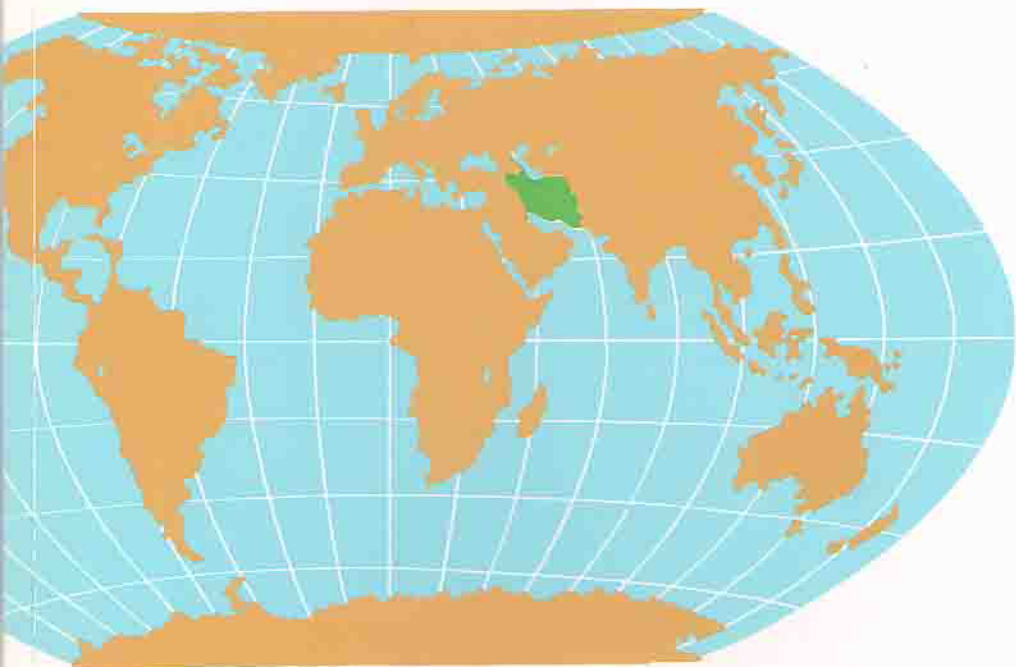




*Islamic Republic of Iran
Ministry of Economic Affairs and Finance
Organization for Investment, Economic
and Technical Assistance of Iran*

ESTABLISHING A JOINT STOCK COMPANY IN IRAN





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***ESTABLISHING A
JOINT STOCK COMPANY
IN IRAN***

Tehran - 1996



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وزارت امور اقتصادی و دارایی
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FOREWORD

In the month of Esfand 1347 (March 1969), an amendment to the Iranian Commercial Code, consisting of three hundred separate articles, was enacted into the law providing Iran with a modern companies law. Although English translation of the new law is available, the time that has passed since then has brought the need of prospective foreign investors (and local investors, too) for more readily available information about the law. Our purpose in preparing this booklet is to help meet this need and we have attempted to present the material in a format that will make the investors' task as simple as possible. We will be more than grateful for any comments, suggestions, corrections, etc.

We should point out for those who are totally unfamiliar with the new law that it provides for two types of joint stock companies, the public company (Sherkat Sahami Am) and the private company (Sherkat Sahami Khass). The main difference between the two is that the public company is permitted to offer its shares and debt securities to the public while the private company is not. We have included as Annex A a list of additional differences between the public and private companies but should note here that there are a number of procedural requirements applicable to the public but not to the private company that we have not attempted to cover in the text.

Of necessity, this booklet is limited to the basic points that a prospective investor should know about when he is considering the formation of a corporate enterprise in Iran. For those who decide to go beyond the preliminaries, the services of a reliable Iranian lawyer or law firm should be obtained to advise on and assist with all of the legal aspects of the venture.

