

The Bylaw Governing
Foreign Investment
in the Exchanges and OTC Markets

Upon the recommendation No. 22159 of the Ministry of Economic Affairs and Finance on April 11, 2010, and by virtue of the paragraph 3 of article 4 of the Securities Market act of I.R.I ratified in 2005, the Council of Ministers approved "The Bylaw Governing Foreign Investment in the Exchanges and OTC Markets" on April 18, 2010. as drafted below:

Article 1: the following definitions shall apply for the purposes of the terms and phrases used herein:

1. Securities Market Act means the Securities Market Act of I.R.I ratified in 2005.
2. Council means the Securities and Exchange High Council.
3. Exchange means the Stock Exchange as licensed by the Council.
4. OTC Market means the OTC market which has been licensed by the Council.
5. Organization means the Securities and Exchange Organization subject of article 5 of the Securities Market Act.
6. Foreigner/ Foreign Entity: each of the following persons is considered to be a foreigner/ foreign entity:
 - a. A natural person who does not enjoy the Iranian citizenship.
 - b. Any legal entity that has been registered in a country other than Iran.
 - c. any legal entity that has been registered in Iran whereby the total shares of the persons stated in subparagraphs (a) and (b) above in the capital of such entity shall exceed fifty (50%) percent. In the event that the mutual fund is regarded to be a foreign entity, it shall remain to be the same (foreign entity) as long as the shares of the persons stated in subparagraphs (a) and (b) above in its capital have not reduced to 40%.
7. Applicant means a foreigner or an Iranian individual in possession of foreign-originated capital who has submitted his application to the Organization to obtain a trading license subject to article 4 of the present bylaw.
8. Trading License means a license which, as per the rules herein, is granted by the Organization to the applicant so as to buy, sell or trade in securities on every exchange or OTC market.
9. Foreign investor means a foreigner/foreign entity that has obtained a trading license from the Organization.

10. Strategic foreign investor means a foreign investor who intends to possess over ten percent (10%) of a company's shares listed on the exchange or on the OTC market or that, upon possession of the shares of a company listed on the Exchange or on the OTC market, fills a seat on that company's board of directors.

11. Transferable Fund means a sum in Rial (local currency) which shall be calculated and announced subject to Note (I) of article 10.

12. Capital Gain means the differential between the securities sale price and the securities purchase price.

Article 2: the foreigners/ foreign entities shall, in compliance with the present bylaw and after the receipt of the trading license, be authorized to trade in securities market or on the exchange or OTC market within the range indicated in the trading license. Other rules governing the transactional activities of foreigners on the exchange or on the OTC market shall be subject to the same laws and regulations which are applicable to the Iranian nationals.

Article 3: the foreign investor shall be permitted to invest in the exchange or in the OTC market up to the thresholds designated in the Law of Promotion and Protection of Foreign Investment passed in 2002 unless the Council imposes some restrictions in certain cases.

Article 4: the foreigners/ foreign entities shall have to submit the required information and documents to the Organization along with an application based on the forms prescribed by the Organization so as to obtain a license for trading in securities on every exchange or OTC market.

Note 1: the Iranian nationals shall, by submitting the documents, information and application forms specified in this article to the Organization, be entitled to obtain a trading license so as to benefit from the facilities and privileges stipulated in article 10 of these rules for investing such portion of their foreign-originated capital on the exchange or on the OTC market.

Note 2: the applicant shall have to report any change in the information submitted to the Organization.

Note 3: the documents and records referred to in this article shall be submitted either in Persian (Farsi) or in English and shall be certified or attested by the competent authorities in the manner prescribed by the Organization.

Article 5: the Organization shall, within seven business days after the receipt of the complete information and documents under article 4, have to issue the trading license and deliver it to the applicant or his agent.

Article 6: the person that obtains a trading license shall, upon the Organization's instructions, have to submit the required information, documents and records to the Organization, exchange or OTC market or other authorities. If such person does not submit the relevant information or documents to the designated authorities in a timely manner, the Organization shall have the authority to suspend or revoke the foreign investor's license as regards the securities purchase. In

such case, the foreign investor shall, during the period of suspension or after revocation of the purchase license, be entitled to sell only the securities he has purchased in his name.

Article 7: the restrictions imposed on the possession of shares by the non-strategic foreign investors on every exchange or OTC market are set forth as follows:

1. The number of shares owned by the total foreign investors shall not exceed twenty (20%) percent of the total shares number of the companies listed on the exchange or on the OTC market or twenty percent (20%) of the shares number of any company listed on the exchange or on the OTC market.

2. The number of shares owned by each foreign investor in any company listed on the exchange or on the OTC market shall not exceed ten percent (10%) of the shares number of such company.

Note 1: the exchange or OTC market shall, by disseminating information, have to provide the means and tools required for implementation of this article.

