



**CENTRAL BANK OF
THE ISLAMIC REPUBLIC OF IRAN**

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*THE MONETARY AND BANKING LAW
OF IRAN*

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THE MONETARY AND BANKING ACT*

PART ONE – THE CURRENCY

ARTICLE 1

- (a) The Unit of Iranian Currency is the Rial. One Rial is equal to one hundred Dinars.*
- (b) One Rial is equal to 0.0108055 (zero point zero one zero eight zero five five) gramme of fine gold.*
- (c) Changes in the parity of the Rial in relation to gold shall be effected upon the recommendation of Bank Markazi Iran, the agreement of the Minister of Finance, the approval of the Council of Ministers, and the ratification of the Finance Committees of the Houses of Parliament.*
- (d) The parity of foreign currencies in relation to the Rial, as well as the buying and selling rates of foreign exchange, shall be computed and determined by Bank Markazi Iran in compliance with the country's obligations towards the International Monetary Fund.*

ARTICLE 2

- (a) The Currency of Iran shall be in the form of notes and coins.*
- (b) Only such notes and coins as are in circulation at the time this Act is passed, or are issued thenceforth under the provisions of this Act, shall have currency and be legal tender.*
- (c) The settlement of any committed indebtedness or liability can only be effected in the currency of the country, unless other arrangements are made between debtor and creditor in conformity with the Foreign Exchange Regulations of the country.*
- (d) Gold coins shall not be legal tender.*
- (e) Regulation concerning the import and export of gold and silver shall be effective upon the recommendation of the Governor of Bank Markazi*

* This is not an official translation of the Persian text of the law.

Iran, the agreement of the Minister of Finance and the approval of the Council of Ministers.

- (f) The denomination, form, material, colour, size, design and other specifications of notes and coins in circulation shall be determined upon the recommendation of the Governor of Bank Markazi Iran and the approval of the Minister of Finance, with due regard to the provisions of this Act. The quantity of the coins shall be determined upon the recommendation of the Governor of Bank Markazi Iran and the agreement of the Minister of Finance.*
- (g) Notes shall bear the signature of the Minister of Finance and the Governor of Bank Markazi Iran.*

ARTICLE 3

- (a) The Government is the sole authority having the right of issuing notes and coins and this right is hereby vested exclusively in Bank Markazi Iran Subject to the provisions of this Act.*
- (b) The maximum value to which coins may be used in the discharge of debts, as well as the manner in which notes and coins are called in and the conditions under which they are withdrawn from circulation shall be determined by Bank Markazi Iran, subject to confirmation by the Currency and Credit Council and the approval of the Minister of Finance, and shall be communicated to the public through the official Gazette, at least one of the mass-circulation daily papers of the Capital, and the radio and television networks.*

ARTICLE 4

- (a) The obligation of Bank Markazi Iran in respect of issued notes and coins shall be restricted to the payment of value in the currency of the country.*

- (b) Bank Markazi Iran shall not be liable or responsible in any manner for any theft, loss, or destruction of notes and coins held by the public.*
- (c) Bank Markazi Iran shall, for a period of no less than ten years, replace with current notes and coins the notes and coins which are withdrawn from circulation according to Section b of Article 3 of this Act and which are no longer legal tender. Upon the expiry of the said period, Bank Markazi Iran shall have no obligation to replace such notes and coins and the value of notes and coins by then not presented to Bank Markazi Iran for replacement shall be credited to the account of the Treasury.*

ARTICLE 5

- (a) Bank Markazi Iran shall at any time have at its disposal the following assets, as not cover, equivalent to one hundred per cent of the notes issued:*
- 1- Gold, according to Article 6.*
 - 2- Foreign exchange, according to Article 7.*
 - 3- Securities and bonds according to Article 8 and 9.*
- (b) The sum total of the assets referred to in Subsections 1 and 2 of Section (a) of this Article shall at no time fall below 25 per cent of the total value of the liabilities of Bank Markazi Iran on account of the notes issued.*

NOTE

The assets referred to in this Article shall be valued at purchase price if such price is lower than nominal value, or at nominal price if purchase price is higher than nominal value.

ARTICLE 6

Gold assets referred to in Subsection (1) of Section (a) of Article 5 shall consist of:

- (a) Gold bullion, gold coins in the Bank vaults, and gold deposited with foreign banks and international institutions;*
- (b) Gold delivered under relevant statutes to the International Monetary fund, the International Bank for Reconstruction and Development and similar or affiliated institutions as quota or subscription.*

ARTICLE 7

The foreign exchange assets, referred to in Subsection (2) of Section (a) of Article 5, shall (with due regard to the Note forming part of this Article) consist of:

- (a) Convertible foreign bank-notes, acceptable to Bank Markazi Iran;*
- (b) Foreign exchange claims falling due in not more than six months;*
- (c) Any payments made under relevant statutes to the International Monetary Fund, the International Bank for Reconstruction and Development and similar or affiliated institutions as quota or subscription;*
- (d) Securities issued or guaranteed by official international organizations or their affiliates;*
- (e) Securities issued or guaranteed by foreign governments;*
- (f) Claims on foreign countries, in foreign exchange or Rials convertible in to foreign exchange, acquired through the implementation of international agreements for payment and/or barter, within the limits provided in such agreements;*
- (g) Commercial bills in convertible foreign exchange, falling due in not more than six months, drawn on foreign persons, natural or legal, bearing three first class signatures, one necessarily that of the ceding bank;*
- (h) Foreign bills and securities convertible in to currencies acceptable to Bank Markazi Iran;*
- (i) Special Drawing Rights holdings with the International Monetary Fund, in accordance with the relevant laws.*

NOTE

Foreign exchange, bills, and foreign exchange claims referred to in this Article shall be in convertible currencies acceptable to Bank Markazi Iran.