*Organization for Investment,
Economic & Technical
Assistance of Iran*

**PART I
GENERAL**

1.1. Definition

The Joint Stock company is defined by the law as a company whose capital is divided into shares and the liability of whose shareholders is limited to the par value of their shares. As mentioned in the Foreword, the Joint Stock company may be either a public company (Sherkat Sahami Am) or a private company (Sherkat Sahami Khass). The main difference between the two is that the public company may offer its shares and debt securities to the public while the private company may not. See Annex A for additional differences between the public and private companies.

1.2. Other Forms of Business Association

In addition to the Joint stock company, the Iranian Commercial Code provides for the following types of business association:

- (a) Limited liability company (Sherkat ba Masouliyat Mahdoud)
- (b) General partnership (Sherkat Tazamoni)
- (c) Limited partnership (Sherkat Mokhtalet Gheyr Sahami)
- (d) Mixed joint stock partnership (Sherkat Mokhtalet Sahami)
- (e) Proportional liability partnership (Sherkat Nesbi)
- (f) Production and consumption cooperative (Sherkat Ta'avoni Towlid va Masraf)

Of the mentioned listed companies, the limited liability company and the joint stock partnership provide for a limitation of shareholders'

liability to the value of their shares. In the case of the mixed joint stock partnership, the law provides for both shareholders and unlimited liability partners. The principal difference between the joint stock and the limited liability company is that with the latter, the capital may not be divided into shares and the participants may not transfer their interests therein without the approval of a majority of the participants representing three-fourth (3/4) of the company capital.

1.3. General Features

The shareholders of a joint stock company participate in the ownership, profit and losses, and distribution of assets in liquidation, in proportion to the shares held. As indicated above, the liability of each shareholder is limited to the par value of his shares and in the absence of fraud or other deceptive practices, there should be no recourse to shareholders for the liabilities of the company. The company has a separate juridical personality by the law and can sue or be sued in its own name. The shareholders possess the usual shareholder rights including, in general, the right to attend shareholders meetings, receive financial reports, elect and replace the board of directors, and vote on major decisions of the company.

1.4. Number of Shareholders

The law specifies that a joint stock company must have a minimum of three shareholders.

1.5. Nationality of Shareholders

There are no legal restrictions with respect to the nationality of persons who may form joint stock companies. As a matter of policy,

however, the Iranian Government generally requires Iranian shareholder participation in fields of activity deemed important to the nation's development programs.

1.6 Shares

A Joint Stock company may issue both ordinary and preferred shares in either bearer or registered form. While the law does not specifically state what privileges may be accorded to preferred shares, it is understood that priorities as to dividends and distribution of assets in liquidation, and multiple voting powers will be honored under the law. The principal differences between registered and bearer shares relate to the manner of transfer and tax implications. See Section 2.6. below.

1.7. Management

Management of a joint stock company is made the responsibility of board of directors which must be elected by cumulative voting of the shareholders at least once every two years. See Part IV below for additional information concerning the board of directors.

1.8. Dissolution and Liquidation

General provisions governing the dissolution and liquidation of a joint stock company are provided in the law and companies are authorized to specify in their Articles of Association any particular provisions they may desire so long as they are not inconsistent with the law. Since the provisions of the law on this subject are general in nature, it is advisable, when drafting Articles of Association, to include procedures for dissolution and liquidation.

**PART II
CAPITAL**

The first part of the book deals with the general theory of capital, and the second part with the theory of the firm. The first part is divided into two chapters, the first dealing with the general theory of capital and the second with the theory of the firm. The second part is divided into three chapters, the first dealing with the theory of the firm, the second with the theory of the firm, and the third with the theory of the firm. The first part is divided into two chapters, the first dealing with the general theory of capital and the second with the theory of the firm. The second part is divided into three chapters, the first dealing with the theory of the firm, the second with the theory of the firm, and the third with the theory of the firm.

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2.1. Share Capital

A minimum capital, at time of formation, of RIs. 1,000,000 is required for the private company, and of RIs. 5,000,000 for the public company. Payment for shares may be either in cash or in kind. If payment is made in kind, the value of the property involved must be appraised by an official appraiser of the Ministry of Justice. In the case of payments in cash, only 35% need be paid in at the time of formation and the remainder within five years upon the call of the board of directors or shareholders. In the case of payments in kind, the full amount of the property must be transferred to the company at the time of formation. The share capital may be increased at any time by a two-third (2/3) vote taken at an extraordinary general meeting. Decrease in the capital may also be effected at any time by a two-third (2/3) vote taken at an extraordinary general meeting and there is a legal requirement for the reduction of capital whenever half of the company's capital is lost.