Note 2: if the Organization, upon due consideration, affirms that the threshold in paragraph 2 of this article has been breached owing to the act of the non-strategic foreign investor, the foreign investor shall be regarded as a strategic investor.

Note 3: the restrictions imposed on the possession of shares in banks, institutions and monetary intermediaries under article 5 of the law amending certain articles of the Fourth Economic, Social and Cultural Development Plan of I.R.I and implementation of the overall policies prescribed under article 44 of the Constitution approved in 2008 shall also apply to the present bylaw.

Article 8: the strategic foreign investor shall not be allowed to sell the shares he has purchased for a period of two years without the Organization's permission. The sale of such shares shall be affected in compliance with the regulations governing the bulk trade of shares on the exchange or on the OTC market.

Note 1: If, owing to the capital increase in the related company, the ownership percentage of the strategic foreign investor declines in a manner that he is excluded from the applicability of paragraph 10 of article 1, the regulations of non-strategic foreign investor shall apply to him.

Note 2: the sale of preemption rights shall be excluded from the restrictions set down in this article.

Article 9: trading in shares of the companies listed on the exchange or on the OTC market by a financial institution deemed to be a foreign entity shall not be subject to the restrictions laid down in the present bylaw and shall be subject to the same restrictions imposed on Iranian financial institutions provided that:

1. Such financial institution has been licensed by the Organization for its establishment or business activity in accordance with the provisions of the Securities Market Act and regulations thereof.
2. The given transactions shall, at the discretion of the Organization, be carried out in line with provision of specialized services by that financial institution such as pledge to purchase shares.

Article 10: the foreign or Iranian nationals/entities shall, by obtaining the trading license, be authorized to open accounts in Rials and in foreign exchanges, transfer foreign currencies to Iran and convert them into Rials and vice versa in the Iranian banks for their banking and investing operations. Transfer of the original capital, capital gains and cash dividends received by the persons/ entities holding trading licenses overseas (outside Iran) shall be authorized in compliance with the national foreign exchange rules and other relevant standards and regulations. The Central Bank (CBI) of I.R.I shall have to deliver the foreign exchange equivalent of the transferable funds as described in Note 1 of this article to the foreign investor or the Iranian investor holding licenses at the official exchange rate in the national banking system in case of a single currency rate or otherwise, at the market exchange rate. Under particular circumstances and at the discretion exercised by the Central Bank of I.R.I., such funds shall be payable in equal installments at a four-month interval during the course of one year. The necessary guidelines for implementation of this article shall, within three months as of the approval date of the present bylaw, be approved by the Ministry of Economic Affairs and Finance and the Central Bank of I.R.I.

Note 1- the transferable funds shall, at the request of the foreign investor/ or Iranian investor holding trading licenses, be calculated by the Organization and announced to the Central Bank. The guidelines relating to the manner of establishing the foreign-originated capital and the manner of calculating the transferable funds shall, upon the recommendation of the Organization, be approved by the Council.

Note 2- any ban on the transfer of foreign currencies from the country which has been introduced or shall be introduced in the regulations shall not apply to the transferable funds.

Note 3- in the event that an Iranian individual has the foreign-originated funding or a foreign investor has obtained a license for foreign investment under the Law of Promotion and Protection of Foreign Investment, he shall, in addition to the facilities envisaged in this article, benefit from the privileges and facilities provided in such law including the facilities specified for the transfer of his capital inside or outside the country.

Article 11: the following issues shall not apply to articles 7 and 8 of the present bylaw and the rules so required shall be approved by the Council in conformity with paragraphs 13, 14 and 15 of article 4 of the Securities Market Act.

1. the shares of Iranian issuers listed on the exchange or on the OTC market which have simultaneously been listed on the exchange or on the OTC market of another country.

2. that portion of the shares of Iranian issuers listed on the exchange or on the OTC market which shall be allotted in any manner for transaction by foreigners/ foreign entities in another country.
3. the securities issued by the foreign issuer listed on the Iranian exchange or on the OTC market.
4. that portion of the shares of Iranian issuers listed on the exchange or on the OTC market which are traded in foreign currencies.

Article 12: the possession of other securities such as musharaka sukuk by the foreign investor shall be subject to the thresholds designated by the Council.

Article 13: the procedural guidelines of the present bylaw shall be approved by the Council whereby all or parts of the functions and powers of the Organization may be delegated to exchanges, OTC markets, associations, central securities depository and settlement companies and brokers. In so doing, the Organization shall have to oversee and supervise the performance of such persons (natural/ entity).

Article 14: as of the communication date of the present bylaw, the procedural guidelines of paragraph C of article 15 of the Law of the Fourth Economic, Social and Cultural Development Plan of I.R.I. approved in 2005, subject of the decree No. h33070T/15619 dated June 6, 2005, would be abrogated.