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A Comparative Study of the Legal Prohibitions Applicable to Directors of Joint-Stock Companies under Iranian and French Law

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Legal prohibitions applicable to directors of joint-stock companies constitute an important area of commercial law and play a significant role in protecting the interests of the company, shareholders, and third parties. These prohibitions have been regulated through different approaches across legal systems. The present study aims to comparatively examine the legal prohibitions imposed on directors of joint-stock companies under Iranian and French law in order to identify the similarities and differences between the two legal systems. This research adopts a descriptive-analytical method and a comparative approach, examining the laws and regulations of both countries through library-based research. The findings indicate that the French legal system, by providing for two distinct management structures—the traditional and two-tier systems—offers greater flexibility in the corporate management structure. Moreover, France's comprehensive system of "regulated agreements" subjects transactions involving directors to more rigorous oversight. Broader supervisory mechanisms available to shareholders, including the right to bring a derivative action and to request the appointment of a management expert, are also among the positive features of the French legal system. Overall, the French legal framework in this area is more comprehensive, flexible, and effective than its Iranian counterpart, and drawing upon its provisions may contribute to strengthening corporate governance in Iran.

Keywords: *Joint-stock company, directors, legal prohibitions, Iranian law, French law.*

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1. Introduction

Before undertaking the comparative analysis, it is necessary to clarify that, in Iranian and French legal literature, "prohibition" and "restriction" constitute two distinct concepts. A prohibition (interdiction) denotes an absolute and non-waivable bar; it concerns an act that the law completely prevents directors from performing, such as the prohibition against obtaining loans from the company under Article 132 of the Iranian Commercial Code and Article L. 225-43 of the French Commercial Code. By contrast, a restriction (restriction or limitation) refers to a condition or qualification that confines directors' actions within a particular framework without absolutely prohibiting them, such as the limitation of the chief executive officer's powers to the "corporate purpose" under Iranian law or the restriction on simultaneously holding membership in more than five boards of directors under French law pursuant to Article L. 225-21. Under French law, prohibitions are often accompanied by severe criminal sanctions, whereas restrictions are generally supervisory and disciplinary in nature. Under Iranian law, this distinction is not clearly drawn, and the legislature has occasionally used the two terms interchangeably. By focusing on “prohibitions,” rather than merely restrictions, the present study examines those acts that directors are unequivocally barred by law from performing.

