



سازمان بورس و اوراق بهادار
Securities & Exchange Organization

**INTRODUCTION TO
METHODOLOGY
FOR SUPERVISING
FINANCIAL INSTITUTIONS AND
ASSOCIATIONS**

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Preface

Iran has always been a pioneer and innovative in developing and introducing new financial institutions, instruments and markets in the region. Tehran Stock Exchange was first incorporated in 1967 and since then has always been one of the well diversified capital markets that have made it appealing and attractive for investors. Although The Law for the Establishment of the Stock Exchange was approved by the parliament in 1966, Securities Market Act codification in 2005 was a real turning point in our capital market history. It separated money market from capital market and provided the opportunity for several new participants to be created and developed in our market. Subject to this law, three under surveillance of SEO's entities were specified and introduced to the market. This triangle is composed of financial institutions, associations and issuers. The first two mentioned bodies are under this department supervision and would be elaborated on in this context. Because of diffusion and diversifications of financial institutions, they are categorized in four different classifications including Mutual Funds, Financial Service Providers, Brokerage Firms and Investment and Holding Companies. Eventually the three registered associations which actually play a pivotal role in our market are elaborated on.

1. Mutual Funds

1.1. Introduction

Mutual funds are modern financial institutions which are designed with aim of collecting funds from armature investors and devoting them to variety of securities to create a reasonable return. These funds are kinds of intermediary financial institutions which help reintroducing and reconciling amateur investors to professional capital markets. The purpose of forming the Fund is to pool money from investors. Then the money would be invested in different subjects such as particular securities or building projects which are specified in the fund prospectus. Securities can include stocks, different types of sukuk, future contracts and banking deposits for which the issuance license has been granted by the Central Bank of Iran (CBI) or Securities and Exchange Organization (SEO) and their specifications have been described in the Funds' prospectus. Funds can also use the collected money to carry out a building project. Obviously most investors intend to gain a profit but there are some investors who would like to help specific groups or activities. There are charity funds in which these investors can reach their goal through capital market. Collecting small amount of money from investors, mutual funds mitigate the investment risks, exploit the economies of scale and protect the interests of investors.

1.2. Definition

According to paragraph 20 of article 1 of Securities Market Act (2005), a mutual fund is defined as a financial institution whose main area of activities are investing in securities and their holders shall share in the fund's profit and loss in proportion to their investments. Later in 2008, expanding the definition of mutual funds, the Law for Development of New Financial Instruments and Institutions amended the definition as 'a financial institution which invests in the financial resources derived from issuance of investment units in its designated area of activity'.

1.3. Rules and regulations

Mutual Funds operate under a lot of rules so they are considered financial institutions with the most concise, organized and comprehensive supervision by SEO. The rules include acts, laws, bylaws, regulations and circulars. Mutual funds have their origin in Securities Market Act of the Islamic Republic of Iran and as mentioned above, the Law for Development of New Financial Instruments and Institutions made some amendments and facilitations to the mutual funds. The rest of rules governing on mutual funds are as follows:

- Anti-Money Laundering Act;
- Executive By-Law of the Anti-Money Laundering Act;
- The Regulations on the Record-Keeping and Reporting Requirements of Information and Documents by the Regulated Persons/Entities;
- Disciplinary Regulations Governing Non-Brokerage Financial Institutions;
- The Regulations on the Prevention of the Mutual Funds' Abnormal Transactions;
- The Regulations Governing the Proceedings for Violations Committed by Persons Mentioned in the Article 35 of the Iran Securities Market Act;
- The Executive Regulations on Record-Keeping and Reporting Mutual Funds' Financial Events;
- The Procedure of Subscription, Issuance and Redemption of Funds Units;
- The Regulations Governing the Requirements for the Capital Adequacy of Financial Institutions;
- The Regulations Governing the Valuation Method of Securities Purchase and Sale in the Mutual Funds;
- The Standards Governing the Establishment of Construction Funds;
- The Regulations Governing the Establishment of Construction Funds;
- Regulations Governing the Issuance of the Construction Funds Units;
- Regulations on the Method of Calculating the Net Asset Value (NAV) of the Construction Fund Units;
- The Regulations Governing the Market-Making Activities of the Units of the Construction Funds;
- The Regulations on the Procedures of Tender Documentation in the Construction Funds;
- The guidelines on preparing the feasibility report of construction projects;
- Article of Association of the Mutual Funds;
- Prospectus of the Mutual Funds;
- The Procedure for forming and revising portfolio in Index Funds;
- Furthermore, Mutual Funds shall comply with circulars. SEO has issued 26 circulars for Mutual Funds since the beginning of 2012 and there has been issued 6 circulars for all the financial institutions including Mutual Funds.

1.4. Types of Mutual Funds

Although not a long history in Iranian capital market but surprisingly Mutual Funds were very warm welcomed by Iranian investors society and it didn't take a long time to get acquainted with them. To categorize kinds of Mutual Funds, one classification could be

securities Mutual Funds (including; Stock Mutual Funds, Fixed Income Mutual Funds, Mixed (Motley) Mutual Funds & Index Funds), Charity Funds, ETF, Construction Funds, Currency Funds and Gold Funds (Regulations of the last two, will be prepared in near future).

Although, major Mutual Funds are in the form of Stock and Fixed Income Mutual Funds but there are two licensed construction funds now.

Construction Funds in Iran were approved as a Financial Institution, by the Securities & Exchange High Council in Aug 2008. Having Young population, general attitude toward investing in housing sector as a way to protect the purchasing power of money, growing liquidity rate in recent years and good situation for speculators' activities, have been among the key factors to stimulate the demand curve in housing sector. On the other hand the lack of proper capacity has prevented the supply side of this equation to grow proportionately to the demand side and this has caused a price boom in real estate sector especially in megacities. Construction Funds are newly founded funds which help constructing the mass production of domiciles and afterward quenching the increasing growth of demands engendered in the domicile sector. The philosophy behind that was to diminish the dependence of housing industry on banking system and to facilitate financing through capital market. Construction Fund is a financial institution, which is authorized by SEO as an independent legal entity. Objective of a Construction Fund is to collect macro and micro savings, devote them to build specified constructing project, sell the construction and eventually distribute obtained benefits among investors. The rules and the framework of activity of these Funds have been set up upon the results of the SEO experts' studies with cooperation of the construction sector experts. One of the most important characteristics of these Funds is the possibility of trading their units in the secondary market (including Exchanges or OTC markets). The pooled funds are intended for certain construction project and then the returns coming from selling completed apartments, will be divided among the investors. The executive and supervisory bodies are designed to have the project completed in time with certain expenses prescribed in the feasibility document. Construction funds have provided several privileges for the investors, including: a) By investing in a construction fund, investors enjoy the profit of constructing and selling of the buildings and also they highly protect their purchasing power against the rising prices of real estate, especially in the area which the fund's project is located. B) Investors may sell their units to the market maker or others whenever they wish. This would not be possible in direct investment in construction projects, because selling a building (especially a part of building) would be much more difficult than selling the Fund's units. Market maker will announce daily quotes for

buying and selling of units, according to the rules and the fund articles of association. However, listing units in an Exchange or an OTC market provides a strong market for that kind of investment. C) Investors may access the information about the fund and underlying construction project through the website of the fund. Information concerning the progress of the project will be displayed monthly and financial statements and performance report of the fund will be displayed every three months. D) Although investment in these funds is not free of fraudulent risk, the mechanism for administration is so designed to let the supervisory bodies (including supervisor, trustee and auditor) have a great role in monitoring Fund operations, and this causes the fraudulent risk to decrease. E) Qualifications of the Fund's bodies would be examined by the SEO. The project control and accounts maintaining software's are also approved by the SEO.

Generally, there are different methods of profit allocation in mutual funds as follows:

- 1- In most Funds, if an investor redeems the fund units, the redemption would be on the basis of redemption NAV.
- 2- Some mutual funds, majorly fixed income funds, distribute dividends on a regular basis namely monthly and quarterly to their investors.
- 3- In charity funds, investors can allocate all or a portion of profits to charitable activities in the manner described in the fund prospectus.

1.5. Purpose of Mutual Funds

The purpose of forming securities mutual funds is to pool resources or capital from investors and invest such funds in the purchase of securities of all kinds mentioned in the fund's prospectus, or in the construction project outlined in the fund prospectus, so as to mitigate the investment risks, exploit the economies of scale and protect the interests of investors.

1.6. Mutual Funds Bodies

According to the Law for Development of New Financial Instruments and Institutions, Funds, by virtue of the arrangements provided in the articles of association, have at least one governing body and one supervisory body acting in the capacity of the inspector or auditor. Subsequently, their detailed functions and responsibilities of these bodies and also required qualifications for granting Funds' licenses were defined in related regulations. Generally, there are three separate kinds of bodies including decision making body (General Meeting), governing body (fund manager, liquidity guarantor, and registrar) and supervising body (trustee and auditor) in Iranian Mutual Funds. In this part,

different bodies of mutual funds are described. The first step to implement supervision is fulfilled by Mutual Funds qualified Bodies. It will significantly enhance the corporate governance elements and framework in Mutual Funds.

1.6.1. BODIES COMMON IN ALL KINDS OF MUTUAL FUNDS

1.6.1.1. General Meeting

The fund's general meeting shall formally convene with the presence of the holders of the half plus one of the fund's top investment units with the rights to vote and has powers; to appoint the fund manager, registrar, trustee and guarantor with SEO's approval; to change the fund's manager, registrar, trustee and guarantor on the condition of selecting substitutes for them with the SEO's approval; upon the trustee's recommendation, to appoint and remove the fund's auditor and specify his office term, fees and the manner of its payment; to adopt the modifications made in the fund's articles of association and in the prospectus after the SEO's approval; to take decisions on the fund dissolution; to approve the fund's annual financial statements; to hear the manager's report on the fund's statement and performance during every fiscal year; to hear the auditor's report and opinion on the financial statements as well as his report on the fund's statement and performance; to select a mass-circulated newspaper for the fund; and finally to approve the expenses required for establishing the fund and the costs for holding the fund's general meeting.

1.6.1.2. Fund Manager

The fund manager shall be elected by the fund's general meeting upon the SEO's approval and pursuant to the rules and provisions of the articles of association and is referred to as "manager" in the present document.

The manager shall introduce at least three natural persons who are experts in the area of investment in securities as the "group of investment managers" of the fund so as to discharge the following duties on behalf of the manager and upon his own liability:

1. Policy-making and formulation of the fund's investment policy and decision-making on the buy sell or hold the fund's assets ownership within the framework of the rules, articles of association and prospectus of the fund;
2. fixing the purchase and sale price of the fund's securities in compliance with the procedures for establishing the securities purchase and sale price in the investment funds approved by the SEO so as to calculate the price for issuance,

redemption and net assets value of each of the fund's investment units as per the articles of association;

3. Other functions and powers delegated by the fund manager.

In addition, other functions and responsibilities of the manager are set out as follows:

1. To allocate at least 40 square meters of proper space for administration with the required facilities and equipment to discharge the fund's current affairs;
2. To participate in the fund implemental stages such as subscription, issuance and redemption of the investment units pursuant to the provisions of articles of association;
3. To record and keep track of each investor's account including the amounts paid and received, the number of investment units issued and redeemed and the number of investment units owned by him;
4. To designate the holders of authorized signature for the fund and the scope of functions and responsibilities of each of them and inform the matter to the trustee, registrar, guarantor and auditor;
5. To appoint the fund's broker or brokers and supervise the optimum execution of the fund's securities purchase and sale orders by them;
6. To notify the trustee of the fund's securities transfer among its brokers within two business days at the latest after performance;
7. To inform the registrar concerning the monies paid to each one of the investors within one business day at the latest after each payment;
8. To collect and retain all positive documents relating to the fund's financial events, record the fund's financial events in accordance with the accounting principles and procedures and prepare the required reports as per the rules in the articles of association;
9. To introduce the group of investment managers and specify the procedure of their service compensation which should be commensurate with the management fee or the fund's performance;
10. To handle the common questions raised by investors;
11. To procure the required software and hardware and apply them towards achievement of the fund's objectives;
12. To initiate a publicity campaign to introduce the fund to the public this is, if necessary, exercised at his own discretion;
13. To act as the fund's representative with the investors, all governmental and non-governmental departments, judicial authorities and other individuals and entities;

14. To institute any type of legal proceedings and criminal cases on behalf of the fund and defend the pending cases versus the fund at any law-courts, public and special tribunals and Administrative Justice Tribunal, being vested with all powers prescribed in the Civil Code Procedures, Criminal Code Procedures, the law and regulations of Administrative Justice Tribunal.

1.6.1.3. Registrar

The person charged with the registration affairs of the fund's investment units shall be appointed by the fund's general meeting in accordance with the rules and provisions of the articles of association and is referred to as the "registrar" in this instrument.

Main functions and responsibilities of the registrar are; to designate at least 5 branches so as to deal with the issuance and redemption of investment units; to designate and introduce one of his trusted staff as the fully-authorized representative and holder of the authorized signature on behalf of the registrar to act for the fund's affairs; to receive and enter the identification data of each investor or his agent and particulars of each investor's bank account and transmit such information to the manager and the trustee; to participate in subscription, issuance and redemption of investment units pursuant to the articles of association and appendices; and finally to enter and keep records of each investor's account containing the amounts paid and received, the number of investment units issued in his name, the number of investment units redeemed at his request and the number of investment units owned by him in accordance with the accounting principles as well as preparing the required reports as per the provisions of the articles of association.

1.6.1.4. Liquidity Guarantor

The liquidity guarantor mainly plays its roles in circumstances that the Fund does not have sufficient cash to make any payment out of its liquidity to investors. At this moment the manager shall have to convert the fund's assets into cash in a timely manner so as to provide sufficient cash in the fund banking accounts for such payments. If, during the two business days before the due date for payment, the manager predicts that sufficient cash shall not be provided in the fund banking accounts on the due date for such payments, he shall, by the end of the same day, has to inform the liquidity guarantor of the cash shortage. In such case, the liquidity guarantor shall, by the end of the following day at the latest, have to credit the shortage of the given cash to the fund account and submit the application for issuance of investment units out of such cash to the manager so that the investment units in a number proportionate to the paid cash will be issued in the guarantor's name.

1.6.1.5. Profitability Guarantor

The fund profitability guarantor shall be elected by the fund's general meeting in accordance with regulations and as per the rules in the articles of association. The guarantor shall have to accept his position in writing and assume his responsibilities and functions pursuant to the articles of association and send a copy of his acceptance to the SEO, manager, trustee and auditor each. The profitability guarantor has the responsibilities for cash payment to investors under particular circumstances to compensate for their return up to the amount fixed in the fund prospectus.

1.6.1.6. Fund Trustee

To enhance internal controls procedures in operational affairs to be performed conveniently, this pillar was designed in Funds' structure. The fund trustee shall be elected by the fund's general meeting as per the regulations and pursuant to the provisions of articles of association. Some of the more important functions and responsibilities would be illustrated as; designating and introducing one of his trusted staff as the fully-authorized representative and holder of the authorized signature on behalf of the trustee to act for the fund's affairs; examining and confirming the amounts receivable and payable; receiving and keeping the identification data and bank account information of each investor so as to carry out all operations of receipts and payments between the investor and the fund; keeping records of each investor's account containing the amounts paid and received, the number of investment units issued in his name, the number of investment units redeemed at his request and the number of investment units owned by him; receiving information on the fund's daily transactions at the end of each business day and monitoring the fund's balance of accounts with the fund brokers; and finally the last and most important one examining and approving the manager's application to open bank accounts in the name of the fund. All payments by the fund from the fund's banking accounts shall be made upon the order given by the manager and the trustee's approval. The trustee shall endorse the payment order before payment and after obtaining assurance about the conformity of the payment order with the related provisions. This last mentioned function can tremendously mitigate the risk of misusing Mutual Funds' accessible funds.

1.6.1.7. Auditor

The second designated supervisory body of a Fund is the auditor that some of its most important functions and responsibilities are; to examine the principles and procedures of internal control exercised by the manager or the trustee in the discharge of the duties

prescribed in regulations; to conduct an investigation to ensure that the principles and procedures of internal control designed for the discharge of manager's and trustee's duties are applied in practice; to examine and express his opinion on the Fund's semiannual and annual financial statements in accordance with auditing standards and national accounting standards and also the accuracy of the performance reports; to examine and express the accuracy of calculating the market net asset value, statistical value, the issuance and redemption price of investment units through a sample survey in accordance with auditing standards.

The fund auditor shall be recommended by the trustee from among the auditing firms trusted by the SEO to be approved by the fund's general meeting. The auditor's fee shall be proposed by the trustee and approved by the fund's general meeting. The term of the auditor's office shall be appointed by the fund's general meeting.

1.6.2. BODIES JUST IN CONSTRUCTION FUNDS

Construction funds' operations are different from securities mutual funds. The person who is in charge of carrying out the construction project as well as the person in charge of supervising the construction procedure should be well aware of and specialist in construction. So Constructor and Supervisor are two bodies of just construction funds. Similarly, due to the different operations of construction funds, you can find three other new bodies in their structure namely Board of Directors, Underwriter and Market maker. These specific bodies of construction funds are described in this part.

1.6.2.1. Constructor

Constructor is a legal entity with at least 5 years of effective experience in management of large construction projects that can be changed after the approval of SEO. Constructor has the responsibility of performing the project. He can do it independently or delegate implementing the project to other qualified contractors. At each step, he presents physical and financial progress reports of the project to supervisor and fund manager accordingly. Through the project, bodies such as supervisor, trustee and judicial experts will need some information on the project. So constructor cooperates with them to visit the project and access any necessary information.

1.6.2.2. Supervisor

Supervisor is a legal entity (usually consultant engineering institutions) that according to construction law and related regulations has the first class operation permission. It can be

changed after the approval of SEO. He performs the tasks mentioned in the national construction standards and regulations.

According to the article of association of the fund, supervisor should approve the business plan of project including maps and steps of construction. He also supervises the implementing the project to assure that it complies with business plan and national construction standards and regulations. Besides, the physical progress reports prepared by the constructor need the approval of supervisor who prepares periodic progress reports of project accordingly.

1.6.2.3. Board of Directors

Board of directors consists of five namely fund manager, trustee and three people appointed by the General Meeting. The members' qualification must be approved by SEO. The amount of capital raising, qualification of constructor and its nominated contractors should be approved by board of directors. Board of directors also determines selling approach and confirms the procedure of selling and up front selling of construction. If there is any delay in project implement, board of directors has the authority to make decision whether the fund would take the responsibility for or not. Furthermore, in exceptional conditions, board of directors can change costs or time schedule of project implement.

