

The Rules Governing the Operations of Investment Banks

Introduction

In applying the paragraph 5 of article 4 of the Securities Market Law of the Islamic Republic of Iran ratified in November 2005, the Rules Governing the Operations of Investment Banks subject of paragraph 18 of article 1 of the said Law are described hereinafter as:

Article 1: The terms defined in article 1 of the Securities Market Law of the Islamic Republic of Iran ratified in November 2005, shall have the same meanings as used herein. Other terms are defined as follows:

- 1- **Law** means the Securities Market Law of the Islamic Republic of Iran ratified in November 2005.
- 2- **Regulations** mean all decrees and approvals of the Council of Ministers, Council and Organization on the securities market and its participants.
- 3- **Major Shareholder** means a person who, by direct or indirect ownership of the investment bank shares, holds over ten (10%) percent of voting right to appoint the bank's directors.
- 4- **Establishment License** means the license granted by the Council as regards the establishment of investment bank and approval of its registration with the Companies Registration Authority.
- 5- **Business License** means the license granted by the Organization served for commencement of operations by the newly-established investment bank.

Article 2: In order to establish the investment bank, 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 proposal title covering the name of the "Investment Bank";
- 2- Type of the legal entity (judicial personality) 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, estimated 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;

Article 3: In case of the file (dossier) completion, the Organization shall, within 30 working days, have to examine the documents and information available in the file and shall make the proposal of license issuance to the Council for approval in satisfaction of the following conditions:

- a) The entity's proposed draft articles of association should receive the Organization's approval;
- b) The entity's given capital should equal or exceed the minimum capital determined by the Organization for investment banks;
- c) In case a portion of the entity's capital is raised in the form of non-cash fund, such non-cash fund is to be used in line with the entity's defined objectives and forecasted business plan and should not exceed ten (10%) percent of the capital.

Article 4: The entity's major shareholders shall have to be approved by the Organization after its establishment.

Article 5: 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.

- a) 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.
- b) In cases other than item (a), six months after notifying the issuance of the foundation license to founders.

Article 6: 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 constitution 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 ensure that the requirement for minimum capital of investment banks has been fulfilled;
- e) The lease contract or ownership title deed of the entity's location should have been produced to the Organization.

Article 7: The entity 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 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.

Note 1: It shall be possible to engage in the services of portfolio management, mutual funds, brokerage, broker/dealership and market-making by obtaining a separate license from the Organization.

Note 2: It shall be possible to engage in the services of brokerage and broker/dealership solely in line with the operations of market-making, portfolio management, mutual funds management, underwriting and undertaking of securities purchase in the secondary offerings.

Article 8: The investment bank shall have to prepare the necessary reports and submit them to the authorities concerned in accordance with the directives issued by the Organization. Accordingly, the investment bank shall have to receive the Organization's approval as to the reporting procedure and the type of its special auditing reports pursuant to article 29 of Law.

Article 9: The investment bank shall have to abide by the prevalent rules and regulations while observing the rules provided in its articles of association as well.

Article 10: The Organization shall, within the framework of its regulations, have the responsibility of monitoring the performance of investment banks. In order to perform this function, the directors of such entities shall, when the Organization's inspectors demand, have to submit their books and documents for any examination and inspection and provide the opportunity for the inspectors dispatched by the Organization to conduct a comprehensive and adequate examination.

Article 11: If the report of the Organization's inspectors, whether through their on-site inspection or through examining the records and surveying the entity's operations, is indicative of violations or the existence of grounds for violations, the Organization shall take supervisory measures in proportion to the violation, committed as follows:

- To report the cases of violation conduct the case inspection, negotiate with the entity's officers, receive the necessary explanations and immediately enforce the reform actions to prevent violations;
- To force the entity's directors to redress the effects of the violations committed and return to normal conditions;
- To impose certain restrictions on various areas of the entity's activities;
- To give a written caution to the entity's directors containing the violations proved and issue instructions to stop such violations within a specified period of time;
- To request the shareholders to dismiss and change directors;
- To suspend or revoke the license for some areas of the entity's activities;
- To propose suspension or revocation of the entity's license to the Council.

Note 1: In case the entity's license is cancelled by the Council, the entity shall, within the time-limit specified by the Council, have to cease all its operations associated with the investment bank pursuant to article 38 of the Law.

Note 2: If the cases of violations are stopped, it shall be possible to remove the suspension upon verification of the Organization and approval of the Council.

Article 12: The existing rules comprising an introduction, 12 articles and 4 notes were approved by the Council on Aug. 6, 2007 and hereinafter, the foundation and operations of investment banks shall take place in accordance with the existing rules.