2.2. Subscriptions

Although only 35% of the company's capital need be paid in at the time of formation, 100% of the capital must be subscribed. Notwithstanding the 100% subscription requirement, a procedure has been developed in practice for "authorized but unissued stock", enabling the use of such desirable arrangements as employee stock purchase plans. In general, the procedure involves the holding of an extraordinary general meeting at which the shareholders approve to implement the increase in such amounts

and at such times as the board may determine.

2.3. Par Value

A Par Value, or nominal Value, is required to be assigned to the shares of a joint stock company. For the public company, the law prescribes a maximum par value of 10,000 per share. There is no minimum or maximum par value fixed for the shares of a private joint stock company. There is a requirement applicable to both the public and private companies that all shares must be of equal par value and this requirement is apparently applicable to both ordinary and preferred shares. Where both ordinary and preferred shares are issued, all apparently must have the same par value. There is also a related requirement that all calls of the unpaid portion of shares must be made without any discrimination. If provision for the issue of fractional shares is made, the par value of each fraction must also be equal.

2.4. Share Certificates

Specific requirements as to the form and content of share certificates are provided in the law. They must be uniform, printed, and bear a serial number, and be signed by at least two authorized persons. Each certificate must contain the following information:

- (1) Name and style of the company and number under which it is registered at the Companies Registration Office.
- (2) Registered share capital and paid-up portion
- (3) Type of Shares.
- (4) Par value of the shares and paid-up portion both in words and figures.

Section 1.2

any person who is a member of the company and all other persons who are entitled to exercise the powers of the company, including the power to alter the constitution of the company.

PART IV BOARD OF DIRECTORS

1.3 The Board of Directors shall consist of not less than three and not more than nine members, who shall be elected by the members of the company at a general meeting of the company.

Section 1.4

Section 1.5

1.6 The Board of Directors shall have the authority to do all such things and to exercise all such powers as may be necessary or expedient for the purposes of the company, and to do all such things and to exercise all such powers as may be necessary or expedient for the purposes of the company, and to do all such things and to exercise all such powers as may be necessary or expedient for the purposes of the company.

Section 1.6

1.7 The Board of Directors shall have the authority to do all such things and to exercise all such powers as may be necessary or expedient for the purposes of the company, and to do all such things and to exercise all such powers as may be necessary or expedient for the purposes of the company, and to do all such things and to exercise all such powers as may be necessary or expedient for the purposes of the company.

Section 1.7

1.8 The Board of Directors shall have the authority to do all such things and to exercise all such powers as may be necessary or expedient for the purposes of the company, and to do all such things and to exercise all such powers as may be necessary or expedient for the purposes of the company, and to do all such things and to exercise all such powers as may be necessary or expedient for the purposes of the company.

number required for voting at general meetings. Each director must place the required number of shares in the custody of the company for the duration of his term of office to serve as security against losses which may result to the company through violations by the directors of their duties. These shares must be registered shares. The law provides that failure to comply with the requirements will result in the offending director being considered to have resigned from his office.

4.5. Authority

The law specifically provides the board with all necessary authorities for the management of the company within the limits of the company's objectives as stated in the Articles of Association. However, the board may not exercise any power which have been expressly reserved to the shareholders acting in general meetings, and limitations on the board's authority which will be valid as between the directors and shareholders, but not in respect of third parties, may be written into the Articles of Association.

4.6. Liability

Directors are not only subject to the ordinary rules of fair play in respect of the company, its shareholders, and third parties dealing with the company, and thus liable for any violations of these rules, but they are also, individually and jointly, subject to criminal prosecution for specified acts and omissions.