1.6.2.4. Underwriter

Underwriter is a legal entity that can be changed after the approval of SEO. Underwriter is obliged to buy the unsold units of fund in any IPOs (either when establishing the fund or raising capital) and provide the deficit in liquidation procedure.

1.6.2.5. Market Maker

Market maker is a legal entity that can be changed after the approval of SEO. He is obliged to make market of fund units (except those of the fund bodies) until the end of fund's operation period. He will do it with a limitation on quote range that falls between a price limit.

1.6.3. BODIES JUST IN CHARITY FUNDS

As the name conveys, some part of assets in a charity funds are supposed to be allocated to some specific area. Obviously, one cannot control and manage the expenses unless he

knows about the specific area outlined in the prospectus of the charity fund. That's why there is a different body in charity funds' structure called Executive Manager. It's described in more details in the following part.

1.6.3.1. Executive Manager

Executive manager is a legal entity (usually charity and welfare agencies) whose professional competency and qualification shall be approved by SEO and it shall be selected by the fund's General Meeting in compliance with regulations and the fund's article of association. The manager shall have record on the charitable affairs mentioned in the fund's prospectus or shall have the ability to carry out that affairs.

1.7. Supervision on Mutual Funds

Enacting the Securities Market Act of the Islamic Republic of Iran (2005) was a turning point that caused considerable transformations in Iran's capital market. According to the article 7 of the mentioned act, SEO shall adopt the necessary measures to prevent the occurrence of violations in the securities market. In order to get such a target, SEO owns different tools and one of the important ones is the power to grant business and activity licenses. So it can assess qualifications of applicants for establishing financial institutions and their plans. Also, according to the same article, SEO has the duty to report such types of violations in the securities market whereby the reporting task has been entrusted to SEO to the appropriate authorities. This duty has had SEO to conduct a consistent supervision on capital market participants. Due to the importance of financial institutions among other capital market participants, there is a separate deputy in SEO called 'Deputy of Supervision on Financial Institutions' which is responsible for granting establishment/activity licenses and continuous supervising activities of financial institutions. This part describes how financial institutions are supervised.

1.7.1. SUPERVISION BEFORE ISSUING BUSINESS/ACTIVITY LICENSES

As mentioned above, SEO has the authority to grant establishment/activity licenses. This is a very preventive tool because many important items are examined and assessed through the establishment process. Since the financial institutions have different

structures, different requirements are considered for business/activity licenses that are described in this part by the kind of financial institutions.

In order to establish a mutual fund, generally there are two groups of items considered by SEO. First of all, the fund structure should be determined by the applicants. The kind of fund, its size, including the minimum and maximum number of fund units, their base value and restrictions/requirements for owning them should be determined. Besides, it should be specified what portion of expenses is supposed to be paid by the fund and what portion by investors. When it comes to the construction funds, the applicants should introduce the characteristics of land such as its address and dimensions, the characteristics of its owner and the records of changing in the ownership. Furthermore, estimations about construction plan and the costs of the project and estimated cash-flow should be presented.

In another step, the mutual fund's bodies are assessed by SEO. Several bodies in a securities fund includes: fund manager, investment managers, registrar, fund trustee and auditor. In some of mutual funds there are also bodies as liquidity and/or profitability guarantor. In construction funds, there are other bodies namely constructor, supervisor, underwriter and market maker while executive manager is a body that is laid just in charity funds' structure. Since all these bodies are legal persons, the applicant should present SEO some specific information about them through an application form. In the form, they present each body's paid capital level and the identity of board members and major shareholders, as well as human resources. They have to present their last audited financial statements as well. Besides, a group of investment managers for large mutual funds or an investment manager should be introduced by the fund manager. So their educations, certificates and professional records can be assessed by SEO. When the structure of the fund and the professional competency of executive and supervisory bodies are approved by SEO, the applicants would be informed about SEO's initial approval for the fund establishment through a letter. If there need any other documents to grant subscription permission, they are announced through the same letter.

To receive subscription permission, applicant has to present SEO the several documents, some of which are as follows:

- The fund's article of association and its prospectus consistent with the sample one of SEO. They should be signed and sealed by all the fund bodies;
- The acceptance of positions by the fund bodies;
- a copy of the last gazette announcements of each bodies and the founders about the condition of signing binding documents;

- Fund's bank accounts number;
- The bank's certification as regards the payment of the base value of the preferred investment units (at least 20% of the minimum capital of fund);
- A copy of contract for subscribing and accessing a fund software along with a letter of commitment of the fund manager to fulfill the requirements of the fund's article of association and prospectus and other regulations of SEO through that software;
- A certificate that shows passing at least 15 hours of a training course on the fund software;
- Announcement about the launching the fund's website;
- introducing the delegate of the fund trustee for the fund affairs;
- Letters approving that the founders are not governmental;

If all the documents are provided the fund would be registered with SEO and in order to collect the mandatory minimum capital, the permission for initial underwriting and public offer of investment units at the base price would be issued for a specified period. The applicant has to disseminate the initial subscription date through the fund's website and newspaper.

After a successful underwriting and receiving a confirmation from the bank, a registry permission letter is given to the founder or his legal representative along with other documents.

When the mutual fund is registered with the Company Registry General Office and the fund's article of association is sealed by the Office, the applicant present the supporting documents along with an application for mutual fund activity license. Then the activity license would be issued by SEO and if the fund can receive a Trading Code from Central Securities Depository of Iran can trade share for the fund.

Renewing an activity license needs SEO's agreement and the retention of all the requirements that have been considered at time of activity license issuance.

1.7.2. SUPERVISION AFTER ISSUING BUSINESS/ACTIVITY LICENSES

Subject to article 2 of Securities Market Act of the Islamic Republic of Iran, SEO along with Securities High Council are formed in order to protect the investors' rights, maintain and develop a transparent, fair and efficient market of securities and supervise the proper enforcement of this law. In order to have a transparent, fair and efficient market of securities, SEO launched an online database called 'Comprehensive Database of All Listed Companies (CODAL) late in 2006. At the beginning, different information which

could affect investors and other participants of capital market such as annual and quarterly financial statements of just listed companies were published through CODAL. But later, SEO issued a circular whereby mutual funds, as new financial institutions, have to publish some financial information through CODAL. It would be described in more detail later in this part.

In regard to financial institutions, it's Deputy for Supervision on Financial Institutions that is in charge of mentioned objectives. So, specific plans are scheduled on an annual basis and of course, achieving those objectives needs tools that vary from a kind of financial institution to another. In this part, we describe what the plans are and how the mentioned objectives are achieved for each kind of financial institutions.

1.7.2.1. Transparency, fairness and efficiency

The first step toward having a transparent, fair and efficient market of securities in regard to mutual funds is timely publishing of financial information about funds. Since 2013, mutual funds have to publish some financial information through CODAL. The most important financial information of a mutual fund includes the fund's financial statements, its performance report and auditor report on them. According to one of SEO circulars, a fund manager should publish the fund's annual and quarterly financial statements and performance report through CODAL within 20 days from the end of reports' date. Besides, the mutual fund's auditor should publish his opinion about the fund's annual and semi-annual financial statements and performance report directly through CODAL within 20 days from receiving the reports. All the mentioned reports have to be published through mutual fund's website too by fund managers. Timely publishing by fund managers are examined regularly in SEO.

1.7.2.2. Supervising the proper enforcement of rules and regulations

1.7.2.2.1. Book-keeping

In order to have consistency of record-keeping in mutual funds, SEO has issued 'The Executive Regulations on the Record-Keeping and Reporting Mutual Funds' Financial Events'. One the powerful tools that SEO use to ensure that the regulations are complied with mutual funds are the fund's software. SEO has a full access to the same software in which financial events of funds are recorded. So, SEO can examine online the accuracy of fund's records. But there are lots of things to check too often. To solve such a problem, companies which provide mutual funds with software services are coordinated with SEO. So, a considerable part of accounting records in software is made automatically. In this way, the risk of manipulation in accounting records by funds' software operators is

constrained in a great deal. For instance, when some shares are sold or bought by the fund, there is a predetermined accounting article with specific accounts that gets complete with the number and sell/buy price of shares and forms an accounting article. In the article, items such as transaction fees and sale tax are calculated automatically. As far as the accounting articles in mutual funds can be predetermined and a sample article makes sense, they are programmed in funds software and any further extension, improvement or even tiny changes in the software will occur with SEO permission.

1.7.2.2.2. Fund's reporting

Funds reports include: financial statements, performance report and auditory report. Financial statements and performance report are quarterly, for instance they are prepared for 3, 6 and 9-month and annual periods. Fund's auditor should examine the biannual financial statements and performance report and express his opinion of them. This is the first supervision tool that ensures the regulations and standards compliance. On the other hand, the first page of financial statements should be signed by the fund manager and the fund trustee. Although the fund trustee supervises the fund activities on a consistent basis but approving the fund's financial statements by signing it imposes him more responsibility to ensure the accuracy of the statements. This is not the end and fund's financial statements, performance report and auditory report on them are examined through specific checklists in SEO. This way there will be enough confidence in accuracy of the funds' reports.

1.7.2.2.3. Investment restrictions

There are three different kinds of securities funds by their investment restrictions, namely stock funds, fixed-income funds and mixed funds. Each kind of funds has specific restrictions on their investment that are outlined in the fund prospectus. For example, a stock fund has to invest at least 70% of its assets in stocks and is not permitted to invest more than 30% of its assets in one industry. The restrictions on investment vary from a kind of mutual fund to another. On the other hand, pursuant to a SEO circular, investment managers in mutual funds have to prepare an Investment Policy Statement (IPS) and publish it through the fund's website. In the IPS, they determine what the investment objectives, policies and strategies are in the mutual fund for short, medium and long term among other items. Compliance with investment restrictions outlined in the prospectus and applying IPS by the investment managers are examined regularly through funds software. Some special reports in the funds software shows the investments levels for each item mentioned in prospectus, so it can be checked easily.

1.7.2.2.4. Market Maker of ETFs

One of the important bodies in an Exchange-traded Fund (ETF) is the market maker. The fund's market-maker will help facilitate the trading of the investment units and will additionally provide an opportunity for the investors to sell their investment units against cash at a fair price any time they wish to do so. The market-maker has to carry out the market-making activities for ordinary investment units under the provisions of the article of association and the prospectus and subject to the regulations on the market-making operations. For this purpose, the market-maker will, during the course of all trading days, be engaged in buying and selling the ordinary investment units. The quotation range of the broker's sales and purchase (spread between the buying price in the purchase order and the selling price) are determined in the articles of association. This spread can be examined partially through a public website of securities transactions (www.tsetmc.com). Also, there is a minimum for accumulated order and daily transactions made by the market-maker. These items are examined through the fund software in which there are special reports on the orders and transactions of fund units.

1.7.2.2.5. On-site inspection

According to funds article of association, SEO is the authority charged with investigating all violations of regulations, fund's articles of association and prospectus by the manager, registrar, guarantor, trustee, auditor and brokers. The supervising mutual funds are not restricted to online inspection or examining funds software and their report but in some cases, on-site inspections are carried out. For example, when a probable violation of rules and regulations are partially discovered anyway and needs more information on the event to get clear, a delegate or a group of delegates go to carry out an on-site inspection. So, SEO can inspect items that normally cannot be examined online. Filing documents, procedures to trade securities, completely filling out different forms and efficiency of equipment and human recourse of a fund are inspected on-site. This kind of inspection is more effective for a construction fund where physical progress of construction project is of a great importance.

Also, SEO delegates participate in the annual general meeting of almost all the mutual funds. In a general meeting, SEO delegate can discuss different issues with preferred fund unit holders, auditor and fund trustee. The SEO's delegate is a supervisor in governing body combination and helps making decisions within the framework of regulations and if needed usually warns them about the subsequent if probable violations. In case of lack of inviting the said delegates, the general meeting is deemed void.

1.7.2.2.6. On-Line inspection

There are different sophisticated software that help SEO make sure all the processes are being performed in comply with codified rules and regulations. Major functions including calculating NAV (Net Asset Value) process, issuing and redeeming investment unites and inflow and out flow of Funds are all fulfilled by intelligent and approved software automatically and subsequently reflected in Funds general ledgers simultaneously. The manual vouchers are reduced to least possible amount and all the mentioned functions are spied by regulator during the day.

1.7.2.2.7. Self-control mechanism

According to the funds article of association, if any of the fund bodies is informed of the negligence in the discharge of duties or violation of the rules and articles of association by other bodies, it (they) have to report the matter to the trustee or the SEO as practically as possible. This commitment of bodies helps ensure the accuracy of each fund bodies' activities.

1.7.2.2.8. Pursuing violations

As discussed earlier in this part, there are several supervising methods some of which are carried out by SEO and some by the fund bodies. The fund auditor might send a especial report on the mutual fund, proposing the risks, probable violations, professional misconduct etc. Similarly and more often, the fund trustee due to his duties outlined in regulations, reports different actual or possible problems of a fund to SEO. If a probable violation of rules and regulations is suspected in a mutual fund, regardless of how it is discovered, through the fund trustee or its auditor, the Deputy for Supervision on Financial Institutions is in charge to follow it up. The first step in following up is to ask the fund manager or other responsible bodies about the possible violation and request their response. Since the fund trustee has the responsibility to carry out a consistent supervising for rules compliance by the fund, he's usually asked for his response. The responses received by the Deputy for Supervision on Financial Institutions get examined and scrutinized and if they are not acceptable and reasonable, the violation is reported to Deputy for Offence Prosecution which is in charge of prosecuting any violations of rules committed by financial institutions. Usually the defendants are invited to SEO to present their responses and defenses verbally and then the related committee in Deputy for Offence Prosecution judges the defendant. If the violation is proved, there will be

different orders. For example, sometimes a warning notice would be sent to the defendant and it would be filed in his history.

From April 2014 to April 2015, the Deputy for Supervision on Financial Institutions has reported 15 violation cases to the Deputy for Offence Prosecution and there has been issued the same number of written cautions for financial entities.

1.7.2.2.8. Liquidation and Settlement

Since the liquidation of a mutual fund is a crucial point in fund business cycle, all the settlement process of a mutual fund is set out in the fund's article of association. Due its importance, especially for investors, the settlement steps are monitored by SEO through specific checklists whenever a fund liquidates.

According to the funds article of association, during the fund's primary liquidation period, receipt of the application for issuance of investment units by the registrar should be stopped and at the end of the liquidation period, purchase of assets in the name of the fund and sale of the fund's assets shall be stopped. Also, the day after the end of the primary liquidation period, the manager should, upon the trustee's confirmation, pay all the fund's matured debts out of the fund's cash apart from the fees claimed by the manager, registrar, trustee and guarantor. All these activities are monitored through the fund's software and website.

Afterward, the manager has to prepare the fund's financial statements, performance report as well as a report on fund's unsold assets. Then the auditor has to present his opinion on them to SEO and some of fund bodies. SEO examines the reports through a checklist to make sure the regulations are complied.

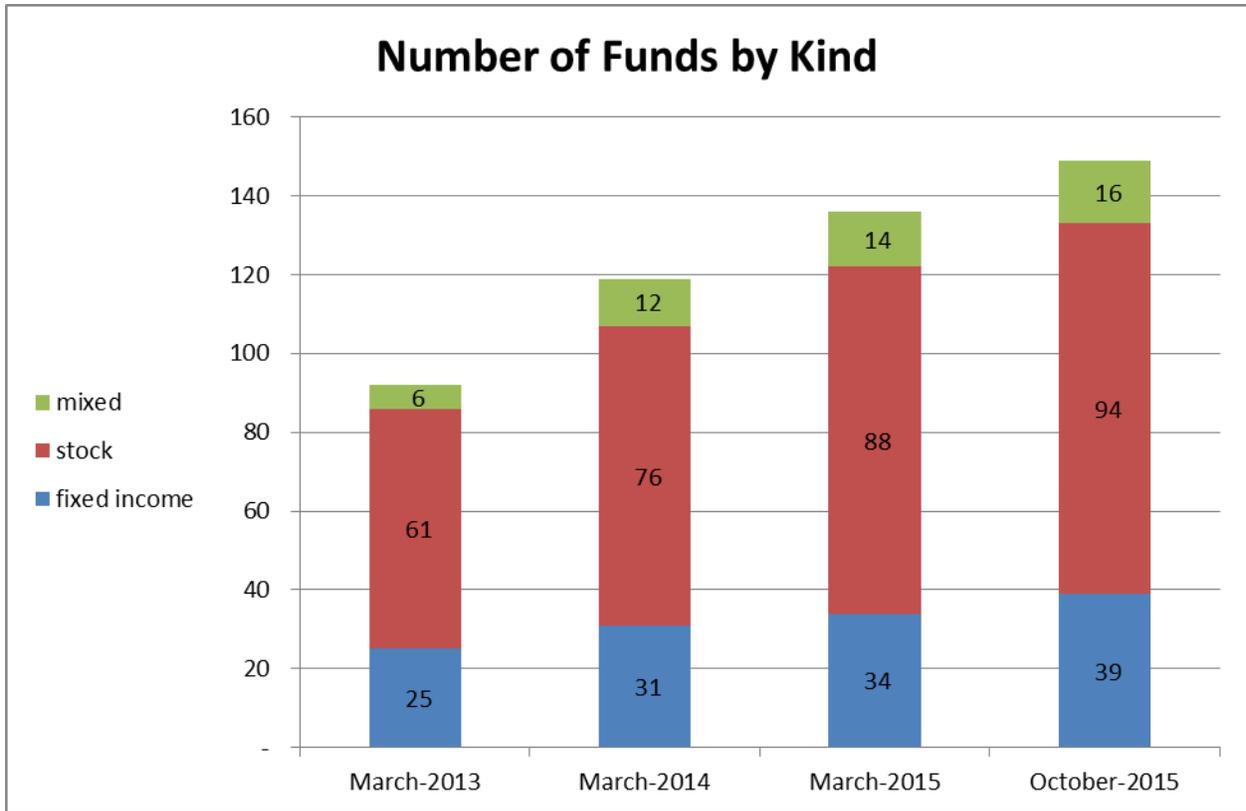
Then if the auditor expresses a clean opinion as to the fund's financial statements and unsold-assets report and where the fund's general meeting approves the financial statements, thereafter the manager have to settle with investors on the basis of redemption price of investment units at the end of the fund's primary liquidation period. This step is monitored through the fund's software where the financial transactions are recorded.

