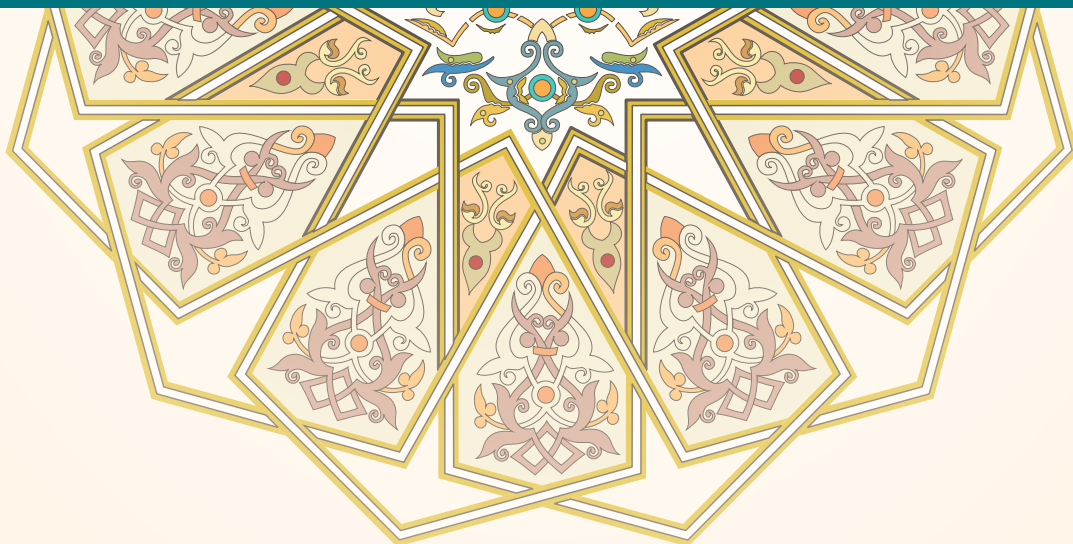


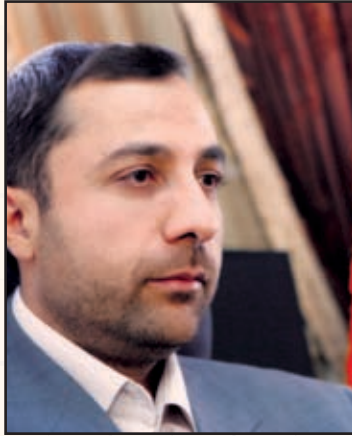
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In the name of the Most High

Preface

ISLAMIC MUTUAL FUNDS:

A KEY PILLAR FOR DEVELOPING ISLAMIC CAPITAL MARKETS

The securities portfolios and their more advanced emergence in the form of mutual funds are regarded as the most important mechanisms in the financial markets which will make market risk and return on investment prospects for investors, in particular, the early stage and nascent ones, more propitious. The mutual funds, acting as financial intermediaries, will convert the investments made by non-professional investors from direct state into indirect state and will, in the wake of such conversion bring in a wide range of benefits and privileges both for capital market and investors which, inter alia, include:

- 1- Promoting the indirect investment by individuals in the capital market;
- 2- Paving the proper grounds for quantitative and qualitative growth and sustainable development in the capital market;

On the other hand, the entities such as the mutual funds will provide genuine opportunities to form various portfolios with varying securities compositions each with specific features which will reflect the demands, wants, needs and tastes of a larger number of investors. The mutual funds, with their immense capabilities and possibilities, will typically strive to make investments more attractive and provide better chances and more choices with low risks and high-yielding returns for investors.

Alternatively, the mutual fund is a financial intermediary whose main function is to professionally manage the investment in the securities market. These funds pool the capital provided by the people and shall, by professionally creating an investment portfolio, invest in various types of securities. The distinguishing feature between mu-



tual funds and investment companies lies in the fact that the net assets value (NAV) in investment companies is typically hovering above the current shares value. In other words, the market value of the shares available in the portfolio of an investment company less the company's liabilities will exceed the shares current value. This is a common issue which prevails among almost all investment companies with varying degrees of intensity whereas the mutual funds are exactly redeemed on the basis of net assets value at the end of each day and, interestingly enough, the investor has the chance of taking back his funds based on the NAV at the end of each business day. More importantly, the level of liquidity in the mutual funds is higher than that of investment companies. The procedure is not that people will directly get involved in shares investment, but, that oddly enough, they put their money in the investment units and the mutual fund will take over the specialized investing services.

In view of the growing importance of mutual funds as one of the key and highly efficient bodies in the Islamic financial system, the major aim of the current bulletin is to introduce and treat with the structure of such funds and give insights on their Shariah-compliant structure as well as their operational models and statistics of Islamic capital markets in Iran. It is hoped that our readership and researchers in the Islamic capital markets will find the information on the mutual funds designed in Iran to be stimulating and insightful and that such information will further accelerate the developmental trend of Islamic finance. The Securities and Exchange Organization will be willingly prepared to transfer its experiences in this respect, and will accordingly welcome any suggestions and recommendations which can contribute to the enrichment and profundity of perceptions and understanding of these mutual funds.

Dr. Ali Saleh Abadi

President and Chairman of the Board

RULES AND REGULATIONS

THE LEGAL FRAMEWORK OF THE MUTUAL FUNDS IN IRAN

Mutual funds are among those financial institutions which are established in recent years and are not mentioned in most principal rules and regulations related to the national economic activities, including Commercial Code, Companies Registration Law, Civil Code and Taxation Law. They were first presented in the Securities Market Act of Iran, ratified by the Parliament (Islamic Consultative Assembly) in 2005.

However, the Securities and Exchange Organization has, in order to enforce the above act, composed and presented the sample articles of association and the prospectus for the small and large-cap stocks and fixed income securities funds. Also, some other appropriate measures have been adopted to harmonize the other relevant parts of the rules and regulations.

The Regulations Governing the Valuation Method of Units Purchase and Sale in the Mutual Funds were also approved by the board of directors of the SEO. Mutual fund is explained in article 1 of The Law for Development of New Financial Instruments and Institutions, based on the overall policies of the Principle 44 of the constitution, ratified in 2009, as follows: "Mutual fund means a financial institution which invests in the financial resources derived from issuance of units in its designated area of activities." Here, the "owner of asset" and the "asset manager" are separated and the responsibility of the owners against the measures and activities of the fund manager is as much as his/her capital contribution. So, the investor of the fund has a proportional responsibility in case of any loss incurred. It is obvious that the profit or loss of the fund arises out of the fund manager's performance not the owners, and the owners' responsibility against the managers' performance is also stipulated in the relevant rules and regulations.