ARTICLE 8

Government bills and securities referred to in Subsection (3) of Section (a) of Article 5 shall consist of:

- (a) Treasury Bills and Bonds issued by the Government or guaranteed by the ministry of Finance, provided legal authorization is obtained for their issuance or guarantee;*
- (b) Bank Markazi Iran's claims on Ministries, government agencies and municipalities and on agencies affiliated to the Government and/or municipalities operating on a commercial basis, provided such claims are guaranteed by the ministry of Finance.*

NOTE

The Crown Jewels, as set forth in the Act dated 25th Aban 1316, shall be collateral for all undertakings resulting from the implementation of this Article. Bank Markazi Iran is charged with the keeping and protection of the Crown Jewels, which may only be used in accordance with the provisions of this Act and under the supervision of the Note-Reserve Control Board.

ARTICLE 9

Non-government securities referred to in Subsection (3) of Section (a) of Article 5 shall consist of:

- (a) Transferable commercial bills in rials bearing three first class signatures one necessarily that of the ceding bank, falling due within one year;*
- (b) Other short-term claims in rials secured by gold bullion or coins or other assets referred to in Article 7 falling due within one year.*

PART TWO – BANK MARKAZI IRAN

Chapter 1- General

ARTICLE 10

- (a) Bank Markazi Iran shall be responsible for the formulation and implementation of the monetary and credit policies with due regard to the general economic policy of the country.*
- (b) The objectives of Bank Markazi Iran are to maintain the value of the currency and equilibrium in the balance of payments, to facilitate trade transactions, and to assist the economic growth of the country.*
- (c) Bank Markazi Iran has legal entity and shall be subject to the rules and regulations pertaining to joint-stock companies in matters not provided for by this Act.*
- (d) Unless specifically stipulated by Law, Bank Markazi Iran shall not be subject to the general laws and regulations applying to ministries, government corporations and agencies and agencies affiliated to the Government, nor to the provisions of the banking section set forth in this Act.*
- (e) The capital of Bank Markazi Iran is five thousand million rials which is fully paid up and wholly owned by the Government and is made up of the Bank's previous capital, the difference gained through the implementation of Article (1) of this Act, and the Bank's reserves. The Bank's capital may be increased upon recommendation of its General Meeting and the approval of the Council of Ministers;*
- (f) The headquarters of Bank Markazi Iran shall be in Tehran but may, should the interests of the country so require, be transferred elsewhere with the approval of the Council of Ministers.*
- (g) Bank Markazi Iran may at its discretion open branches wherever necessary, appoint Bank Melli Iran to act as its agent or, where Bank Melli Iran has no branch or agency, appoint another bank as agent;*

- (h) *Bank Markazi Iran may only be liquidated through appropriate legislation.*

Chapter 2- Functions and Powers

ARTICLE 11

Bank Markazi Iran, as the authority responsible for the monetary and credit system of the country, shall fulfill the following functions;

- (a) Issuance of notes and coins constituting the currency of the country according to the provisions of this Act;*
- (b) Supervision of banks and credit institutions according to the provisions of this Act;*
- (c) Formulation of regulations pertaining to foreign exchange transactions, commitments and guarantees with the approval of the currency and credit council, and also control of foreign exchange transactions;*
- (d) Control of gold transactions and formulation of regulations pertaining to such transactions with the approval of the Council of Ministers;*
- (e) Control of the outflow and the repatriation of Iranian currency and formulation of regulations pertaining thereto with the approval of the Currency and Credit Council.*

ARTICLE 12

Bank Markazi Iran, as banker to the Government, shall fulfill the following functions.

- (a) Keeping of the accounts of ministries, government agencies, agencies affiliated to the government, government corporations and municipalities, as well as organization more than half of whose capitals are held by ministries, government agencies, agencies*

affiliated to the government, government corporations or municipalities, and also handling of all their banking transactions at home and abroad.

- (b) Sale of all types of Government Bonds and Treasury Bills and repayment of principal and payment of interest thereof as the agent of the Government, with the right to transfer such agency to individuals or other organizations;*
- (c) Custody of the country's foreign exchange and gold reserves;*
- (d) Maintenance of funds in rials for the International Monetary Fund, the International Bank for Reconstruction and Development, the International Finance Corporation, the International Development Association and similar institutions or their affiliates.*
- (e) Concluding payments agreements in the execution of monetary, financial, trade and transit agreements between the Government and foreign countries;*

NOTE 1

Ministries, municipalities, government corporations, and organizations referred to in Section (a) of this Article shall deposit their funds exclusively with, and conduct their banking transactions through, Bank Markazi Iran shall furnish Bank Markazi Iran with such information as it may require in the fulfillment of its functions;

NOTE 2

Ministries, corporations, and organizations which, under special laws, are authorized to conduct their banking transactions through other banks, shall not be subject to the provision of Section (a) and the first part of Note (1) of this Article.

ARTICLE 13

Bank Markazi Iran shall be vested with the following powers:

- 1- Granting of loans and credits to ministries and government organizations, subject to legal authorization;*

- 2- *Guarantee of commitments made by the Government, ministries or government organizations, subject to legal authorization;*
- 3- *Granting of loans and credits to, and guarantee of loans and credits obtained by, government corporations and municipalities and organizations affiliated to the government or municipalities against adequate collateral;*
- 4- *Rediscounting drafts and short-term commercial bills presented by other banks and granting of credits to banks against adequate collateral;*
- 5- *Purchase and sale of Treasury Bills and Government Bonds as well as bonds issued by foreign governments or accredited international financial organizations;*
- 6- *Purchase and sale of gold and silver;*
- 7- *Opening and maintaining current accounts with foreign banks, maintaining accounts for domestic and foreign banks, carrying out all other authorized banking operations, and securing credits at home and abroad on its own account or on behalf of domestic banks.*

NOTE 1

Granting of loans and credits to, and guarantee of loans and credits obtained by, ministries and government agencies shall be subject to reciprocal guarantee by the Ministry of Finance.

