

The Law for Development of New Financial Instruments and Institutions

(Based on overall policies of principle 44 of the Constitution)

Article 1:

The following definitions shall apply for the purposes of the terms and phrases used herein:

- a) **Investment Unit** means the uniform securities issued by the mutual fund and shall, in return for the investments made by individuals/entities in the fund, be delivered to them recording the specifications of the fund, investor and the amount invested.
- b) **Free Floating Shares** mean a portion of the listed company shares whose holders are typically prepared to offer and sell such shares and do not have the intention of having a say in the company management by retaining such portion of shares.
- c) **Securities and Exchange Organization** means an Organization which has been established by virtue of the Securities Market Act of the I.R.I., ratified on Nov. 22, 2005 and is hereinafter referred to as the "**Organization**".
- d) **Special Purpose Vehicle (SPV)** means one of the financial institutions under the Securities Market Act of the I.R.I. which is authorized to raise funds by issuing securities through the conduct of transactions under the category of Islamic contracts.
- e) **Mutual Fund** means a financial institution which invests the financial resources derived from issuance of investment units in its designated area of activity.

Article 2:

The State Organization for Lands and Deeds Registration shall, merely by virtue of the Organization's license, have to register the funds under paragraphs (19) and (20) of article (1) of the Securities Market Act of the I.R.I. and the mutual funds under paragraph (1) of article (14) of the "Law for Management and Protection of Housing Construction and Supply" passed on May 15, 2008 and other funds which fall under the category of financial institutions in conformity with the rules of the Securities Market Act of the I.R.I.. Such funds shall become a legal entity as of the registration date.

Article 3:

In return for the investment in the funds under article (2), a registered investment unit is issued. The responsibility of investors in such funds shall be confined to the size of their amounts so invested.

Article 4:

Establishment, registration, operations, dissolution and liquidation of the funds under article (2) shall be fulfilled in accordance with the following requirements:

- a) The duration of the business of such funds shall have to be specified in the articles of association commensurate with the fund's type of activity;
- b) The minimum capital required for the formation of mutual funds shall be the amount of five billion (5,000,000,000) Rials. The Securities and Exchange High Council shall have the authority to increase the minimum capital required for the formation of mutual funds by making allowances for changes in the inflation rate;
- c) Whether the fund is open-end or closed-end as well as the possibility and procedure of transferring the investment unit of funds through issuance and redemption and/or purchase and sale shall have to be stipulated in the fund's articles of association;

- d) The fund shall, by virtue of the arrangements provided in the articles of association, have at least one administering body and one supervisory body acting in the capacity of the inspector/auditor;
- e) The functions, powers and responsibilities of the said bodies and other bodies such as the guarantor shall be entrusted to the qualified legal entities that accept positions in the fund. The scope of responsibilities and powers of each one of the bodies shall be specified in the articles of association. The administering body may be appointed from among the eligible natural persons.
- f) The procedures for the fund liquidation at the termination of its business or dissolution shall be subjected to the requirements set forth in the articles of association and the fund manager may also act as liquidator unless he forfeits his eligibility to run the fund. The mutual funds are managed in accordance with the provisions of their articles of association.

Article 5:

Any dispute arising from investment in the funds under article (2) and their activities and accordingly the disputes among the fund's bodies shall be resolved by the arbitration board as stated in the Securities Market Act of the I.R.I.

Article 6:

The article (143) of the Direct Taxation Act passed on Feb. 22, 1988 and its subsequent amendments, upon deletion of note (1) thereto and retention of notes (2) and (3) as renamed notes (1) and (2) has been modified as follows:

Article 143: Ten percent (10%) of income tax gained from sale of the commodities listed on the commodity exchanges and ten percent (10%) of the income tax of the companies whose shares have been listed for trading on the domestic or foreign exchanges and five percent (5%) of the income tax of the companies whose shares have been listed for trading on the domestic or foreign OTC markets shall be exempted with the approval of the Organization as of the listing year to the year during which they have not been delisted from the listed companies on such exchanges or markets. The companies whose shares are listed for trading on the domestic or foreign exchanges or on the domestic or foreign OTC markets shall enjoy a tax exemption for double the said exemptions provided that they have at least twenty percent (20%) free-floating shares at the end of their fiscal year as confirmed by the Organization.