Then all of the fund's investment certificates should become invalidated. The manager immediately has to publish a notice on the fund website for the information of investors in this respect which is monitored by SEO.

Except for the fund's debts to the guarantor, the fund's remaining debts should be paid out of the fund's cash. Finally, the minutes for the fund's liquidation should be drawn up bearing the signatures of the manager and the trustee whereby a copy of it, should be kept

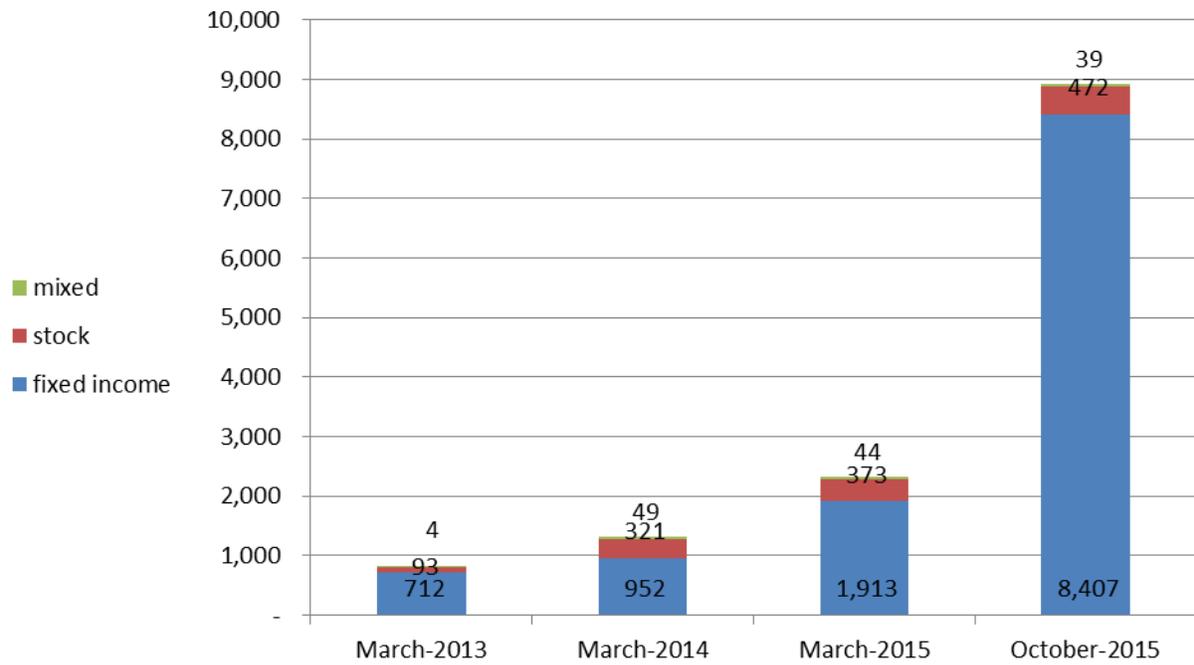
in records by the manager and a copy of it, should be transmitted to the SEO. The receipt of the minutes by SEO shows the end of the fund's liquidation procedure.

1.8. Mutual Funds in Charts

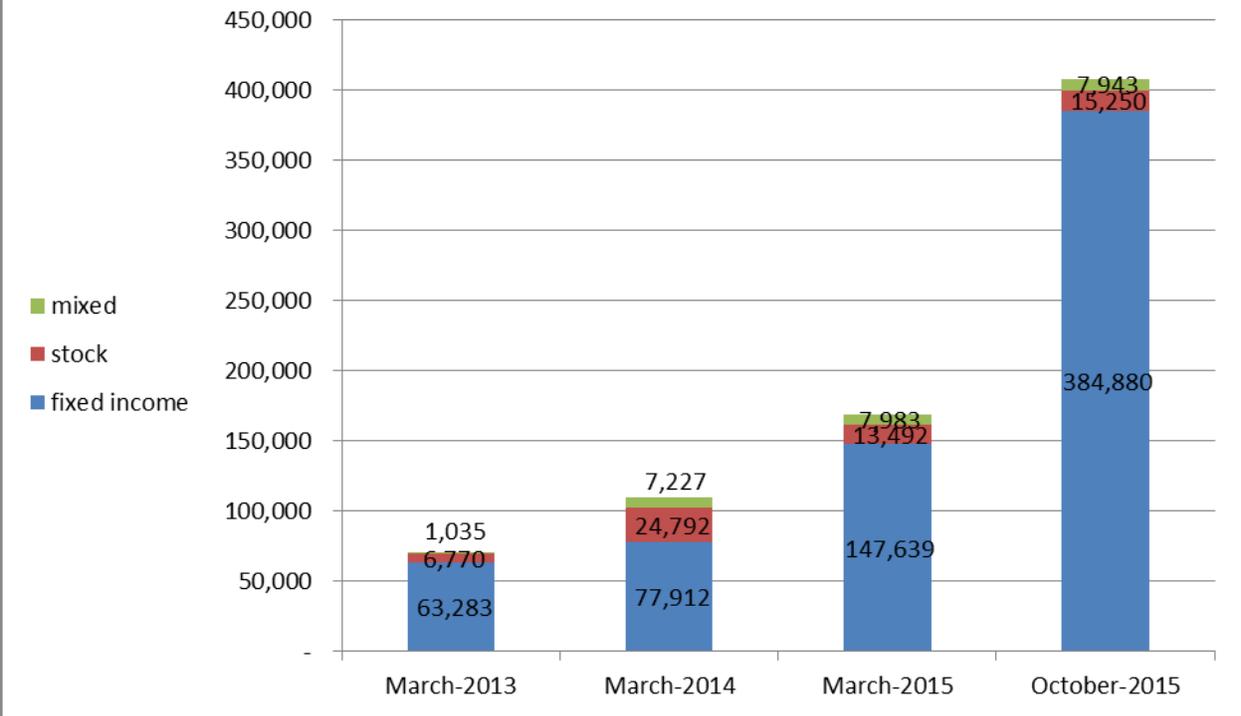


Value of Funds by Kind (Million Dollars)

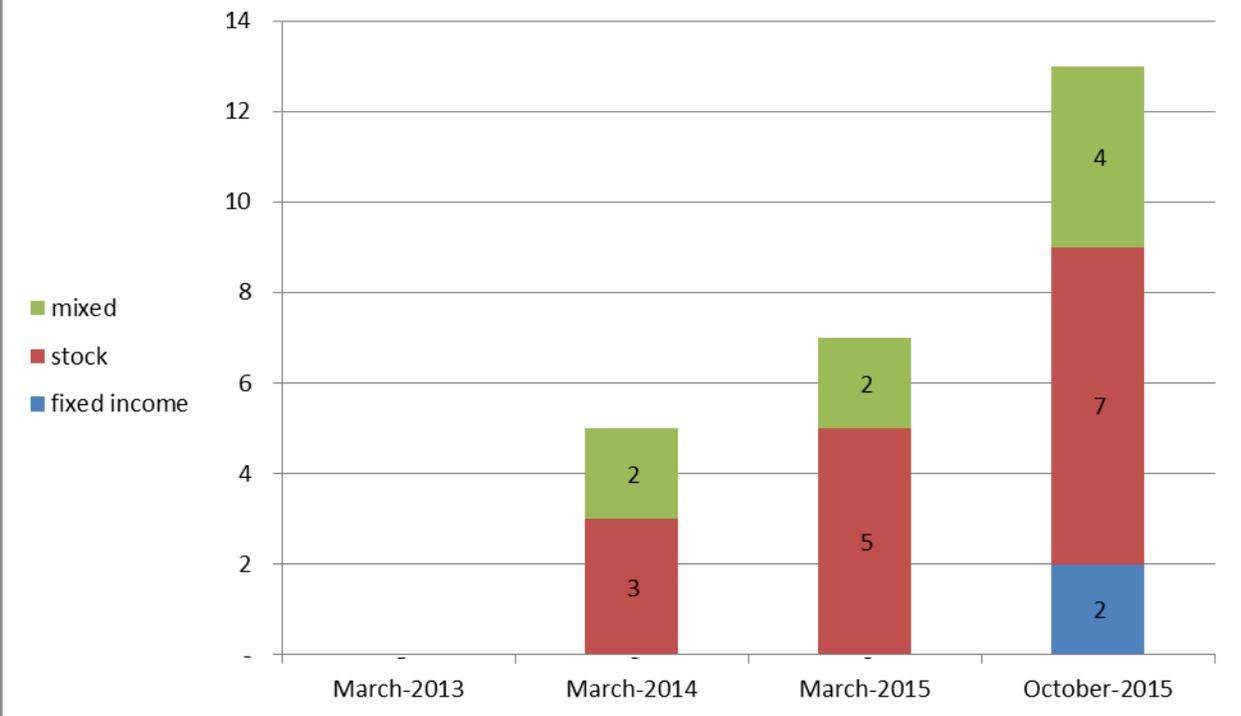
based on IRR/USD rate of 30,108 (as on 14 Dec 2015)

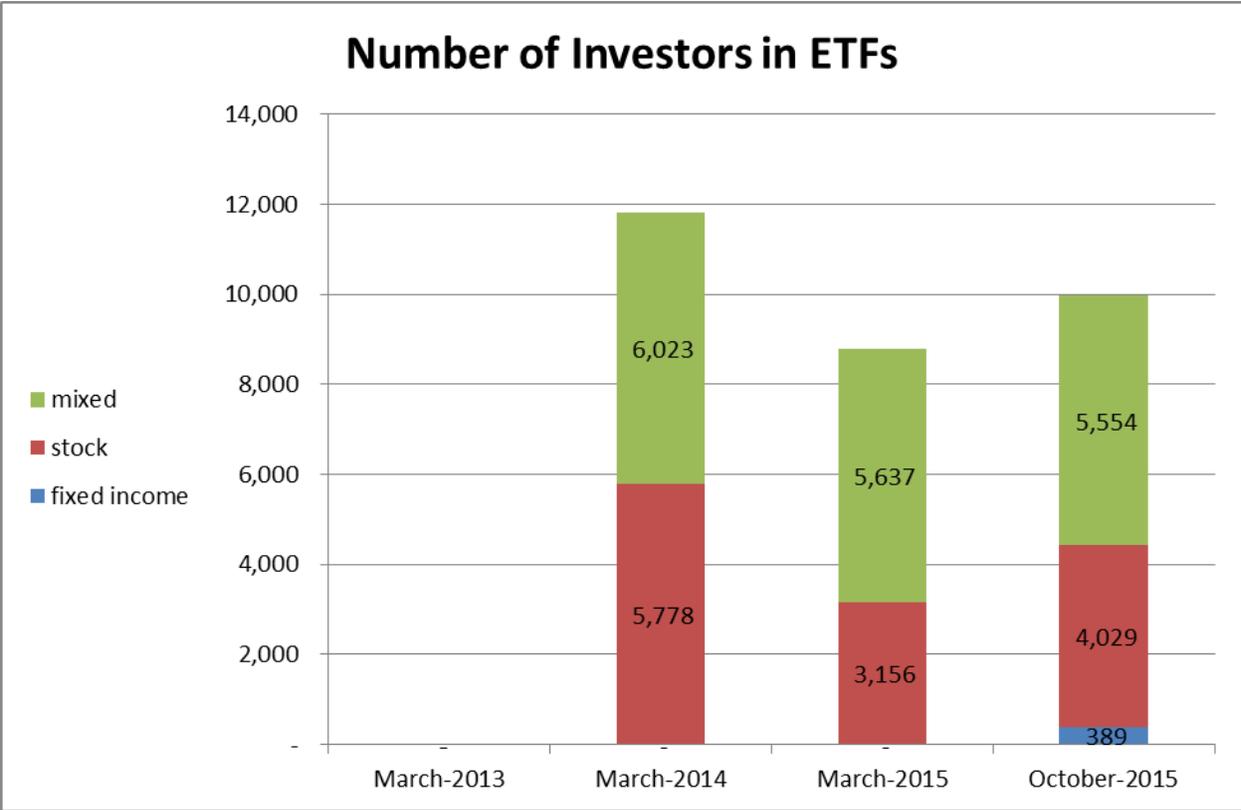
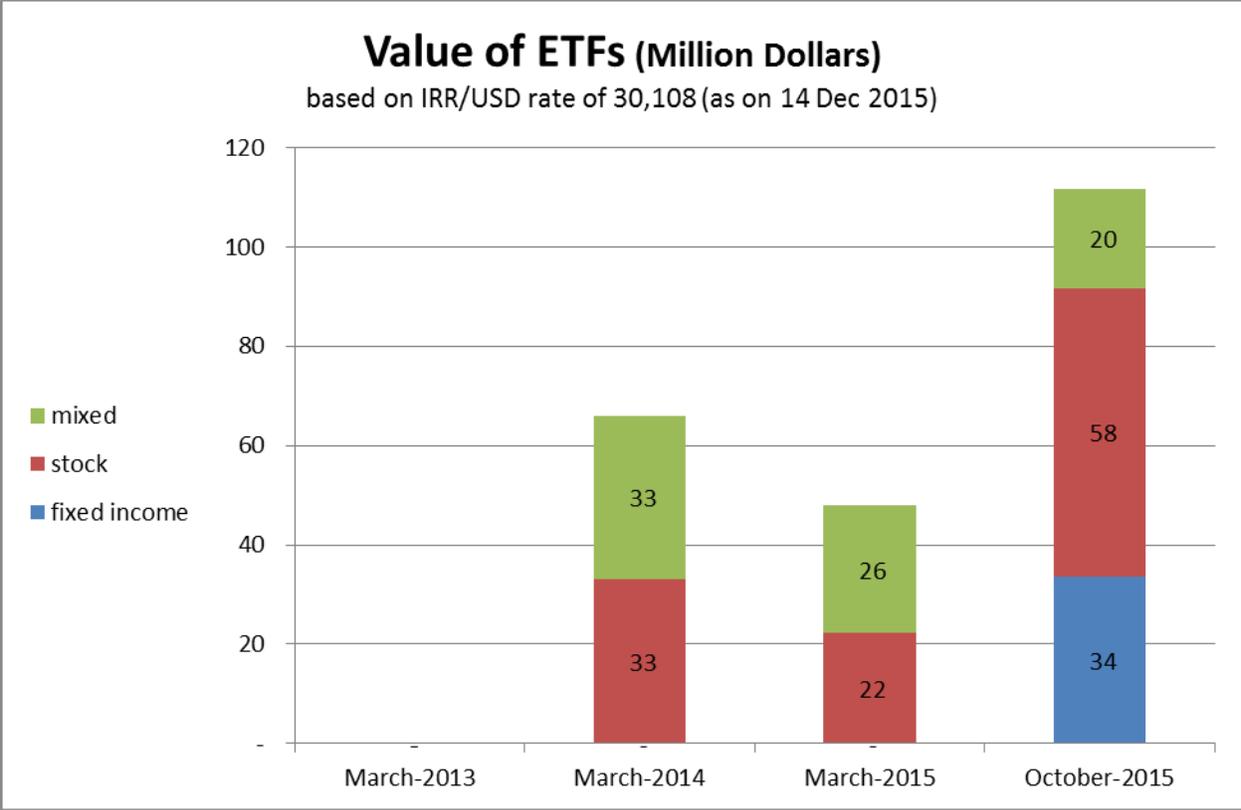