4.7. Meetings

The board is expected to act in meeting at which a quorum of a majority of the directors is present. The manner of calling board meetings including any notice requirement should be specified in the Articles of Association. In any event, the law provides the board

chairman and any group of directors constituting one-third (1/3) of the board with authority to call meetings. Resolutions will be adopted when passed by the favorable votes of a majority of the directors present at the meeting, unless a higher vote requirement is specified in the Articles of Association.

Minutes for each meeting must be kept and signed by a majority of the directors who attended the meeting. The minutes must show the names of the directors who attended and who were absent, a summary of the deliberations and actions taken, and the date of the meeting.

4.8. Actions without Meeting

Actions of the board are valid without a meeting if approved in writing by all of the directors.

4.9. Proxies

Although there is no specific authority in the 1969 amendments to the Commercial Code for director's proxies, such have been recognized in practice. The Code, prior to the amendments provided for proxies with the caveat that the director remained responsible for his proxy's acts.

4.10. Alternate Directors

Alternate directors are authorized but are not mandatory.

4.11. Managing Director

The law requires that at least one person be appointed by the board as the managing director to manage the daily operations of the company. This person may or may not be a member of the board but he may not also hold the position of chairman of the

board unless the shareholders meet and approve the arrangement by a three-fourth (3/4) vote. The scope of the managing director's authority should be specified by the board at the time of his appointment and he is then considered to be the company's legal representative with authority to sign on behalf of the company.

4.12. Compensation

Directors as such may not be paid by the company except reasonable fees for attending meetings, and a "bonus" voted by the shareholders out of company profits. For the private company this bonus is limited to 10% of dividends and for the public company, to 5% of dividends. Directors may serve as officers or employees of the company, however, and be compensated in such capacities.

4.13. Doing Business with the Company

A director (and the managing director) may not enter into an enforceable business transaction with the company unless the transaction is approved by the board without the interested director participating in the vote, and the matter is reported both to the company inspectors and the shareholders. Even where this is done, if losses result to the company from the transaction, the directors who approved may be held liable. The law specifically provides that loans and guarantees by the company to directors are void except where the director is a legal entity.

4.14. Competing with the Company

If any director (or the managing director) concludes transactions in competition with the company, and the company suffers a loss of profits as a result, the director will be liable to indemnify the company for the loss.

...

PART V SHAREHOLDERS MEETINGS

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1.2

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- 1.3
- 1.4
- 1.5
- 1.6

5.1. Types

Shareholders meetings are called general meetings and the law provides for three types. The first is the statutory or founders meeting which is mandatory only for the public company. The second is the ordinary (annual) meeting which must be held once a year and the third is the extraordinary meeting which is held on call. In addition, there are two other species of meetings involving the shareholders. One is a "special meeting" which must be called whenever the rights of holders of preferred shares are to be altered, to enable these shareholders to vote on the intended alteration. The other is called an "extraordinary session of the ordinary general meeting" and may be called by the board of directors, inspectors, or holders of 20 percent of the company's shares whenever action is required on a matter within the competence of the ordinary meeting at times other than when the ordinary meeting is scheduled to be held.

5.2. Competence of Ordinary Meeting

The ordinary meeting is competent to deal with all of the affairs of the company except those which are expressly within the competence of the statutory and extraordinary meetings. It is expressly required to take action on the following matters:

- (1) Review and approval of the balance sheet and profit and loss account and other financial reports.
- (2) Review and approval of the directors annual report
- (3) Review and approval of the inspectors annual report.

- (4) Election of directors (if their term has expired)
- (5) Election of inspector(s) and alternate inspector(s)
- (6) Designation of general circulation newspaper in which the company's legal notices will appear.

5.3. Competence of Extraordinary Meeting

The extraordinary meeting is competent to deal with any changes in the Articles of Association or the share capital and dissolution of the company.

5.4. Directorate

The law provides for management of general meetings by a directorate composed of a chairman, a secretary, and two observers. Unless the Articles of Association provides otherwise, the chairman will be the chairman of the board of directors. The secretary need not be a shareholder but the observers must be.

