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Die Welt der Corporate Governance: Iran

It is important to understand that under the governmental economy of Iran **the state owns large stakes in all major companies.** The mere private sector remains very limited. Further, the Iranian market does not have the tools to influence the operation of companies and no reference is made to the external communication of managers for attraction and participation of investors and other stakeholders. Codetermination and share-plans can be implemented in private joint stock companies depending on internal policies and the management.

In Iran there is no specific law with respect to corporate governance. The **Commercial Code of Iran (CCI),** which regulates the structure and management of companies, is considered as the main source of corporate governance. The CCI is considered as an old Code of the Iran legal system. It has recently been revised and the new CCI has been ratified by the Iranian Parliament in December 2011, though the new CCI will only enter into force after an additional ratification by the Guardian Council which is still outstanding. However, first signs of Corporate Governance can be detected in Iranian law. The Principles of Corporate Governance (PCG) were ratified by the Stock Exchange of Tehran in November 2007 for public joint stock companies.

The most common types of companies under the CCI are private and public joint stock companies. The CCI stipulates rules for shareholders, the board of directors and the managing director (CEO). Corporate governance in Iran is based on a **one-tier system** and in consequence there is no independent supervisory board in Iranian company law. Board members in both types of joint stock companies are appointed by the shareholders and must also be shareholders. Part of the shares of the board members are considered as collateral shares which serve as a »deposit« in the company against performance. A manager can only access them after termination of his management time in the company. The minimum required collateral share under the CCI is one share, whereas more shares can be considered as collateral within the articles of association of the company.

The **board members** can be executive and non-executive members and decisions are taken by majority of the participating members unless a higher quota is stipulated in the articles of association. The remuneration of executive members can be based on their performance while non-executive members receive wages for their working hours in the board. The board shall provide periodical reports on the financial status of the company to the inspectors who are appointed by the shareholders and are in charge of reporting back to shareholders with respect to the financial status of the company. In case the inspectors find an infringement, they have to inform the shareholders.

The CCI differentiates between ordinary and extraordinary **shareholders' general meetings.** The ordinary general meeting of a company is to be held once a year in order to decide on the balance sheet as well as on the profit and loss of the company after termination of the financial year. The inspectors are also required to provide a report on the financial status of the company to the shareholders in the general meeting. Presence of shareholders is also possible through proxy.

The CEO of a company is appointed by the board of directors. Under the proviso that the CEO is a shareholder of the company, the CEO can also be a member of the board. Subject to ratification of three quarters of the board members, he or she can also become Chairman of the Board.

Inspectors are annually appointed by the shareholders at the general meeting and their reelection is allowed under the CCI. According to the law on Using the Services of Professional Accountants (USPA), ratified in 1994, the public joint stock company as well as branches of foreign companies are obliged to use services of institutional accountants.

In addition, the **Principles of Corporate Governance (PCG)** that were ratified by the Stock Exchange of Tehran in November 2007 are aiming at promoting trust by increasing the liabilities of the board of directors to other stakeholders through general rules of corporate governance. In order to foster governance, supervision and transparency, the PCG stipulates the creation of four committees, i.e. the management, accounting, risk management and reimbursement committee in the company. In addition, the PCG foresees a possibility to provide insurance coverage for managers and/or the CEO if they become liable when operating the company. The PCG becomes obligatory in the company subject to ratification by the board of directors.

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