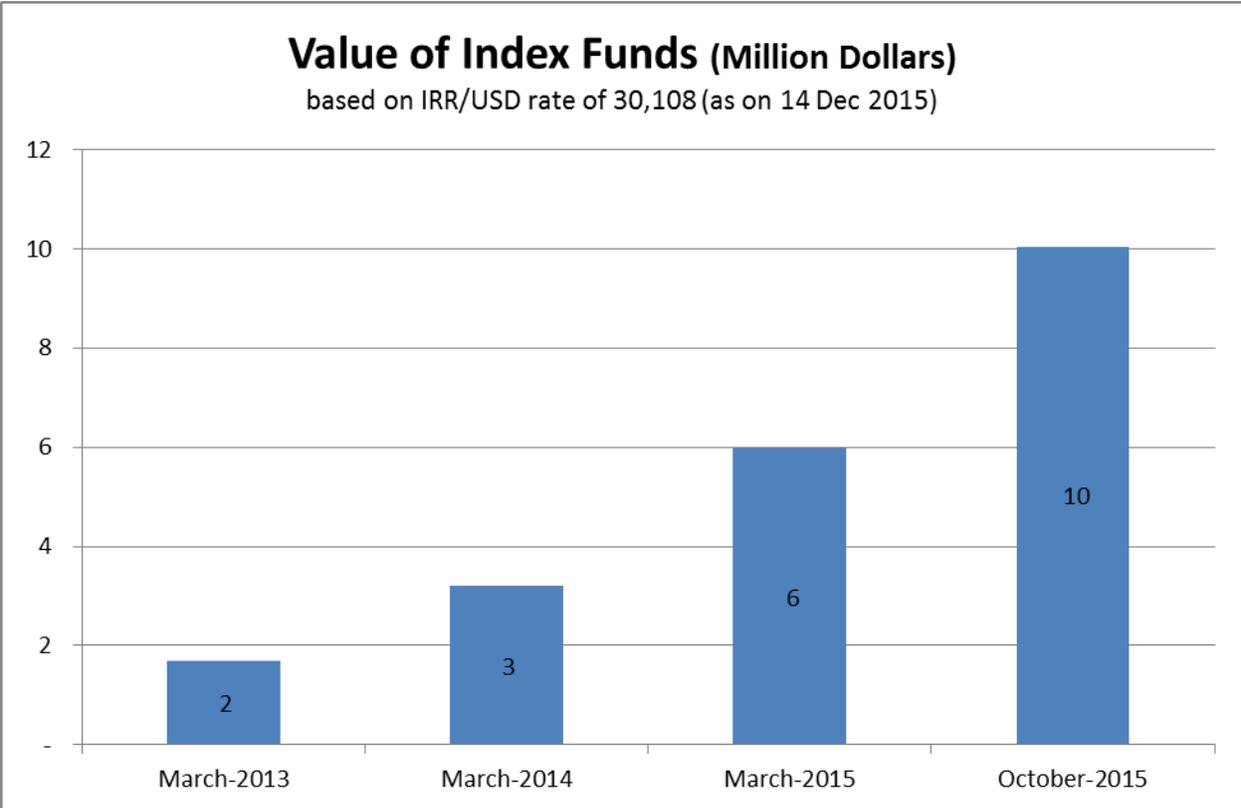
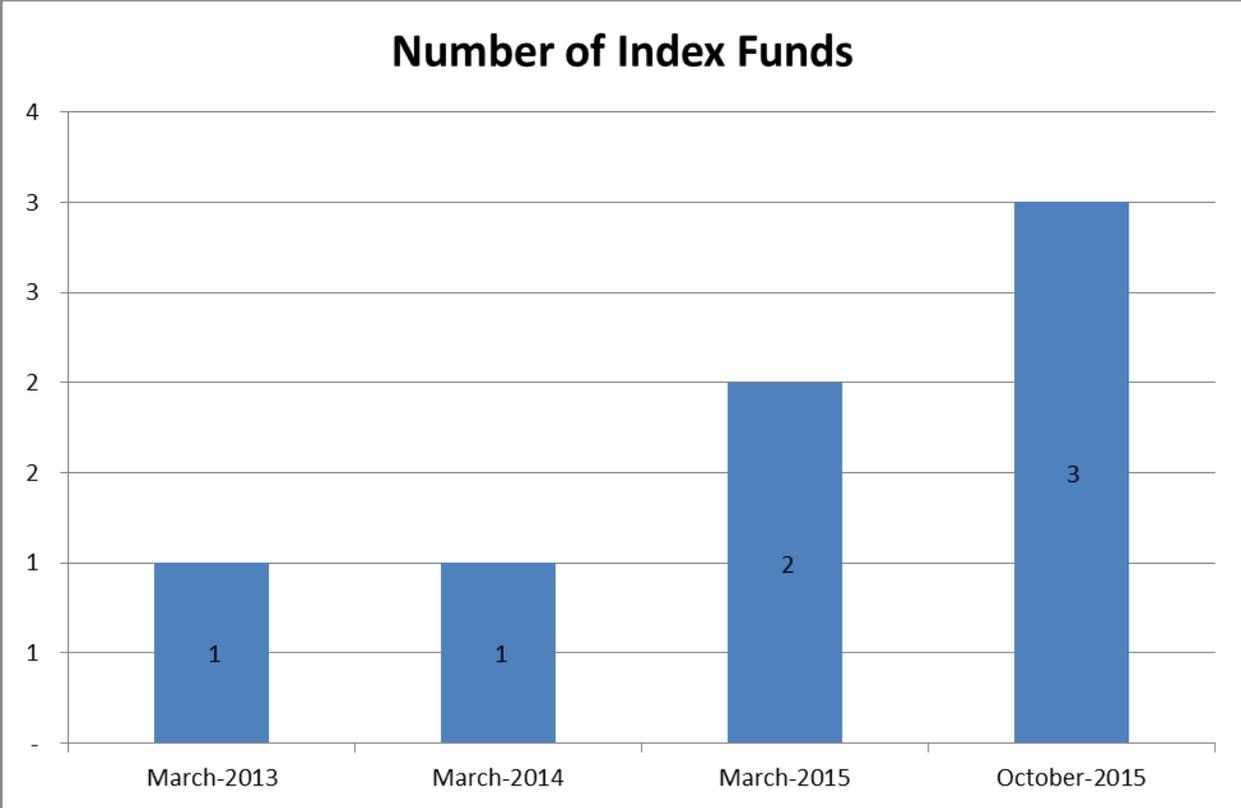
Total Number of Investors in Mutual Funds



Number of ETFs







2. Financial Service Providers

2.1. Introduction

There are different types of financial service providers in Iran. Investment banks, Investment advisors, portfolio managers, financial data processing companies are financial service providers which are active under SEO's surveillance. In this chapter we are going to describe definition, purposes, activity areas, structure (bodies) of financial service providers including, inter alia, Investment bank, investment advisor, portfolio manager, financial data processing company.

2.2 Definition

2.2.1. Investment bank

An Investment bank is a financial institution that assists individuals, corporations, and governments in raising financial capital by underwriting or acting as the client's agent in the issuance of securities (or both). An investment bank may also assist companies involved in mergers and acquisitions (M&A) and provide ancillary services like market making. According to Security Market Act of Islamic Republic of Iran (2005) paragraph 18 of article 1; Investment Bank means a company which is operating as an intermediary between the securities issuer and all investors and may get involved in brokerage, dealership, market-making, consulting, portfolio management, subscription, underwriting and similar operations by obtaining a license from SEO.

2.2.2 Investment advisor

An investment advisor is a firm that is in the business of giving advice about securities to clients. For instance, firms that receive compensation for giving advice on investing in stocks, bonds, mutual funds, or exchange traded funds are investment advisors. According to Securities Market Act of Islamic Republic of Iran (2005) paragraph 16 of article 1; investment advisor means legal entity which, based on a particular contract, renders advisory services to the investors relating to the sale and purchase of securities. The purpose of forming the investment advisor is to organize the business and deepen the analysis and at the same time to protect investors rights against misuse and fraud. The investment advisor's area of business activity include recommendation for the buy, sell or

hold of securities; comment on the price trend or offer and bid of securities in the future and comment on the securities value (price).

2.2.3 Portfolio manager

According to Securities Market Act, under paragraph 17 of article 1; Portfolio Manager means a legal entity that, under a specific contract, engages in buying and selling securities for investors so as to gain profit. This meaning is somehow more concise than what is called asset manager, it should be important to know that portfolio manager is only active in securities market and go through financial assets not the whole types of real assets. The Portfolio Manager's area of business activity include making decisions to sell, buy or hold securities on behalf of a defined investors in the form of predefined agreement, to make profit for that investor;

2.2.4 Financial Data Processing Company

Financial Data Processing Company is one of the financial institutions which fall under paragraph 21 of article 1 of Security Market Act of Islamic Republic of Iran (2005). Subject to approved constitution of such an entity, a Financial Data Processing Company is legal entity which is collecting, processing financial data and selling them by issuing via multimedia, board, electronic brochures, letter, or during speeches. Financial data processing company sells the information of: security, the deal if securities, sell or buy orders or the issuer, to other through a defined agreement to its clients.

2.3 Rules and regulations

- Securities Market Act of the Islamic Republic of Iran (approved by parliament on 2005)
- The Anti-Money Laundering Act (approved by parliament on 2008)
- Executive By-Law of the Anti-Money Laundering Act (approved by board of ministers on 2009)
- The Regulations on the Surveillance of the Suspected Persons in the Capital Market (approved by anti-money laundering unit on 2011)

- The Regulations on the Retention and Destruction of Documents in the Capital Market Concerning Money Laundering Combat (Anti-Money Laundering Supreme Council on 2011)
- The Regulations Governing the Procedure of Sending Capital Market-Related Records to the Customer's Mailing/Postal Address (Anti-Money Laundering Supreme Council on 2011)
- The law for fifth development plan (approved by parliament on 2011)
- Disciplinary Regulations Governing Non-Brokerage Financial Institutions (approved by Board of directors of the Securities and Exchange Organization on 2013)
- The Law for Development of New Financial Instruments and Institutions (approved by parliament on 2009)
- The rules governing the operations of investment bank (Approved by the Securities and Exchange High Council on 2007)
- Regulations on the Record-Keeping and Reporting Requirements of Information and Documents by the Regulated Persons/Entities (approved by Board of directors of the Securities and Exchange Organization on 2005)
- The Regulations Governing the Establishment and Activity of the Investment Advisor
- The Regulations Governing the Establishment and Activity of the portfolio manager
- The Regulations Governing the Requirements for the Capital Adequacy of Financial Institutions
- The Regulations Governing the Establishment and Activity of the Financial Data Processing company
- Approved sample of articles by SEO
- Furthermore, financial service providers shall comply with SEO issued circulars. SEO has issued 1 circulars for financial service providers since the beginning of 2012 and there has been issued more 6 circulars for all the financial institutions including financial service providers

2.4. Purposes of Financial Service Providers

2.4.1 Investment bank

According to the rules governing the operations of investment bank, the Investment bank operates in the following areas:

- a) The main areas of activity include: subscription, underwriting, and undertaking to purchase securities in the secondary offerings within its own financial ability or through forming a syndicate with similar entities.
- b) The secondary areas of activity include:
 - 1- Providing consultancy in the areas such as:
 - 1-1- The optimal method and proposed schedule for financing and the amount of required funds as well;
 - 1-2- The procedure and scheduled suggestion for securities offering;
 - 1-3- The price of securities offered by the issuer;
 - 1-4- The procedures of securities registration and obtaining a license for offering them;
 - 1-5- The process of securities transfer;
 - 1-6- Listing of the issuer's securities on any Exchange and accomplish all procedures thereon on behalf of the issuer;
 - 1-7- Merger, acquisition, organizational and financial restructuring of entities;
 - 1-8- Risk management affairs;
 - 1-9- Preparing entities to be rated by rating agencies and performance of all procedures thereon on behalf of them;
 - 1-10- Investment affairs;
 - 1-11- The services required by companies with respect to new investments, development, completion, planning, budgeting and securities valuation.
 - 2- Marketing and/or managing the process of securities transfer;
 - 3- Accomplishment of procedures on behalf of the issuer in respect of securities registration and obtaining license for offering them;
 - 4- Providing services relating to design and issue of financial instruments for companies;
 - 5- Providing assets management services;
 - 6- Providing services relating to mutual funds and managing such funds and investment in them;
 - 7- Brokerage;
 - 8- Broker/dealership;
 - 9- Portfolio management;
 - 10- Market-making;

- 11- Investing the entity's surplus resources in the investment deposits accounts with banks and reputable credit and financial institutions and securities guaranteed by the government and/or banks;
- 12- Attracting the support of banks, insurances, credit and finance institutions and financial institutions for the company in subscribing the securities;
- 13- Giving assistance to companies in providing the credit and financial resources;
- 14- Providing assistance towards issuance, confirmation and acceptance of letters of guarantee.

2.4.2. Investment advisor

According to the Regulations Governing the Establishment and Activity of the Investment Advisor and the sample of article, The Investment Advisor shall be entitled to engage in any of the following activities provided that it is granted a license/permit by the Securities and Exchange Organization (the SEO) for any of its areas of activity:

- A) Upon receipt of the license for investment advisory services, the company shall, as per rules, be entitled to:
 - a-1- recommend to buy, sell and hold securities;
 - a-2- express an opinion on the price trends or securities offer and bid in future;
 - a-3- express an opinion about the value (valuation) of securities;
 - a-4- provide advisory services in the area of risk management;
 - a-5- provide advisory services in the area of mergers, acquisition as well as organizational and financial restructuring of companies;
 - a-6- provide advisory services in the area of design and formation of financial institutions;
 - a-7- assume a position (responsibility) in the mutual funds apart from managerial posts;
- B) Upon receipt of the license for portfolio management, the company shall be entitled to carry out the activities specified in the relevant rules.
- C) Upon receipt of the license for offering or listing advisory services, the company shall be entitled to carry out the activities specified in the relevant rules;
- D) Upon receipt of the license for financial data processing, the company shall be entitled to carry out the activities specified in the relevant rules;

2.4.3 Portfolio manager

According to the Regulations Governing the Establishment and Activity of the portfolio manager and the sample of article, the portfolio manager shall be entitled to engage in any of the following activities provided that it is granted a license/permit by the Securities and Exchange Organization (the SEO) for any of its areas of activity:

- a) Upon receipt of the license for portfolio manager services, the company shall, as per rules, be entitled to:
 - a-1- making decision to sell, buy, or hold securities for an identified investor by portfolio manager in the form of specified agreement, to gain profit for the investor;
 - a-2- accept to be a body in mutual fund;
 - a-3- other activities which a portfolio manager can operate according to SEO's rules and regulations;
- b) Upon receipt of the license for investment advisor, the company shall be entitled to carry out the activities specified in the relevant rules.
- c) Upon receipt of the license for financial data processing, the company shall be entitled to carry out the activities specified in the relevant rules;
- d) Upon receipt of the license for offering or listing advisory services, the company shall be entitled to carry out the activities specified in the relevant rules;
- e) The company shall, in line with the activities listed in this article and within the context of the regulations of the present articles of association, be authorized to receive loans (facilities) or acquire assets or make investments or establish an independent legal entity or participate in the founding of other legal entities or open banking letters of credit to engage in imports and exports of goods and accomplish the relevant customs formalities. Such actions shall only be authorized when they are essential to be carried out in line with the company's areas of activity and are not prohibited by law.
- f) The Company shall be allowed to invest in securities with regard to the limits set by the SEO.

2.4.4. Financial Data Processing Company

According to the Regulations Governing the Establishment and Activity of the Financial Data Processing Company and the sample of article, Financial Data Processing Company shall be entitled to engage in any of the following activities provided that it is granted a

license/permit by the Securities and Exchange Organization (the SEO) for any of its areas of activity:

Upon receipt of the license for financial data processing, the company shall, as per rules, be entitling to:

a) Main area of activities is as follows:

1- Collect and process data and offer information to others or to issue it by multimedia, board, electronic devices, letter, brochure or address;

1-1- information related to securities (including specifications and characteristics of securities, specifications of issuer, specifications of persons who are responsible in issuing securities' process and name their responsibilities and specifications of securities' owner and their ownership);

1-2 the information of securities trading (including price, specification of transactions parties, time and date of deal, and the amount of securities which in traded)

1-3 the information of securities orders (bid or ask) (including type of order, fees, time and date of order)

1-4 the information of issuer (including financial and other information)

2- Collect and process other financial, economic and commercial data to offer to investors, researchers and other persons or to issue them by other ways;

3- Design, calculate and issue and selling different type of financial and economical indices of Iran or other countries;

b) The secondary areas of activity are as follows:

1- Upon receipt of the license for investment advisor, the company shall be entitled to carry out the activities specified in the relevant rules.

2- Upon receipt of the license for portfolio manager, the company shall be entitled to carry out the activities specified in the relevant rules;

3- Upon receipt of the license for offering or listing advisory services, the company shall be entitled to carry out the activities specified in the relevant rules;

4- The company shall, in line with the activities listed in this article and within the context of the regulations of the present articles of association, be authorized to receive loans (facilities) or acquire assets or make investments or establish an independent legal entity or participate in the founding of other legal entities or open banking letters of credit to engage

in imports and exports of goods and accomplish the relevant customs formalities. Such actions shall only be authorized when they are essential to be carried out in line with the company's areas of activity and are not prohibited by law.

5- The Company shall be allowed to invest in securities with regard to the limits set by the SEO.

2.5. Structure of Financial Service Providers

According to the articles of association for financial service providers, they have at least one governing body and one supervisory body as any other joint stock firms. Subsequently, functions and responsibilities of these bodies are defined in related regulations and constitution. Generally there are three separate kinds of bodies including decision making body (stock holders and Assembly), governing body (board of managers) and supervising body (inspector). In addition there are some different specialized committees which are considered in constitutions to provide some service for different part of the company. It is necessary to mention that there is just one difference between them and it is about portfolio manager's body .It has an additional supervising body and it is trustee. We will define some of its responsibilities.

2.5.1. Stockholders

Stock holders have the power to control the company via different tools. All stock holders should be approved before establishing an entity by high council (investment bank) or SEO (other financial service providers). The stock holders indecency and competency should be perceived by regulators.

2.5.2. Assembly

The powers and functions of the company's ordinary and extraordinary assembly (general meetings) shall be the same powers and functions as prescribed in the Commercial Code and in accordance with the rules and regulations which have been provided in the existing articles of association for the assembly (ordinary and extraordinary general meetings) of the private joint stock companies.

The company's general meetings shall convene in accordance with the provisions of the Commercial Code as follows:

1. Ordinary general meeting: this general meeting shall convene at least once a year so as to address the following issues:

- a- hearing the report given by directors as regards the annual performance of the previous fiscal year;
 - b- hearing the report given by the inspector—auditor;
 - c- Examining and approving financial statements of the previous fiscal year;
 - d- Approving the amount of distributable profit;
 - e- Approving the amounts of bonus, attendance fees, salaries and benefits for the board of directors;
 - f- Appointing the principal inspector/auditor and alternate inspector–auditor of the company and their fees;
 - g- Selecting (a) mass-circulated newspaper (s) to publish the company's notices;
 - h- Appointing directors/executives;
 - i- Issuing securities in the name of company exclusive of convertible or exchangeable securities with company shares;
 - j- Other issues which are within the jurisdiction of the ordinary general meeting in accordance with the Commercial Code.
2. The extraordinary general meeting: this general meeting shall convene at any time to address the following issues:
- a- modifications in the articles of association;
 - b- Change in the capital sum (increase or decrease);
 - c- Issuance of convertible or exchangeable securities with shares;
 - d- Premature dissolution of the company in compliance with the Commercial Code and the Securities Market Act.

2.5.3. Board of Directors;

The company is run by a board of directors comprising at least 3 and at most 7 principal members who are elected by the ordinary general meeting from among the shareholders for a term of two years. The number of board member's normally ends in an odd number and the majority of them are constituted of non-executive members. The reelection of board members for subsequent office-terms shall meet no impediment. The professional qualifications of board members, whether the principal member or the alternate member as well as the representatives of the legal entities sitting on the board of directors shall have to be approved by the Organization as per the procedures prescribed by this Organization. If the board members, whether natural persons or legal entities, lose their qualifications, the alternate members shall substitute them. Where the representative of the legal entity lacks qualifications, the legal entity sitting as a board member shall,

within the period of 15 days at the latest, introduce its substitute representative to the Organization.

The board of directors shall have unlimited powers for any action taken in the name of the company and for any activities and transactions relating to the company objectives about which the decision-making is not within the competence of the general meetings.