Joint-stock companies, as one of the most important instruments of economic development in the contemporary world, are managed by individuals whose decisions determine the fate of national and private capital (Eskini, 2024). The legal prohibitions imposed on directors of joint-stock companies play a substantial role in regulating their conduct and preventing abuse of their powers and authority (Dastmard & Fakheri, 2023). Different legal systems have adopted different approaches to these prohibitions, and a comparative examination of those approaches can enrich domestic legislation (Ghani, 2018). In this regard, Iranian and French law, as two legal systems with reciprocal influences, are suitable subjects for examination and comparison (Mazarei & Kamali, 2015). French law, as one of the sources that inspired Iranian commercial legislation, has consistently attracted the attention of Iranian legislators and legal scholars (Khoshnoudi & Yaghoubi Nader, 2023). Nevertheless, the cultural, social, and economic differences between the two countries have led them, in certain respects, to adopt different approaches to legal issues concerning the management of joint-stock companies (Abouata & Pourrashid, 2017). Accurately identifying the legal prohibitions imposed on directors of joint-stock companies under Iranian and French law and comparing them may contribute to improving existing legislation and developing more effective mechanisms for regulating directors’ conduct (Papi & Niknejad, 2021). A comparative analysis of the legal prohibitions applicable to directors of joint-stock companies under Iranian and French law is therefore of considerable importance (Ganjian et al., 2024). Such a study may improve the quality of Iranian commercial legislation and provide a foundation for legislative reform (Rahmani et al., 2025). It may also strengthen the protection of shareholders and third parties and help prevent potential abuses by directors (Mohammadi Darvishvand et al., 2024). A precise understanding of the legal prohibitions imposed on directors can improve corporate governance and increase transparency in the operation of joint-stock companies (Kahangi Shahreza et al., 2025). This issue is particularly significant in view of the major role played by joint-stock companies in the national economy and the enormous volume of investments made in such companies (Asadabadi, 2020). Numerous challenges exist in relation to the legal prohibitions imposed on directors of joint-stock companies, requiring careful examination and appropriate solutions (Bazrpach & Razaghi, 2024). Conflicts of interest between directors and shareholders constitute one of the most important challenges in this field (Rahmani, 2007). Directors may, in some circumstances, place their personal interests above those of the company and its shareholders, thereby causing harm to both (Rajabali Damavandi et al., 2021). Ambiguity in existing legislation and divergent interpretations of its provisions constitute another challenge that may facilitate the exploitation of legislative gaps (Niknejad et al., 2020). Moreover, the absence of adequate enforcement mechanisms for certain statutory prohibitions may render them ineffective in practice (Anousheh, 2022). Rapid changes in the business environment and the emergence of new challenges in corporate management necessitate the continuous updating of the laws and regulations governing directors’ legal prohibitions (Aryanpour et al., 2024). Several studies have examined the legal prohibitions imposed on directors of joint-stock companies. Fallah and Zeinali examined the civil liability of directors of joint-stock companies in Iran and the United States from a comparative perspective (Fallah & Zeinali, 2021). Their findings indicated that the management of a joint-stock company is entrusted to the board of directors, which independently administers the company and, as its statutory representative, undertakes legal acts in the company’s name within the limits established by the company, the law, and the articles of association. Khoshnoudi and Yaghoubi Nader analyzed the inherent powers of the chief executive officer in joint-stock companies with reference to French law and an emphasis on judicial practice (Khoshnoudi & Yaghoubi Nader, 2023). Their findings indicated that the legal status of the chief executive officer in joint-stock companies remains ambiguous under Iranian legislation and that, from an extra-statutory perspective informed by French law, the chief executive officer should be regarded as one of the company’s organs, vested with extensive inherent and statutory powers; accordingly, limitations on the chief executive officer's authority should not be enforceable against third parties acting in good faith. Despite the studies conducted in this field, a significant research gap remains concerning a comprehensive comparative examination of the legal prohibitions imposed on directors of joint-stock companies under Iranian and French law (Mohammadi Darvishvand et al., 2023). Most existing studies have addressed only certain aspects of the subject, and no comprehensive investigation has examined all dimensions of directors' legal prohibitions in the Iranian and French legal systems. The present study addresses this issue through a comprehensive comparative approach and seeks to fill the existing gap in the literature. Its principal objective is to compare the legal prohibitions applicable to directors of joint-stock companies under Iranian and French law. The principal research question is as follows: What legal prohibitions apply to directors of joint-stock companies under Iranian and French law, and what similarities and differences exist between them? The originality of the present study lies in its application of a "comparative corporate governance" analytical framework to the comprehensive examination of directors' legal prohibitions in the Iranian and French legal systems. For the first time, it compares the French concept of "regulated agreements" with the Iranian regime of "conditionally authorized transactions" and develops an operational model of "graduated supervisory mechanisms." Using a five-stage comparative analytical model encompassing philosophical foundations, legal structure, enforcement mechanisms, supervisory mechanisms, and effectiveness assessment, the study offers a comprehensive framework for understanding multilayered agency conflicts in joint-stock companies and proposes an implementable reform model for strengthening corporate governance in the Iranian legal system. The research method and findings are discussed below.

2. Research Method

This study was conducted through a descriptive-analytical method and a comparative approach. Library research was used to collect the required information, and the sources examined included books, articles, theses, and the laws and regulations relevant to the subject in the Iranian and French legal systems. First, the laws and regulations governing the legal prohibitions imposed on directors of joint-stock companies under Iranian law, particularly the Legal Bill Amending Part of the Commercial Code of 1968, were examined. Comparable laws and regulations in the French legal system, particularly the French Commercial Code, were then reviewed. Thereafter, the similarities and differences between the two legal systems in relation to the legal prohibitions imposed on directors of joint-stock companies were analyzed comparatively, and the strengths and weaknesses of each system were identified. Finally, based on the research findings, recommendations were formulated for improving the Iranian legal system in this field.