NOTE 2

Regulations pertaining to the implementation of this Article shall be presented to the Currency and Credit Council for approval.

ARTICLE 14

Bank Markazi Iran shall, for the proper implementation of the monetary system, have the authority to intervene in and supervise monetary and banking affairs as follows:

- 1- *By determining the official rediscount rate and loan interest rates which may vary according to the type of loan, bill or document.*
- 2- *By determining, for different categories of banks according to their operations or on the basis of other criteria at its own discretion, the ratio of the bank's liquid assets to their total assets or to their different types of liabilities.*
- 3- *By determining the ratios of, and the rates of interest payable on, the legal deposits of banks at Bank Markazi Iran. The said ratios may differ according to the structures and activities of the banks, but shall at no time fall below ten or exceed thirty percent.*
- 4- *By determining the maximum and minimum rates of interest and charges receivable or payable by banks.*
- 5- *By determining the ratio of the sum-total of paid up capital and reserves of banks to their different types of assets.*
- 6- *By determining the maximum amount of commitment on the part of banks emanating from opening letters of credit, effecting endorsements or issuing guarantees, as well as the type and amount of collateral for such commitments.*
- 7- *By determining the terms and conditions pertaining to hire-purchase transactions financed by banks.*
- 8- *By formulating regulations governing the opening of current, savings and other accounts.*
- 9- *By determining the types and amounts of prizes and other incentives offered by banks to attract current or savings deposits as well as rules relating to publicity in this respect.*
- 10- *By auditing the accounts and documents and inspecting the operations of banks and obtaining information and statistics from them with due regard to the principles of professional secrecy.*

- 11- By limiting the activities of banks to one or more specific areas of operation whether temporarily or permanently;*
- 12- By determining the manner in which savings and similar deposits with banks may be utilized.*
- 13- By determining the maximum aggregate amount of overall loans and credits granted by banks or the maximum amount of their loans and credits in each specific field.*
- 14- By determining the general conditions under which banks may obtain loans from individuals or issue certificates of deposit.*
- 15- By applying Sections 1 to 14 of this Article to non-banking credit institutions and formulating regulations there-for.*

NOTE

Application of the authority granted through this Article shall be subject to the prior approval of the Currency and Credit Council.

ARTICLE 15

The Governor of Bank Markazi Iran shall represent the Government at the International Monetary Fund. Bank Markazi Iran shall act as intermediary between the Government and the International Monetary Fund, the fulfilment of all functions and duties and the application of all authority vested in Bank Melli Iran under the law Authorizing Participation of the Government of Iran in the International Monetary Fund being hereby transferred to Bank Markazi Iran.

Chapter 3- Organization

ARTICLE 16

Bank Markazi Iran is composed of the following organs:

- I- The General Meeting;*
- II- The Currency and Credit council;*
- III- The Executive Board;*

IV- The Note Reserve Control Board;

V- The Supervisory Board.

I - The General Meeting;

ARTICLE 17

- (a) – The General Meeting of the Bank is composed of the Minister of Finance, the Minister of Economy and one other Minister, appointed by the Council of Ministers, representing the Government. The Minister of Finance shall be the Chairman of the General Meeting;*
- (b) Members of the other organs of the Bank shall attend the General Meeting and participate in the discussions but shall have no votes;*
- (c) The General Meeting shall have the following functions;*
- 1- To consider and approve the Balance Sheet of Bank Markazi Iran;*
 - 2- To consider reports submitted by the Supervisory Board and decide upon the points raised therein;*
 - 3- To consider and approve the recommended appropriation of the net profit;*
 - 4- To elect the members of the Supervisory Board upon the recommendation of the Minister of Finance;*
 - 5- To fulfil other functions entrusted to it under the provisions of this Act.*
- (d) The General Meeting shall be held at least once every year at the latest by the end of Tir of the next year. Other General Meetings may be held at the discretion of the Minister of Finance, or upon recommendation of the Governor of Bank Markazi Iran and invitation by the Minister of Finance;*
- (e) The presence of all voting members and the Governor of Bank Markazi Iran, or his Deputy, shall be essential for any discussions and decisions in General Meetings;*

(f) Resolutions of the General Meeting shall be effective with a majority vote.

II - The Currency and Credit council;

ARTICLE 18

(a) In order to be in a position to consider and decide on the general policy of Bank Markazi Iran and to supervise the monetary and banking affairs of the country, the Currency and Credit Council shall:

- 1- Examine and approve the organization, budget, employment code and internal regulations of Bank Markazi Iran;*
- 2- Examine and comment on the Balance Sheet of Bank Markazi Iran in preparation for the discussions at the General Meeting;*
- 3- Review and approve the regulations drawn up under the provisions of this Act;*
- 4- Comment upon the banking, monetary and credit issues of the country as well as bills concerning loans, credit guarantees, and on any other issues referred to the Council by the Government;*
- 5- Give consultative views and advice to the Government on banking, monetary and credit issues which, in the Council's opinion, may bear upon the economic conditions and especially the credit policy of the country;*
- 6- Comment on any other issues referred to it within the framework of this Act by the Governor of Bank Markazi Iran.*

(b) The Currency and Credit Council shall be composed of:

- 1- The Governor of Bank Markazi Iran;*
- 2- The Prosecutor General;*
- 3- One of the Undersecretaries of the Ministry of Finance designated by the Minister of Finance;*
- 4- One of the Undersecretaries of the Ministry of Economy designated by the Minister of Economy;*

- 5- *Head of the Budget Bureau;*
- 6- *President of the Chamber of Commerce, Industry and Mines;*
- 7- *Managing Director of the Bankers' Association (Article 38 of this Act);*
- 8- *Two experts in financial and monetary matters accepted and appointed by the Minister of Finance;*
- 9- *One expert in commercial and industrial matters accepted and appointed by the Minister of Economy;*
- 10- *One expert in agricultural matters accepted and appointed by the Minister of Agriculture;*

NOTE 1

The Governor of Bank Markazi Iran shall be the Chairman of the Currency and Credit Council.