Such powers are exercised as follows:

1. To act as the company's representative before the shareholders, all governmental and non-governmental departments, public institutes, law courts and other natural persons and legal entities;
2. To approve in-house (internal) by-laws (rules) as proposed by the managing director;
3. To enforce the approvals of general meetings and approved rules after they have been communicated;
4. To appoint and remove the managing director and fix his salary and benefits;
5. To make resolutions in respect of establishment and dissolution of agencies or branches at any location inside and outside the country (Iran);
6. To make all their efforts towards achieving the company objectives in the most efficient and effective manner;
7. To approve the organizational structure, employment requirements and the scale of salaries and wages;
8. To approve the annual budget as well as the long-term, medium-term and short-term plans of the company;
9. To open any type of account with banks and other authorized institutions and operate it (them) in the name of the company;
10. To fulfill the obligations undertaken by the company against other parties and safeguard the rights and interests of the company against others;
11. To issue, endorse, accept, pay and protest against the commercial papers;
12. To conclude any type of contract, modify, cancel or revoke it as regards the movable and immovable properties which are related to the company objectives and conduct of all activities and transactions stated in article 2 of the present articles of association as well as addressing all unilateral contracts/obligations;
13. To take decisions on the issues related to registering and transacting all intellectual rights including any type of patent, trade name or trade mark and industrial name, intellectual property, goodwill and all presumptive privileges;
14. To deposit in trust any type of documents, deeds, funds or securities including their return, collection or recovery;

15. To receive loans and facilities from banks, corporations and authorized institutions pursuant to the rules provided in the present articles of association;
16. To mortgage the company assets whether movable or immovable, and release (redeem) them from encumbrance even on frequent occasions;
17. To institute any civil proceeding or criminal case and defend any pending case, whether civil or criminal, with any judicial authorities, law courts, public prosecutor's offices, special or public non-judicial authorities and Administrative Justice Tribunal on behalf of the company; to defend the company against any litigation (action) brought up versus the company, whether criminal or civil with the judicial authorities or special or public non-judicial authorities and Administrative Justice Tribunal; to appear in person at police departments and exercise all the powers required in the course of proceedings from opening to closing stages including appearance at hearing sessions, raising objection against the court's decree, lodging an appeal for revision (Court of Appeal), filing a second appeal to the Supreme Court, making a protest and a request for rehearing; to request for compromise and settlement, return of documents, records, dismissal of the claim or the cause; to bring a claim of forgery, renunciation and, skepticism about the counterparty's evidence and return of exhibits and proof of the forger; to sign the contracts containing the conditions for arbitration or arbitral agreement and refer the claim or the case to arbitration and appoint and select the arbitrator (with or without the right to make settlement); to seek the enforcement of the arbitrator's final and absolute award; to request for issuance of an enforcement writ along with follow-up actions; to receive the judgment debt and funds in trust and chase them up; to appoint the assessor and appraiser; to appoint and remove the attorney and representative with frequent rights of substitution; to make confession on the nature of claim, to implead the third party and defend the impleader, counterclaim and defend against the counterparties; to accept or reject administration of oath; to seek security on the remedy sought; to recover the loss arising from offences and other similar issues;
18. To establish the holders of authorized signature in the company and the terms of reference (scope of powers and functions) of each one of them;
19. To establish the internal control system to ensure the compliance of all operations towards the company goals and within the framework of laws, regulations, constitutions and in-house by-laws;
20. To prepare the annual financial statements and the report on the performance of the board of directors by presenting it to the inspector—auditor;

21. To prepare the quarterly (mid-term) financial statements to be presented to the inspector—auditor;
22. To invite the ordinary and extraordinary general meetings and set the agendas thereto;
23. To propose any type of reserve/provision in additions to the statutory reserve;
24. To propose distribution of profit (dividend) among shareholders;
25. To monitor the activities and performance of company executives including the managing director;
26. To propose modification of articles of association to the extraordinary general meeting;
27. To cooperate with the Organization and the inspector—auditor in the performance of their functions;
28. To acquire assets, investment, and establish or enter into partnership to establish various companies and other entities towards performance of duties and realization of company goals;
29. To open letters of credit (LCs) and accomplish all customs affairs to clear the commodities which are required towards achievement of company objectives;
30. To cooperate with international communities/bodies and join the respective regional and global organizations;
31. any powers and functions which, pursuant to the provisions of the Securities Market Act and relevant rules, have been and shall be deemed to be within the scope of the powers and functions of the board of directors.

2.5.4. Inspector;

The inspector—auditor is entrusted with the following functions and responsibilities in addition to the functions and responsibilities prescribed in the Commercial Code for the joint-stock companies, the Securities Market Act, articles of association and other rules and regulations in force:

- 1) To make comments on the company's annual financial statements in compliance with the auditing standards and national accounting;
- 2) To make comments on the accuracy of the information provided in any type of report that the board of directors has presented to the general meeting;
- 3) To present reports to the general meeting in respect of the adherence or non-adherence to the rules and regulations by the company's directors and staff members during the fiscal year;

4) To examine the company's internal control systems during each fiscal year and prepare a report thereon including the comment on the efficiency of the internal control system, cases of breach, suggested amendments and present them to the board of directors and auditing committee.

2.5.5. Trustee;

According to Article 18 of “The Regulations Governing the Establishment and Activity of the portfolio manager”, In order to commence the portfolio managing activities, the portfolio manager shall have to choose at least one legal person whose eligibility is acceptable to the SEO as trustee and conclude a contract with it. The trustee's functions and responsibilities as well as its fee shall be established in the contract signed between the portfolio manager and the trustee pursuant to the provisions herein. The portfolio manager shall have to immediately deliver a copy of the contract to the trustee and submit a copy of the same to the SEO for registration within two business days after the contract has come into effect.

In addition, Article 21 of “The Regulations Governing the Establishment and Activity of the portfolio manager” specifies: The trustee shall have to exercise regular control to ensure that the portfolio manager:

1. Abides by the portfolio management contracts that the portfolio manager has signed with its clients, whether or not the trustee's position has been accepted in such contracts;
2. Complies with the regulations on the establishment and activities of the portfolio management firms;
3. Complies with the rules that the SEO has delegated its regulatory functions to the trustee as a party to the contract with the portfolio manager;

Additionally, if the trustee detects any violation of the foregoing issues, it shall have to report the matter to the SEO and shall simultaneously give notices required for rectification to the portfolio.

2.6. Supervision on Financial Service Providers;

2.6.1. Supervision before Issuing Establishment/Business License

According to the rules and regulations governing the operations of financial service providers there are 2 phase of supervision for every financial service providers. Phase one is before receiving the business license. They are mostly similar in this phase. There are

some delicate differences in the process of issuing license to investment banks that is going to be clarified as below.

In order to establish an investment bank, the regulations governing the operations of investment bank which is approved by the Securities and Exchange High Council on 2007 specifies: the founders shall first receive establishment license from SEO and they have to fulfill some requirements and have some specifications. The founders shall first submit their applications along with the following documents and information to the Organization for the purpose of founding such entity:

- 1- The proposed name covering the name of the "Investment Bank";
- 2- Type of the legal entity designated by the founders to establish the entity which may be in "the form of Joint-Stock (Public or Private) or Public Joint-Stock Cooperative with registered shares" as well;
- 3- The entity's draft articles of association;
- 4- The entity's capital and the method of funding which includes a timetable for raising capital, forecasted composition of shareholders, the percentage of the entity's capital subscribed and paid by founders, percentages of cash and non-cash funds by founders and details of non-cash fund;
- 5- Full particulars of identities, domiciles and records of founders and their representative;
- 6- The entity's business plan which includes objectives, strategies, the entity's plan for three years after establishment, a forecast balance sheet for one full fiscal year and forecast profit and loss statement for two full fiscal periods after establishment; “

The entity's major shareholder shall have to be approved by the Organization before its establishment. After the Council's approval of the entity's formation has been communicated, the founders shall, within the specified time-limits below, have to register the investment bank with the Companies Registration Authority. Failure to do this will result in the revocation of the foundation license. If the formation of the entity is subject to initial offering of the entity's shares, nine months after notifying the foundation license to founders. In cases other than item six months after notifying the issuance of the foundation license to founders. Upon convention of the founder's general meeting of the investment bank, the founders shall have to submit the required documentation to the Organization so as to issue the entity business license if the following conditions have been fulfilled:

- a) The conditions set out by the Council should have been met;

- b) The entity's articles of association should have been approved by the founder's general meeting in conformity with the procedures adopted by the Organization;
- c) The Organization's approval indicating that the first part of article 29 of the Securities Market Law has been observed;
- d) The entity's paid-up or subscribed capital ensures that the requirement for minimum capital of investment banks has been fulfilled;
- e) The lease contract or ownership title deed of the entity's domicile should have been produced to the Organization.”

About other financial service providers it is necessary to mention that they pass their establishment process totally under supervision of SEO and their request would not be rendered to Securities and Exchange High Council.

The formation of any legal entity/person using for its name the two words which shows they are operating as a financial service provider shall be subject to issuance of a license by the SEO. Every founders of a financial service provider have to submit its application to the SEO. Accordingly, engagement in the activities shall be subject to obtaining a business license from the SEO under paragraph 1 of article 49 of the Securities Market Act. The SEO shall, as per the article 52 of the Securities Market Act have to bring prosecution against the persons that engage in such advisory activities without obtaining the required license.

2.6.1.1. Requirements to Grant the Establishment License

In order to obtain a license to establish the financial service provider or to convert an existing firm into the financial service provider, the applicant shall, as the case may be, have to submit the following documents and information to the SEO for due consideration:

- a) For obtaining a license to establish the investment financial service provider:
 - 1. The completed application form designed for issuance of a license to establish;
 - 2. The draft constitution with all pages signed by the applicant;
 - 3. The business plan including the company's objectives, strategies and plans for three years after its formation as well as the balance sheet and statement of profit (loss) forecast for one full solar year after its formation with all pages signed by the applicant;
 - 4. The completed questionnaire containing the particulars of the candidate running for the managing director or membership in the board of directors of the

company pursuant to the regulations governing the certification of the professional qualifications of financial institutions' directors.

- b) for obtaining a license to convert the existing firm into the financial service provider:
1. the completed application form designed for conversion of an existing firm into the financial service provider;
 2. the constitution or memorandum of partnership of the applicant company;
 3. copies of the documents proving that the applicant company has been incorporated with the Companies Registration Authority (including the establishment notice published in the State Gazette);
 4. the copy of the notice published by the State Official Gazette relating to the last company's directors, holders of authorized signature and their scope of powers;
 5. the audited financial statements for the recent two years of the applicant company containing the auditor's opinion;
 6. the business plan and blueprints of the applicant company for three years after its conversion into financial service provider company as per the forms prescribed by the SEO as well as the balance sheet and the statement of profit (loss) forecast for one year after conversion;
 7. The completed questionnaire containing the particulars of the candidates running for the positions of company directors after its conversion into one of the financial service provider companies (pursuant to the regulations governing the certification of the professional qualifications of financial institutions' directors).

Requirements for agreement with the formation of a financial service provider company:

1. The draft constitution shall be presented as per the form approved by the SEO;
2. The capital which is to be paid up at the time of establishing the company shall be equivalent to or above 20 billion Rials;
3. the founders and their related parties shall not, severally or jointly, be regarded as a founder or a major partner in another legal entity engaged in the same activities (unless by stating the reasons and with the approval of the SEO's board of directors) and the composition of founders or major partners shall be framed in a manner that the company shall pursue the goals set for the company;
4. Subject to the documents available with the SEO, the company founders should not have committed any effective criminal records or wrongdoing;

5. The candidates nominated for managing director or membership in the company board of directors shall be appropriately eligible for such positions under the prevailing rules;
6. If it has been decided that a portion of the company's capital be raised in the form of non-cash, the non-cash capital shall be used in line with the company objectives and accordingly shall be forecast in the company business plan and appraised at a reasonable and fair market value;
7. The business plan, objectives, blueprints and projected financial statements should have been reasonably prepared and appropriately covered the areas of that activity;
8. The proposed name of the company shall indicate the proper designation and shall not resemble any other registered names and should not have been chosen in a misleading manner;

Within a maximum period of 20 business days after formation of the company and its incorporation with the Companies Registration Authority or after the required changes made in the existing firm to convert it into the company and filing such changes with the Companies Registration Authority, the company shall have to deliver the following documents to the SEO so that it shall, where the conditions set down in the establishment or conversion license have been fulfilled, register its name with the SEO and shall act to obtain the business license:

1. The company's constitution/articles of association;
2. The copy of the notice containing the particulars of directors and holders of authorized signature in the company and their scope of powers published in the State Gazette (official newspaper);
3. The registered name, date of registration, place of registration and registration number with the Companies Registration Authority;
4. The copy of the establishment notice or changes in the company as published in the State Gazette (official newspaper);
5. The amount of registered capital, the list of partners and the amount of paid-up capital and the subscribed capital for each (partner);
6. Other documents in support of fulfilling the conditions laid down in the appropriate license.

2.6.2.2. The Requirements to Issue the Business License

The formation of company or conversion of the existing firm into a financial service provider company as per the license granted by the SEO in conjunction with its registration with SEO shall not be regarded as the business license designed for financial service provider. Thus it shall be required to obtain another separate license from the SEO to allow for engagement in the financial service provider activities. The legal entities may, upon completion of the appropriate form, apply for issuance of the financial service provider license in satisfaction of the obligations set forth below:

1. the applicant has already obtained a license(s) from the Organization to establish one of financial service providers companies (which is not the one requested for that now) or a license for conversion into one of such financial institutions and has been incorporated as a legal entity with the Companies Registration Authority with the Organization's approval and does not engage in any other main activity outside its/their own areas of activity;
2. the applicant has already required manpower and has allocated the space, proper office equipment and computer software;
3. if the applicant intends to engage merely in the investment advisory tasks, his registered and paid-up capital shall be equivalent to or above 20 billion rials or, at the SEO's discretion, the revaluation of the assets used in the financial service provider activities shall result in the appreciation of shareholders' equity for an amount exceeding 20 billion rials;
4. in the event that the applicant engages in another/other type(s) of activity (ies) and his total shareholders' equity, based on the financial statements of the latest fiscal period and the trial balance of his accounts at the time of applying for business license, is less than 50 billion rials , his capital shall at least equal the total capital referred to in paragraph 3 above and the given capital for the said activity (ies) or, at the SEO's discretion, the revaluation of the assets used in the investment advisory services shall result in the appreciation of the shareholders' equity for an amount exceeding 20 billion rials plus the minimum given capital for the said activity(ies).

2.6.2. SUPERVISION AFTER ISSUING BUSINESS/ACTIVITY LICENSES

According to article 2 of Securities Market Act of the Islamic Republic of Iran, SEO along with Securities and Exchange High Council are formed in order to protect the investors' rights, maintain and develop a transparent, fair and efficient market of securities and supervise the proper enforcement of this Securities Market Act and related laws and regulations. In order to have a transparent, fair and efficient market of securities, SEO launched an online database called 'Comprehensive Database of All Listed Companies (CODAL) late in 2006. At the beginning, different information which could affect investors and other participants of capital market such as annual and quarterly financial statements of just listed companies were published through CODAL. Later, SEO issued a circular whereby all the financial service providers, have to render and submit financial information through CODAL with SEO. It would be described in more detail later in this part.

With regard to financial institutions, it's Deputy for Supervision on Financial Institutions that is in charge of implementing mentioned objectives. So, specific plans are scheduled on an annual and periodic basis and of course, achieving those objectives needs tools that vary from a kind of financial institution to another. In this part, we describe what the plans are and how the mentioned objectives are achieved for each kind of financial institutions.

2.6.2.1. Transparency, fairness and efficiency

The first step toward having a transparent, fair and efficient market of securities in respect of financial service providers is timely presenting of financial reports to SEO. Financial service providers have to present their annual and semiannual financial reports through CODAL just for the use of SEO but if they are issuer or affiliated by an issuer, their reports would be divulged to the public at the same time.

2.6.2.2. Supervising the proper enforcement of rules and regulations

2.6.2.2.1. On-site inspection

SEO has the authority of visiting financial service providers' offices and in case they have lost the required conditions it would be considered violation and would be pursued. There are some requirements, as mentioned above, that must be observed at the whole

life of financial service providers including minimum capital, staff, space and equipment. In some situations when financial service providers take new licenses have to upgrade their standards in order to comply with new requirements.

2.6.2.2.2. Capital Adequacy Control

That group of the financial institutions which are authorized to undertake the following obligations shall have to calculate the adjusted current ratio and the adjusted liabilities/debt ratio as described in The Regulations Governing the Requirements for the Capital Adequacy of Financial Institutions, before they undertake obligations:

1. Subscription or underwriting to buy securities of any type including the grant of put option to other party in non-organized markets;
2. To guarantee the refund of principal amount of or the minimum profit from investment;
3. To launch market- making with a guarantee of securities liquidity;
4. To grant any type of call option to other party in the non-organized markets;
5. To guarantee or undertake to pay or meet the debt or obligation of other party including the contingent debt or obligation of other party before third parties the amount of which shall, on the basis of the last audited financial statements (whether annual or periodic/interim) be higher than one percent of the total assets of the financial institution or higher than ten billion rials, whichever is lower;
6. Any type of obligation or debt the amount of which shall, on the basis of the last audited financial statements (whether annual or periodic/interim) be higher than one (1%) percent of the total assets of the financial institution or higher than ten billion rials, whichever is lower.

The mentioned commitments are usually taken by investment banks. Because the risks accepted by them must be controlled, they are obliged to send their monthly trial balance and list of commitments in detail including market making and underwriting to SEO. These documents have been signed by the CEO of the entity and confirmed by auditing committee beforehand. SEO then work out the argued ratios and in case of facing any infringement necessary actions would be taken.

2.6.2.2.1. On-Line inspection

Because the Assets under Management (AUM) Portfolio managers may be altered and fluctuated continuously, the inspection process must be timely and appropriate. Portfolio managers AUM is monitored through approved software and main issues which are specified in regulation and contract would be recognized and controlled resultantly. The issues such as fee and loads, returns (MWRR and TWRR), portfolio combination and buying and selling actions are illuminated through software and being accountable would significantly prevent any probable violation.

2.6.2.2.7. Pursuing violations

As discussed earlier in this part, there are several supervising methods some of which are carried out by SEO and some by the financial service provider bodies. The financial service providers' auditor/inspector has to announce any detected violation to SEO as soon as getting aware.

. If a probable violation of rules and regulations is suspected in a financial service provider, regardless of how it is discovered, the Deputy for Supervision on Financial Institutions is in charge of following it up. The first step in following up is to ask the violator to be accountable for the issue. Since the inspector has the responsibility to carry out a consistent supervising for rules compliance by the financial service providers, he's usually asked for the response too. The responses received by the Deputy for Supervision on Financial Institutions get due diligenced and scrutinized and if they are not acceptable and reasonable, the violation is reported to Deputy for Offence Prosecution which is in charge of prosecuting any violations of rules committed by financial institutions. Usually the defendants are invited to SEO to present their responses and defenses verbally and then the Deputy for Offence Prosecution judges the defendant. If the violation is proved, there will be different orders. For example, sometimes a warning notice would be sent to the defendant and it would be filed in his history. SEO has the capability of fining 250 million Rials the appropriate violators, in case of infringing the articles of associations. From April 2014 to April 2015, the Deputy for Supervision on Financial Institutions has reported 9 violation cases to the Deputy for Offence Prosecution and 13 written cautions have been issued by SEO.

