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An overview of corporate finance in Iran

Tavakoli & Shahabi Tehran

Corporate finance legislation in Iran is by no means extensive. Legislation that governs corporate finance is essentially the Commercial Code of 1932 and amendments thereto of 1969. To this we can add other secondary items of legislation and regulations that relate to banking, in particular the Law on Usury (Interest) Free Banking Operations 1983.

Further, the Law on the Establishment of the Stock Exchange 1966 would seemingly be relevant although, as explained below, its relevance is limited.

Each of these is further examined in brief below:

The Commercial Code

The Commercial Code regulates the operation of various types of companies, the most significant of which is the joint-stock company. These may take the form of private or public joint-stock companies.

As to the raising of finance by the company, the Commercial Code envisages a number of different methods.

Issuance of shares

All joint-stock companies may raise funds through the increase of their share capital, which may take the form of issuance of new shares or the increasing of the par value of existing shares. The Commercial Code provides certain criteria on such shares which include, among other things:

- the minimum number of shareholders for private joint-stock companies is three, and five for public joint-stock companies;
- all shares and all the share capital must be subscribed to (in other words, the concept of authorized and issued share capital is not recognized);
- the minimum possible share capital of a public joint-stock company is IR5 million (\$584) and of a private joint-stock company is IR1 million;
- shares may be registered or bearer and may be ordinary or preferred;
- share certificates must be issued to the shareholders;
- shares must be of equal denomination (it is therefore not possible to have different shares having different par values); and
- up to 80% of the shares in a public joint-stock company may be offered to the general public.

Issuance of debentures/bonds

Only public joint-stock companies may raise capital through the issue of debentures or bonds, although this is by no means common practice. Such debentures and bonds create



contractual obligations vis-à-vis the bondholder and the company. There is no particular forum in which these debentures and bonds may be traded.

Loans

Loans may be obtained by the company either commercially or by way of shareholders' loans. One particular feature of a shareholders' loan is that it can be subordinated to other specific or general liabilities of the company. Otherwise, there is little difference between the two.

Banking regulations

The banking laws regulate: (i) persons (whether legal or real) that may obtain loans, and (ii) the conditions by which loans are made. Such regulations are amended regularly, and providing details of these here will in all likelihood be unhelpful to the reader.

A particular change to the banking system introduced after the 1979 revolution was brought about by the Law on Usury (Interest) Free Banking Operations, as well as other items of primary legislation such as the Constitution of the Islamic Republic of Iran, which, strictly speaking, prohibit the charging and payment of interest.

The restrictions placed on the banking system by these such laws have however been diluted over the years, in particular:

- In 1993, the Central Bank of Iran issued a circular by which Iranian banks were advised that they may proceed towards payment of late payment interest to foreign banks in respect of letters of credit and bills of exchange in foreign currency that had not been or are not paid by Iranian banks on due dates and where correspondent and beneficiary banks demand late payment interest.
- The chairman of the Parliamentary Economic and Finance Commission confirmed in an interview in January 1994 that interest is to be paid in respect of outstanding foreign financial obligations.
- The latest amendments (in 2000) to the Iranian Code of Civil Procedure have granted powers to the court to award, at the request of the winning party, late payment damages (calculated on the basis of the cost of living index published annually by the Central Bank of Iran) in cases where a judgment debtor was able, but failed, to pay a debt when it became due.

The above demonstrates that although there can be little doubt in regard to the illegality of charging interest under the legal system of the Islamic of Iran, indications have suggested that this principle has not always been strictly and universally applied.

The stock exchange

Although in most jurisdictions the stock exchange is used as a medium for offering shares to the public, such a role is not played by the Tehran Stock Exchange.

The Tehran Stock Exchange is merely a trading forum for the secondary trade in shares (that is, shares that have already been listed). As such, the Tehran Stock Exchange and the laws and regulations pertaining thereto, are not relevant to the issue of corporate finance.

