

“An introduction to Iran Corporate law framework for foreign investors”

Foreign companies willing to operate in Iran have two main options. They can either register a company in Iran or establish a branch or representative office (Hereinafter Rep. office) of their own company. Each option offers a number of privileges.

Thanks to recent changes in the laws and practices of company incorporation in Iran, it is possible for nationals of foreign countries to establish companies in Iran with 100 per cent foreign capital. There is no need to have Iranian partners either. According to article one of Company Registration Act of Iran Commercial Code, ‘any company formed in Iran is an Iranian company’. This is true regardless of the nationality of partners. Therefore, as Iranian companies, companies formed by foreign nationals could use all the incentives, facilities and possibilities available to Iranian companies. For example, an important advantage of incorporating a company in Iran for foreign nationals is that it enables the company to come in possession of immovable property. In fact, according to the Iran Ownership of Immovable Property Law, foreign persons are not legally competent to possess any land. However, foreigners who become partners in an Iranian legal person can buy and possess land in the company's name. It is also possible for such companies to rent immovable property for any span of time as long as it does not contradict the laws and regulations of the country. The two most popular company types in Iran are Limited liability companies and joint stock companies.

A limited Liability Company is a company formed between two or more natural persons for trade purposes without the capital being divided to shares. In this company type, the liability of each partner is strictly limited to the capital they have invested. The name of the company should not contain any of the partner's names, otherwise that partner will have unlimited liability *vis-à-vis* third parties. The

minimum number of partners for this company type is two people, which differs from Joint Stock Companies.

The other very commonly used corporate vehicle in Iran is Joint Stock Companies. This company type is characterized by division of capital into shares. Joint Stock companies are divided into public and private joint stock. The distinction lies in the possibility of trading the shares publicly in public joint stock companies. The minimum number of shareholders in private joint stock companies is three, while public joint stock companies require a minimum of five shareholders who should all together provide at least one-fifth of the total capital.

In addition to incorporation of Iranian companies, foreign entities have the option of registering a branch or a Rep. Office in Iran. In order for foreign companies to be allowed to work in Iran through a branch or a Rep. Office, such companies need to be legally recognized in their country of origin.

A single-article law, passed in the Iranian Parliament In 1997, allows companies legally registered in foreign jurisdictions to register a branch/ representative in Iran. Such branches/ Rep. Office s can engage in the following activities:

1. Offering after sales services of foreign products/services.
2. Operating contracts signed between Iranians and foreign companies.
3. Conducting investigations and providing the pre-requisites for foreign investment in Iran.
4. Cooperating with Iranian technical/engineering companies to do projects in other countries.
5. Increasing none-petroleum exports of Iran.
6. Rendering technical/engineering services and transfer of technology.

7. Engaging in activities that have been authorized by legally competent authorities in Iran such as rendering services in transportation, insurance/ inspection of goods, banking, marketing and etc.

Management of a branch or a Rep. Office needs to be done by one or more natural persons residing in Iran. A branch is a local unit of the foreign company directly responsible for conducting activities of the foreign company locally. The branch shall act in the name and with the responsibility of the company. In contrast, the representative, who could be a natural or legal person, shall act in its own name and responsibility.

For branches, foreign companies desiring to register a branch in Iran need to submit some documents attached to their application to the office of Company Registration and Industrial Property.

As for Rep. Offices, an Iranian legal or natural person must be introduced as a representative. Each company is allowed to have one official Rep. Office registered in Iran. The representative will, subject to the agency agreement, deliver parts of the duties of the foreign company in Iran. The Representative shall submit certified translation and original documents enclosed to an application to the office of Company Registration and Industrial Property.

Rep. Office and branches that are not licensed to conduct transactions and exclusively deal with market research for their mother company and receive payments from mother companies to cover their costs are not taxed for such payments received from mother companies.