If the investment is indirect and the assets are managed by a manager, not the owner him/herself, it would be subject to paragraph 17 of article 1 of the securities market act concerning a financial institu-

tion called "portfolio manager". Here, the investor gives his/her capital to the portfolio manager to be invested in securities trading. Now, if the investor is more than one person, they would make a mutual portfolio on the basis of a particular legal relation, "Musharakah", and give their pooled funds to the portfolio manager. Mutual fund is indeed an organized and integrated mutual portfolio whose operation is in compliance with certain rules and regulations but the legal relationship between the investors is on the basis of Musharakah contract and the relationship between the investors and the asset manager (manager) is an attorneyship model. This attorneyship includes the use of investors' assets to trade and even to deduct the attorney's fee. In commercial companies, investors do not have the right to manage their own assets and just enforce their ideas through the general meetings and appoint certain persons to manage the assets and also the whole company's affairs. They will participate in any profit and loss arising out of the directors' performance and have, on behalf of the shareholders, the right to use the assets for making profit. However, in a company, the shareholders have to appoint a person as the legal inspector to oversee the directors' performance and make the report to ensure that the attorney (company's director) acts as what is permitted by the clients (shareholders).

As it is clearly stipulated in paragraph 20 of article 1 of the securities market act that mutual funds are "financial institutions" and according to paragraph 7 of article 7 of the same act concerning the SEO's board of directors' authority to approve the articles of association of the financial institutions, the board of directors has attempted to explain the mutual fund's organs of managing, supervising and decision-making functions and determine the powers and duties of each of which against each other and especially against the investors. Another major issue in the mutual funds' structure is that according to the article 13 of The Law for Development of New Financial Institutions and Instruments: The manag-



ers of financial institutions, issuers of securities and self-regulatory organizations inclusive of the board members and the managing director shall not have a record of effective absolute criminal conviction and shall hold the required professional qualifications. In the case of ineligibility or their professional disqualification, the appointing authority shall have to reject their appointment to the said positions and/or remove the directors so appointed from their positions. The requirements and criteria for the professional qualifications of the said directors merely in terms of education background and related job experiences and also the method of their disqualification by the Organization shall be provided in a by-law which shall, upon the recommendation of the Securities and Exchange High Council, be approved by the Council of Ministers (the Cabinet).

Also, it is stated in Note 4 of the article 7 of the same Law that "The mutual fund shall not be authorized to engage in any other economic activity whatsoever outside the area designated in the licenses issued by the Organization. It is also stated in Notes 1, 2 and 3 of the same article:

Note 1: All incomes of the mutual fund within the context of this law and all incomes gained from investment in securities under paragraph (24) of article (1) of the Securities Market Act of the I.R.I., ratified in 2005 and the proceeds derived from transfer of such securities or the proceeds earned from issuance and redemption of them shall be exempt from

income tax and value-added tax as per the Value-Added Tax Act passed on May 23, 2008 and no tax whatsoever shall be claimed for the transfer, issuance and redemption of the foregoing securities.

Note 2: The profit and fees paid or allocated for securities as referred to in note (1) of this article, excluding the dividend and shares of companies, and the profit gained from units of funds, on the condition of registering these securities with the Organization, shall be regarded as parts of acceptable expenses for assessment of taxable income of such securities issuer.

Note 3: If any natural person or legal entity domiciled in Iran, who is the shareholder of the company listed on the exchange or OTC markets, sells his/its shares or preemption rights in foreign stock exchanges or foreign OTC markets, no tax whatsoever shall be levied on and collected in Iran in this respect.

The Securities and Exchange Organization, beside all attempts to find effective legal techniques and make the optimum use of the existing legal structure to timely enforcing of the requirements of the new securities market act, including the establishment of new financial institutions such as mutual funds, has adopted appropriate measures to prepare and present proper recommendations to make a better coordination and integration between all sectors related to the mutual funds within the rules and regulations governing the whole capital market.

Operational Model of Mutual Funds

Securities portfolio and the more developed form of which that is called mutual fund is one of the most important mechanisms for indirect investment in financial markets which make better conditions in terms of risk and return, especially for amateur investors.

Mutual fund, as a financial intermediary, transforms the amateurs' investments from direct to indirect investment. Consequently, a proper approach is set to make sustainable development of capital markets, encourage indirect investment and pave

the road for people to enter the market through the mutual funds. However, institutions like mutual funds can be favorable investment vehicles for most investors by making various portfolios of securities. They try to make investment more attractive and provide the more opportunities, lower risk and higher return for investors.

So, in the new securities market act of I.R.I, the activity of financial intermediaries, including mutual funds, is foreseen and proper conditions are provided to assure the securities market investors in order



to have a better use of the existing opportunities. In the article one of "The Law for Development of New Financial Instruments and Institutions Based on the Overall Policies of the Principle 44 of the Constitution", which is ratified in 2009, mutual funds are defined as follows:

"A financial institution which invests in the financial resources derived from issuance of units, in its designated area of activity."

Therefore, mutual fund is a kind of financial institution which pools the people's funds by frequently selling of its units and invests the funds in a combination of different types of securities, including stocks, Musharakah Sukuk, short-term instruments of the money market, etc...

The combination of the fund's assets are known as the fund's portfolio and purchasers of the fund's units, in proportion to their investments, would be the owner of a part of the fund. In other words, each unit represents the investors' ownership of the fund's assets and the revenue of such assets.

THE MAIN PARTICULARS OF MUTUAL FUNDS

1- Variable Capital and High Liquidity

Mutual funds' capital, contrary to other companies, including the ordinary investment companies whose capital are fixed and any capital increase would be performed with certain ceremonies, is not fixed but is frequently changing by issuance and redemption of units. They are usually ready to, according to the rules and regulations and their prospectuses, issue new units or redeem their own units.

2- External Management

Mutual funds are different from joint stock companies in their method of management which is an external management.

Mutual funds are shell entities with a combination of securities as the fund's assets whose tasks and administrative operation, investments and legal activities are performed by the outdoor service providers. It means that the management of operations is performed by a management company or a portfolio manager company. Although they have general meetings, the structure of their manage-

ment is so that they use the services of outdoor institutions such as investment banks, banks, etc., to perform their tasks and duties under the titles of management company, underwriter or securities distributor, trustee and the like.

3- Daily Valuation of the Units

At the end of each day mutual funds frequently issue and redeem their units on the basis of net asset value (NAV) which is the market value of the fund's assets less the fund's liabilities divided by the number of the units outstanding. So, there is no need to be worried about the amount of supply and demand and the effect of which on the price of each unit. The price would never be less than the NAV.

4- Issue and Redemption of Units

Since the price of each unit is determined by the NAV and valuation of every part of the fund's portfolio and this would be changed during the working hours of a day, the fund's NAV would be calculated at 16:00 of every working day and all issue and redemption of units would be performed on this basis.