3. The Iranian Legal System and the Prohibitions Applicable to Directors of Joint-Stock Companies

3.1. The Status and Powers of Directors under Iranian Law

Under the Iranian legal system, directors of joint-stock companies are regarded as the principal organ responsible for corporate administration and occupy a special position in commercial legislation. Pursuant to the Legal Bill Amending Part of the Commercial Code of 1968, a joint-stock company is administered by a board of directors elected from among the shareholders. Under Article 107 of the Bill, the board of directors must consist of at least three members, who are elected by the ordinary general meeting. The term of office of directors is determined by the articles of association but may not, under any circumstances, exceed two years. Although this two-year temporal restriction was intended to prevent the prolonged concentration of power, it may create practical difficulties. First, such a short term is inadequate for large companies that require long-term planning and may encourage directors to pursue short-term outcomes rather than long-term strategies. Second, frequent turnover of directors may destabilize corporate policies and increase the costs associated with transferring knowledge and experience. Directors may nevertheless be re-elected. Moreover, pursuant to Article 108, a legal person may be appointed as a director of the company, provided that it designates a natural person as its permanent representative for the performance of managerial duties. That representative is subject to the same conditions, obligations, and civil and criminal liabilities as a natural-person member of the board of directors (Eskini, 2024). The powers of directors of joint-stock companies under Iranian law are extensive. Under Article 118 of the 1968 Legal Bill, the board of directors possesses all powers necessary for the administration of the company, provided that its decisions and actions remain within the corporate purpose. Although the requirement that directors act "within the corporate purpose" was intended to protect shareholders, it gives rise to a serious practical difficulty. By imposing this limitation, the Iranian legislature has excessively restricted directors' authority and endangered the security of transactions with third parties. Where a director exceeds the corporate purpose, the transaction may be declared invalid even if the counterparty acted in good faith. This approach conflicts with the principles accepted in modern commercial law, which emphasize the protection of public reliance and transactional security. Directors of joint-stock companies are regarded as the statutory representatives of the company and may undertake all acts and conclude contracts on its behalf. These powers include preparing the budget, hiring and dismissing employees, opening bank accounts, obtaining loans, entering into settlements, withdrawing legal claims, referring disputes to arbitration, and appointing legal representatives. Nevertheless, directors' powers are confined to the corporate purpose, and acts performed beyond that purpose are not legally effective. Directors must also comply with resolutions adopted by general meetings and may not act contrary to those resolutions (Khoshnoudi & Yaghoubi Nader, 2023). One important issue concerning the legal status and authority of directors under Iranian law is the position of the chief executive officer and his or her relationship with the board of directors. Under Article 124 of the 1968 Legal Bill, the board of directors must appoint at least one natural person as the company's chief executive officer. Within the scope of the powers delegated by the board, the chief executive officer represents the company and possesses authority to sign on its behalf. Iranian legal scholars disagree over the legal nature of the chief executive officer's position. Some scholars maintain that the chief executive officer is an agent of the company whose authority is limited to the matters delegated by the board of directors. Others, drawing on French law, regard the chief executive officer as one of the company's organs, vested with broad inherent and statutory authority. This uncertainty regarding the legal nature of the chief executive officer constitutes a fundamental deficiency in the Iranian legal system and has harmful practical consequences. The agency theory supported by some Iranian scholars is open to criticism on several grounds. First, the position of a chief executive officer in a joint-stock company extends far beyond that of an ordinary agent, as the chief executive officer plays a central role in the company's day-to-day management. Second, confining the chief executive officer's authority exclusively to powers delegated by the board reduces corporate efficiency and impedes prompt decision-making in crisis situations. Third, this approach is incompatible with economic realities and the requirements of modern commerce, which demand strong and independent management. By contrast, the organ theory, inspired by French law, appears more persuasive because it corresponds to the actual role of the chief executive officer in joint-stock companies and grants the authority necessary for efficient management while simultaneously rendering the chief executive officer accountable to shareholders and third parties. This disagreement substantially affects the determination of the chief executive officer's powers and liabilities (Ganjian et al., 2024).