NOTE 2

The experts mentioned in Subsections 8, 9 and 10 of Section (b) of this Article shall be appointed to the membership of the Council for a period of two years and shall be eligible for reappointment.

NOTE 3

In case of resignation, death, disqualification or incapacitation for membership in the Council of any of the experts mentioned in Subsections 8, 9 and 10 of Section (b) of this Article another person shall be appointed for the remaining term of office in the manner prescribed;

- (c) *The Council shall convene at the invitation of the Governor of Bank Markazi Iran or at the request of not less than three of its members, and shall discuss issues raised by the Governor or the members who have requested the meeting;*
- (d) *Meeting of the Council shall attain quorum with the presence of eight members, recommendations and decisions becoming effective with a minimum of six votes out of those present;*

- (e) The Council may invite experts for consultation;*
- (f) Members of the council and those invited for consultation shall treat the proceedings of the meetings as strictly confidential except where legally called upon to divulge information or to stand witness;*
- (g) For attendance at the meetings, members of the Council shall receive a fee the amount of which shall be determined upon the recommendation of the Governor of the Bank and the approval of the General Meeting;*
- (h) Before assuming office, members of the Currency and Credit Council shall take oaths in the General Meeting to exercise utmost care and impartiality in fulfilling the functions entrusted to the Council, and to the effect that all measures they adopt shall be in the interest of the country and that they shall treat as strictly confidential all matters relating to the Bank and the Council.*

III - The Executive Board;

ARTICLE 19

- (a) – The Executive Board of the Bank shall consist of a Governor, a Deputy Governor, a Secretary General, and three Vice Governors each with powers and responsibilities as specified in this Act;*
- (b) 1. The Governor of Bank Markazi Iran, as the Bank's highest executive and administrative authority, shall be responsible for all the affairs of the Bank excluding such responsibilities as have been entrusted to the other organs of the Bank under the provisions of this Act;*
 - 2. The Governor of Bank Markazi Iran shall be responsible for the proper conduct of the Bank's affairs and the implementation of this Act and the regulations relating thereto;*
 - 3. The Governor of Bank Markazi Iran shall represent the Bank before all official bodies, local and foreign, with the right of attorney;*
 - 4. The Governor may delegate part of his powers to members of the Executive Board and the Bank's employees and empower them to sign on his behalf;*

- 5. The Governor of Bank Markazi Iran shall be appointed to office by Royal decree for a term of five years upon the recommendation of the Minister of Finance and the approval of the Council of Ministers and shall be eligible for reappointment;*
- (c) The Deputy Governor of the Bank shall be appointed to office by Royal Decree for a term of five years upon the recommendation of the Governor of Bank Markazi Iran, the agreement of the Minister of Finance and the approval of the Council of Ministers, and shall be eligible for reappointment. The scope of authority of the Deputy Governor of Bank Markazi Iran shall be determined by the Governor and in the case of the Governor's absence, resignation, hiatus or death, the Deputy Governor shall wield all the powers of the Governor;*
- (d) The Secretary General of the Bank shall be appointed to office upon the recommendation of the Governor of Bank Markazi Iran and the approval of the General Meeting and shall also be responsible for the Currency and Credit Council Secretariat. The Secretary General of the Bank shall send the minutes of the Currency and Credit Council meetings to the Ministers of Finance and Economy for their information;*
- (e) The Vice Governors of the Bank shall be appointed by the Governor of Bank Markazi Iran who shall also determine their duties.*

ARTICLE 20

- (a) – The General Meeting shall determine the remunerations of the Governor and the Deputy Governor of Bank Markazi Iran, such remuneration being payable out of the Bank's budget;*
- (b) Remunerations of the Secretary General and the Vice Governors of the Bank shall be determined by the General Meeting upon the recommendation of the Governor and shall be paid out of the Bank's budget.*

- (c) Before assuming office, the Governor, Deputy Governor, Secretary General and Vice Governors of the Bank shall take oaths in the General Meeting to treat as strictly confidential all matters relating to the Bank and to perform their statutory duties to the best of their abilities;*
- (d) During their terms of office, members of the Executive Board shall be subject to the Act concerning Non-participation of Ministers, Members of Parliament and Government Employees in Government and State Transactions, and shall not own shares in banks or in private credit institutions;*
- (e) During their terms of office, members of the Executive Board may not hold remunerated positions in government or private organizations;*
- (f) The Governor and Deputy Governor of Bank Markazi Iran may accept non-remunerated positions in charitable and philanthropic institutions only and as lecturers at universities or institutes of higher education with the approval of the General Meeting. Other members of the Executive Board may accept similar positions with the approval of the Governor of Bank Markazi Iran.*

IV - The Note Reserve Control Board;

ARTICLE 21

- (a) – The Note Reserve Control Board shall be responsible for supervising the proper execution of the provisions of Article 5 of this Act through taking delivery of and safeguarding newly-printed bank notes, keeping records of the assets referred to in Article 5, maintaining inventories for the Crown Jewels and formulating regulations pertaining to their exhibition and controlling their transfer in and out of the Bank vaults, and finally supervising the destruction of the notes withdrawn from circulation;*
- (b) The Note Reserve Control Board shall be composed of:*
 - 1- Two Senators nominated by the Senate;*

- 2- *Two Majlis Deputies nominated by the Majlis;*
- 3- *The Governor of Bank Markazi Iran;*
- 4- *The Prosecutor General;*
- 5- *The Treasurer General;*
- 6- *The Head of the Government Auditing Tribunal;*
- 7- *The Chairman of the Supervisory Board.*

NOTE

The Senators and Majlis Deputies shall be appointed to the Board for a period determined by the respective Houses of Parliament but shall remain on the Board until such time as their successors are appointed.