5- Direct Buy and Sell of Units

Investors can buy the funds' units directly from the fund or its branches or other places such as banks, not from the other investors in the secondary market.

6- Reinvestment of Revenues in the fund

Since the amount of the fund's capital is open, investors can reinvest a part or the whole of their revenues in the same fund. Thus, there is no reinvestment risk like the risk in buying of stocks or sukuk. However, investment in mutual funds would be a good chance for investors in those countries with the lack of an advanced system to overcome the problems of delay in receiving and reinvesting of the funds.

7- Mutual Funds can Issue Preferred Units and Ordinary Units

The fund's units fall under the two grades of preferred and ordinary units as follows:

- ◆ Preferred units are, in general, purchased by the fund's founder or founders before the start

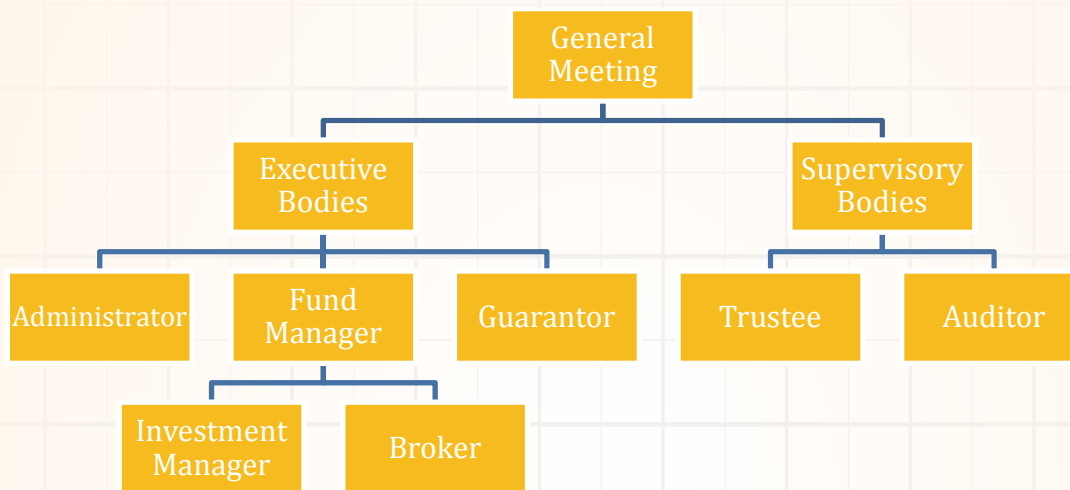
of the initial subscription period. These units are non-redeemable but transferable to other parties.

❖ Ordinary units are issued during the initial subscription period or after formation of the fund. Such units shall be redeemable but non-transferable to other parties. The maximum number of ordinary units outstanding has been stated in the prospectus.

OPERATIONAL STRUCTURE OF MUTUAL FUNDS IN IRAN

The funds which are established in Iran's capital market, albeit a number of similarities in operational structure are a little bit different from the funds around the world.

The whole structures of the Iranian mutual funds are shown in the following figure:



GENERAL MEETING

The fund's general meeting shall formally convene with the presence of the holders of the half plus one of the fund's preferred units with the rights to vote and shall be vested with the following powers:

- 1- To appoint the fund manager, administrator, trustee and guarantor with SEO's approval;
- 2- To change the fund's manager, administrator, trustee and guarantor on the condition of selecting substitutes for them with the SEO's approval;
- 3- Upon the trustee's recommendation, to appoint and remove the fund's auditor and specify his office term, fees and the manner of its payment;
- 4- To adopt the modifications made in the fund's articles of association and in the prospectus after the SEO's approval;
- 5- To take decisions on the fund dissolution;
- 6- To approve the fund's annual financial statements;

- 7- To hear the manager's report on the fund's statement and performance during every fiscal year;
- 8- To hear the auditor's report and opinion on the financial statements as well as his report on the fund's statement and performance;
- 9- To select a mass-circulated newspaper for the fund;
- 10- To approve the expenses required for establishing the fund and the costs for holding the fund's general meeting.

FUND MANAGER

The fund manager shall be elected by the fund's general meeting upon the SEO's approval and pursuant to the rules and provisions of the articles of association. The functions and responsibilities of the manager are set out as follows:

- 1- To allocate at least 40 square meters of prop-



- er space for administration with the required facilities and equipment to discharge the fund's current affairs;
- 2- To participate in the fund implemental stages such as subscription, issuance and redemption of the units pursuant to the provisions of articles of association;
 - 3- To record and keep track of each investor's account including the amounts paid and received, the number of units issued and redeemed and the number of units owned by him;
 - 4- To designate the holders of authorized signature for the fund and the scope of functions and responsibilities of each of them and inform the matter to the trustee, administrator, guarantor and auditor;
 - 5- To appoint the fund's broker or brokers and supervise the optimum execution of the fund's securities purchase and sale orders by them;
 - 6- To notify the trustee of the fund's securities transfer among its brokers within two business days at the latest after performance;
 - 7- To inform the administrator concerning the monies paid to each one of the investors within one business day at the latest after each payment;
 - 8- To collect and retain all positive documents relating to the fund's financial events, record the fund's financial events in accordance with the accounting principles and procedures and prepare the required reports as per the rules in the articles of association;
 - 9- To introduce the group of investment managers and specify the procedure of their service compensation which should be commensurate with the management fee or the fund's performance;
 - 10- To handle the common questions raised by investors;
 - 11- To procure the required software and hardware and apply them towards achievement of the fund's objectives;
 - 12- To initiate a publicity campaign to introduce the fund to the public which is, if necessary, exercised at his own discretion;
 - 13- To act as the fund's representative with the

investors, all governmental and non-governmental departments, judicial authorities and other individuals and entities;

- 14- To institute any type of legal proceedings and criminal cases on behalf of the fund and defend the pending cases versus the fund at any law courts, public and special tribunals and Administrative Justice Tribunal, being vested with all powers prescribed in the Civil Code Procedures (in particular articles 35 and 36), Criminal Code Procedures, the law and regulations of Administrative Justice Tribunal.

The manager shall also introduce at least three natural persons who are experts in the area of investment in securities as the **"group of investment managers"** of the fund so as to discharge the following duties on behalf of the manager and upon his own liability:

- 1- Policy-making and formulation of the fund's investment policy and decision-taking on the buy, sell or hold the fund's assets ownership within the framework of the rules, articles of association and prospectus of the fund;
- 2- Fixing the purchase and sale price of the fund's securities in compliance with the procedures for establishing the securities purchase and sale price in the investment funds approved by the SEO so as to calculate the price for issuance, redemption and net assets value of each of the fund's units as per the articles of association;
- 3- Other functions and powers delegated by the fund manager.