3.2. Statutory Prohibitions Governing Directors' Transactions in Iran

To prevent directors from abusing their positions and to protect the interests of the company and its shareholders, the Iranian legislature has imposed prohibitions on transactions between directors and the company. One of the most important of these prohibitions is contained in Article 129 of the 1968 Legal Bill. Under this provision, directors and the chief executive officer may not undertake transactions similar to those of the company where such transactions compete with the company's operations. Moreover, directors and the chief executive officer of a joint-stock company may not, directly or indirectly, become parties to transactions concluded with or on behalf of the company. Where such a transaction is contemplated, prior authorization must be obtained from the board of directors, and the company's inspector must be informed of the terms of the transaction. The transaction must also be submitted to the first ordinary general meeting, at which the inspector must state an opinion concerning it (Dastmard & Fakheri, 2023). Although this prohibition serves a legitimate purpose, it suffers from serious practical deficiencies. First, the Iranian legislature has not precisely defined "transactions similar to those of the company" or "competition with the company's operations." This ambiguity may lead to divergent interpretations and legal uncertainty. Second, Article 129 merely requires "authorization by the board of directors" without establishing a detailed approval procedure. It is unclear whether the interested director may participate in the vote or whether a special majority is required. Third, the enforcement mechanism is relatively weak. Article 259 provides only for imprisonment of two to six months or a negligible fine of IRR 20,000 to IRR 200,000, which, given inflation, has no deterrent effect. Fourth, the inspector's role is limited to receiving information and expressing an opinion. The inspector has no power to veto or prevent the transaction, thereby reducing the effectiveness of supervision.

Another prohibition imposed on directors under Iranian law concerns obtaining loans or credit from the company. Under Article 132 of the 1968 Legal Bill, directors and the chief executive officer may not obtain any loan or credit from the company, and the company may not guarantee or assume their debts. This prohibition also applies to the spouses, parents, grandparents, children, grandchildren, brothers, and sisters of the persons concerned and extends to institutions and companies in which those persons possess an interest. However, the prohibition does not apply to institutions whose shareholders are represented on the company's board by the directors or chief executive officer. The legislature has justified this prohibition as a means of preventing directors from misusing corporate assets and protecting shareholders' interests (Abouata & Pourrashid, 2017). Article 132 is more precise and categorical than Article 129, and this approach is commendable. The absolute prohibition against directors and their close family members obtaining loans appropriately addresses one of the most common forms of misuse of corporate assets. Nevertheless, the provision also suffers from certain deficiencies. First, the exception relating to the "representation of shareholders" at the end of the article creates an avenue for abuse, enabling directors to circumvent the statutory prohibition through this mechanism. Second, the law does not precisely define what constitutes "having an interest." It is therefore unclear what degree of interest in an institution is sufficient to trigger the prohibition. This ambiguity may provide a pretext for evading the law. Third, Article 132 does not provide an exception for subsidiaries within a corporate group, which may impede ordinary commercial transactions among affiliated companies.

In addition to the foregoing prohibitions, directors of Iranian joint-stock companies are subject to other restrictions concerning transactions. One such restriction concerns transactions involving the company's shares under specified circumstances. Under Article 166 of the 1968 Legal Bill, members of the board of directors and the chief executive officer of a public joint-stock company must, within 15 days of their appointment, disclose to the company the number of shares they hold directly or indirectly. Any subsequent change in their shareholding must likewise be disclosed. The purpose of this requirement is to promote transparency and prevent directors from misusing confidential corporate information in securities transactions. Article 166 represents a step toward transparency but is extremely weak and inadequate when compared with international standards. Its principal deficiencies are as follows. First, it merely requires disclosure of share ownership and imposes no prohibition on directors trading in the company's shares. A director may buy or sell shares on the basis of inside information and is required only to report the transaction. Second, the law is silent regarding the deadline for reporting changes in share ownership. It does not indicate whether reporting must occur immediately, daily, or monthly. Third, no mechanism exists for monitoring compliance, and no sanction is prescribed for non-compliance, rendering the provision practically unenforceable. Fourth, the provision applies only to public joint-stock companies and excludes private joint-stock companies, thereby creating a legislative gap that complicates the protection of minority shareholders in private companies. Another prohibition concerns directors' voting rights at general meetings. Under Article 131 of the 1968 Legal Bill, directors and the chief executive officer may not participate in a vote by the general meeting concerning their release from liability or transactions they have concluded with or on behalf of the company (Mazarei & Kamali, 2015). This prohibition is logical and necessary because allowing a director to vote on his or her own liability or on a transaction to which he or she is a party would create an obvious conflict of interest. Nevertheless, Article 131 gives rise to practical difficulties. First, the law does not expressly determine whether the director's shares should be included in the calculation of the quorum and required majority. Second, where a director is a controlling shareholder and cannot participate in the vote, the required quorum may not be attained, resulting in decision-making paralysis. The legislature has provided no solution for this situation.

