

Iran Capital Market

Splendor of the Past ; Prosperity of the Future

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Preface

Ali Salehabadi (PhD)

President & Chairman of the Board

Providing a safe environment for investing in securities by supervising market participants while preserving market efficiency, transparency and discipline is the general mission of the Securities and Exchange Organization of Iran (SEO); that if fulfilled, will result in economic growth and capital increase. This mission will be accomplished by severe supervision on the implementation of the Iran Capital Market Law.

SEO supervises Exchanges and financial institutions as key factors of capital market. Markets currently operating are securities market, commodities market and over the counter market while other markets will be launched. Also associations and institutions such as Iranian Institutional Investors Association, Iran Securities and Exchange Brokers Association, mutual funds and investment banks are established as a result of the new Iranian Capital Market Law ratified in November 2005. Other institutions are being regulated such as rating agencies for rating economic firms globally by their performance in risk management and financing, and investment advisors for providing consulting services to investors. Brokers and investment companies are institutions participating in capital market since its establishment. SEO is also responsible for proposing and introducing new instruments and institutions to promote Iran capital market efficiency and growth.

Iran Capital Market has been operating for more than 40 years and is still in need of professional contributors to keep moving in growth path. The market is legacy of previous participants and will be our legacy for future participants, in a word; the Iranian capital market can be described as "*Splendor of the Past, Prosperity of the Future*". In this glorious path of growth, dedication of various related groups to the market will provide a more safe, transparent and efficient environment.

Table of Contents

Brief history of the Iranian Capital Market	1
Financial Sector in Iran	3
Securities & Exchange Organization of Iran (SEO)	4
Mission & Vision	4
Securities Market Bodies	4
Organization Chart	5
Organization Bodies	6
Professional Committees of the Board of Directors	6
President's Office	6
Deputy for Supervision on Financial Institutions	7
Deputy for Supervision on Exchanges and Issuers	8
Deputy for Legal Affairs	9
Deputy for Executive Affairs	10
Markets	11
Securities Market	11
Futures Market	11
Commodities Market	14
Kish Trading Floor	17
Iran Farabourse Company (Over the Counter Market)	18
Information Technology Infrastructure	19
Tehran Securities Exchange Technology Management Company	19
Trading System	20
Information Dissemination Company	20
SENA	20
Iran Virtual Exchange	21
Mobile Bourse	21
Capital Market Technology Company	22
CODAL	22
SAMPA	23

Iran Capital Market

Splendor of the Past, Prosperity of the Future

Financial Institutions	23
Associations	24
Self-regulatory Organizations	24
Central Securities Depository	25
Brokers	26
Mutual Funds	26
Market Makers	26
Investment Banks	27
Investment Funds	27
Investment Advisors	27
Holding Companies	27
Rules & Regulations	28
Capital Market Special Court	30
International Presence	32
Memorandum of Understanding	32
International Memberships	33
Educational Courses	33
Annual Islamic Capital Market Conference	33
International Capital Market Tours	33
Publications	34
Monthly Magazine	34
English Quarterly Bulletin	34
Facts & Figures	35
Securities Market Statistics	35
Commodities Market Statistics	36
Farabourse Market Statistics	36
Futures Market Statistics	36
Total Iran Capital Market Value	36
Future Outlook	37

Brief history of the Iranian Capital Market

The concept of introducing capital markets in Iran dates back to 1936 when Bank Melli Iran (BMI), in an attempt to accelerate the industrialization process, engaged experts from the Brussels Stock Exchange to conduct research about the possibility of establishing a stock market in Iran. BMI published a report in 1936 outlining its recommendations with respect to the legal and business framework necessary as the proper foundations for a capital market in Iran.

However, the outbreak of World War II and the subsequent economic and political events in Iran delayed the introduction of a formal capital market until 1966 after the Iranian Parliament ratified the Stock Exchange Act. The Tehran Stock Exchange (TSE) officially commenced operations in April 1967. Initially, only six companies were listed on the TSE though government bonds and other government-backed certificates were actively traded.

During the 1970s, rapid economic expansion led to more listings on the TSE. The number of listed companies on the TSE rose to 105 in 1979 including 24 listings of commercial and specialized banks (banks serving specific sectors of the economy).

Economic reforms in the wake of the Islamic Revolution reverted control of the economy to the public sector. This led to a considerable contraction of the private sector with a reduced need for private capital. Simultaneously, the introduction of Islamic banking laws called for abolition of interest and the end of trading of bonds on the TSE.

This was accompanied by a total reorganization of the financial services sector with dissolution of thirty six commercial and specialized banks and division of their assets among six commercial and four specialized banks newly created by the Government. As trading in shares of private banks comprised most of the trading on the TSE, this move led to a deep recession and uncertainty among investors.

Trading on the TSE entered a growth phase following the first post-war Budget Act (enacted in March 1989) which heavily promoted the private sector's role in the revival of the economy.