

ELITE PARS

Law Firm



Introduction

Established in 2019, Elite Pars is a boutique law firm with professional lawyers and legal minds as its core team. Lawyers at Elite Pars render legal advice on a wide range of matters in parallel to dealing with various local, regional and international arbitration and litigation cases.

Elite Pars draws strength from its diversity. We recruit from a wide variety of backgrounds, seeking out the best and those with the highest potential and we invest in their development. Our profound knowledge of assorted legal areas, enables us to efficiently guide our clients through the most complex matters they are facing. Furthermore, our practical experience provides us with insights that help us assist our clients in achieving their legal goals.

In case you have any queries regarding this document or would like to inquire as to how we could serve you best, please feel free to contact our partners Dr. Navid Sato and/or Dr. Nima Nasrollahi via n.sato@elitepars.com and/or n.nasrollahi@elitepars.com.

LEGAL UPDATE: FEBRUARY 2026

IRAN'S SUPREME COURT ISSUES UNIFICATION RULING ON MANAGER LIABILITY IN BANKRUPTCY CHECK CASES, EXEMPTING DELAY DAMAGES

Iran's Supreme Court has issued a new unification ruling, clarifying the liability of company managers who sign checks on behalf of bankrupt entities. This decision, published in the Official Gazette and disseminated through legal channels, resolves conflicting appellate court opinions by exempting such managers from paying delay damages post-bankruptcy declaration, aligning their responsibility with that of the bankrupt company itself.

The ruling stems from a session of the General Board of the Supreme Court on December 2, 2025, and addresses discrepancies between branches 18 and 79 of the Tehran Appellate Court, marking a significant procedural and substantive update in commercial law within the past two months.

Under the Commercial Code and related statutes, bankruptcy halts certain liabilities, including delay damages from the date of stoppage. The ruling extends this exemption to managers signing checks, treating their liability as subsidiary to the company's.

This is grounded in the principle that accessory liability cannot exceed the principal's, akin to guarantor rules where the guarantor's obligation mirrors the debtor's. The case originated from divergent appellate decisions: one branch held the manager independently liable for delay damages under

Article 19 of the Check Issuance Law, viewing managerial responsibility as joint and several, separate from bankruptcy protections. The other branch deemed it subsidiary, exempting the manager.

The Supreme Court favored the latter, emphasizing Articles 418, 421, 462, and 463 of the Commercial Code (1932, as amended), which govern bankruptcy administration and creditor rights equalization. It also referenced Articles 13, 30, 36, and 58 of the Bankruptcy Administration Law (1939), underscoring the liquidation office's role in equitable claim verification.

Legally, this ruling refines the interplay between commercial insolvency and negotiable instruments law. Article 19 of the Check Law imposes personal liability on signatories for payment, but the unification decision subordinates this to bankruptcy rules, preventing circumvention of stoppage protections.

Critics argue it may undermine check credibility, as holders could face reduced remedies against managers, potentially discouraging commercial transactions reliant on post-dated checks—a common practice in Iran. Proponents view it as equitable, avoiding disproportionate burdens on managers acting in corporate capacity.

The decision's issuance amid economic strains—rising insolvencies due to inflation and sanctions—highlights judicial efforts to balance creditor protections with business viability. As filings exceed 1,500 annually, it could streamline resolutions by reducing



litigation over ancillary claims. Future amendments might address gaps, such as explicit managerial immunities in the Commercial Code, but currently, it provides clarity, fostering predictable commercial jurisprudence.

ENHANCED FINES FOR UNDECLARED EXPORT EARNINGS IN IRAN'S 1404 REGULATIONS POSE NEW CHALLENGES FOR FOREIGN TRADE AND INVESTMENT

Iran's fiscal authorities have intensified penalties for non-declaration of export earnings in the 1404 calendar, as part of broader reforms to the Currency and Export Regulations under the Central Bank of Iran (CBI). This initiative, detailed in recent INTA guidelines, mandates repatriation of export proceeds within specified timelines, with non-compliance fines up to 10% of undeclared amounts plus monthly accruals. Framed as a counter to "tax inactivity" in export sectors—where firms fail to report or remit foreign currency—the measures aim to stabilize reserves amid sanctions, but they introduce complexities for foreign investors in trade-dependent ventures, potentially curbing FDI in key areas like commodities and manufacturing.

Non-declaration, often linked to inactivity in remittance due to market fluctuations, triggers penalties under CBI's Resolution 1404/115. Exporters must declare earnings via the NIMA system, with failures incurring 2-10% fines based on delay duration (Article 1). For FDI entities, this is acute: a German-Iranian JV exporting petrochemicals might face 5% penalties if sanctions delay transfers,

treating it as inactivity. INTA reports 75% compliance in 1403, but evasion costs \$4.5 billion annually, prompting stricter audits. This aligns with global anti-evasion efforts, like the OECD's BEPS, but in Iran, it amplifies risks amid 40% inflation and rial volatility.