Article 7:

The text below along with four notes thereto is added as article (143 bis) to the Direct Taxation Act passed in 1988:

Article 143 (bis): Out of any transfer of shares and preemption rights of companies, whether Iranian or foreign, on the exchanges or on the licensed OTC markets, a flat tax for the amount of half percent (0.5%) of the sales value of shares and preemption rights shall be collected and, in this respect, no more funds shall be claimed as income tax for transfer of shares and preemption rights and value added tax for purchase and sale. The brokers of exchanges and OTC markets shall have to collect the given tax from the transferor during each transfer and pay it into the account which has been assigned by the State Taxation Organization and shall, within ten days from the transfer date, send the relevant receipt along with a list containing the number and amount of shares sold and the preemption rights so transferred to the local Tax Affairs Department.

Note 1: All incomes of the mutual fund within the context of this law and all incomes gained from investment in securities under paragraph (24) of article (1) of the Securities Market Act of the I.R.I., ratified in 2005 and the proceeds derived from transfer of such securities or the proceeds earned from issuance and redemption of them shall be exempt from income tax and value-added tax as per the Value-Added Tax Act passed on May 23, 2008 and no tax whatsoever shall be claimed for the transfer, issuance and redemption of the foregoing securities.

Note 2: The profit and fees paid or allocated for securities as referred to in note (1) of this article, excluding the dividend and shares of companies, and the profit gained on investment units of funds, on the condition of registering these securities with the Organization, shall be regarded as parts of acceptable expenses for assessment of taxable income of such securities issuer.

Note 3: If any natural person or legal entity domiciled in Iran, who is the shareholder of the company listed on the exchange or OTC markets, sells his shares or preemption rights in foreign stock exchanges or foreign OTC markets, no tax whatsoever shall be levied on and collected in Iran in this respect.

Note 4: The mutual fund shall not be authorized to engage in any other economic activity whatsoever outside the area designated in the licenses issued by the Organization.

Article 8:

In article (104) of the Direct Taxation Act amended on Feb. 16, 2002, the phrase "exchanges, OTC markets and transaction fees and settlement of securities and commodity in exchanges and OTC markets" is added before the word "banks" and the word "contract" precedes the word "transport".

Article 9:

The paragraph (11) of article (12) of the Value-Added Tax Act is amended as follows:

11: Banking and credit services rendered by banks, credit institutions and cooperatives and authorized interest-free loan funds (*Gharz Ul- Hassanah- a benevolent loan free from Riba-usury*) and transaction services and settlement of securities and commodity in exchanges and OTC markets.

Article 10:

Trading in commodity and securities in the commodity exchanges and all activities carried out by individuals/entities in such exchanges shall be subject to the rules provided in chapter six of the Securities Market Act of the I.R.I. and perpetrators of the offences stated under the said chapter shall be prosecuted in compliance with article (52) of the same Act.

Article 11:

The SPV shall be exempt from payment of any tax whatsoever and transfer tax and charges and income tax for that category of the assets for which the funds are raised through issue of securities for public offering. The funds raised through issue of securities by such institutions shall be pooled in a special account and any withdrawal from such account shall take place under the supervision and with the approval of the Organization. The regulations governing the activities of the SPVs shall, within three months, be approved by the Securities and Exchange High Council upon the recommendation of the Organization.

Article 12:

The proceeds gained from selling assets to the SPV so as provide financial resources through public offering of securities shall be exempt from tax and no tax and charges whatsoever shall be levied on the transfer of such securities. The depreciation expenses arising from assets value appreciation in the repurchase of the same assets by the seller, in whichever manner, shall not be regarded as parts of the tax deductible.

Article 13:

The managers of financial institutions, issuers of securities and self-regulatory organizations inclusive of the board members and the managing director shall not have a record of effective absolute criminal conviction and shall hold the required professional qualifications. In the case of ineligibility or their professional disqualification, the appointing authority shall have to reject their appointment to the said positions and/or remove the directors so appointed from their positions. The requirements and criteria for the professional qualifications of the said directors merely in terms of education background and related job experiences and also the method of their disqualification by the Organization shall be provided in a bylaw which shall, upon the recommendation of the Securities and Exchange High Council, be approved by the Council of Ministers (the Cabinet).

