Iranian Code of Corporate Governance (2nd Edition Draft, 2005)[1]

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Chapter one: definitions

Article 1: Words and phrases defined in the first article of ―the securities market law of Islamic republic of Iran, if used, shall have the same meaning in this instruction. Other words and phrases are defined as following:

1. Independent director: a real person who is the member of the board and is not:
   a. elected by or representative of main shareholder or shareholders
   b. elected by or representative of shareholders who comprise more than 50 percent of attendances in the general assembly of shareholders
   c. partner of the company or associated companies and main shareholders
   d. having any business deals with company or associated companies and main shareholders
   e. a member of the board of director of the company or associated companies for more than three consecutive periods
   f. holding any executive responsibility or employment relationship with company or associated companies
2. Non-executive director: a director who holds no executive responsibility or employment relationship with company
3. Main shareholder: a person who directly, or alongside affiliated individuals, has considerable influence on and control over company
4. Minority shareholder: that who is not a main shareholder
5. Control: steering ability of financial and operational policies of a business unit, in order to attain economic benefits from its activities
6. Company: a business unit with one or more associated business units
7. Associated company: a business unit which is under control and influence of the company
8. Affiliated entities: that who is:
   a. Directly or indirectly, and through one or more intermediaries:
      i. Is in control or is controlled by the business unit (including the main business unit, associated business units)
      ii. Considerably influential on business unit
   b. An affiliated business unit of the unit
   c. In special partnership with the business unit
   d. Key executive of business unit
   e. Connected with either of the aforementioned (cases a to d) on the basis of family relationship

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1-You can see the summary of the second edition of *Iranian codes of corporate governance (2005)* at the Appendix A of the below article and you can also cite it as below:
Mashayekhi, B., & Bazaz, M. S. (2008). Corporate governance and firm performance in Iran. *Journal of Contemporary Accounting & Economics*, *4*(2), 156-172.

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f. is directly or jointly controlled or highly influenced by those mentioned in d and e, or a big share of the voting share is directly or indirectly in their possession

g. controlling the business units' special pension plans for the dependant, independent employer and under controlled sub units

9. Disclosure: sending information to SEO and timely dissemination of information as in criteria and guidelines of companies registered

Chapter two: Board of Directors

The number of directors on board should be such, to facilitate productive discussions, rational decision-making and sufficient monitoring of the corporations affairs. The majority of the members of the board should be non-executive members and independent members should comprise of not least than 20 percent of all board members.

Article 2: non-executive to become executive members, alongside the observance of this article, is only possible after the resolution of the board and the beneficiary director has no voting rights.

Article 3: the board should have at least one independent financial member. The independent financial member should have financial credentials (accounting, financial management, economics, or other related managerial certifications with financial orientation) with related experience.

Article 4: chairman of the board shall be elected from among the non-executive board members

Article 5: Board members shall not hold the managing directors position or executive board member position in any other company. Real executive or non-executive board members, originally, or as a representative of a legal person, can on utmost four other organizations serve as board members.

Article 6: the board should have a board secretary office responsible of arranging and documenting board sessions, collecting required information, providing expertise and ensuring adherence to legal obligations by the board.

Note: the documents and information's related to this article should immediately and without any restraint be provided to the corporate secretary.

Article 7: the corporate secretary is in charge of the corporate secretary office. The secretary is proposed by the chairman and elected and appointed by the board and is directly responsible to the chairman. Individuals who are not board members can also be appointed as the corporate secretary.

Note: the role of corporate secretary is not considered executive responsibility or employment relationship

Article 8: corporate secretary should be present at all board meetings. Preparing the minutes, documenting resolutions of board, follow up of the resolutions and reporting on the implementation of the resolutions are the corporate secretary's responsibility. The corporate secretary is obliged to document all board resolutions and a brief of discussions as of number and date in a registry book.

Note: administrative procedures of the corporate secretary office should be suggested by the corporate secretary and approved by the board and implemented.

Article 9: the board should at least have monthly sessions. The quorum of the meetings and the ways by which resolutions are reached should be stated in the statute of the organization. The board shall report on the number of board meetings and the attendance rate of each director in the annual report of the general assembly of the shareholders.