BROKERS:

The manager shall choose one or more brokers from among the brokers who have received brokerage licenses to act as the fund broker. The fund broker shall have to accept the position in writing and undertake to exercise his responsibilities and functions as per the articles of association while reporting his acceptance to the SEO, trustee, manager and auditor.

TRUSTEE:

The fund trustee shall be elected by the fund's gen-



eral meeting as per the regulations and pursuant to the provisions of articles of association. The functions and responsibilities of the trustee are set out as follows:

- 1-To designate and introduce one of his trusted staff as the fully-authorized representative and holder of the authorized signature on behalf of the trustee to act for the fund's affairs;
- 2-To examine and approve the manager's application to open bank account/accounts in the name of the fund;
- 3-To examine and confirm the amounts receivable and payable of the fund as per the articles of association;
- 4-To receive and keep the identification data and bank account information of each investor so as to carry out all operations of receipts and payments between the investor and the fund;
- 5-To keep records of each investor's account containing the amounts paid and received, the number of units issued in his name, the number of units redeemed at his request and the number of units owned by him;
- 6-To receive information on the fund's daily transactions at the end of each business day and monitor the fund's balance of accounts with the fund broker/brokers;
- 7-To receive and hold the fund securities not listed on the Stock Exchange and monitor their sales and deposit of proceeds into the fund's bank accounts.
- 8-To propose the appointment, dismissal and the amount of fee for the fund auditor to the fund's general meeting for approval;
- 9-To exercise continuous monitoring over the manager's and guarantor's performance to ensure compliance with rules and provisions of articles of association and prospectus of the fund;
- 10-To examine and ensure that the auditor's reports and opinions are presented in a timely manner;
- 11-To monitor and ensure that the fund's information and records are released by the manager in a timely manner;
- 12-To discuss the cases of violations by the fund manager, administrator, guarantor and auditor

from the provisions of articles of association and prospectus with the SEO and other competent authorities and proceed the matter until when the final result has been achieved;

- 13-To bring up the cases of violations by the fund manager, administrator, guarantor and auditor with the competent judicial authorities where such cases are considered offence and precede the matter until when the final result has been achieved.

GUARANTOR:

The guarantor's responsibilities, in addition to those stated in the articles of association, include:

- 1-Payment of cash in return for receipt of all the fund's uncashed assets after the initial settlement period with the sum used in calculating the redemption price of units at the end of this period.
- 2-Payment of cash to investors under particular circumstances to compensate for their return up to the fixed specified amount.

AUDITOR:

The fund auditor shall be recommended by the trustee from among the auditing firms trusted by the Organization to be approved by the fund's general meeting. The auditor's fee shall be proposed by the trustee and approved by the fund's general meeting. The term of the auditor's office shall be appointed by the fund's general meeting.

The auditor's functions and responsibilities are as follows:

- 1.To examine the principles and procedures of internal control exercised by the manager or the trustee in the discharge of the duties prescribed in the articles of association and comment on the adequacy or weakness of such principles and procedures and make recommendations to remove the possible deficiencies;
- 2.To conduct an investigation to ensure that the principles and procedures of internal control designed for the discharge of manager's and trustee's duties are applied in practice and prepare



the necessary reports in this respect;
3. To examine and express his opinion on the following issues within the prescribed time-limits:

- 3.1. The fund's (biannual and annual) financial statements in accordance with auditing standards and with a view to the national accounting standards and the guidelines notified by the SEO;
- 3.2. The accuracy of the reports of the fund manager concerning the fund performance (during the biannual and annual periods);
- 3.3. The accuracy of calculating the market net assets value, statistical value, the issuance and redemption price of units (for biannual and annual periods) through a sample survey in accordance with auditing standards.

THE PROCESS OF INVESTMENT IN MUTUAL FUNDS

Although each fund may have projected a particular method to ease the incoming and outgoing flow of investors, there is an almost similar process in all such funds.

FOUNDERS' INVESTMENT:

Prior to the start of initial subscription period, the founder or founders shall have to purchase all the preferred units of the fund and shall deposit the equivalent of their base amount in cash into the account of the under-formation fund or into an account in the name of the manager which has been allocated for this purpose and shall submit the application for registering the fund to the SEO.

INITIAL SUBSCRIPTION:

The initial subscription period shall, upon the SEO's confirmation supporting the observance of article 8 of the articles of association by the founders, be fixed and indicated in the prospectus and then disseminated. The subscribers shall, during the course of subscription, have to pay in cash one hundred percent of the base value of the units they have sub-

scribed into the fund's account. When the maximum number of units has been subscribed in accordance with the prospectus, the subscription operations shall be stopped. If, for any reason whatsoever, the subscription is handled above the specified maximum; the priority shall be given to the persons who have paid their funds earlier into the related banking account. The manager shall, within 5 business days after expiry of the initial subscription period, have to refund the surplus funds to the payers. Any utilization of the surplus funds shall be inhibited.

Within two business days after the expiry of the initial subscription period at the latest, the administrator shall have to examine the subscription results and shall report it to the manager and trustee so as to take, as the case may be, one of the series of measures (a) or (b) as set out below:

a) If the minimum units designated in the prospectus have been subscribed, the manager shall then send the results of examination, along with the bank's certification in order to receive the fund's business license, to the SEO for registration of the fund and shall submit its copy to the founders.

b) If the minimum units designated in the prospectus have not been subscribed, then:

- 1- The manager shall immediately notify the results of examination to the SEO and the founders.
- 2- The manager shall, within 5 business days, have to repay the subscribers the funds credited to the fund's account.

PROCEDURES OF SUBSCRIPTION AND ISSUANCE OF UNITS:

1. In order to subscribe issuance of units, the applicants or their agents shall have to appear at one of the branches and receive the subscription form/or application form for issuance of units and fill it in.

1.1. Presentation of identification records for the investment applicant, introduction letters for agents of legal entities, official power of attorney for (attorneys) lawyers and documents of legal representation on behalf of investors shall be considered obligatory.



1.2. The issuance price of each unit during the initial subscription period shall be 100 US Dollars and, for other circumstances, an equivalent of the issuance price of the units at the end of the business day after submission of the issuance application. The issuance price of the units shall be announced on the bulletin board displayed at branches at the end of each day and shall also be daily posted on the fund website. In order to issue a unit, the investor shall, in addition to the issuance price, have to pay the handling fees for issuance of units as indicated in the prospectus.

1.3. Other than the manager, members of the group of investment managers, trustee, guarantor and founders, the minimum level of investment in the fund by each investor shall be ten units and the maximum level shall be 5% of the fund's maximum units.

2. The investment applicant shall have to credit the given amount for investment solely in the fund's banking account and deliver the relevant pay-in slip to the manager's agent at the branch.