Consequences extend to operational disruptions: non-compliance bars access to incentives like zero-rate VAT (Article 9), critical for export-oriented FDI. Monthly 2.5% accruals (Article 190 equivalent) compound liabilities, eroding margins in sectors with 15-20% ROI. Broader impacts include license revocations for habitual offenders, deterring long-term investments. Comparatively, Vietnam's export rules offer grace periods, attracting \$30 billion FDI in 2025, versus Iran's \$2-3 billion.

Analytically, penalties logically bolster forex reserves (\$20-30 billion est.), but overlook FDI barriers. Sanctions limit banking, forcing informal channels prone to misdeclaration. Opportunities for investors: fintech solutions for compliant remittances could thrive, as CBI pushes digital platforms. However, joint liability risks expose foreign parents to fines.

Critically, while enhancing collections, measures risk FDI flight to flexible markets. Balancing with rebates could unlock \$15 billion in export FDI, fostering growth.

IRANIAN ADMINISTRATIVE JUSTICE COURT'S LANDMARK VERDICT: ANNULMENT OF PROVISIONS IN FREE ZONE EMPLOYMENT REGULATIONS

On November 10, 2025 (corresponding to the Persian date 1404/08/20), the General Board

of the Iranian Administrative Justice Court issued Verdict No. 140431390002113990, a landmark decision that annulled several key provisions of the 1994 Employment Regulations for Human Resources, Insurance, and Social Security in the Free Trade-Industrial Zones of the Islamic Republic of Iran. These regulations, originally approved on May 9, 1994, by the ministers of the Supreme Council of Free Trade-Industrial Zones and ratified by Cabinet Resolution No. 33433/T25K on June 6, 1994, were designed to govern labor relations in Iran's free zones, such as Kish, Qeshm, and Chabahar.

The verdict specifically targeted Tabs. 1, 2, and 3 of Article 7, the entirety of Article 5, Article 11, and Clause (Z) of Article 12. This ruling underscores the ongoing tension between the special economic incentives of free zones and the constitutional imperatives for labor protection under Iran's legal framework. Free zones are established to attract foreign investment by offering regulatory flexibility, but the Administrative Justice Court has increasingly scrutinized such flexibilities to ensure they do not infringe upon fundamental labor rights enshrined in the Labor Law of 1990 and the Constitution.

The decision reflects a broader judicial trend toward harmonizing zonal regulations with national laws, emphasizing principles like equality, non-discrimination, and worker security. The 1994 Regulations were enacted under Article 12 of the Law on the Administration of Free Trade-Industrial Zones (1993), which empowered the Supreme Council to tailor employment rules to the zones' economic needs.

The aim was to foster a business-friendly environment by derogating from certain aspects of the national Labor Law, such as fixed-term contracts, probation periods, and termination procedures. Key provisions included Article 5, which established a "Labor and Employment Services Unit" in each zone, coordinated between the Ministry of Cooperatives, Labor, and Social Welfare and the zone's organization, tasking the unit with market regulation, safety oversight, and other labor matters, with Tabs. 1 and 2 specifying the unit head's appointment and reporting obligations. Article 7 and its Tabs. defined employment contracts as written agreements for fixed or indefinite terms, with Tab. 1 deeming the end of a project or activity as the contract's termination for indefinite contracts tied to such activities, Tab. 2 classifying contracts without specified durations as permanent if the work was inherently ongoing, and Tab. 3 prohibiting unilateral termination of fixed-term or specific-task contracts, allowing damages claims through dispute resolution.

Article 11 allowed probationary periods, during which either party could terminate without notice or compensation, with limits set at one month for semi-skilled/unskilled workers and three months for skilled ones, including a one-time-only rule per job per employer-employee pair. Clause (Z) of Article 12 listed worker resignation as a mode of contract termination. These provisions were intended to provide flexibility for investors, aligning with the zones' export-oriented and investment-driven mandate, but they diverged from the national Labor Law, which

prioritizes job security, limits fixed-term contracts to exceptional cases, and mandates just cause for terminations.

The challenge to these provisions arose from complaints by workers and labor advocates, arguing that the regulations undermined constitutional rights under Articles 28 (right to work) and 43 (economic justice and worker welfare) of the Iranian Constitution. The petitioners contended that the zonal rules created a dual labor regime, disadvantaging zone workers compared to mainland counterparts, potentially violating the principle of legal equality under Article 19. The case was initiated under Article 92 of the Law on the Organization and Procedure of the Administrative Justice Court (2013), which allows the court to review and annul executive regulations conflicting with laws or exceeding delegated authority.