3. Brokers

3.1. Introduction

Brokers are legal entities that buy and sell securities, commodities or securities based on commodities for customers and provide other services related to capital market. Doing brokerage activities requires not only getting establishing and activity license from SEO but also registering with Securities and Exchange Brokers Association and related Exchanges. Brokers can do their best to buy and sell securities and commodities for customers in Stock Exchange and OTC markets because of their predomination on rules and conditions. Because of the importance of brokerage companies' activities and the fact that investors do buying and selling through brokerage companies, there are some restrictions and rules for controlling conflict of interests of managers and clerks of brokerage companies. SEO examines the scientific, experimental, general and educational competence of all brokerage companies' CEO and board of directors.

All brokerage companies' transactions are fulfilled by means of traders. The traders are supposed to have professional certificates that these certificates show the domination on required scientific issues and rules. Professional and sophisticated investors such as experts who are experienced and familiar with financial issues like economic conditions, Securities market and different commodities markets can use on-line trading systems provided by Brokers and do transactions on their own accounts.

3.2. DEFINITION

According to paragraph 13 of article 1 of Securities Market Act a broker is defined as a legal entity that engages in the securities transactions in the name of other persons and for their account.

3.3. Rules and regulations

There are different acts, laws and regulations which determines the activity framework of Brokers as follows:

1. Security Market Act of Islamic Republic of Iran
2. the Law for Development of New Financial Instruments and Institutions
3. The Regulations Governing the Internal Controls of Brokerage Firms
4. The Regulations Governing The Rating of Tehran Stock Exchange Brokers

5. Regulations Governing the Establishment License and Operations of Brokerage Firms on the Exchange
6. The Regulations Governing the Rating of Iran Commodity Exchange Brokers
7. The Disciplinary Regulations Governing The Brokers
8. The Regulations Governing the Functions and Powers of Iran Commodity Exchange Company Regarding the Member Brokerage Firms
9. The Regulations Governing the Requirements for the Capital Adequacy of Financial Institutions
10. The Regulations Governing the Functions and Powers of Tehran Stock Exchange Company Regarding the Member Brokerage Firms
11. The Requirements for the Brokers' Activities on the Iran Commodity Exchange
12. The Bylaw on the Broker's Licensing and Operations (as a Legal Entity)
13. The Regulations Governing Advertisements by the Brokerage Firms
14. Furthermore, Brokers shall comply with circulars. SEO has issued 36 circulars for brokers since the beginning of 2012 and there has been issued more 6 circulars for all the financial institutions including brokers.

3.4. Purpose of brokers

The Brokers shall be permitted to engage in any one of the following activities provided that it is licensed by the Organization for any one of such areas :

The brokerage, broker/dealership and market-making services which include : trading in securities such as shares, stocks, participation bonds, preemption rights, options and futures contracts for others and on their account or in the name and on the account of its (his) own ,transactions on listed commodities for others, on their behalf and on their account ,market-making of securities and listed commodities. Financial and advisory services which include : managing investment funds ; representing the issuer for registering securities and receiving offering license; marketing to sell securities; securities management portfolio; providing advisory services and performing all office procedures for listing securities or commodity on any of the exchanges or OTC markets on behalf of the issuer or offerer of commodities ; advisory services in the areas hereunder : securities valuation; sales method and securities offering ; design of securities ; purchase, sale or storing of securities; investment; risk management; merger, acquisition, organizational and financial restructuring of companies ; design and formation of financial institutions.

3.5. Brokers Structure

The brokerage firms are one of the oldest kinds of financial institutions which have been operating in Iran's capital market since 1967 and the oldness of some of them ages more than 48 years. Because of this rich background they have always been pioneer in our market. At the moment they have received related permissions for being active in for different Iranians Exchanges including Tehran Stock Exchange, Farabourse Stock Exchange, Iran Commodity Exchange and Energy Exchange. All the transacted securities containing spot and future market instruments and physical goods are handled through brokerage transactions system either by setting orders or by means of on line transactions and consequently settled and reimbursed by them.

3.5.1. Shareholders and Shares Transfer

Any type of shares transfer or new shares subscription by the buyer or his representative shall be notified to SEO beforehand and approved by it.

3.5.2. General Meetings

General meetings in brokerage firms play an important role in controlling and supervising the entity including chief executive manager, staffs and other executive and supervisory bodies. The powers and functions of the company's general meetings are mentioned as follows:

1. Functions and powers of the ordinary general meeting:

- a- Hearing the report given by directors as regards the annual performance of the company;
- b- Hearing the report given by the inspector—auditor;
- c- Decision-making on the annual financial statements of the company;
- d- Decision-making on the amount of distributable profit;
- e- Decision-making on the amounts of bonus, attendance fees, salaries and benefits for the board of directors;
- f- Appointing the principal inspector—auditor and alternate inspector—auditor of the company and their fees;
- g- Approving the company annual budget and short-term, mid-term and long term plans;
- h- Appointing directors/executives;
- i- Decision-making on issuing securities in the name of the company exclusive of convertible or exchangeable securities into/with the company shares;

- j- Selecting (a) mass-circulated newspaper (s) to publish the company's notices;
- k- Other issues which are within the competency of the ordinary general meeting in accordance with the Commercial Code.

2. Functions and powers of the extraordinary general meeting:

- a- Modifications in the articles of association with endorsement or approval of the Organization;
- b- Change in the capital sum (increase or decrease) as per the rules;
- c- Decision-making on issuing convertible or exchangeable securities into/with the company shares;
- d- Premature dissolution of the company in compliance with the Commercial Code and the Securities Market Act.

3.5.3. Board of Directors

The company is run by a board of directors comprising at least 3 and at most 7 principal members who are elected by the ordinary general meeting from among the shareholders for a term of two years. The number of board member is normally an odd number. The reelection of board members for subsequent office-terms shall meet no impediment. If the number of company shareholders exceeds 50 persons, the ordinary general meeting shall have to elect at least two alternate members for the board of directors so that in the case of death, resignation or dismissal of each one of the principal members, they can be replaced by the alternate member in the manner determined by the ordinary general meeting. The office-term of the substituted alternate members shall be equal to the term remained for each individual member of the board who has been replaced by the alternate member.

The professional qualifications of board members, whether the principal member or the alternate member as well as the representatives of the legal entities sitting on the board of directors shall have to be approved by the Organization as per the procedures prescribed by this Organization. If the board members, whether natural persons or legal entities, lose their qualifications, the alternate members shall substitute them. Where the representative of the legal entity lacks qualifications, the legal entity sitting as a board member shall, within the period of 15 days at the latest, introduce its substitute representative to the Organization.

Any of the board members shall have to own the number of company's (which normally differs from 1 to 10.000 shares) during his entire office-term and shall deposit them with the company fund as a security to guarantee the compensation for the loss that the company may incur due to the negligence of its directors severally and jointly. Such shares are registered and non-transferable and as long as a director has not received his settlement receipt (quittance) for his office-term in the company, the given shares shall remain as security in the company fund. The shares as used for security purpose shall not prevent the shareholders from voting at the general meetings and payment of the dividends thereon to them.

The board of directors shall establish the procedures for holding their meetings. The board of directors shall hold meetings at the times deemed proper when the intervals do not exceed one month at the written invitation of the chairperson or vice-chairperson and/or two board members, and, where necessary, at the managing director's invitation as well. There shall be a reasonable interval between the date of sending invitations and the time of holding the board meeting. If, at any of the board meetings, the date of the next meeting is set and recorded in the minutes, it shall not be required to send invitations to the directors who have attended the same meeting. The board meetings shall be held at the company's headquarters or at any other location which has been indicated in the letters of invitation.

Some powers and functions exercised by the board of directors are as follows:

1. to act as the company's representative before the shareholders, all governmental and non-governmental departments, public institutes, law courts and other natural persons and legal entities;
2. to approve in-house (internal) by-laws (rules) as proposed by the managing director;
3. to enforce the approvals of general meetings and approved rules after they have been communicated;
4. to appoint and remove the managing director and fix his salary and benefits;
5. to make resolutions in respect of establishment and dissolution of agencies or branches at any location inside and outside the country (Iran);
6. to make all their efforts towards achieving the company objectives in the most efficient and effective manner;

7. to approve the organizational structure, employment requirements and the scale of salaries and wages;
8. to prepare the annual budget as well as the long-term, medium-term and short-term plans of the company;
9. to open any type of account with banks and other authorized institutions and operate it (them) in the name of the company;
10. to fulfill the obligations undertaken by the company before other parties and safeguard the rights and interests of the company against others;
11. to issue, endorse, accept, pay and protest against the commercial papers;
12. to conclude any type of contract, modify, cancel or revoke it as regards the movable and immovable properties which are related to the company objectives and conduct of all activities and transactions stated in article 2 of the present articles of association as well as addressing all unilateral contracts/obligations;
13. to take decisions on the issues related to registering and transacting all intellectual rights including any type of patent, trade name or trade mark and industrial name, intellectual property, goodwill and all presumptive privileges;
14. to deposit in trust any type of documents, deeds, funds or securities including their return, collection or recovery;
15. to receive loans and facilities from banks, corporations and authorized institutions pursuant to the rules provided in the present articles of association;
16. to mortgage the company assets whether movable or immovable, and release (redeem) them from encumbrance even on frequent occasions;
17. to institute any civil proceeding or criminal case and defend any pending case, whether civil or criminal, with any judicial authorities, lawcourts, public prosecutor's offices, special or public non-judicial authorities and Administrative Justice Tribunal on behalf of the company; to defend the company against any litigation (action) brought up versus the company, whether criminal or civil with the judicial authorities or special or public non-judicial authorities and Administrative Justice Tribunal; to appear in person at police departments and exercise all the powers required in the course of proceedings from opening to closing stages including appearance at hearing sessions, raising objection against the court's decree, lodging an appeal for revision (Court of Appeal), filing a second appeal to the Supreme Court, making a protest and a request for rehearing; to

request for compromise and settlement, return of documents, records, dismissal of the claim or the cause; to bring a claim of forgery, renunciation and, skepticism about the counterparty's evidence and return of exhibits and proof of the forger; to sign the contracts containing the conditions for arbitration or arbitral agreement and refer the claim or the case to arbitration and appoint and select the arbitrator (with or without the right to make settlement); to seek the enforcement of the arbitrator's final and absolute award; to request for issuance of an enforcement writ along with follow-up actions; to receive the judgment debt and funds in trust and chase them up; to appoint the assessor and appraiser; to appoint and remove the attorney and representative with frequent rights of substitution; to make confession on the nature of claim, to implead the third party and defend the impleader, counterclaim and defend against the counterparties; to accept or reject administration of oath; to seek security on the remedy sought; to recover the loss arising from offences and other similar issues;

18. to establish the holders of authorized signature in the company and the terms of reference (scope of powers and functions) of each one of them;
19. to establish the internal control system to ensure the compliance of all operations towards the company goals and within the framework of laws, regulations, constitutions and in-house by-laws;
20. to prepare the annual financial statements and the report on the performance of the board of directors by presenting it to the inspector—auditor;
21. to prepare the quarterly (mid-term) financial statements to be presented to the inspector—auditor;
22. to invite the ordinary and extraordinary general meetings and set the agendas thereto;
23. to propose any type of reserve/provision in addition to the statutory reserve;
24. to propose distribution of profit (dividend) among shareholders;
25. to monitor the activities and performance of company executives including the managing director;
26. to propose modification of articles of association to the extraordinary general meeting;
27. to cooperate with the Organization and with the inspector—auditor;

28. to acquire assets, investment, and establish or enter into partnership to establish various companies and other entities towards performance of duties and realization of company goals;
29. to open letters of credit (LCs) and accomplish all customs affairs to clear the commodities which are required towards achievement of the company objectives;
30. any powers and functions which, pursuant to the provisions of the Securities Market Act and relevant rules, have been and shall be deemed to be within the scope of the powers and functions of the board of directors.

3.5.4. Inspector/Auditor

The ordinary general meeting shall have to elect a principal inspector—auditor and an alternate inspector—auditor each year from among the auditing firms trusted by the SEO so that it (he) could, upon assumption of the post, perform the functions prescribed in the relevant laws and regulations as well as in the articles of association. It is mandatory to abide by the rules for reelection and removal of the inspector—auditor. The inspector—auditor is entrusted with the following functions and responsibilities in addition to the functions and responsibilities prescribed in the Commercial Code for the joint-stock companies, the Securities Market Act, articles of association and other rules and regulations in force:

- 1) To make comments on the company's annual financial statements in compliance with the auditing standards and national accounting;
- 2) To make comments on the accuracy of the information provided in any type of report that the board of directors has presented to the general meeting;
- 3) To present reports to the general meeting in respect of the adherence or non-adherence to the rules and regulations by the company's directors and staff members during the fiscal year;
- 4) To examine the company's internal control systems during each fiscal year and prepare a report thereon including the comment on the efficiency of the internal control system, cases of breach, suggested amendments and present them to the board of directors;
- 5) To prepare special reports on the company as demanded by the Organization.

3.6. Supervision on Brokers

3.6.1. Supervision before issuance of business license

There are some requirements for interested applicants of brokerage licenses which are mainly extracted by article 29 of Securities Market Act. Specifically, SEO is liable for exercising qualifications of board members, area of activity of articles of associations, minimum capital, financial reporting and special auditing report.

The Securities and Exchange Organization (SEO) shall determine the number of issuable licenses for the purpose of establishing brokerage firms or type of activity and shall, in an application call, invite the applicants for establishing brokerage firms or obtaining the business license on the appropriate Exchange to submit their information and documents. The range of services to be rendered, the appropriate Exchange and other conditions shall be included in such call. The time-limits for establishment of the brokerage firms, obtaining eligibility requirements to start activities and practical commencement of operations to start activities and practical commencement of operations as per the issued license shall be four months as of the priority service date.

The scores of applicants, shall, in respect of the total scores, be based on the following factors:

- A) **Capital:** For cash capital one point for each one billion Rials with a maximum of 30 points on the condition that the applicant obtains at least 20 scores from this factor.
- B) **Founder's Characteristics:** The scores of founder's characteristics shall be the total scores for natural and legal founders where each one is calculated as follows:
 - B-1) **Legal Founder:** The maximum scores of brokerage firm founders that enjoy legal entity shall total 35 scores. The scores allocated for each one of the founders shall be calculated on the basis of appendix 1 herein.
 - B-2) **Natural Founder:** The maximum scores of brokerage firm founders who enjoy natural personality shall total 35 scores.

By the way, the strategic shareholders in brokerage firms who obtain the establishment license shall not be authorized to transfer their shares in the brokerage firm to another party for the period of three years as of the establishment date. The transfer of their shares in the emergency state shall be subject to the Organization's agreement.

Applicants shall, within the time-limits specified above shall have to take action to provide the required facilities, personnel and systems endorsed by SEO as described below for issuance of their business licenses on the appropriate exchange and, if not, their licenses shall be automatically rendered void.

- a) To locate a headquarters for the brokerage firm with a proper surface area allocated for business or administrative purposes in the name of the brokerage firm or rented by it.
- b) To create a department to receive the clients' orders and recruit and train at least one specialist for this department in accordance with the prevalent rules.
- c) To create a department for transactions and recruitment of a specialist to act as administrator of the transactions and a specialist to act as dealer as well as their training as per the relevant rules.
- d) To create a finance department and recruitment of a well-experienced administrator for this department.
- e) To draft the procedures for receiving and executing orders, entering and keeping accounts preparing the necessary forms as well as designating the scope of powers and individuals' responsibilities thereon.
- f) To purchase and implement accounting and brokerage systems and other necessary software and present at least one balance sheet of the firm's status.
- g) To procure the proper office equipment for the firm's operations.
- h) To gain admission to the Association of Exchange Brokers and membership in the appropriate Exchange.

3.6.2. Supervision After Issuance of Business License

According to SEO's overall missions and visions the main aims behind brokerage firms' supervision can be categorized as follows:

Taking necessary measurements in preventing violations of brokers in order to protect investors' rights and interest,

- Announcing those kinds of violations that SEO is in charge of pursuing them to competent authorities,
- Monitoring the strict application of pertinent rules and regulations regarding brokerage firms
- Drafting and proposing related circulars and directives to the SEO's board to be codified.

- Collaborating with other organizations for reaching SEO's designated plans.

Although according to Securities Market Act the duty of supervision on brokerage firms as a financial institution is specifically delegated to SEO, there is a developed structure of monitoring system on the mentioned firms including entrusting the exchanges for specific functions. The related external and internal entities as well as SEO which generally cover the supervision aspects in a typical brokerage firm may be divided as follows:

- Tehran Stock Exchange
- Iran Commodity Exchange
- Iran Farabourse Exchange
- Energy Exchange and
- Brokers Association
-

It is to be mentioned that each brokerage firm has to obtain separate license from SEO for being able to be active in every above mentioned Exchanges. After receiving the related activity licenses then the first step in controlling the brokerage firm is taken by the pertinent Exchanges. For instance, if a brokerage firm has two different certificates for giving services in Tehran Stock Exchange and Farabourse Exchange, both the said Exchanges have structuralized procedures for preventing, detecting and divulging any violation of rules and regulations to SEO and pursuing the issue to the final results. Although the Exchanges have sophisticated methodologies for monitoring the brokerage industry, it does not absolve SEO for fulfilling its own monitoring precedures. In some cases certain supervisions such as on site visiting is entrusted to the Exchanges but when it comes to further and deeper analysis, SEO is both authorized and capable of doing the same investigation in order to extract the needed documents and information.

Since 2007 the brokerage firms are continuously rated by SEO and the outcome is released in SEO official website to the public. The methodology is adopted by the related directive called "Regulations governing the rating of Tehran Stock Exchange Brokers" and "Regulations governing the rating of Iran Commodity Exchange Brokers".