3.3. Directors' Civil and Criminal Liability under Iranian Law

Directors of joint-stock companies are subject to various civil liabilities under Iranian law, and breaches of their obligations may require them to compensate for resulting losses. Under Article 142 of the 1968 Legal Bill, directors and the chief executive officer are individually or jointly liable, as appropriate, toward the company and third parties for violations of statutory provisions, the company's articles of association, or resolutions of the general meeting. The court determines the extent of each person's liability for the purpose of awarding compensation. As the principal statutory basis of directors' civil liability in Iran, Article 142 possesses both strengths and weaknesses. On the positive side, it provides for liability toward both the company and third parties and therefore appears comprehensive. It also permits individual or joint liability, creating necessary flexibility. Nevertheless, Article 142 suffers from fundamental defects. First, it bases directors' liability solely on a "violation of statutory provisions, the articles of association, or resolutions of the general meeting" and disregards the concepts of "managerial fault" and "mismanagement." Consequently, a director who causes the company loss through incompetence or negligence, without violating a statute or the articles of association, may escape liability. Second, the law does not establish a clear criterion for distinguishing individual liability from joint liability and leaves the matter to judicial discretion, potentially resulting in divergent and contradictory decisions. Third, Article 142 is silent regarding the causal connection between the breach and the loss and does not clarify which party bears the burden of proving causation.

One of directors' most important civil obligations concerns the preservation of corporate assets. Directors must administer the company's property and assets with due care and prevent their dissipation or destruction. Where the company suffers loss as a result of directors' fault or misconduct, the directors are liable to compensate for that loss. Directors are similarly liable where their conduct causes damage to third parties (Rajabali Damavandi et al., 2021). Although the concept of administering corporate assets "in the best possible manner" appears comprehensive, it is ambiguous and susceptible to divergent interpretations in practice. The fundamental question is what standard should determine the "best possible manner." Should directors be assessed according to the standard of a prudent professional director or merely according to commercial custom? Can an unsuccessful business decision made in good faith and without improper motive give rise to liability? The absence of a business judgment rule under Iranian law exposes directors to potential liability for every unsuccessful decision, even where the decision was reasonable when made. This situation may discourage directors from innovation and reasonable risk-taking and may ultimately impede economic growth.

In addition to civil liability, directors of joint-stock companies are subject to criminal liability under Iranian law. Chapter 11 of the 1968 Legal Bill is devoted to offenses and penalties applicable to directors of joint-stock companies. Under Article 258, founders, directors, and the chief executive officer who publish false information in subscription notices, share-issuance announcements, minutes, balance sheets, profit-and-loss statements, or reports submitted to general meetings are punishable by imprisonment for three months to one year. Although this provision seeks to protect informational transparency, it suffers from serious deficiencies. First, the expression "false information" is highly ambiguous. It is unclear whether it encompasses unintentional accounting errors or honest mistakes in estimating figures. The provision does not clarify whether an intent to deceive and criminal mens rea are required or whether the mere inaccuracy of the information is sufficient. Second, imprisonment for three months to one year is insignificant in comparison with the losses that false information may cause investors and lacks an adequate deterrent effect. Article 260 further provides that persons who knowingly and intentionally prevent a shareholder from attending a general meeting are punishable by imprisonment for three to six months, a fine of IRR 10,000 to IRR 100,000, or both. Although criminalizing such conduct is reasonable, the prescribed penalties are entirely disproportionate and unrealistic. In the contemporary Iranian economy, a fine of IRR 10,000 to IRR 100,000 is practically negligible and has no deterrent effect. This demonstrates the failure to update the legislation in accordance with inflation and economic change. Under Article 259, violations of Article 129 concerning transactions with the company, Article 130 concerning competition with the company, Article 131 concerning participation in voting, Article 132 concerning the receipt of loans, and Article 133 concerning the required amount of qualifying shares are punishable by imprisonment for two to six months, a fine of IRR 20,000 to IRR 200,000, or both (Anousheh, 2022). Article 259 suffers from the same fundamental problem: its monetary penalties are grossly disproportionate and negligible. Where a director may obtain billions of rials through abuse of position, a fine of IRR 200,000 has no deterrent effect. The disproportion between the potential benefit of the violation and its cost renders the sanctioning system entirely ineffective and effectively encourages directors to violate the law. Moreover, imposing the same sanction on violations of differing degrees of seriousness, ranging from conflicted transactions to obtaining loans, demonstrates a lack of proportionality between offense and punishment.