3. After production of the completed forms and the bank pay-in slip, the investor's data is entered in the fund's integrated software system and its receipt bearing the signature of the administrator's agent at the branch shall be delivered to the investor. Such receipt shall contain the date of issuance application, investor's particulars, amount and number of pay-in slip, application number, banking account number and other information in connection with the investor. The investor himself or his agent shall have to carefully examine the information contained in the receipt and, in the case of any deficiency or problem in it, indicate any such problems and deliver it to the administrator's agent so as to rectify them. In the event of inaccuracy of the information inserted in the receipt, the applicant himself shall be held liable for the non-execution of his order or any type of negligence in this connection. The applicant shall, upon verification of the information in the receipt, have to sign the

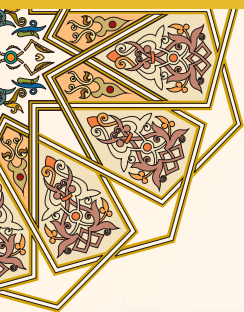
second copy and deliver it to the administrator's agent and, further, shall keep the first copy which has been signed by the administrator's agent and affixed by the fund seal.

4. At the end of the initial subscription period and during the course of the fund's business cycle at the end of each business day, the administrator shall send the information related to subscription or application for issuance of units to the manager and the trustee. The manager shall, by the end of following day, confirm the subscription or application for issuance of units as per the articles of association and shall notify the result to the administrator. Based on the results announced by the manager either of the two following steps shall be taken:

A. If the subscription or the application for issuance of units has been confirmed by the manager, the administrator shall, within two business days after submission of application have to prepare the issuance notice and related investment units at the same branch where the application was submitted so as to deliver them to the investor or his legal agent upon their appearance. The delivery of investment units and issuance notices shall be subject to the production of the receipt and, if any, presentation of the previous investment certificate. If the monies credited by the investor exceed the amount allotted for issuance of units, the manager shall have to refund its differential into the investor's banking account within two business days after submission of application for issuance of units.

B. If the subscription or the application for issuance of units has not been confirmed by the manager, the manager shall have to deposit the funds so credited into a special account with the administrator so that at the time of the investor's appearance and production of the receipt, such funds may immediately be credited to the investor's bank account by the administrator.

4.1. The investment units is in printed form and contains the serial numbers and date and:



a) is invalid without the fund's seal and signature of the manager's agent

b) all legal liabilities governing the investment certificates issued as per this appendix shall be borne by the manager, administrator and the guarantor.

The items (a) and (b) and the type of units, whether top or ordinary, shall be indicated in the investment certificate. As regards the investment certificates issued for ordinary units, their non-transferability and as regards the investment certificates issued for top units their non-redeemability during the course of the fund's business cycle, shall have to be indicated in the investment certificates.

4.2. The certificates of top and ordinary units shall be separately issued.

4.3. Along with each investment certificate, the issuance notice of units as per the sample at the end of this appendix shall be issued by the manager and delivered to the investor.

4.4. The investor shall take extreme care to keep the issued investment certificate. If the investment units are lost, its reissuance shall be subject to the completion of the procedures for issuance of the "duplicate" certificate.

PROCEDURES FOR REDEMPTION OF UNITS:

1. In order to redeem the units, the investor or his legal agent shall have to appear at one of the branches and complete the application form to redeem the units and deliver it along with the related investment units to the manager's agent.

1.1. The applicant for redemption of the unit shall have to produce the identification records and documents (such as birth certificate, national card, driving license or passport) to the administrator's agent at the time of completing the forms. At the end of each day, the administrator shall send the information relating to the redemption of units to the manager and the trustee. If the

redemption request has, at the manager's discretion, been submitted in accordance with the provisions of the articles of association, the manager shall have to credit the proceeds from redemption of units, upon deduction of redemption fee to the investor's banking account within a maximum period of 7 business days after the submission date of redemption request.

1.2. Presentation of introduction letter for the agents of legal investors and the power of attorney for lawyers (attorneys) and the representation records on the part of investors for execution of the redemption request of units shall be considered obligatory.

1.3. The redemption price of each unit shall be announced on the bulletin board based at branches at the end of each day and posted daily on the fund website. The redemption price at the end of the business day upon submission of the redemption request shall be served as a basis for redemption of units.

1.4. Other than the manager, founders and guarantor, the minimum number of ordinary units of each investor shall be ten units. If, by redeeming the requested units, the number of the investor's units are reached below this threshold (ten), his order shall not be confirmed. The investor or his agent shall have to indicate the number of the units requested to be redeemed in a manner that the number of units owned by him reaches above ten units or such number reaches a zero-sum.

2. The proceeds from redeeming the units shall merely be credited to the investor's banking account.

3. After completion of the application form to redeem the units, the investor's information is entered in the fund's integrated software system and its receipt is issued as per the annexed sample and delivered to the investor or his legal agent. Such receipt shall contain the date of redemption request, number of application, number of units requested to be redeemed and the investor's particulars. The investor himself

or his agent shall have to carefully examine the information contained in the receipt and, in the case of any deficiency or problem in it, indicate any such problems and deliver it to the administrator so as to remove them. In the event of inaccuracy of the information in the receipt, the investor himself shall be held liable for the non-execution of the investor's order or any type of negligence in this connection. The applicant shall, upon verification of the information accuracy in the receipt, have to sign such receipt and deliver it to the agent of the fund's administrator and shall keep the second copy which has

been signed by the administrator's agent and affixed by the fund seal.

4. During the period specified in paragraph (1-1), the administrator shall have to prepare the redemption notice of units and, in addition to the said notice, shall, in case all of the investor's units have not been redeemed, have also to prepare the certificate of new investments for the unredeemed units and deliver it (them) to the investor or his legal agent against the receipt referred to in paragraph 3. In the performance of the applications for redemption, the units shall be redeemed respectively.



NEWS IN BRIEF

2ND INTERNATIONAL COURSE ON ISLAMIC CAPITAL MARKETS OPENED

2nd International Course on Islamic Capital Markets opened. Participants from many Islamic countries including India, Bangladesh, Oman, Malaysia, Syria, Pakistan, Indonesia, Lebanon and Sudan were present in the conference.

A brief review on the 2nd Islamic capital market course materials, organized by: Securities & Exchange Organization (SEO) and Islamic Development Bank (IDB)

1. Principles of contracts by Dr. Seyyed Abbas Mousavian: A contract is an exchange of promises between two or more parties to do, or refrain from doing, an act which is enforceable in a court of law. Contracts are promises that the law will enforce. There is only one exception it is to avoid prohibited activities and elements such as: Riba (unlawful profit or Usury), Eating up wealth unrightfully,

Maisir (gambling), Gharar (ambiguity).