Banking

Recommended firms

Tavakoli & Shahabi

Torossian Avanesian & Associates

Atieh Associates

International Law Office Dr Behrooz Akhlaghi and Associates

Dr Jamal Seifi & Associates

Pars Associates

Corporate and commercial

Recommended firms

Atieh Associates

Tavakoli & Shahabi

Torossian Avanesian & Associates

Dr Alexander Aghayan & Associates

International Law Office Dr Behrooz Akhlaghi and Associates

Dr Jamal Seifi & Associates

J Nouraei & M Mostafavi Law Office

Project finance

Recommended firms

Tavakoli & Shahabi

Torossian Avanesian & Associates

Dr Alexander Aghayan & Associates

Atieh Associates

International Law Office Dr Behrooz Akhlaghi and Associates

Dr Jamal Seifi & Associates

Atieh Associates

This young firm operates using a combination of permanent and freelance lawyers. The team's considerable international experience is reflected in a client list that includes such heavyweights of international commerce as ABN AMRO, Nokia, HSBC, Shell Pepsi and BNP Paribas. The foreign language capabilities of the firm include English, Farsi, French and German.

Recent projects for Atieh Associates include advising on the first government eurobond issued by the Central Bank of Iran. The firm also advised the Ministry of Economy and Finance as it implemented new law for the protection of foreign investment in Iran. As well as this, the firm is well versed in energy deal work, and acts on buyback agreements for oil clients and build-operate-transfer projects in the power sector.

Key contact partner

Babak Namazi

Dr Jamal Seifi & Associates

This firm's recent highlights have included offering advice to French engineering and oil services company Technip-Coflexip on its \$6 million part-acquisition of Nargan, the Iranian oil and gas services company. Dr Jamal Seifi & Associates also acted on the \$18 million establishment of the Esfahan mobile phone service and represented the Farasaz Industrial Group during the construction of a \$3.5 million transmission line. The firm also acted for the Arvadan Shipbuilding Company in connection with work on the Iran-Khasar offshore drilling platform.

Dr Jamal Seifi & Associates was formed in 1992 and is based in the country's capital, Tehran. It has made inroads into the financial law market advising financial, industrial and corporate clients both in Iran and abroad. The firm's client list includes European, Middle Eastern and Iranian corporations involved in international trade. Name partner Jamal Seifi has an established reputation for his estimable corporate and commercial work.

Key contact partner

Jamal Seifi

Leading lawyer

Jamal Seifi

International Law Office Dr Behrooz Akhlaghi and Associates

Established in 1978, the International Law Office Dr Behrooz Akhlaghi and Associates is a trusted adviser on Iranian transactions. It also benefits from having an office in the US. The 13-lawyer practice offers advice to clients in Arabic, English, French and Farsi.

Key contact partner

Behrooz Akhlaghi

J Nouraei & M Mostafavi Law Office

This Tehran firm offers the full gamut of Iranian commercial and financial law practice advice. It is well versed in coordinating transactions that involve both domestic and foreign interests, and is also capable of advising on matters such as patent and trademark law. The firm is headed by name partner J Nouraei.

Key contact partner

J Nouraei

Pars Associates

Airlines, car manufacturers, engineering firms and banks are among those who use Pars Associates. The firm has a particular popularity among international contracting firms engaged in petrochemicals plants, power plants and metal plants. The firm has operated in Iran since 1980.

Key contact partner

Z Majdzadeh Ameli

Tavakoli & Shahabi

In banking, Tavakoli & Shahabi has advised Iranian companies, and Japanese and European banks on granting facilities to the Central Bank of Iran. It has also given advice on establishing representative offices in the country.

Tavakoli & Shahabi has traditionally been active in offering advice to European manufacturing entities looking to set up joint-venture factories throughout Iran. The firm's client list extends to Canadian and Australian mining companies that have required assistance concerning the development of mineral resources within Iran. Another main area for the firm is the provision of advice to foreign clients concerning the development of gas pipelines and upstream petroleum projects.

Founded in 1963, this is one of the most firmly established firms in Iran. Its attorneys practice in French, Farsi and English, and Tavakoli & Shahabi is able to offer a full range of advice on banking, finance, foreign investment, contracting, international trade, taxation, intellectual property, arbitration and litigation matters.

Key contact partners

Ahmad Ehtesham

Mostafa Shahabi

Mehran Tavakoli

Torossian Avanesian & Associates

Founded in 1996, this young firm has been quick to make its mark on the legal market. Torossian Avanesian & Associates has an impressive client list that boasts such international names as Eastman Kodak, ABB Asea Brown Boveri, Peugeot, Mitsubishi, Mannesmann and Eli Lilly.

Name partners Aida Avanesian and Vrej Torossian are highly regarded by their peers for their legal know-how and the provision of law advice in all corporate finance areas.

Key contact partners

Aida Avanesian
Vrej Torossian

Leading lawyers

Aida Avanesian
Vrej Torossian