A distinctive feature of directors' liability under Iranian law is the possibility of joint and several liability in certain circumstances. Under Article 144 of the 1968 Legal Bill, where the company becomes insolvent or its assets are insufficient to discharge its debts, any director or chief executive officer whose misconduct contributed to the insolvency or insufficiency of assets may be held individually or jointly and severally liable for compensating the creditors. Article 144 is one of the strictest provisions governing directors' liability and permits the piercing of the corporate veil in specified circumstances. On the one hand, this approach is necessary to protect creditors; on the other hand, it may discourage qualified individuals from accepting managerial positions. The strength of the provision lies in its requirement that insolvency or insufficiency of assets must have resulted from the director's misconduct. Mere insolvency is therefore insufficient, and a causal connection between the director's misconduct and the insolvency must be established. Nevertheless, the expression "in some manner resulting from" is highly ambiguous and provides no clear criterion for determining causation. It is also unclear whether the liability is confined to intentional misconduct or extends to negligence and incompetence. In practice, this ambiguity may produce divergent judicial approaches and legal uncertainty. Article 273 further provides that liquidators who commit a misdemeanor or felony in the course of liquidation are subject, in addition to the penalties prescribed by the Legal Bill, to the sanctions established under criminal law. These substantial liabilities reflect the importance of directors' position in joint-stock companies and the need for directors to comply with applicable laws and regulations. It should nevertheless be noted that directors' liability is confined to cases of fault and misconduct. Where directors have complied with statutory requirements and acted in the company's interests, they should not incur liability (Niknejad et al., 2020). Ultimately, although this proposition appears reassuring, it is not sufficiently precise in practice. The fundamental difficulty is that the standard of "compliance with statutory requirements and acting in the company's interests" is itself ambiguous, and Iranian law contains no clear mechanism for protecting directors' honest business decisions. In the absence of a business judgment rule, as recognized in many legal systems, directors may incur liability for every unsuccessful decision even when they acted in good faith. This situation diminishes directors' willingness to take reasonable risks and may lead to stagnation and excessive managerial conservatism.

4. The French Legal System and the Prohibitions Applicable to Directors of Joint-Stock Companies

4.1. The Management Structure of Joint-Stock Companies in France

The French legal system provides considerable flexibility concerning the management structure of joint-stock companies. The French Commercial Code permits such companies to choose between two different governance models: (1) the traditional system and (2) the two-tier system.

This structural flexibility constitutes one of the most prominent advantages of French law over Iranian law. The superiority of this approach is multifaceted. First, companies may select a structure suited to their specific needs, depending on their size, the nature of their activities, and the composition of their shareholders. Second, this choice permits the optimization of corporate governance. For example, companies whose controlling shareholders seek more active supervision may select the two-tier system. Third, this flexibility reflects legislative maturity because it respects diverse economic realities instead of imposing a single model. Under the more commonly used traditional system, the company is administered by a board of directors elected by the general meeting of shareholders. Pursuant to Article L. 225-17 of the French Commercial Code, the board must consist of at least three and no more than eighteen members, although the maximum may be increased to twenty-four in the event of a merger. Compared with Iranian law, which prescribes a minimum but no maximum number of directors, the French rule permitting eighteen members in ordinary circumstances and twenty-four in the event of a merger demonstrates greater legislative precision. Limiting the maximum size of the board is reasonable because excessively large boards tend to operate slowly and inefficiently and encounter difficulties in decision-making. The merger exception also demonstrates that the French legislature has taken transitional periods and their particular needs into account. The board elects a chairperson from among its members. Under Article L. 225-51 of the French Commercial Code, the chairperson is responsible for organizing and directing the board's work and ensuring the proper functioning of the company's organs (Vernac, 2022).