The criteria for rating the brokerage firms at Tehran Stock Exchange are specifically mentioned in the regulation. The two most important headlines are Ordinary criteria and Promotional and disciplinary criteria. Ordinary criteria includes: Administration offices of brokerage firm, Paid-up capital, Active admission office, Board members and the managing director, The staff holding certificates, Other staff members, Brokerage system capabilities, Accounting system capabilities, Internet website capability, Block and non-

block trades and futures contracts, Number of clients/customs, Acceptance and execution of clients' e-applications, Scores given by the Tehran Stock Exchange Co, Scores given by the Association of Stock Exchange Brokers. The Promotional and disciplinary criteria comprise of Portfolio management, Mutual funds, Listing advice and offering advisor, Bulk trades, Certificates issued by the SEO, Market-making activities, Call center, Attraction of foreign customers, Qualified opinion, modified opinion and disclaimer by the auditor and legal inspector and Violations committed by brokerage firms.

The maximum total score which can be earned by a firm is 304 and minimum is 64. The brokers that get below the minimum would be suspended. Those within the range are clustered into 4 classifications including A, B, C and D. The assigned rates are important when it comes to getting new licenses and renewing the previous licenses. The firms' have to abide by some requirements and standards that are imposed by SEO to be a going concern unit, if they do not meet required commitments and qualifications. The final result of Brokerage firms rating by the end of 2015 (from SEO's official documents) shows that 52 firms have got grade A, 34 have got B, and 8 C and D.

The same situation exists when it comes to Commodity exchange. Again the Ordering criteria includes Offices of brokerage firm, Paid-up capital, Active admission office, Board members and the managing director, The staff holding certificates, Other staff members, Brokerage system capability, Accounting system capabilities, Internet website capability, Transaction value, Number of clients/customs, Scores given by the Iran Commodity Exchange Co, Scores given by the Association of Stock Exchange Brokers.

The Promotional and disciplinary criteria is composed of Listing advisor, Export trades value, Acceptance and execution of clients' ,e-applications, Certificates issued by the SEO, Call center, Number of contracts revoked, Qualified report, disclaimer or modified opinion by the auditor/legal inspector and Violations by brokerage firms. The total score gamut is between 57 and 263 and the rated firms are grouped into four different groups from A to D. This could be mentioned that by the end of 2015 , 12 have got grade A, 34 have got B, and 30 have got C and D.

SEO's strategy in exercising supervision on financial institutions especially brokers has recently significantly changed from manually based driven models to automated driven models. Certain sophisticated software specializing in complex calculations have been developed to perform this role. They are designed, expanded and run almost completely domestically by specialized and well acquainted software companies and are supported by them. Some are SEO's affiliated companies that enhance spying measurements on them. One of this assisting software is called SOKNA software that is responsible for

controlling purchases based on credit for brokers. According to the regulations, Brokers are allowed to take credit from Banks on behalf their customers and then allocate it to certified and eligible customers. This technic can significantly improve market turnover and liquidation if is controlled and implemented cautiously. In order to control the risks resulted from margin buying, the said software has been come up with to declare certain alerts that draws either brokers or supervisors' attention for suitable reactions. If a brokerage firm grants too much credit to customers that are above firms' credit line, the system would send alerting messages that shows urgent corrective actions must be taken. In other words, the regulator through on line note will announce that the broker has paved extra steps which need to be restricted. This process will help controlling margin buying and limiting credits injected to the market. The mentioned system has two roots interacting with Tehran Securities Exchange Technology Management Company and brokerage firms' ledgers. By means of the different provided web services (standard XMLs) the needed data is extracted from the entities and then is matched accordingly. The software is linked to Tehran Securities and Exchange Technology Management Company and Brokerage Firms' accounting books and is capable of extracting component of investors' portfolio and then conforming to credit figures originating from accounting system. The bigger the credit than market values of assets, the riskier the investor. It is necessary to argue that there are few order management system (OMS) providers which are approved by SEO and brokers quench their need through these companies. So the process of executing the orders and then reflecting the subsequent effects in accounting system is handled through on line fashion and that's why it is possible to control investors' credit.

Like banking system, all the non-banking financial institutions which are under SEO's supervision (those entities that are not permitted to take deposits and give loans) have to comply with related capital adequacy requirements which are approved and enforced by SEO. There are two financial ratios including adjusted current ratio and adjusted depth ratio that have to be controlled and abided by the requirements regularly and on a day to day basis. Again they are worked out and divulged automatically and once passing the red lines, the corrective measures must be taken. In periodic on site visiting, the corroborative documents of the ratios are checked and scrutinized and probable incompatibilities would be reported for further investigation.

In 2013 a regulation called Regulation of Brokers Internal Control was codified and executed by SEO's board members. It apparently obliged Brokers to nominate a competent and qualified compliance officer to SEO and if he is approved, appoint and recruit him. His reporting line is directly Brokers Firm board of director and is bound to

exert monitoring through designated and confirmed methodology to detect possible infringements and reflect it to competent authorities as soon as possible. To strengthen his independence, removing the compliance officer is not possible before taking SEO's consent. This internal body plays a tremendous role in preventing and identifying imminent risks and the way to manage it and prevent it from extending to other parts.

The below chart shows the number of accumulated issued licenses to Brokerage Firms during past 4 years:

License	2012	2013	2014	October 2015
Security	224	225	236	239
Commodity	279	289	337	401
Energy	-	39	40	96
Portfolio Management	38	54	61	63
Advisory	185	223	264	144
Online Trading	79	91	94	99
Call Center	-	26	58	69
Grand Total	805	947	1,090	1,111

3.6.3. Enforcement

The below chart shows the number of prosecuting of Brokerage Firms for violation of rules and regulations from April 2014 to November 2015

Action	October 2011- October 2012	October 2012- October 2013	October 2013- October 2014	October 2014- November 2015
prohibition	25	4	2	1
activity suspension	4	2	0	0
Revocation of license	4	4	4	4
reporting to the Offence Prosecution Committee	182	163	111	181

4. Investment/Holding Companies

4.1. Definition

According to paragraph 22 of article 1 of Securities Market Act of the Islamic Republic of Iran (2005), Parent (Holding) Company means a company that, by investing in an investee company for gaining profits, acquires sufficient right to vote to elect members of the board of directors to exercise control over the company operations and/or plays an effective role in electing the board members. Also, according to paragraph 21 of the same article, investment companies are specified as a kind of financial institutions but there has not been a specific definition in that Act. So the other associated regulations have rendered some clarifications that it can be inferred that Investment Companies are those entities which devote at least 80 percent of their assets to securities that 70 percent of the assets must be marketable instruments. It clearly shows that Investment Companies are not permitted to allocate majority of their assets to affiliates with the aim of taking subsidiaries' control.

4.2. Rules and Regulations

There are different acts, laws and regulations about definition, restrictions, reporting

1. Security Market Act of Islamic Republic of Iran
2. Law for Development of New Financial Instruments and Institutions
3. Law for the Fifth Development Plan of the Islamic Republic of Iran
4. Anti-Money Laundering Act;
5. Executive By-Law of the Anti-Money Laundering Act;
6. The Regulations on the Record-Keeping and Reporting Requirements of Information and Documents by the Regulated Persons/Entities;
7. - The Regulations Governing the Proceedings for Violations Committed by Persons Mentioned in the Article 35 of the Iran Securities Market Act;
8. Regulations Governing Identifying and Registering Financial Institutions in Iranian Capital Markets.
9. The Disciplinary Regulations Governing Financial Institutions other than Brokers
10. Furthermore, Investment/Holding companies shall comply with circulars. SEO has issued 1 circular for Investment/Holding companies since the beginning of 2012 and there has been issued more 6 circulars for all the financial institutions including Investment/Holding companies.

4.3. Supervision

4.3.1. Supervision before Issuing Business/Activity Licenses

According to Securities Market Act of the Islamic Republic of Iran (2005), among the functions and powers of SEO is to issue the establishment licenses of financial institutions. Also, the financial institutions are required to register with SEO. Registration of Investment/Holding Companies with SEO is supported by the Law for the Fifth Development Plan of the Islamic Republic of Iran whereby legal entities which already have been established under the title of financial institutions, and those legal entities with a financial institution as their main activity area have to register their company with SEO. The Investment/Holding Companies are one of these financial institutions that have to be registered with SEO. Also, any changes in their constitutions and their capital need SEO's permission. According to the same law, State Organization for Registration of Deeds and Properties has to refuse to register Investment/Holding Companies without SEO's permission.

4.3.1.1. Identification and Registration of Active Investment/Holding Companies

Most of rules and regulations on Investment/Holding Companies have been enacted over the recent years. So there are lots of Investment/Holding Companies which are active in capital market while they are not registered with SEO yet. To regulate them, SEO passed the Regulations for Identification and Registration of Active Financial Institutions in the Stock Market with the Securities and Exchange Organization (SEO).

According to the mentioned regulations, any legal person that has not previously been registered with SEO, under determined circumstances, have to request to be registered with SEO as a financial institution consistent with its purpose or its name or to be excluded from mandatory registration as a financial institutions. Over the recent years, this criteria has made 130 companies with following circumstances to apply for registration with SEO:

- If the legal person has used for its name one or more designations or titles exclusive to financial institutions;
- when the legal person has incorporated for the objective in its constitution one or more activities recognized as exclusive activities of financial institutions which require the SEO's license;
- If the legal person is in any manner engaged in the activities which fall within the exclusivity of financial institutions;

- When the legal person allocates over fifty (50%) percent of its assets to investment in securities or over fifty (50%) percent of its operating income during a fiscal year has been earned out of the investment in securities with specified conditions.

A legal person, who is considered a financial institution under the above criteria, has to be registered with SEO as an investment company or a holding company. Registration with SEO is the first step to regulate Investment/Holding Companies.

4.3.1.2. Professional Qualifications of Directors

In execution of article 29 of the Securities Market Act, the professional qualifications of any of the natural candidates have to be certified prior to their appointment to the given positions in each one of the financial institutions, including Investment/Holding Companies, or prior to acceptance of such positions by them.

In order to certify the candidate's professional qualifications, he has to, in addition to certification of his general competency; earn the minimum score in the areas of work experiences, education background and academic qualifications as described in the regulations.

In regard with the professional qualifications, article 29 of the Securities Market Act and paragraph E in Law for the Fifth Five-Year Development Plan of the Islamic Republic of Iran finally led to Regulations on Certifying the Professional Qualifications of Financial Institutions' Directors whereby the documents and information of candidates for board member or CEO of a financial institution, including Investment/Holding Companies, are examined and their professional qualifications are certified. Due to the importance of professional qualifications of board members and CEO of Investment/Holding Companies, the "Committee in Charge of Certifying Qualifications" formed comprising at least 3 members as elected by SEO to carry out the certifying procedure.

4.3.1.2.1. Academic qualifications

In order to evaluate the candidate's academic qualifications, the committee interview with the candidate. The course titles (topics) used to evaluate his academic qualifications are described in the regulations. If the candidate holds professional certificates which are proposed by SEO, his academic qualifications will be certified with no need of interview.

4.3.1.2.2. Conviction or bad records

The secretary of committee takes up the records relating to the candidate's general competency. Considering if the candidate has any absolute conviction or bad records with

the authorities of competent jurisdiction including the law-courts, SEO or Self-Regulatory Organizations, the committee examines the matter and decides on the rejection or certification of the candidate's general competency.

4.3.1.2.3. work experiences

The candidate's work experiences are assessed by his work experiences in various positions. Duration of work experience in each position in months, coefficient of candidate's position and coefficient of business objective at workplace are among the assessment criteria.

4.3.1.2.4. Education background

The candidate's education background is calculated on the basis of his last academic degree and his major as described in the regulations.

4.3.1.3. Minimum Capital

According to a resolution by SEO board members, the minimum capital for Investment/Holding Companies is 100 billion Rials.

4.3.2. Supervision after business/activity licenses

According to Securities Market Act of the Islamic Republic of Iran, Investment/Holding Companies have to be operating under the supervision of SEO. When an Investment/Holding Company is established and starts its operation, there will be some important items that should be considered by SEO in regard with its activities. Timely reporting and investment constrictions are the crucial items that are monitored by SEO throughout its operation.

4.3.2.1. Reporting

Supervising Investment/Holding Companies is majorly based on the information that they issue in their financial statements and performance reports or can be found in the auditor/inspector report on them. So, as the one of the first steps for supervising established Investment/Holding Companies, SEO has obligated them to publish the mentioned reports to SEO or to the public, due to the kind of companies.

4.3.2.2. Investment constrictions

Any legal person who is registered with SEO as an Investment/Holding Company is obligated to take the following items into account in its assets composition:

1. It should allocate at least 80 % of its assets to investment in securities;
2. The holding company should allocate at least 70% of its assets to investment in the shares, equity shares or investment certificates having voting rights in other companies, enterprises or mutual funds to the extent that it can alone or along with its regulated persons gain effective influence or control over the investee companies, enterprises or mutual funds;
3. The investment company should allocate at least 70% of its assets to investment in the securities whereby it cannot alone or together with its regulated entities gain effective influence or control over the securities issuer.

The mentioned restrictions are monitored regularly in the audited financial reports of Investment/Holding Companies and any non-compliance would be followed up.

4.3.2.3. On-site inspection

According to constitutions of Investment/Holding Companies, the company is obliged to present all the required deeds, documents, information and reports to SEO for carrying out its functions and legal duties. And it has to be coordinated with SEO inspectors for inspection of deeds, documents, information and places under the control of the company. So in some cases, on-site inspections are carried out.

Also, SEO delegates participate in the annual general meeting of the Investment/Holding Companies. In a general meeting, SEO delegate can discuss different issues with shareholders and auditor of the company. The delegate usually warns them about the violations of regulations.

4.3.3. Enforcement

The Deputy for Supervision on Financial Institution reports any non-compliance with the regulations on reporting or investment restrictions which are committed by Investment/Holding Companies to Deputy of Offence Prosecution. From April 2014 to April 2015, one such case has been reported but 15 written cautions were issued for the companies by The Deputy for Supervision on Financial Institution.

5. Associations

According to related regulations, there are three different under supervision entities. These classifications include Issuers, Financial Institutions and Associations. Issuers are not under this deputy supervision and the elements of supervision on financial institutions were described beforehand. Now we are going to elaborate some key issues which are deemed relevant and important in spying on associations. The overall strategy from a regulator point of view is enhancing market players' capabilities and empowers them to observe regulations and make them exert needed supervision if necessary and restrict the intervention of regulator to the least possible. This strategy is sometimes called market discipline strategy. The more watchful the market is, the less necessity for regulator to meddle with. So following this macro policy, Associations have developed and set up to regulate market professionally and help facilitating market participants' affair. As would be elaborated next, setting professional standards, regulating the members' collaborations and coordination, drawing up code of conducts and assisting settling disputes are among main functions of Associations.

5.1. Introduction

According to Article one of Capital Market Act, Association means self-regulatory organizations of brokers, broker/dealers, market makers, investment advisors, issuers, investors, etc., duly registered as per the approved guidelines of the Organization, in the form of non-governmental, noncommercial and non-profit institutes, regulating the relations between the parties which are engaged in the securities market based on the present Law. Self-regulatory Organization also means an organization which is allowed to set and implement professional and disciplinary rules and standards by observing this Law to regulate professional activities and create discipline in the relations among its members for good performance of the tasks and duties entrusted to them by this Law. Associations have one representative in Securities and Exchange High council.

The Act determine that disputes among brokers, broker/dealers, market makers, investment advisors, issuers, investors and other concerned parties relating to their professional activities shall be considered by the Arbitration Board in the case(s) when no amicable solution can be reached in the Associations. So the first place for settling disputes are Association s' settlement and resolutions disputes committees and in case of

incapability of reaching any settlement, then the case would be transferred and referred to Arbitration Board of Capital Market.

There are three registered financial associations in Iran at the moment including; Securities and Exchange Brokers Association, Iranian Institutions Investors' Association and Association of Investment Companies Bearing Justice Shares. Their establishment and activities is under SEO's surveillance and some more details would be explained in the following context.

5.2.1 Definition

5.2.1.1 Securities and Exchange Brokers Association

According to article 6 of the Securities and Exchange Brokers Association, association of brokers has been established to achieve the following goals:

- 1- To help create a fair, competitive and efficient securities market across the country so as to win the investors' confidence;
- 2- To enhance the credibility of the association members and members' related parties with the investors;
- 3- To regulate and promote the professions in which the association members are engaged;
- 4- To improve and expand the services rendered by the association members;
- 5- To increase the professional expertise of the members' related parties;
- 6- To direct the relationship between the association's members with one another and with the members' related parties;
- 7- To perform the duties which have been or will be entrusted to the association in accordance with laws and regulations.

5.2.1.2 Iranian Institutions Investors' Association

According to article 3 of the Iranian Institutions Investors' Association, this association is a self-regulatory organization which is non-governmental, non-commercial, non-profit and non-political and enjoys the juridical personality and financial independence and has been formed for the unlimited period of time in the execution of article 53 of the Securities Market Act and on the strength of the regulations governing the formation and registration of active associations in the securities market and is considered to be one of the associations defined in paragraph 5 of article 1 of the Securities Market Act.

The funds of the association are raised through admission fees, membership fees, members' deposits, grant-in aids, incomes earned from training courses and research activities, incomes from bank deposits, participation certificates, certificates of deposit and/or other resources.

5.2.1.3 Association of Investment Companies Bearing Justice Shares

According to article 3 of the Association of Investment Companies Bearing Justice Shares, this association is a self-regulatory organization which is non-governmental, non-commercial, non-profit and non-political and enjoys the juridical personality and financial independence and has been formed for the unlimited period of time in the execution of article 53 of the Securities Market Act. This Association has been developed in accordance with privatization policies with the aim of helping provincial Investment Companies manage divested assets of the administrative. Portfolio management, representing Investment Companies in General Meetings and distributing received bonuses are among main functions of this Association.

The funds of the association are raised through admission fees, membership fees, members' deposits, grant-in aids, incomes earned from training courses and research activities, incomes from bank deposits, participation certificates, certificates of deposit and/or other resources.