Article 10: board meeting agenda is selected and based upon director's suggestions. Prioritizing issues suggested is on the chairman. If the majority of board members have a different opinion regarding the prioritization of issues, prioritization should be based on the majorities‘opinion.

Article 11: The board is obliged to, by adhering to laws and regulations, protect the shareholders rights including:

1. The right to attend and vote at the general assembly
2. The right of regular, complete and timely access to the organizations information
3. The right of possession and ownership of the shares
4. The right of shared profits
5. The right of timely receive of profits

Article 12: the board should employ methods to ensure that persons with companies‘secret information cannot use this information to trade securities of the main company or affiliated companies. According to this, the company should engage proper methods of control and oversight to prevent these kinds of trade. Upon discovering a case of trade based on these information, it should be communicated to shareholders properly.

Article 13: The fiduciary duties of board of directors include the following:

1. Selection of CEO, Deputy CEO and board members of member/subsidiary companies and oversight of their work
2. Determining remuneration, rewards and compensation of CEO and Deputy CEO
3. Approving strategic plans, executive plans, bylaws and internal rules of the company
4. Identifying the major risks of the company and making sure of having proper systems to manage such risks
5. Approving material transactions with related-parties while the related director cannot vote regarding this decision. Transactions bylaw approved by board of directors determines the limitations on material transactions.
6. Approving of material transactions of intangible and tangible fixed assets and major investments according to Transactions bylaw and Borrowing bylaw
7. Approving the policies on pricing, sales condition, mortgages and collateral sharing for
loans, and deciding on company‘s rights
8. Verifying the information presented to legal and regulatory authorities including TSE and SEO

Article 14: the board should form board specialized committees in presence of non-executive and independent board members and external consultants to handle significant issues like accounting, financial reporting and auditing, appointing, remuneration and rewards compensation, material transactions and investments. Formation of audit committee based on instructions in this code is mandatory and formation of other committees is due to board‘s opinion. On relevant discussions and topics, after analysis in committees and stating the committee‘s opinion or comments, final decision would be made on the board. List of fiduciary duties and responsibilities of each committee should be drafted and approved by board of directors.

Article 15: The board should appoint an auditing committee comprising of at least five members, the majority of whom should be independent or non-executive directors. The head of the audit committee should be the independent financial member of board. At least one other member of the board should have financial literacy and experience.

Article 16: board resolutions on responsibilities of the audit committee should include the following:

1. Assure timely report of annual and interim reports and other important information of the company
2. Assure compliance to accounting standards and other legal obligations
3. Supervise selection and modifications of accounting procedures according to accounting standards
4. Supervise main estimates and important adjusting in annual and interim reports
5. Propose selection, continuation or change of external auditor
6. supervise independent director‘s contract and implementation of its content
7. Negotiate with the external auditor and legal inspector on auditing procedures and, if required, assure conformity of company‘s audit report with associating companies auditing reports and conformity of all auditing reports provided by all auditing firms if more than one auditing firm is engaged.
8. Ensure reasonable assurance regarding the independency of auditor and effectiveness of audit process in the framework of professional behavior performance
9. Ensure reasonable assurance on professional services provided by external auditors, based on external auditors' code of ethics
10. Review the independent audit report and following the management performance in response to it
11. Ensure reasonable assurance on the establishment of, and supervision on, a beneficial internal control system
12. Supervise internal auditors and ensure reasonable assurance regarding the effectiveness of internal audit processes
13. Propose to the board the appointment, extending or dismissal of the internal audit manager
14. Propose to the board the auditing fee and all compensations and bonuses of all the internal audit unit staff members or internal audit contracts
15. Ensure reasonable assurance of the availability of a company‘s code of ethics, and the
executive management‘s commitment to it
16. Control deals with people related to company or associated companies
17. Ensure reasonable assurance, the availability and access of all information and resources required, to both internal and external auditors
18. Investigate other issues outlined by the board

Article 17: The audit committee should have explicit authority to investigate any matter within its terms of reference, the resources to do so and full access to information. The committee should be able to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.