Petitioners, likely including affected workers or unions (though specifics remain confidential in public records), argued that the targeted provisions exceeded the scope of delegation under the 1993 Zones Law, as they effectively bypassed core protections of the Labor Law without explicit legislative authorization, contravened the Labor Law's Articles 21-27 on contract termination, which require mutual consent or just cause for endings and limit probation to mutual agreement without unilateral exit rights, violated constitutional norms by allowing arbitrary dismissals during probation (Article 11) and treating project ends as automatic terminations (Tab. 1 of Article 7), thus eroding job stability, undermined supervisory mechanisms by centralizing labor oversight in

zone-specific units (Article 5), potentially reducing national ministry accountability, and permitted resignations without safeguards (Clause Z of Article 12), which could be coerced, ignoring Labor Law protections against forced terminations.

The General Board, comprising senior judges, reviewed the case in plenary session, as required for regulatory annulments, ensuring uniformity in administrative law interpretations and drawing on precedents like Verdict No. 366 (2018), which affirmed that zonal regulations govern disputes but defer to national Labor Law in ambiguities or gaps.

The court's reasoning hinged on several pillars of Iranian administrative and labor law, including the hierarchy of norms under Article 170 of the Constitution, where courts must annul regulations conflicting with laws, finding the provisions *ultra vires* as the 1993 Zones Law delegated only "employment, insurance, and social security" rules, not wholesale derogations from the Labor Law—for instance, Tab. 3 of Article 7's ban on unilateral terminations was deemed inconsistent with Labor Law Article 27, which allows employer terminations only with approval from labor boards. Constitutional protections were cited, including Article 43(1) on "full employment and equal opportunities," arguing that Article 11's probation rules enabled exploitative short-term hiring, disproportionately affecting vulnerable workers in zones reliant on foreign labor, while Tab. 1 of Article 7's project-based

terminations were seen as circumventing indefinite contract protections, violating Article 28's right to choose employment without undue precarity. The equality principle was critiqued under Article 19 (no discrimination based on ethnicity, color, etc.) and Article 20 (equal protection under law), with the court referencing prior rulings such as Verdict No. 2680 (2020), which annulled parts of zonal rules for overstepping into civil service domains, emphasizing that zonal flexibilities must not create "second-class" workers.

Supervisory integrity was addressed, with Article 5 annulled for diluting the Ministry of Labor's national oversight, conflicting with Labor Law Article 96 on unified inspection, noting that zone autonomy should not fragment labor governance, risking inconsistent enforcement.

Proportionality and necessity were considered, determining that the provisions were not essential for zonal economic goals, balancing investment incentives against worker rights and concluding that annulment would not hinder zones, as national Labor Law provides sufficient flexibility via collective agreements. The decision was unanimous, reflecting a judicial shift toward protective labor interpretations post-2010s economic reforms. The verdict annulled the specified provisions effective from the date of issuance, with retroactive effect limited to pending cases per Article 93 of the Court's Procedure Law, leaving remaining regulations in force but causing disputes to default more heavily to national Labor Law per Verdict No. 366,

with no compensation ordered though affected workers can pursue claims in labor courts. This ruling has profound implications, enhancing worker protections by annulling probation flexibilities and automatic terminations to promote job security and potentially reduce turnover in zones, where employers must now align contracts closer to national standards, fostering longer-term employment. It signals that zonal exceptions are narrow, encouraging amendments to the 1993 Zones Law, with future regulations undergoing stricter scrutiny, possibly via pre-approval by the Ministry of Labor. Dispute resolution shifts, as with Article 5 gone, national ministry units may assume greater roles, strengthening oversight and leading to more uniform mechanisms, reducing forum-shopping. Economically, critics argue it may deter investment by increasing labor costs, but proponents view it as sustainable, aligning with ILO conventions Iran has ratified, such as Convention 98 on collective bargaining.

In broader jurisprudence, the verdict bolsters the Administrative Justice Court's role in labor rights enforcement, echoing trends in cases like Verdict No. 738 (2022) on ministerial approvals, and may inspire challenges to other zonal rules, such as tax exemptions or environmental derogations. In sum, the Verdict reaffirms that economic liberalization cannot eclipse social justice, and as Iran's free zones evolve amid global trade dynamics, this decision ensures labor laws adapt equitably, safeguarding workers while supporting growth, serving as a pivot toward integrated national-zonal frameworks in legal practice.



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