5.5. Notice

Written notice for general meetings must be given to the shareholders not less than 10 days and not more than forty days before the date of the meeting and such notice must be published in the general circulation newspaper designated for the company's legal notices. The notice must state the agenda and the date, hour, and place of the meeting. Waiver of these requirements is authorized whenever all of the shareholders attend the meeting.

5.6. Quorum

The quorum requirement for both the ordinary and extraordinary meetings is more than 50 percent of the shares entitled to vote. If an ordinary meeting fails for lack of a quorum upon the first call, the

quorum requirement is reduced upon the second call to any number of shareholders entitled to vote. If an extraordinary meeting fails for lack of a quorum upon the first call, the quorum requirement is reduced upon the second call to more than one-third (1/3) of the shareholders entitled to vote.

5.7. Voting

Decisions at ordinary meetings require favorable votes of 50 percent plus one of the shares present, except in the case of the election of directors for which cumulative voting is mandatory. Decisions at extraordinary meetings require favorable votes of two-third (2/3) of the shares present.

5.8. Proxies

Shareholder proxies are expressly provided for in the law. Written evidence of the proxy power must be submitted to the meeting.

5.9. Admittance Card

Shareholders may be prevented from attending a general meeting unless they obtain from the company in advance an admittance card which is to be issued upon presentation of share certificates.

5.10. Attendance List

The law calls for preparation of an attendance list for all general meetings setting forth the full identity, domicile, number of shares, and number of votes of each shareholder entitled to attend the meeting. The law also requires that this list be signed by each shareholder (or proxy) who attends the meeting.

5.11. Minutes

Written minutes of all general meetings are required to be made by the secretary of the meeting providing a record of the deliberations and actions taken. The minutes must be signed by the directorate and a copy thereof must be kept at the principal office of the company.

5.12. Filing and Registration of Minutes

Whenever a general meeting takes action on any of the following matters, a copy of the relevant resolution must be filed with the Companies Registration Office for registration in a register (book) maintained by that office:

- (1) Election of directors or inspectors
- (2) Approval of the balance sheet
- (3) Decrease or increase in the capital and any change in the Articles of Association.
- (4) Winding up of the company and the manner of liquidation.

5.13. Publication of Minutes

In addition to the filing and registration requirements mentioned in Section 5.12 above, notice of action taken by a general meeting (or by the board) on the following matters is required to be published in the general circulation newspaper designated by the shareholders and in the Official Gazette:

- (1) Election of directors or inspectors
- (2) Decrease or increase in the capital and any change in the Articles of Association.

- (3) Winding up of the company and name and particulars of the liquidators.
- (4) Name and power of the Managing Director
- (5) Designation of the newspaper in which all the legal notices of the company will be published.

5.14. Adjournment

A general meeting may be adjourned for a period of up to two weeks by the directorate with the approval of the meeting. In such a case, no new notice is required and the quorum requirement for the adjourned session will be the same as for the original session.

5.15. Minority Shareholders Calls

Minority shareholders owning in the aggregate one-fifth (1/5) of the company's shares are entitled to request the board and the inspectors to call a general meeting at any time. If the board and the inspectors fail to call the requested meeting, then the shareholders, themselves, are entitled to call the meeting.

PART VI
MISCELLANEOUS

6.1. Statutory Inspectors (Auditors)

The law requires the election, by the shareholders, of a statutory inspector and alternate inspector once a year at the ordinary general meeting. The election of more than one inspector and alternate inspector is optional. In general, the function of the inspector is to serve as a watchdog over shareholders and third parties interests and he may be prosecuted criminally for violation of his duties. Certain categories of persons such as criminals, the directors and their relatives, and persons doing business with the company are disqualified from serving in this post. Among other things, the inspector is required to submit a report of the ordinary general meeting each year.

6.2. Books of Account

Both the public and private joint stock companies are required to maintain in the Persian language the journal, ledger, inventory and copy book of merchants. These books serve as the basis for determining the company's tax liability and failure to keep them strictly in accordance with the legal requirements may result in the tax authorities making their own determination of what the company's tax liability should be.