- (c) *Regulations pertaining to the execution of the duties entrusted to the Note Reserve Control Board shall be formulated and put into practice by the Board itself;*
- (d) *For their attendance of Board meetings members of the Note Reserve Control Board shall be remunerated at a rate to be determined upon the recommendation of the Governor of the Bank and the approval of the General Meeting.*

V - The Supervisory Board.

ARTICLE 22

- (a) – *The Supervisory Board shall be responsible for auditing the accounts and commitments of Bank Markazi Iran, and shall express its opinion as to the accuracy of the said accounts and commitments;*
- (b) *The duties of the Supervisory Board shall be as follows:*
 - 1- *To audit the annual Balance Sheet of Bank Markazi Iran and to prepare a report thereon for the Annual General Meeting;*
 - 2- *To audit the detailed lists of assets and liabilities of the Bank and to audit and certify for publication the summary of its accounts;*

3- To inspect the operations of the Bank in order to ensure that they conform with legal requirements

- (c) The Supervisory Board shall be composed of a Chairman and four members selected from amongst qualified auditors or persons well versed in accountancy or banking with not less than 10 years of experience, appointed for two years on the recommendation of the Minister of Finance and the approval of the General Meeting and eligible for reappointment;*
- (d) The Chairman of the Supervisory Board shall, in the capacity of an intermediary submit appropriate reports on the Bank's activities and current decisions to the Minister of Finance.*

NOTE

The Supervisory Board, in the performance of the aforesaid duties, may inspect all the documents pertaining to the accounts and assets of the Bank, and may have access to all the regulations, decisions and writings of the Bank it deems necessary. The Board may not interfere in the current affairs of the Bank but may submit suggestions to the Governor of Bank Markazi Iran within the scope of its duties.

ARTICLE 23

- (a) Remunerations payable to members of the Supervisory Board shall be determined by the Minister of Finance and shall be payable out of the Ministry of Finance budget;*
- (b) Before assuming office, members of the Supervisory Board shall take oaths before the General Meeting to treat as strictly confidential all matters relating to the Bank and to perform their statutory duties to the best of their abilities;*
- (c) Members of the Supervisory Board shall be subject to the Act concerning Non-participation of Ministers, Members of Parliament and Government Employees in Government and State Transactions;*

- (d) Members of the Supervisory Board may not hold remunerated positions in Government or private organizations during their terms of office.*
- (e) Members of the Board may accept non-remunerated positions in charitable and philanthropic institutions only or as lecturers at universities or institutes of higher education with the approval of the General Meeting;*
- (f) Internal regulations pertaining to the Board's affairs shall be drawn up by the Board itself, and shall be enforceable upon the approval of the Minister of Finance.*

Chapter 4- General Provisions

ARTICLE 24

- (a) – The Bank's fiscal year shall commence on the first day of Farvardin each year and shall end on the last day of Esfand the same year;*
- (b) The Balance Sheet and Profit and Loss Account of the Bank shall be submitted to the Supervisory Board at least one month before the Annual General Meeting;*
- (c) Bank Markazi Iran shall publish a summary statement of its accounts at least once every month.*

ARTICLE 25

- (a) – The net profit of the Bank for each year shall be appropriated as follows:*
 - 1- Income tax, payable to the Public Revenue Account of the Government, on the basis of regulation pertaining to Government Corporations;*
 - 2- Ten per cent of the net profit to the Statutory Reserve Account until such time as the said reserve equals the Bank's capital;*
 - 3- A certain amount, as recommended by the Governor and approved by the General Meeting, to the Contingency Reserve Account;*

- 4- A certain amount, as recommended by the Governor and approved by the General Meeting, to be carried forward;*
- (b) The balance of the net profit, after the appropriation set forth in Section (a) of this Article, shall go to the Government.*

ARTICLE 26

- (a) – The Government shall issue dated bearer Treasury Bills to cover Bank Markazi Iran against probable losses sustained as a result of changes in the legal parity of the Rial in terms of gold or foreign currencies or as a result of force-majeure, and shall place such Bills at the disposal of the Bank;*
- (b) Gains resulting from changes in the legal parity of the Rial in terms of gold or foreign currencies or from force-majeure shall be used to amortise the principal and interest of Government debts to Bank Markazi Iran, and the surplus, if any, shall go to the Treasury;*
- (c) Gains or losses resulting from the execution of the payments agreements subject of Section (e) of Article 12 of this Act shall be for the account of the Government.*

ARTICLE 27

- (a) – All binding documents issued by Bank Markazi Iran shall bear two authorized signatures. Documents relating to the Bank's internal affairs shall not be subject to this requirement.*
- (b) The period of and procedure for preservation of the Bank's documents and books in their originals and also the procedure governing the preparation of films, photo-copies and the like thereof shall be in accordance with regulations to be prescribed by the Currency and Credit Council. Such films, photo-copies, etc., shall, after the lapse of the period prescribed in the said regulations, have the validity of the originals in court.*

ARTICLE 28

Bank notes, gold, silver and coin blanks belonging to Bank Markazi Iran shall be exempt from customs duties and levies, commercial profit taxes and all other taxes or levies.