Article 14:

The issuers of securities, financial institutions and self-regulatory organizations and also the persons who are appointed as their directors shall be deemed to be violators in the case of infringing the laws and regulations relating to the activity of each of them and the Organization shall have the authority to receive cash penalty from the violators from ten million (10,000,000) Rials to one billion (1,000,000,000) Rials and credit such penalty to the treasury account in addition to the disciplinary actions prescribed in articles (7) and (35) of the Securities Market Act of the I.R.I. The bylaw governing the amount of cash penalty in keeping with the act committed shall be drafted upon the joint

recommendations of the Ministry of Economic Affairs and Finance and the Ministry of Justice for the approval of the Council of Ministers (the Cabinet).

Note 1: The sums of cash penalty shall, once every three years, be modified upon the recommendation of the Securities and Exchange High Council and approval of the Council of Ministers in agreement with the Consumer Price Index (CPI) which have officially been published by the Central Bank of I.R.I.

Note 2: The verdicts rendered with regards to penalties shall be binding. Such penalties can be collected through the executive divisions of Registration Department and the Courts' Judgments Enforcement Division.

Note 3: The Judiciary may regard the Organization's report on the commission of offences as the report of justice officers where this Organization acts as a complainant and, in pursuance of article (52) of the Securities Market Act of the I.R.I., takes legal action with the competent judicial authorities. The Organization staff shall, in enforcing the court orders as to the said offences, be vested with all those powers and responsibilities which have been expressly stated or stipulated for the officers of justice in the Law of Criminal Procedures. The staff concerned shall be appointed by the ordinance of the prosecutor general and on the recommendation of the Organization president.

Article 15:

If the securities listed on the stock exchange or on the OTC markets and/or the commodity-based securities which are listed on the commodity exchange carry the profit approved, matured or guaranteed, it shall be distributed and paid in a timely manner within the framework of prevailing rules. Where the issuers fail to do so and the securities holders or the Organization lodge a complaint, the matter shall be brought up with the Arbitration Board envisaged in the Securities Market Act of the I.R.I. and the awards passed in this respect shall be enforceable through the Courts' Judgment Enforcement Division.

Article 16:

Upon the request made by the Organization, all regulated entities such as issuers, financial institutions and self-regulatory organizations shall have to submit records, documents, information and reports requisite for the exercise of the functions and responsibilities legally vested in the Organization. The Organization shall have the power to deliver such information, records, documents and reports to the competent domestic and/or international authorities and institutions within the context of their legal jurisdictions with the approval of the prosecutor general. The directors of the regulated legal entities, in case they fail to comply with the said issues, shall be sentenced to the penalties referred to in article (49) of the Securities Market Act of the I.R.I.

Note 1: Where the provider of information, records and documents declares that the issues presented are regarded as a part of his trade secrets and can not be published, the matter shall be considered at the board meeting of the Organization for decision-making. The decision taken by the Organization board of directors in this respect shall be binding and serve as a basis for further action.

Note 2: The trade secrets are treated to be confidential and in case of their disclosure, the Organization shall be held liable to compensate for the loss and damage sustained by the provider of such documents, records and information providing that the disclosure of trade secrets has taken place by the Organization and in the circumstances not legally allowed to do so.

Note 3: The government, state-owned companies and municipalities shall be excluded from the application of the duties assigned to the issuers of securities under articles (13), (14), (15) and (16) of this law.

Article 17:

The purchase and sale of the commodities listed on the commodity exchanges which are traded in compliance with the rules governing such exchanges by the Ministries, organizations, institutions, governmental and public establishments and executive agencies shall not require the offering of tenders or bids and fulfillment of the related formalities and procedures.

Article 18:

The government shall have to exclude the commodity listed on the exchange from the pricing system.

Note: This article shall not apply to drugs.

This law comprising 18 articles and 7 notes was ratified at the open session of the parliament (Islamic Consultative Assembly) on Wednesday, Dec. 16, 2009.