2. Construction Fund by Dr. Ghasem Mohseni: Construction Fund is a financial institution, which is authorized by SEO as an independent legal entity; (in Iran in form of a noncommercial institute) Objects of Construction Fund include: to collect macro & micro savings, devote them to build specified Constructing Project, sell the construction & eventually distribute obtained benefits among investors.





3. State of Islamic capital market by Dr. Shariq Nisar: Main topics of his presentation are as follows: Recap of Basics, What is Shariah, Objectives of Shariah, Major Prohibitions (Concerning Islamic Finance), Shariah Norms for Investments in Capital Market, AAOIFI, US, Europe, Middle East, Far East, Subcontinent, SWOT Analysis

4. Istisna Sukuk by Dr. Seyyed Abbas Mousavian: Istisna securities are bonds whose holders are joint owners of property that is acquired on the basis of Istisna contract. This security is negotiable in secondary market and has fixed return.

5. Islamic Principles of Contracts and the Role to Prevent Market Crisis by A. Saeedi: during his speech, he emphasized on some issues in which what follows is among them:

1. Prohibition of Gharar (ambiguity) & Darar:
 - Fully Regulated market with powerful supervision
 - To reduce market systemic risk
 - To prevent from shadow market
2. Prohibition of Eating up wealth unrightfully (akl al mal bil batil)
 - To prevent from paper transactions
 - To help the financial market to be in line with real market.
3. Prohibition of Riba (unlawful profit or usury):

To reduce the probability of social crisis

6. Islamic Futures Contracts in Iran by Mr. Majid Pireh: A futures contract is an agreement to buy or sell an asset at a certain time in the future for a certain price. Is Futures Contract a Kind of Sale? Islamic Futures Contract is Commitments to sale contract and so it is not a case of kali to kali sale.

7. Ijarah Sukuk by Mr. Mostafa Zehtabian: Ijarah Sukuk is a security, the holder of which owns in common, parts of an asset that has been transferred based on an Ordinary or Leasing Ijarah Contract. This security has a fixed yield named the Ijarah Price (rental) and which can be transferred to other parties.

8. Feasibility of Using Mortgage-backed Securities in Islamic Banking by Dr. Seyyed Abbas Mousavian: In interest-free banking, Mortgage-Backed Securities can be issued in relation to some facilities granted by banks, the best of which are:

- 1- Murabaha facilities (Installment sales)
- 2- Hire-purchase facilities

Banks and leasing companies that provide facilities to families, companies and governments by way of Murabaha and hire-purchase and hold mortgage documents can sell those facilities by means of mortgage securities and renew their resources.



9. Islamic Finance in Europe by Farhad Reyazat: Pioneering Islamic Financing development in Europe:

- Mid 1970's
- Establishment of Islamic Banks in the GCC countries including Kuwait Finance House in 1977.
- 1997
- UBK provides Murabaha and Ijarah home finance in UK 1988
- First Islamic Mortgage in Europe.



2004

First Retail Islamic Bank in Europe (IBB).
Saxony Anhalt (Germany) Euro 100 million
Sukuk Ijarah. KFH co-lead manager

2005-2006

UK's Finance Law 2005, changes related to
taxation of Islamic products

EIIB set-up as the first Islamic Investment
Bank in Europe.

2007-2008

Three new wholesale Islamic Banks setting
up in London (BLME, EFH, and Gatehouse).

LloydsTSB first Islamic Business & corpo-
rate Account

UK Sovereign sukuk under study

In France, the Senate organized round ta-
bles on Islamic Finance.

AMF, French Financial Markets regulatory
body, announced the possibility to list and
trade sukuk in Paris.

10. Introduction to Iran capital market by Karim
Karimi:

- Financial Sector
 - Insurance
 - Money Market
 - Capital Market
 - Securities & Exchange Organization
 - Stock Exchange
 - Iran Mercantile Exchange (Metal E +
Agricultural Commodity E)
 - Financial Institutions
 - Associations
 - Iran Farabourse Company
 - Central Securities Depository

SEO IRAN & SEC PHILIPPINE SIGN MEMORANDUM OF UNDERSTAND- ING

Securities & Exchange Organization of Iran (SEO)
signed MoU with Securities & Exchange Commis-
sion of Philippine (SEC) on March 25, 2010 in Ma-
nila.

Dr. Ali Salehabadi, President of SEO, visited PDEX
(Philippine Dealing and Exchange Corp) and The

Philippine Stock Exchange in Manila and also signed
a memorandum of understanding with Securities &
Exchange Commission of Philippine (SEC).

Exchange of information, promoting cooperation
level between the two esteemed authorities, offer-
ing new securities and financial instruments, hold-
ing joint trading courses, mutual support in joining
international organizations and mutual investment
in both countries are among the most important
provisions of the MoU.

SEO has signed nine MoUs with its counterparts in
Philippine, Brazil, Malaysia, Indonesia, Kyrgyzstan,
Oman and Pakistan capital markets, INCEIF and
IDB.

FOREIGN INVESTMENTS IN TEHRAN SECURITIES EXCHANGE INCREASED 12 PERCENT

Trading value of foreign investments increased by
12% in year 1388 (March 20, 2009 – 2010).

Total value of foreign investments in the previous
financial year (ended March 20, 2010) was 37.1 mil-
lion dollars that shows a 12 percent increase from
the previous year.

Ayoub Baghertabar, Director of Supervision on Fi-
nancial Institutions, estimated the total trading
value of foreign investors to 32.5 million dollars in
year 1387 (2008-9). "Total value of trading in year
1388 (2009-10) shows 12.46 percent increase." he
added.

Baghertabar also explained: "Foreign investment in
Iran Capital Market has begun since 2005 and total
value of trading ever since has summed up to 1.13
billion dollars."

By new amendments to rules and regulations for
foreign investment, it is expected that total value
of foreign capital flow will increase even more in
following year.

CODAL PUBLIC INFORMATION DIS- SEMINATION SERVICE NOW AVAIL- ABLE

CODAL web service for receiving public data and
announcements is now activated.

CODAL, electronic data gathering service has
launched a new service for receiving up-to-date



data and information. Users can manage their data centers, websites and its contents via this new system.

A new service will soon be launched by which users can automatically receive new information in real time and can also update their data centers.

CODAL

In order to fulfill one of SEO's major missions as maintaining and developing a transparent, fair and efficient market; the electronic CODAL system is designed. CODAL is a web based software that performs electronic data gathering, validation, acceptance & publishing operations.

CODAL is an abbreviation for "Comprehensive Database of All Listed companies". CODAL's first release was in 2008. Since its launch, all listed companies are obliged to send their data and information electronically via CODAL's website to SEO for further monitoring and control. Today, all listed and many unlisted companies are certified to send their information.

CODAL website is currently in Persian language and soon English and Arabic languages will also be added in <http://www.codal.ir>

TEHRAN STOCK EXCHANGE HELD ROADSHOW IN DUBAI

A one day road show was held in Dubai on June 19, 2010.