ARTICLE 29

Where the economic and foreign exchange interests of the country require, Bank Markazi Iran may, with the approval of the Council of Ministers, exempt exporters of one or more types of commodities from submitting Foreign Exchange Undertakings.

PART THREE – BANKING

Chapter 1- Conditions Governing the Establishment of Banks

ARTICLE 30

- (a) – Establishment of banks, engagement in banking operations and the use of the word "Bank" in the title of credit institutions shall be entirely governed by the provisions of this Act;*
- (b) Definition of the term "banking operations" shall rest with the Currency and Credit Council;*
- (c) The establishment of a bank shall require prior approval of its Article of Association by the Currency and Credit Council and a permit from Bank Markazi Iran;*
- (d) Company registration authorities may not act upon an application for registration of a bank in Iran unless the application is accompanied by the permit issued by Bank Markazi Iran and a certified copy of the relevant Articles of Association as approved by the Currency and Credit Council;*
- (e) Any alteration in the Articles of Association of a bank shall require prior approval of the Currency and Credit Council;*

- (f) The establishment and closure of branches, sub-branches or agencies by banks in or out of the country shall be subject to regulations to be approved by the Currency and Credit Council.*

NOTE

Banks which have been established prior to the passage of, and whose Articles of Association do not comply with the provision of, this Act shall modify their Articles of Association to comply with the provisions of this Act within one year of its passage and have the new Articles of Association approved by the Currency and Credit Council.

ARTICLE 31

- (a) – Banks may only be incorporated as public joint-stock companies with registered shares;*
- (b) The Managing Director, the Chairman of the Board of Directors, the majority of the members of the Executive Board and the Board of Directors of Iranian banks shall be Iranian nationals;*
- (c) Any bank over 40 per cent of whose capital belongs to natural persons of foreign nationality or to foreign legal entities, shall, for the purposes of this Act, be regarded as a foreign bank and shall be registered as such. For the purpose of this Article, any legal entity not having 100 per cent of its capital owned by natural persons of Iranian nationality shall be regarded as foreign;*
- (d) Iranian banks may not transfer more than 40 per cent of their shares to foreign nationals or to legal entities not having 100 per cent of their capitals owned by Iranian nationals. Shares of Iranian banks may, under no circumstances, be transferred to foreign governments;*
- (e) As from the date of passage of this Act, foreign banks and foreign non-banking credit institutions engaged in conventional banking operations may be established only with the approval of the Houses of Parliament. A non-banking credit institution is one which does not use the word "bank" in its title but is considered by Bank Markazi Iran as an*

intermediary for the supply and demand of funds and credits whose activities bear upon the volume and distribution of credits.

ARTICLE 32

- (a) – The share capital of banks shall be solely payable in Iranian currency;*
- (b) The minimum share capital of Iranian banks shall be two hundred million rials, wholly subscribed and at least fifty per cent paid up. The paid up capital shall be deposited with Bank Markazi Iran prior to the submission of the application for registration. The minimum capital of foreign banks shall be two hundred million rials wholly deposited at Bank Markazi Iran prior to the submission of the application for registration;*
- (c) Bank Markazi Iran, may, with the approval of the Currency and Credit Council, prescribe the period within which the capital of Iranian banks shall be fully paid up and shall notify the banks for necessary action;*
- (d) Bank Markazi Iran may, with the approval of the Council of Ministers, Increase the minimum amount of the share capital (Section (b) of this Article) for all banks or for banks operating in special fields.*

Chapter 2 – Terms and conditions Governing Banking Operations

ARTICLE 33

- (a) – The ratio of and the rules governing appropriations to the Statutory Reserves of banks as well as the manner in which they may be utilized shall be determined by the Currency and Credit Council. Appropriation to the Statutory Reserves shall not be less than 15 or exceed 20 per cent of the annual net profits. Appropriations to the Statutory Reserve shall be optional once the accumulated total of such Reserve equals the capital of the bank;*

- (b) Should, as a result of losses sustained, the capital of a bank fall below the minimum amount prescribed in this Act, the bank shall restore the minimum capital in the manner determined by the Currency and Credit Council;*
- (c) The Currency and Credit Council shall prescribe an accounting system resulting in a balance sheet which will reflect all the assets and liabilities of the bank. All banks shall follow the system thus prescribed;*
- (d) The rates and methods of depreciation in respect of movable and immovable assets and preliminary and development expenses, as well as the amount of Contingency Reserves of banks, shall be determined by the Currency and Credit Council. All banks shall abide by the requirements thus prescribed;*
- (e) Banks shall have their balance sheets and profit and loss accounts certified by official Accountants;*
- (f) The period of and procedure for preservation of bank's documents and books in their originals and also the procedure governing the preparation of films, photo-copies and the like thereof shall be in accordance with regulations prescribed by the Currency and Credit Council. Such films, photo-copies, etc, shall, after the lapse of the period prescribed in the said regulations, have the validity of the originals in court.*

ARTICLE 34

Banks may not undertake the following operations:

- 1- purchase and sale of goods for trading purposes;*
- 2- dealing in immovable property except in the case of banks established for this purpose;*
- 3- purchase of shares or participation in the capital of any corporate body or purchase of local or foreign securities for their own account in excess of the amount prescribed in special directives and regulations to be drawn up by Bank Markazi Iran;*

- 4- *Granting of credits to members of their own organs and to organizations wherein the said members hold interest, and to other natural persons or legal entities in excess of the limits determined by Bank Markazi Iran in special directives or regulations;*
- 5- *Granting of credits to the members of the organs, heads of departments, and inspectors of Bank Markazi Iran, except as provided in regulations to be approved by the Currency and Credit Council in this respect;*
- 6- *Issuance of sight bills to the order of the bearer.*

NOTE

Acquisition of immovable property in lieu of claims or for the purpose of providing working or living space for bank employees, and dealings in such property in accordance with conditions to be set forth by Bank Markazi Iran shall not be subject to the prohibition prescribed in Section 2 of this Article.