Article 18: The audit committee should meet regularly, with due notice of issues to be discussed, and should record its conclusions in discharging its duties and responsibilities. The board should, in their report to the general assembly, disclose in an informative way, details of activities of the audit committee, number of audit meetings held in a year, details of attendance of each member of the audit committee in respect of meetings .

Article 19: the audit committee can invite other board members, head of internal audit and the representative of external auditor to the audit committee meetings. However, the committee should meet with the external auditors without executive board members present at least twice a year.

Article 20: the board can appoint a nomination committee with at least 3 members the majority of whom should be selected from independent or non-executive board members. The head of this committee should be a independent board member.

Article 21: regulations approved by the board on the duties and responsibilities of the nomination committee should include the following:

1. Recommend to the board, directors to fill the seats in board committees
2. Recommend to the board candidates for directorships
3. Recommend appointing or dismissal of chief executive officer and top managers of the company and the board of associated companies
4. Recommend education programs to each new board member, chief executive officer and top manager for orientation purposes.

Article 22: the board should implement a process, to be carried out by the nominating committee annually, for assessing the effectiveness of the board as a whole, the committees of the board, each individual director as well as the chief executive officer. All assessments and evaluations carried out by the nominating committee in the discharge of all its functions should be properly documented.

Article 23: the board should establish an internal audit function and identify a head of internal audit who reports directly to the audit committee. The head of internal audit will be responsible for the regular review and/or appraisal of the effectiveness of financial and operational affairs, risk management, internal control and governance processes within the company.

Article 24: the internal audit should be performed according to international auditing standards and remain independent of activities they audits. The board should determine the remit of the internal audit function based on the audit committee recommendation.

Article 25: the board should establish a sound internal control system in order to safeguard assets, carryout reporting, and also adhere to rules and regulations. The board should, at least once a year, review the internal control system and report to shareholders. The external auditor should deliver his notes on this report in the general assembly.

Chapter three: General Assembly of Shareholders

Article 26: at least one of the board members should be elected in the general assembly by minority shareholders

Article 27: the board should prior to the general assembly meeting, establish a function to review and approve the ownership or representation of participants in the meeting

Article 28: the annual financial report, activities report and general situation and the reports of
the legal investor and external auditor should be uploaded on the company‘s website ten days prior to the general assembly meeting. The financial reports approved in the general assembly should also be uploaded to the website and disseminated through one of the major newspapers ten days after the general assembly.

Article 29: majority of board members should be present at the general assembly meeting from the start. Those absent should provide their reasons of absence to the board of the assembly in written as for the board to inform shareholders the reasons at the beginning of the meeting

Article 30: when decision makings in the general assembly, shareholders should have the right to exercise their vote whether present or absent (through formal representation or security trusty)

Article 31: non-executive directors‘right to attend and bonuses of each of the directors should be determined in the general assembly

Article 32: sufficient and reasonable time should be allocated to questions and answers of shareholders and boards in the general assembly

Chapter four: Accountability and Disclosure

Article 33: the board should establish a function in order to ensure full conformity with requirements of Islamic Republic of Iran‘s securities market act and other related rules and regulations on information disclosure

Article 34: after providing the information relevant to this chapter to the securities and exchange organization, the board should publicize this information through the company‘s website

Article 35: the full name and profile of the board directors and executive director, their being dependent or independent, executive or non-executive, amount of their stock ownership in the company, other directorships and also all their receivables from company or associated companies including compensations and bonuses-if provided- shall be disclosed in the general assembly of shareholders, to the shareholders and in a separate note.

Article 36: the board should provide shareholders with a separate note on the company‘s observance to Corporate Governance principles covered in this guideline, in their report in the general assembly

Chapter five: Frauds and Penalties

Article 37-38: This chapter covers manager and company fraud and penalties.[3]

[3]- The second edition of Iranian codes of corporate governance(2005) has 38 articles as you can see in this document, however, it has been reviewing since 2005 and the last draft version of that is the 4th edition (2014), which has 6 chapters and 42 articles and is originally in Persian.