Tehran Stock Exchange Incorporation (TSE) ran a Road Show in Dubai with the purpose of introducing Iran Capital Market and its capacities and specifications for absorbing foreign investment.

"This Road Show targets international investors and also Iranian residents in Dubai and invites them for investing in Iran Capital Market", says Abolfazl Shahrabadi, Director of TSE Public Relations and International Affairs. "Market situation, investment opportunities, laws and regulations for foreign investment and other related issues will be presented in the coming road show."

TSE representatives, some brokerage firms and funds directors and Capital Market High Council members took part in this event.

This Road Show is the first international event sponsored by TSE in 2010 and similar events are ex-

pected in current year.

FIRST MOU WITH EUROPEAN COUNTRY WAS SIGNED

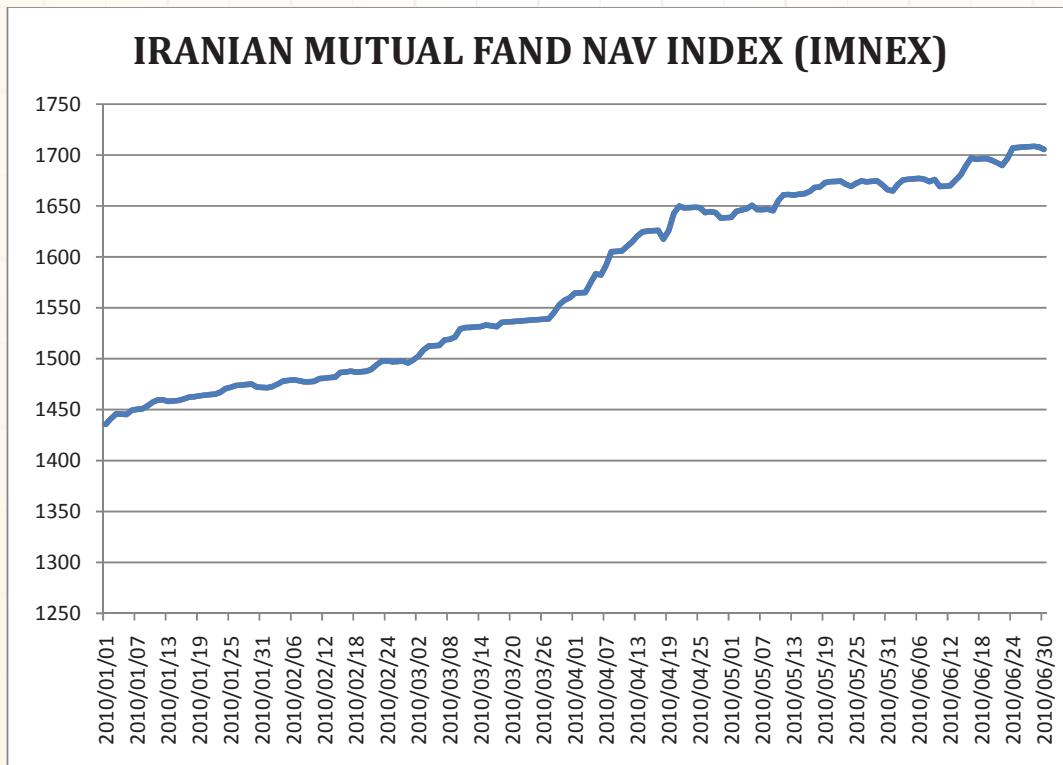
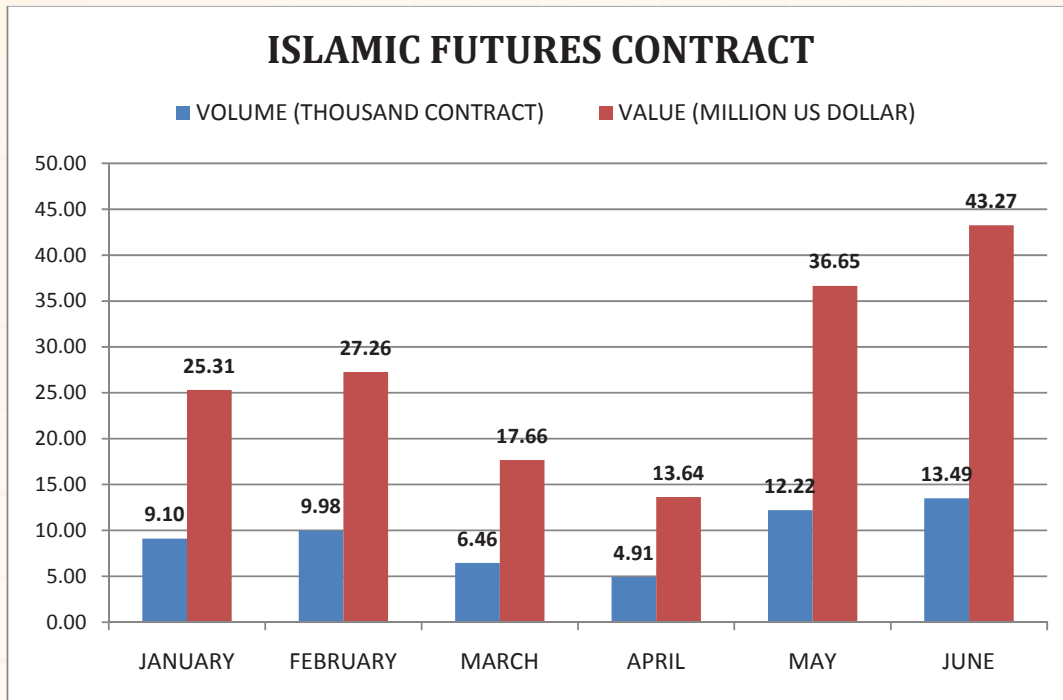
SEO signed an MoU with Securities and Exchange Commission of Montenegro.