ARTICLE 35

- (a) – *Those convicted of theft, bribery, embezzlement, breach of trust, fraud, counterfeiting and dissimulation, drawing of cheques without cover, bankruptcy through omission or fraud shall be barred from responsible positions of any kind in banks. This restriction shall apply whether conviction has been ordained by local or foreign courts and whether the person in question has been the principal offender or an accomplice;*
- (b) *Directors or managers of one bank may not own shares or accept positions in another bank without permission from Bank Markazi Iran;*
- (c) *Every bank shall be responsible for and shall indemnify losses sustained by its clients as a result of its operations. The Managing director, the Chairman of the Board of Directors, the members of the*

Executive Board and of the Board of Directors of every bank shall be responsible to shareholders and clients for losses incurred through their individual infraction of the provisions of the bank's Article of Association or the provisions of, or the rules and regulations pertaining to this Act.

NOTE

The authority competent to define and adapt rulings issued by foreign courts in connection with Section (a) of this Article shall be the Ministry of Justice.

ARTICLE 36

Bank Markazi Iran shall determine the manner in which balance sheets and profit and loss accounts of banks and credit institutions are to be prepared.

ARTICLE 37

Banks shall comply with the provisions of this Act, and the regulations pertaining thereto, the directives of Bank Markazi Iran issued on the basis of this Act or the regulations pertaining to it, and the provisions of their own Articles of Association.

ARTICLE 38

- (a) – All banks operating in Iran shall be taken to be members of the Bankers Association;*
- (b) The Bankers Association shall have legal entity and be financially independent and shall be managed according to Articles of Association to be approved by the Currency and Credit Council.*

Chapter 3- Liquidation and Bankruptcy of Banks

ARTICLE 39

In any of the following cases, the management of a bank may be entrusted to Bank Markazi Iran, other arrangements be made for its management, or its

operation permit be invalidated upon the recommendation of the Governor of Bank Markazi Iran, the confirmation of the Currency and Credit Council and the approval of a board consisting of the Prime Minister and the Ministers of Finance, Economy and Justice;

- (a) – Where the competent authorities of the bank so request;*
- (b) Where the bank has not commenced its operations within one year of the date of receipt of its establishment permit;*
- (c) Where the bank stops its operations without any justifiable reason, for a period exceeding one week;*
- (d) Where the bank fails to comply with the requirements of this Act and the regulations pertaining thereto, the directives of Bank Markazi Iran issued on the basis of this Act and the regulations pertaining to it, or its own Articles of Association;*
- (e) Where the bank is threatened by insolvency or is proved insolvent.*

NOTE

As from the date its establishment permit is invalidated, a bank shall operate under instructions from Bank Markazi Iran.

ARTICLE 40

The manner in which banks, in cases referred to in Article 39, shall be managed as well as the invalidation of the operation permit, shall be according to regulations to be approved by the Finance committees of the Houses of Parliament.

ARTICLE 41

- (a) – In cases where a bank's failure or bankruptcy is pronounced, the Court shall seek the opinion of Bank Markazi Iran prior to arriving at any decision. Bank Markazi Iran shall submit its views to the Court in writing within one month of the date of receipt of the Court's inquiry. The Court shall take the appropriate decision with due regard to the views of Bank Markazi Iran and the evidence on hand;*

- (b) Liquidation of a bankrupt bank shall rest with the Department of Bankruptcy;*
- (c) In all cases of dissolution or bankruptcy of banks, settlement shall be carried out with the supervision of a representative from Bank Markazi Iran;*
- (d) In the event of a bank's dissolution or bankruptcy, repayment of savings and similar deposits up to a maximum amount of fifty thousand rials and that of current accounts and time deposits up to the same amount shall respectively have first and second preference over all other commitments and preferential debts of the bank.*
- (e) Upon dissolution or bankruptcy, a bank's name shall be deleted from the registers of the Registration Office.*

Chapter 4- Penal and /disciplinary Provisions

ARTICLE 42

- (a) – Unless regulations to be drawn up by Bank Markazi Iran under Article 11 of this Act are complied with purchase or sale of foreign exchange, any banking operation resulting in foreign exchange transfers or commitments, and transfer of Iranian or foreign currency in to or out of the country shall be prohibited. Violators shall be liable for payment of cash fines of up to 50% of the amount involved;*
- (b) The establishment of banks engagement in banking operations and the use of the word "bank" by credit institutions on their titles is prohibited unless provisions in this Act have been complied with. Perpetrators shall be liable to disciplinary confinement of up to six months. Where necessary, the Public Prosecutor may, at the request of Bank Markazi Iran, order temporary closure of the institution until such time as its fate is decided upon by the court.*

NOTE

In the aforesaid cases, penal prosecution shall depend upon charges brought by Bank Markazi Iran.

ARTICLE 43

Banks and credit institutions recognized by the Currency and Credit Council as having failed to observe the ratios referred to in Sections 2, 3, 5, and 6 of Article 14, shall pay an amount equivalent to 12% per annum of the amount involved.

