Basic Rules and Regulations of The Iranian Capital Market

Securities and Exchange Organization (SEO)
Research, Development and Islamic Studies (RDIS)

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Introduction

Broadly speaking, the Iranian capital market has, in recent times, experienced phenomenal transformations which have led to the demarcation between the two dimensions of its regulatory framework and its executive duties in the wake of the Securities Market Act of the Islamic Republic of Iran ratified in November 2005. More specifically, the law for the Development of New Financial Instruments and Institutions, which was passed in November 2009 and basically aimed to facilitate the implementation of the overall policies adopted under article 44 of the Constitution, has provided a unique opportunity for the financial institutions to dynamically participate in the capital market by using a wide variety of financial models and instruments.

In line with the burgeoning capital market and out of necessity, a set of laws, rules and standards have been drafted, codified and documented purposefully towards regulation of better stock market orientation and prevention of any possible fraud and violation. These measures, being integrally linked to the capital market structure, have resulted in objectivity, viability, dynamism and empiricism with successful results in areas such as increase in the liquidity ratios, information transparency, numerical decrease in the symbols halt, dramatic boost in market sales and value, entry of rights issue for housing loan facility on the Farabourse, financing cost reduction in housing sector, subscription of shares, underwriting, capital increase in the Farabourse, governmental offerings on the Farabourse market, sales uplift in participation certificates(musharakah sukuks) and bank certificates of deposit on the Farabourse.

Additionally, other concepts and ideas have been put into practice which have emerged in the form of mutual funds, on-line trading structure on the Exchange and on the Farabourse and call-centers for e-signatures as novel approaches and solutions to the rising expectations in the capital market. More importantly, the anatomy of the capital market operations in Iran illustrates a transformative trend in the value and volume of annual transactions on the Tehran Stock Exchange which has been sailing ahead with a proper growth rate along with impressive gains since 1994 compared with other capital markets across the globe.

In recent years, the country's overriding priority has been directed towards promotion of international cooperation and encouragement of foreign investments so as to create a business environment which could ultimately be conducive to the capital market development. To this end, in keeping with the policies formulated and pursued by the government's economic planners to introduce the investment environment to foreign investors, the Securities and Exchange Organization(SEO) has been unremittingly striving to portray the distinctive features of the Iranian capital market structure as well as its attractiveness and profitability for the foreign investments underpinned by the applicable laws and regulations as a compelling need to protect the investors' rights and interests.

Doubtless, a robust legal system and a sound regulatory structure will make a prospective investor think positively for a while before he embarks on any investment in new areas and lands. The capital moves in a place where the law acts as a bulwark against insecurity. From this perspective, the present book, viewed as a repository of documented legal knowledge, contains translation of a host of laws, bylaws and executive regulations which are currently governing Iran's capital market and are directly pertaining to the stock market dealings. We hope that this volume will serve as a source of information on legal framework, market regulation and business practices for foreign investors, entrepreneurs and practitioners who are seeking investment opportunities in our capital market. We hope that the first attempt of translated stock market legislation will provide transparency, consistency, centrality and lucidity for those who are on the lookout to set forward-thinking goals for investment in our stock exchange market.

It is noteworthy to mention that the Research, Development and Islamic Studies Department of the Securities and Exchange Organization has assumed the enormous responsibility for this endeavor at all stages of work. However, since such preparation demanded a good teamwork, we sincerely thank the people whose zealous efforts have shaped the translation, format, size and publication of the selected content of this book. The people at the forefront for this task are: Dr. Ali Saeedi, Dr. Davood Jafari Seresht, Mohammad Hosein Taheri and Maryam Saffarian.

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