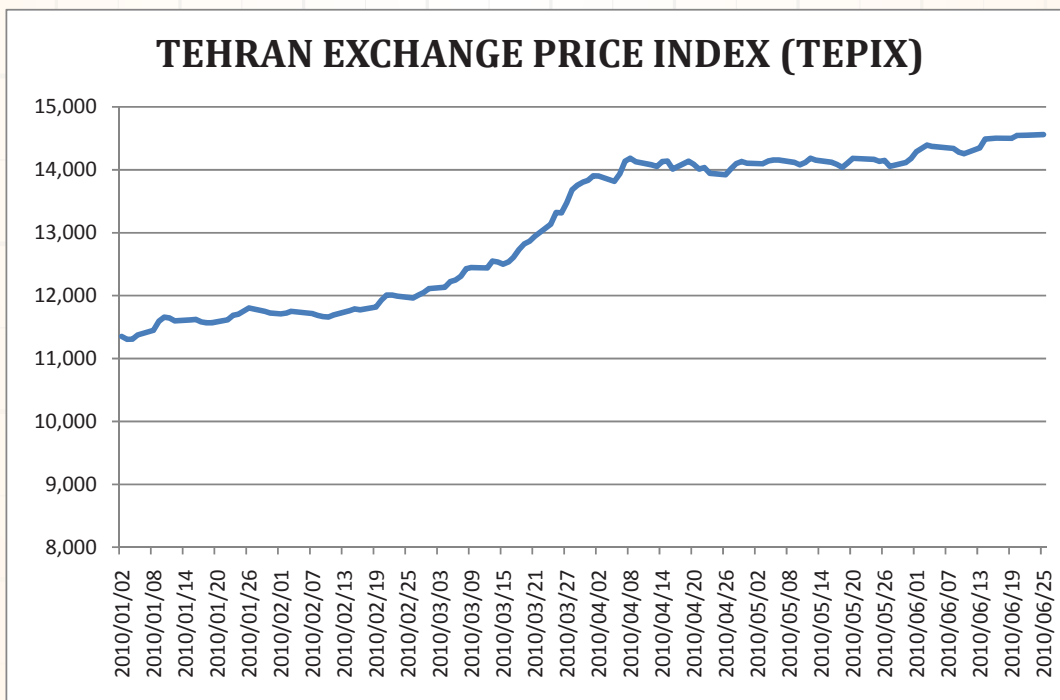
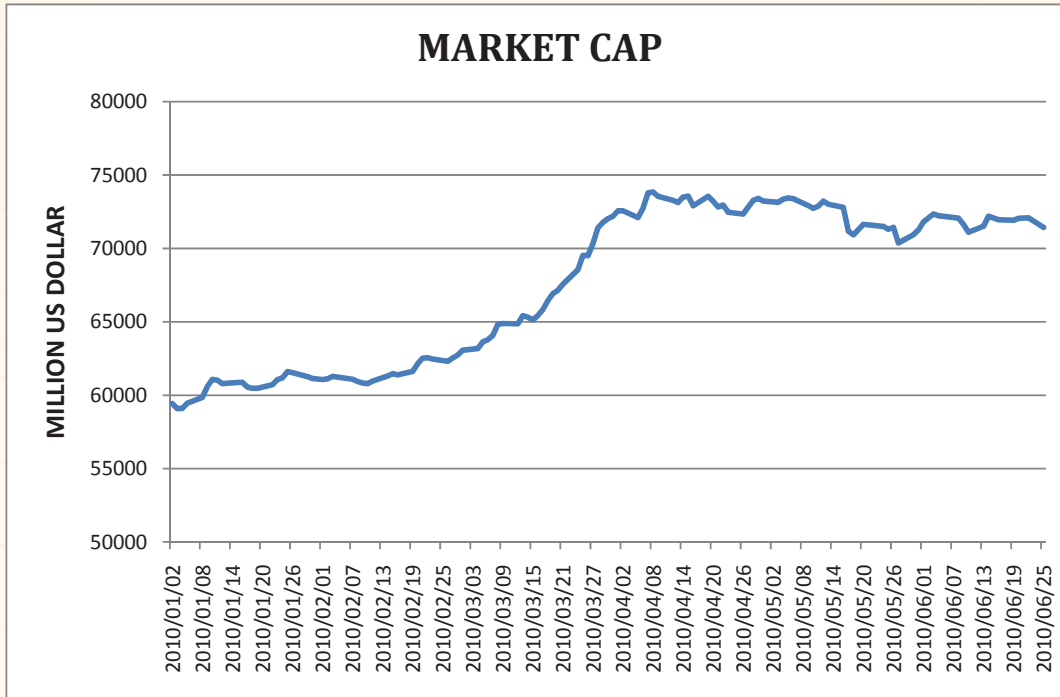
During sidelines of 35th IOSCO Annual Conference in Montreal, a Memorandum of Understanding was signed between SEO and SEC MN for enhancing further cooperation.

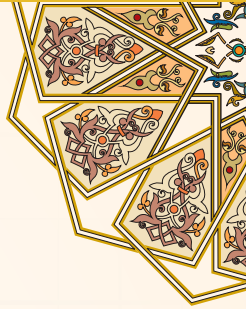
This was the 10th Memorandum of Understanding signed between SEO and other authorities and educational institutions in previous four years, first of its kind between SEO and its European counterpart. Another four ceremonies of signing MoUs is forecasted to be signed in coming year with capital market authorities of Azerbaijan, Thailand, and Syria.



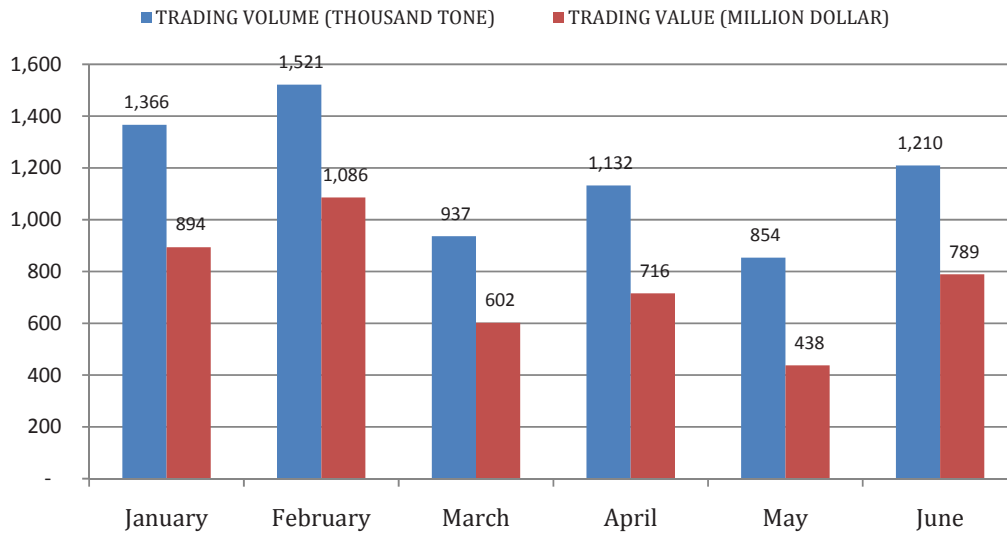
Facts and Figures







TRADING VOLUME AND VALUE IN IRAN MERCHANTILE EXCHANGE (PETROCHEMICAL, METAL AND AGRICULTURAL PRODUCTS)





Securities and Exchange Organization (SEO)

We appreciate your comments and feedbacks. If you would like to contact us for any comments or more information, please contact to the following persons:

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