and responsibilities of the Iranian Central Bank regarding the issuance and distribution of securities to the same.

According to the new law, certain restrictions are applicable to proportional participations in the stock market. It is provided that no natural or legal person is allowed to directly or indirectly own more than 2.5% of the stocks of the stock exchange market. Furthermore, no natural or legal person is allowed to directly or indirectly own more than 5% of shares of the Central Depositing Company (a company in charge of the registration, maintenance and transfer of ownership of the stocks, and settlement of the relevant accounts).

As far as the dispute resolution mechanism is concerned, the new law requires all disputes between investors, brokers, investment companies, and other market participants to be resolved through arbitration. The arbitration must be conducted by a committee comprised of three members: a judge, appointed by the head of the judiciary, and two economics experts, appointed by the Organization. Decisions made by the arbitration committee are final and binding upon the parties to the dispute, and the enforcement of that decision is the responsibility of the Document and Property Registration Offices.

Lastly, as would be expected, insider trade and dissemination of inside information are considered as crimes, punishable under the Islamic Penal Code.

Corporate and commercial

Recommended firms

Tier 1

Atieh Associates Law Firm

Tavakoli & Shahabi

Torossian Avanesian & Associates

Tier 2

International Law Office Dr Behrooz Akhlaghi and Associates

Dr Jamal Seifi & Associates

Tier 3

A.A.Atai and Associates

Adib Law Firm

Pars Associates

Atieh Associates Law Firm

Atieh Associates is a leading full-service international business law firm in Iran, “very commercial in nature”, with “an ability to deal with western companies”. The firm is one of the few Iranian firms with experience advising on bond issues and, as a result, works for a series of leading global investment banks. Recent banking highlights include advising Commerzbank and BNP Paribas in relation to two eurobonds issued by the Iranian government totalling \$1 billion, acting for a European bank in relation to a *sukuk* issue by a large state entity, and advising another European bank in relation to a framework agreement with the Central Bank of Iran. Other significant banking deals include advising an Islamic bank on an Islamic financing matter (on a *murabaha* basis) and acting for European and Asian banks on a number of repurchase transactions.

Oil and gas development is a growing area in Iran, and the firm has been involved in a record number of transactions over the last year. These include acting as local counsel to Pars LNG and providing assistance in drafting a joint venture agreement and general legal advice. Atieh Associates also advised Sasol in relation to the construction and operation of a gas-to-liquid refinery in Iran. Other oil and gas clients include Total, British Gas, Shell and Norsk Hydro.

Atieh Associates is also proficient in foreign investment, international business transactions, project finance, joint ventures, acquisitions and mining. Recently, the firm advised Turkcell on the award of a second global system for mobile communications (GSM) licence, acted for a leading German car manufacturer with reference to the establishment of a joint venture, represented Pepsi-Cola International on its bottling activity in Iran, and guided Russian Railways through the construction and operation of cross-border lines between Iran, Azerbaijan and Russia.

Managing partner Babak Namazi is admired by the market for his “enthusiasm”, and is described by interviewees as “a very charming guy”.

Leading lawyer

Babak Namazi

Key contact partner

Babak Namazi

Tavakoli & Shahabi

Tavakoli & Shahabi is one of the oldest and most renowned financial law firms in Iran, recognised by the Iranian market as “big players” in terms of international business. The firm con-

sists of three partners and five associates, all bilingual, who have trained in various jurisdictions and worked in a number of different countries. Clients refer to the firm’s “good, professional service” and the “detailed and clear responses” they give.

Tavakoli & Shahabi’s area of corporate and commercial know-how includes offering advice on foreign investment, including direct foreign investment via joint venture structures and corporate acquisitions, international trade and transportation and taxation. The firm is also experienced and capable in advising on banking and project finance matters.

Recent work undertaken by the firm includes representing Australian and Canadian mining companies in the establishment of joint venture companies with Iranian state agencies to explore and develop non-ferrous mineral resources in Iran, representing European companies in the formation of joint venture companies for bunkering and aircraft fuelling businesses in Iran, and acting for European companies in the setting up of petrochemical corporate joint venture projects.

Name partner Mostafa Shahabi and Ahmed Ehtesham are “highly regarded” by peers: Shahabi described by one market observer as “absolutely brilliant and very capable of handling everything” and Ehtesham as “a superb linguist”. Clients of the firm include Coca-Cola, Royal Dutch Numico, British Airways and Shell.

Leading lawyers

Ahmad Ehtesham

Mostafa Shahabi

Mehran Tavakoli

Key contact partner

Cyrus Shafizadeh

Torossian Avanesian & Associates

Torossian Avanesian & Associates completes the trio of top-ranking law firms in Iran. The firm, although much younger than its other select rivals, is “very well regarded” by peers. This is mainly due to name partners Aida Avanesian and Vrej Torossian, who are highly rated by their peers for banking and “very good” project finance work.

Torossian Avanesian & Associates possesses a significant international client list which includes, Eastman Kodak, Mitsubishi and HSBC.

Leading lawyers

Aida Avanesian

Vrej Torossian

Key contact partners

Aida Avanesian

Vrej Torossian

International Law Office Dr Behrooz Akhlaghi and Associates

The International Law Office Dr Behrooz Akhlaghi and Associates’ areas of expertise include international trade law, foreign investment, oil, gas and petrochemical projects and corporate law.

Name partner Behrooz Akhlaghi is a prominent Iranian lawyer and university professor with nearly 30 years’ experience in Iranian law. Akhlaghi is held in high esteem by rival lawyers, one remarking on his ability “in terms of dealing with transactions” and another on his “propensity to offer good advice”.

Leading lawyer

Behrooz Akhlaghi

Key contact partner

Behrooz Akhlaghi

Dr Jamal Seifi and Associates

Jamal Seifi heads a team of five lawyers at this Tehran firm. Despite having an excellent reputation as an arbitrator he is becoming more “visible” in the commercial market too. Commentators refer to his “excellent abilities in written English”, and it is little wonder that the firm has received referral work from Norton Rose and Fishburns Solicitors in London. The firm also advises European, Japanese and Iranian corporations in the telecoms, oil and gas construction, and petrochemicals sectors.

Leading lawyer

Jamal Seifi

Key contact partner

Jamal Seifi