6.3. Company Name

The law requires that the words, "Private joint stock company (Sherkat Sahami Khass)" appear with the name of a private company and that these words be displayed in a conspicuous way

on all letterheads, publications and notices of the company. As a matter of practice, the Companies Registration Office requires the use of Iranian names and will refuse to register a new company name that is too similar to the name of a company already registered.

the firm's performance. The authors also suggest that the firm's performance is affected by the firm's financial structure. The authors also suggest that the firm's performance is affected by the firm's financial structure. The authors also suggest that the firm's performance is affected by the firm's financial structure.

Keywords: financial structure, firm performance, financial ratios, financial ratios, financial ratios.

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CHAPTER IV JOINT STOCK COMPANIES

As follows in articles 100 to 105 of the Iranian Company Act, the following provisions shall apply to public companies and to private joint stock companies:

ANNEX A

SOME DIFFERENCES BETWEEN PUBLIC AND PRIVATE JOINT STOCK COMPANIES

1. A private company may be formed with a minimum capital of one million Rials (Rls. 1,000,000). The public company must start with a minimum capital of five million Rials (Rls. 5,000,000).
2. The founding shareholders of a public company are required to subscribe at least 20 percent of the initial capital and to pay in at least 35 percent of the subscription. The founding members of a private company must secure subscriptions to 100 percent of the capital and pay in a minimum of 35 percent of the cash capital and 100 percent of the non-cash capital.
3. The board of directors of a public company must consist of a minimum of five directors. A private company may operate with a board of two directors.
4. Directors of a private company are permitted a bonus of 10% of dividends. Directors of a public company may be voted a

bonus of only 5% of dividends.

5. When a public company is organized, a founders meeting is required at which a number of formalities must be observed. This meeting is not required for the founders of private companies, although it is desirable to hold such a meeting.
6. The annual financial reports of public companies must be certified by officially recognized accountants. This requirement is not strictly applicable to private companies.
7. The public company is limited in the maximum nominal value which it may assign to each share of stock to Rls. 10,000. The private company is not so limited.
8. The raising of additional capital by a public company requires the preparation and filing of a prospectus with the Companies Registration Office. A private company need only submit to the Companies Registration Office a resolution and declaration when raising its capital.

ANNEX B

CHECKLIST

of Matters which in Most Cases should be Covered in the Articles of Association

1. Name of the company
2. Style of the company
3. Duration of the company
4. Objectives of the company expressed and defined
5. Location of the head office and branch offices, if any
6. Details of the share capital of the company specifying the amount paid in cash and the amount paid in kind, separately
7. Number of bearer shares and of registered shares and the par value thereof as well as the number of preferred shares, if any, particulars and the privileges attached thereto
8. Details of the amount of the shares which is paid up
9. Those who will sign the share certificates
10. Manner of call of the par value of shares and the period over which the balance should be paid
11. Manner of transfer of registered shares
12. Manner of conversion of registered shares into bearer shares and Vice-Versa
13. Manner and conditions of increasing or decreasing the capital of the company

14. Period and manner of calling general meetings
15. Regulations governing the quorum for general meetings and the manner of running such meetings
16. Manner of transacting business and the number of votes required to give validity to the actions taken by general meetings
17. Number of directors, the manner of their election, their term of office, the manner of election of the successors of such directors who die or resign or become incapacitated or have been removed from their office or otherwise deprived of their office by any legal impediment
18. Details of the scope of the functions and authorities of the board of directors
19. Time for and the manner of calling the meetings of the board of directors
20. Regulations governing the quorum for the meetings of board of directors
21. The manner of election of chairman and vice chairman of the board and their term of office
22. Manner of transacting business and the number of votes required to give validity to the actions taken by the board of directors
23. Number of directors' security shares to be deposited with the company
24. Whether the company shall have one or several legal inspectors and the manner of their election and their terms of office
25. Whether the company shall have one or several managing directors and their terms of office
26. Date of commencement and end of the fiscal year of the

company, the time limit for preparing the balance sheet and profit and loss account and the submission thereof to the legal inspectors and to the annual general meeting

27. Manner of voluntary winding up of the company and the proceedings for liquidating its affairs
28. Manner of making alterations to the Articles of Association