5.2.2 Rules and regulations

- Securities Market Act of the Islamic Republic of Iran (approved by parliament on 2005)
- The Anti-Money Laundering Act (approved by parliament on 2008)
- Executive By-Law of the Anti-Money Laundering Act (approved by board of ministers on 2009)
- The Regulations on the Surveillance of the Suspected Persons in the Capital Market (approved by anti-money laundering unit on 2011)
- The Regulations on the Retention and Destruction of Documents in the Capital Market Concerning Money Laundering Combat (Anti-Money Laundering Supreme Council on 2011)

- The Regulations Governing the Procedure of Sending Capital Market-Related Records to the Customer's Mailing/Postal Address (Anti-Money Laundering Supreme Council on 2011)
- The law for fifth development plan (approved by parliament on 2011)
- Disciplinary Regulations Governing Non-Brokerage Financial Institutions (approved by Board of directors of the Securities and Exchange Organization on 2013)
- The Law for Development of New Financial Instruments and Institutions (approved by parliament on 2009)
- The Securities Market Act of the Islamic Republic of Iran Executive By-law ((approved by board of ministers on 2007)
- Regulations on the Record-Keeping and Reporting Requirements of Information and Documents by the Regulated Persons/Entities(approved by Board of directors of the Securities and Exchange Organization on 2005)
- Approved sample of association by SEO

5.3 Purposes of Associations

5.3.1 Securities and Exchange Brokers Association

According to the articles of association of Securities and Exchange Brokers Association, the association has been established to achieve the following goals:

- 1- To help create a fair, competitive and efficient securities market across the country so as to win the investors' confidence;
- 2- To enhance the credibility of the association members and members' related parties with the investors;
- 3- To regulate and promote the professions in which the association members are engaged;
- 4- To improve and expand the services rendered by the association members;
- 5- To increase the professional expertise of the members' related parties;
- 6- To direct the relationship between the associations members with one another and with the members' related parties;
- 7- To perform the duties which have been or will be entrusted to the association in accordance with laws and regulations,

And according to article 7 Association of brokers shall be entitled to engage in the following activities to achieve its goal and purpose:

- 1- To recommend the rules for admission, suspension or cancellation of membership in the association and the members' related parties to the SEO and implement them;
- 2- To monitor the performance of the association members and the members' related parties and assess their performance within the framework of the rules aimed to: (a) disseminate information, (b) ensure the enforcement of laws and regulations, and (c) gain assurance of the maintenance and continuation of admission requirements and introduction of new conditions during the intervals of specified periods;
- 3- To oversee the advertising programs of the association members so as to prevent the publication of misleading and incomplete information;
- 4- To draft and implement professional and disciplinary rules and standards for the association members within the framework of laws and regulations;
- 5- To resolve the disputes among the brokers, broker/dealers and market- makers and other parties concerned in execution of article 36 of the Act and within the framework of regulations;
- 6- To establish and implement an efficient mechanism to investigate the disputes among the association members;
- 7- To direct the relations between the associations members with one another and with the members' related parties within the framework of the rules for the operation of paragraph 5 of article I of the Act;
- 8- To help compile, draft and codify the laws, regulations and by- laws regarding the association members and securities market;
- 9- To study continuously the market potential of the services rendered by the association members and helps to expand this area of service;
- 10- To propose to the SEO changes in the limits of fees and service rates for the association members;
- 11- To propose the employment of new financial instruments in the securities market so as to diversify the range of services rendered by the association members;
- 12- To provide facilities towards developing systematic, specialized and continuing training for the members' related parties so as to improve their knowledge and upgrade the quality of their services;
- 13- To conduct research activities, publish specialist books and journals and make contribution toward such activities.
- 14- To organize seminars, training courses, question- answer sessions; to publish training materials and give interviews with media to make the activities of the

association and its members known to the public as well as teaching general topics related to the securities market;

15- To establish an efficient system to receive information about and solve the professional problems of the association members and the members' related parties and protect their independence and professional reputation;

16- To establish liaison between and provide cooperation with the securities market participants and bodies;

17- To obtain membership in the professional domestic and international associations, establish contacts and provide cooperation with similar professional associations in other countries so as to exchange information, use their experiences and facilitate the overseas activities of association members;

18- To perform other functions which have been or will be assigned to the association in accordance with the rules.

5.3.2 Iranian Institutions Investors' Association

According to the articles of association of “Iranian Institutions Investors’ Association”, In order to enhance the efficiency and effectiveness of the securities market, develop the professional cooperation among the members and organize the interrelationships between the parties that are admitted as association members subject to this constitution, the Association of the Iranian Investment Institutions was established. In order to achieve a good performance, regulate the professional activities and organize the inter-member relationships, the association shall draft and implement the necessary professional and disciplinary rules and standards within the framework of the prevailing laws. The association is mandated to carry out the following activities:

1. To improve and develop the relationships within the members and with the SEO, exchanges, OTC markets, central securities depository and settlement companies and other active institutions in the securities market as well as creating proper situations to facilitate the investments by members in the stock exchange;
2. To present the data, information and analytical reports within the realm of the member entities for the conduct of applied research;
3. To build the credibility of members within the community through promoting the professional ethical standards and encouraging the members to comply with the laws and regulations;
4. To improve the professional knowledge and expertise of the members’ directors and employees through developing the professional training programs,

expanding the relations with domestic and foreign educational and research institutes as well as research conduct and publication of specialist journals;

5. To draw up the necessary guidelines requiring the association members to enforce the legislation, establish internal control systems, respect the professional ethics with emphasis on presenting the fair and transparent reports to the securities market;

6. To exchange views and cooperate with legislators and decision-making authorities and participate in drafting rules and regulations towards expansion of the efficient securities market and protection of the investors' interests and benefits;

7. To organize conferences, meetings, workshops and training courses to exchange information and increase the knowledge level of members' directors and personnel towards expansion of the securities market in the country;

8. To provide cooperation with societies, associations and similar international institutions as well as the international financial training and research institutions in the line with developing the presence of the country's securities market in the global financial community and possible membership in them;

9. To resolve the disputes within the member and with other persons concerned arising from their professional activity in the securities market and make mediatory efforts to settle the possible disagreements within the association's members in the enforcement of article 36 of the Securities Market Act;

10. To form the working groups and specialized committees in the association such as the legal, training and advisory working groups and committees in line with providing efficient and effective services to the members;

11. To survey the perspectives, business barriers and difficulties of the members in the securities market and report them to the authorities concerned and present proposals for removing such barriers;

12. To create and monitor the implementation of principles for professional and disciplinary ethics within the framework of laws and regulations and internalize and promote such principles among the members;

13. To enhance the public awareness towards the necessity of collective participation in the securities market and attempt to expand the investment culture and financial knowledge among the Iranian households;

14. To monitor the securities market performance and developments to help the regulatory authority for the purpose of monitoring and regulating an efficient and fair securities market.

5.3.3. Association of Investment Companies Bearing Justice Shares

According to the sample of association of “Association of Investment Companies Bearing Justice Shares”, In order to enhance the efficiency and effectiveness of the securities market, develop the professional cooperation among the members and organize the interrelationships between the parties that are admitted as association members subject to this constitution, the Association of the Iranian Investment Institutions was established. In order to achieve a good performance, regulate the professional activities and organize the inter-member relationships, the association shall draft and implement the necessary professional and disciplinary rules and standards within the framework of the prevailing laws. The association is mandated to carry out the following activities:

1. To improve and develop the relationships within the members and with the SEO, exchanges, OTC markets, central securities depository and settlement companies and other active institutions in the securities market as well as creating proper situations to facilitate the investments by members in the stock exchange;
2. To present the data, information and analytical reports within the realm of the member entities for the conduct of applied research;
3. Manage members’ shares and to enforce the stockholders’ rights in assembly of the investee companies.
4. Manage members’ portfolio of asset
5. To build the credibility of members within the community through promoting the professional ethical standards and encouraging the members to comply with the laws and regulations;
6. To improve the professional knowledge and expertise of the members’ directors and employees through developing the professional training programs, expanding the relations with domestic and foreign educational and research institutes as well as research conduct and publication of specialist journals;
7. To draw up the necessary guidelines requiring the association members to enforce the legislation, establish internal control systems, respect the professional ethics with emphasis on presenting the fair and transparent reports to the securities market;
8. To exchange views and cooperate with legislators and decision-making authorities and participate in drafting rules and regulations towards expansion of the efficient securities market and protection of the investors’ interests and benefits;

9. To organize conferences, meetings, workshops and training courses to exchange information and increase the knowledge level of members' directors and personnel towards expansion of the securities market in the country;
10. To provide cooperation with societies, associations and similar international institutions as well as well as the international financial training and research institutions in the line with developing the presence of the country's securities market in the global financial community and possible membership in them;
11. To resolve the disputes within the member and with other persons concerned arising from their professional activity in the securities market and make mediatory efforts to settle the possible disagreements within the association's members in the enforcement of article 36 of the Securities Market Act;
12. To form the working groups and specialized committees in the association such as the legal, training and advisory working groups and committees in line with providing efficient and effective services to the members;
13. To survey the perspectives, business barriers and difficulties of the members in the securities market and report them to the authorities concerned and present proposals for removing such barriers;
14. To create and monitor the implementation of principles for professional and disciplinary ethics within the framework of laws and regulations and internalize and promote such principles among the members;
15. To enhance the public awareness towards the necessity of collective participation in the securities market and attempt to expand the investment culture and financial knowledge among the Iranian households;
16. To monitor the securities market performance and developments to help the regulatory authority for the purpose of monitoring and regulating an efficient and fair securities market.

5.4 Bodies

According to the articles of association for self-regulated organizations, there are generally there 4 separate kinds of bodies including decision making body (Assembly), governing body (board of managers /Association council /Executive board) and supervising body (offence inquiry and settlement board and inspector/auditor or).

5.4 .1 Assembly

According to the article of associations of these self-regulated organizations, the functions of the ordinary general meetings are set forth as follows:

- 1- To hear the board of director's report on the operations of the association during the last fiscal year as well as approving the proposal policies and plans for the following year;
- 2- To outline the overall procedures and policies for the association;
- 3- To hear the inspector's/auditor's report;
- 4- To consider and approve the balance sheet and other financial statements for the given performance period;
- 5- To select a mass-circulated newspaper to publish the association's notices;
- 6- To elect the inspector/auditor and fix his/their fees;
- 7- To elect the association board of directors and fix the amount of their remuneration/bonus;
- 8- To discuss and decide on other matters which shall not be within the competence of the extraordinary general meeting.

Where decisions cannot be taken on all items on the agenda by the general meeting, the chairperson shall adjourn the meeting and fix the date of the next meeting which shall not exceed two weeks. The adjournment of the general meetings shall not take place through formal invitation and they shall be formally held at next attempts with same quorum attained for the first meeting.

5.4 .3 Board of managers;

According to the articles of association for self-regulated organizations, the board of directors is vested with all powers described in the provisions of the constitution and approvals of the general meeting to administer the association, in particular, the functions set down below:

1. To administer the association pursuant to the provisions of the constitution, approvals of the general meetings and applicable laws and regulations in the country;
2. To manage financial affairs of the association, open accounts operate such accounts, collect claims and pay debts.
3. To prepare the annual financial statements and reports to be submitted to the annual ordinary general meeting for verification and approval;
4. To formulate and approve the strategies, plans and budget of the association;
5. To form, merge and dissolve committees and specialized working groups, when appropriate;

6. To adopt the requirements for members admission in satisfaction of the minimum conditions expected by the SEO;
7. To represent the association before the third parties and with government departments/agencies and privately-run entities;
8. To compile, modify and amend all laws, rules, regulations and standards relating to the committees and specialized working groups to be put in operation for the association affairs and activities subject to the provisions of the constitution;
9. To supervise the performance of the specialized committees and working groups and survey the work done by them within a general framework;
10. To refer the cases of violations or disputes to the board for violations investigation and settlement;
11. To plan on the holding and formation of meetings, committees and specialized working groups;
12. To admit and revoke membership pursuant to the rules and regulations for admission;
13. To draft and amend the rules governing the complaints, violations, disputes which should receive the SEO's approval;
14. To invite the general meetings subject to the provisions of the constitution;
15. To review provisions of the constitution where necessary and propose them to the extraordinary general meeting upon the SEO's approval;
16. To appoint the members of the board for violations investigation and settlement as well as the association secretary general and fix their fees and remuneration;
17. To exercise the association's voting rights to elect the representative of associations in the Securities and Exchange High Council under paragraph 7 of article 3 of the Securities Market Act;
18. To designate the persons from the board members or other persons who shall be authorized to sign on behalf of the association while having the right of substitution and dismissal of the attorney on frequent occasions;
19. To buy, sell, lease, rent and conduct other transactions on the association's movable and immovable property and assets, to conclude any contract on behalf of the association for the purpose of the association's object and change, convert revoke or rescind such contracts or transactions;
20. To examine and make decisions on the reports and proposals received from committees and specialized working groups and implement the rules within the context of appropriate by laws;

21. To create and/or dissolve branches and agencies at any location inside or outside the country;
22. To initiate proceedings and suit of any type; to defend the pending case; to submit to or withdraw the suit whether criminal or civil, to have full powers to take any measures in connection with the court proceedings; to launch an appeal (request of revision); to reach settlement; to appoint an attorney or a counsel for compromise; to bring up a claim of forgery and request for withdrawal of the forged document and designation of the forger; to initiate recourse to arbitration by appointing the arbitrator with or without the right to make or reach settlement; to use and exercise all the rights arising from the arbitration law; to appoint an attorney; to defend at hearing sessions with or without the right of substitution, or the right of substitution in succession even on frequent occasions; to dismiss and reappoint the attorney; to replace the attorney with another person with or without the right of substitution or the right of substitution in succession even on frequent occasions; to appoint an expert or a surveyor; to make confession on the merit of the case or to a matter as a conclusive statement; to sue for damages and withdraw such suit, to initiate the impleader and defend this case; to bring a counter-claim and defend it; to secure attachment and seizure of the property or persons for the remedy sought; to grant a grace period for recovery of the association's claims; to request for the issuance of the writ of execution and follow up the executive process; to collect the judgment debt, whether decided by courts, departments or deeds registration offices;
23. To create the association secretariat to be responsible for the administrative tasks of the association under the direction of the secretary general;
24. To make interpretation of the constitution, if need be, and resolve any type of conflict arising from such action upon the SEO's confirmation;
25. To subscribe, endorse, accept, pay and protest against the commercial papers on behalf of the association for the purpose of the association objective;
26. To transfer, assign or acquire any type of business goodwill;
27. To make a request and act for having any type of trademark registered;
28. To deposit any type of documents, records and funds owned by the association with the state and private funds and take action for their return;
29. To mortgage the assets and property owned by the association whether movable or immovable, and release the mortgaged assets, even frequently if it deems necessary for the purpose of the association's objective;

The board of directors shall have full powers to do any act in the name of the association and perform any activity or any transaction being related to the association's object

directly or indirectly and if and when such acts and activities do not expressly fall within the competence of general meetings. Hence, the foregoing functions and powers which have been mentioned by way of example shall not have any prejudice to the full powers vested in the board of directors.

5.4.4. Inspector;

According to the articles of association for self-regulated organizations, the inspector/auditor shall be charged with the functions specified in the Commercial Code for the inspector of joint-stock companies as well as the responsibilities set forth in paragraph 3 of article 49 of the Securities Market Act as regards the persons charged with the task of verification and expressing their opinions. The functions and powers of the inspector/auditor are listed below:

- 1- To compare and collate the approvals of and actions taken by the board of directors with the provisions of the constitution and approvals of the general meetings;
- 2- To submit a report on any type of violation committed in the association to the board of directors for information and decision-making. In the case the board of directors does not take any effective measure on such report within one month as of the date of its submission, the inspector/auditor shall have to report the matter to the general meeting for decision-making;
- 3- To examine, express an opinion and compile a report on the association's annual financial statements which have been prepared by the board of directors for submission to the general meeting;
- 4- To issue invitations for the general meetings and set their agendas in the following circumstances:
 - a) when the board of directors has not taken any action until the end of Farvardin(around April 20) of each fiscal year to hold the annual ordinary general meeting;
 - b) When the board of directors has not paid any attention to the report submitted by the inspector/auditor under paragraph 2 of this article.
- 5- To verify and express an opinion on the accuracy of the information and records supplied by the board of directors to the general meeting.

All the association bodies and employees shall have to deliver the evidence, documents and information required by the inspector/auditor for his/its examination and verification.

The inspector/auditor may, on his/its own responsibility, use the technical experts' advice in the performance of his/its duties on the condition that the experts have already been introduced to the board of directors.

The financial statements and the board of director's report referred to in paragraphs 3 and 5 of this article shall be delivered to the inspector/auditor at least thirty days prior to the convention of the intended general meeting. The inspector/auditor shall have to submit its/his report at least 20 days after the receipt of financial statements and the board of directors' report in order that it can be delivered to the association members.

5.4 .5 Offence Inquiry and Settlement Board;

According to the articles of association for self-regulated organizations, Offence inquiry and settlement board shall be formed to make inquiries, express opinions and settle the pending cases of professional disputes between the members and other parties arising from their professional activities and professional violations of the association members as well as from the complaints against them or from other matters referred to this board by the board of directors. Offence inquiry and settlement board shall consist of three main members and two substitute members. The members of the investigation board shall be appointed by the board of directors from among the persons who have educational and professional qualifications. The members of offence inquiry and settlement board shall be appointed for a term of two years and their reappointment shall meet no impediment. However, no person may be chosen for membership in the board for violations investigation for more than two consecutive terms. Furthermore, the modality practiced by offence inquiry and settlement board for inquiring and expressing opinion thereupon shall be based on the standards and rules drafted by the board itself which have obtained the approval of the board of directors and the SEO. Upon receipt of each file and/or for inquiry into each case, offence inquiry and settlement board shall act as follows:

- 1- To establish that offence inquiry and settlement board should have competence to investigate the case in question;
- 2- To identify that the members of offence inquiry and settlement board are not interested parties in the case in question;

- 3- To determine the necessity of hiring the experts based on the specializations related to the case in question;
- 4- To carry out investigation into the case referred to it.

5.5 Supervision

On the basis of Capital Market Act, SEO is authorized to issue, suspend and cancel the establishment permit/license of Associations as well as Financial Institutions. It has the power of approving the articles of association of the Associations subject to that Act.

The professional qualification of Associations board of directors has to be approved by SEO and in case of renewing their mission they have to extend the required permission.

Associations have to submit audited financial reports to SEO and invite SEO's representative to their General Meetings. The presence of SEO delegate is to make sure the decisions taken by the Meetings is within the framework of regulations.

The ACT also specifies that as long as the Associations for the broker/dealers and market makers have not been convened, tasks and duties of such Associations shall be accomplished by the Organization. When the number of the Association members reaches 11 persons all across Iran, the convention of Associations for broker/dealers and market makers shall be compulsory. Although it should be mentioned that the needed Associations by the time of providing this report have been established and also they have been proactive in our market and fulfilling their own duties and responsibilities.