ARTICLE 44

Violation of other provisions in this Act or regulations pertaining thereto, and the directives of Bank markazi Iran issued on the basis of this Act or regulations pertaining to it shall entail the following disciplinary punitive measures;

- 1- Written warning to violating managers or persons in charge;*
- 2- Payment of an amount up to a maximum of two hundred thousand rials per day over the period of violation;*
- 3- Temporary or permanent loss, on the part of the bank or the non-banking credit institution, of the right to engage in certain banking operations. The authority vested with the power to investigate violations referred to in this Article and to issue orders for disciplinary measures shall be the Banks Disciplinary Board which shall be composed of the prosecutor General's representative, one representative from the Bankers Association and one of the members of the Currency and Credit council as nominated by the Council. The Secretary General of the Bank shall act as the prosecuting officer of the Board.*

Orders issued by the Disciplinary Board may be referred to the Currency and Credit Council for reconsideration within ten days of the date the order is served. The Council's verdict shall be final.

NOTE 1

Amounts referred to in Article 43 and in Section 2 of this Article, shall be collected from the bank or institution involved by Bank Markazi Iran and shall be credited to the public revenue account.

NOTE 2

Investigation into and determination of violations, determination of disciplinary measures for each type of violation, application for and methods of reconsideration, and the implementation of decisions by the Disciplinary Board and the Currency and Credit Council shall be on the basis of procedures to be approved by the Currency and Credit Council.

ARTICLE 45

All other legislation and regulations conflicting with the provisions of this Act shall be considered rescinded as of the date of enforcement of this Act. Prevailing laws and regulations considered by the Currency and Credit Council as not conflicting with the provisions of this Act shall continue to prevail until such time as regulations pertaining to this Act are drawn up.

The Act set forth above, comprising forty five Articles and twenty Notes, was passed by the Majlis in its sitting of Sunday, Eighteenth Tir in the Solar year One Thousand Three Hundred and Fifty One subsequent to approval by the Senate in its sitting of Wednesday, 7th Tir, 1351

*Abdollah Riazi
Majlis Speaker*

*BY-LAWS GOVERNIG THE MANAGEMENT OF BANKS
AND THE PROCEDURE FOR THE CANCELLATION OF
BANK PERMITS AS MENTIONED IN ARTICLE 39 OF THE
MONETARY AND BANKING ACT*

As required by Article 40 of the Monetary and Banking Act approved on 18th Tir, 1351 the By-laws governing the management of banks and the procedure for the cancellation of permits issued for their establishment in the cases stipulated in Article 39 of the Monetary and Banking Act are, hereby, approved as follows:

ARTICLE 1

Should the management of a bank be assigned to Bank Markazi Iran in accordance with Article 39 of the Monetary and Banking Act, Bank Markazi Iran may directly manage the bank or, upon the recommendation of the Board mentioned in Article 39, entrust same to other natural or legal person or persons. The natural or legal persons thus entrusted with the management of the bank shall be responsible and shall follow the guide-lines determined by Bank Markazi Iran.

ARTICLE 2

Bank Markazi Iran or the person or persons to whom the management of a bank is assigned shall have all the authority vested in the Board of Directors and the Managing Director by the bank's statutes, the said Board of Directors and Managing Director being divested of all authority in the management of the bank as of the date of assignment. The Board of Directors and the Managing Director shall however, co-operate with the management of the bank in case they are requested to do so.

ARTICLE 3

Should the powers vested in the directors by the statutes of the bank be deemed insufficient by Bank Mariazi Iran for the proper management of the bank,

necessary powers shall be granted with the approval of the Currency and Credit Council and concurrence of the Board mentioned in Article 39 of the Monetary and Banking Act. Furthermore, should a need for additional capital be recognized for the proper management of the bank, the capital increase and the issuance and sale of new shares may be authorized with the approval of the Currency and Credit Council and concurrence of the Board mentioned in Article 39.

ARTICLE 4

Bank Markazi Iran shall determine the remuneration and benefits for the person or persons entrusted with the management of the bank.

ARTICLE 5

Should any other arrangement be made concerning the management of a bank in accordance with Article 39 of the Monetary and Banking Act, such arrangement shall be enforced subject to the provisions of the present By-laws.

ARTICLE 6

Should no time limit be determined for the (vicarious) management of a bank, the management of the bank shall be transferred to the authority appointed by the General Meeting upon the recommendation of the Governor of Bank Markazi Iran, the approval of the Currency and Credit Council and the Concurrence of the Board mentioned in Article 39.

ARTICLE 7

Should a bank's permit be cancelled prior to that bank's going into operation, Bank Markazi Iran shall so inform the said bank and the Companies Registration Office and shall announce the fact in one of the mass circulation newspapers of Tehran. As of the date the bank receives such notice from Bank Markazi Iran, it shall not use the word "bank" in its correspondence, signs, etc.

ARTICLE 8

Should the cancellation of permit come after the bank has begun operation,

the bank shall follow the directives of Bank Markazi Iran from the date of cancellation until liquidation is complete and winding up announced.

NOTE

The liquidation board shall be appointed upon the recommendation of the Governor of Bank Markazi Iran and with the approval of the Currency and Credit Council.

ARTICLE 9

Should in instances where, in keeping with the banking and economic interests of the country, credits in excess of amounts normally and customarily granted by Bank Markazi Iran are necessary for the management of the banks subject of these By-laws, Bank Markazi Iran may, with the concurrence of the Currency and Credit Council and approval of the Board mentioned in Article 39 of the Monetary and Banking Act, place the necessary amounts at the disposal of the management of the bank under conditions stipulated by the aforesaid Board.

These By-laws, comprising nine Articles and one Note, based on Article 40 of the Monetary and Banking Act, after being approved by the Finance Committee of the Majlis on Wednesday, 27th Dey, 1351, were approved by the Finance Committee of the Senate on Sunday, 1st Bahman, 1351.

*President of the Senate,
Jaffar Sharif-Emami*