Under the two-tier system, which is less frequently used and was inspired by German law, the company is governed by a management board and a supervisory board. The two-tier system is one of the most advanced corporate governance models because it permits a genuine separation between executive and supervisory functions. Its superiority lies in several features. First, the supervisory board, elected by the shareholders, may exercise strategic supervision over the executive management board without becoming involved in day-to-day management. Second, the structure reduces conflicts of interest because the individuals responsible for management are not the same individuals responsible for supervision. Third, the model is particularly appropriate for large companies with complex ownership structures because it permits the representation of different stakeholder groups on the supervisory board. Pursuant to Article L. 225-58 of the French Commercial Code, the management board is responsible for the company's executive management and may consist of no more than five members. In joint-stock companies with capital of less than EUR 150,000, it may consist of a single member known as the sole chief executive officer. Limiting the executive management board to five members is a rational and technically sound decision. Smaller executive bodies are more agile and accountable and can make decisions more rapidly, which is essential for executive management. Permitting a sole chief executive officer in small companies also demonstrates legislative realism, as imposing a complex structure on such companies would be unnecessary. Members of the management board are appointed by the supervisory board for terms ranging from two to six years. Under Article L. 225-69 of the French Commercial Code, the supervisory board consists of at least three and no more than eighteen members elected by the general meeting of shareholders. Its principal function is to exercise continuous oversight over the management board, and it may not intervene in the company's management (Papi & Niknejad, 2021). The clear boundary between "continuous oversight" and "non-intervention in management" is one of the subtleties of the system and may be difficult to maintain in practice. Nevertheless, the separation is sound in principle because the supervisory board should supervise outcomes and overall strategy rather than day-to-day operational decisions. The success of the model ultimately depends on organizational culture and the ability of supervisory-board members to preserve this balance.

An important feature of French law concerning the governance of joint-stock companies is the possibility of separating the chairmanship of the board from executive management. Under the traditional system, a company may choose between two governance models: the unified model, in which the chairperson of the board simultaneously serves as chief executive officer, and the separated model, in which the functions of board chairperson and chief executive officer are divided. The ability to choose between unified and separated leadership adds another layer of flexibility to the traditional system and reflects the evolution of French law in response to corporate-governance debates. The separated model possesses several clear advantages. First, it reduces the concentration of power in one person and strengthens internal supervision. Second, the chairperson can exercise genuine oversight over the chief executive officer. Third, in a crisis, the chief executive officer can be replaced without changing the chairmanship of the board. Nevertheless, the unified model may remain efficient for small companies or companies with concentrated ownership. The important point is that the French legislature permits companies to determine which model best suits their circumstances. Under Article L. 225-51-1 of the French Commercial Code, the chief executive officer possesses the broadest powers to act on behalf of the company in all circumstances. The chief executive officer represents the company in its relations with third parties, and limitations contained in the articles of association cannot be invoked against third parties. This is one of the most significant and commendable provisions of French law and constitutes a fundamental difference from Iranian law. The French legislature appropriately prioritizes the protection of third parties acting in good faith over the enforcement of the company's internal restrictions. This approach is superior for several reasons. First, it enhances transactional security and public confidence in commerce because third parties need not examine the company's articles of association and internal limitations. Second, it reduces transaction costs by eliminating the need for extensive inquiries into the chief executive officer's authority. Third, it accords with the speed and dynamism required by modern commerce. By contrast, the Iranian approach, which limits directors' authority to the corporate purpose and permits such limitations to be invoked against third parties, is inefficient and inconsistent with modern principles of commercial law. Moreover, under Article L. 225-56 of the French Commercial Code, the board of directors may, upon the proposal of the chief executive officer, appoint no more than five deputy chief executive officers to assist in managing the company (Aryanpour et al., 2024). Providing for deputy chief executive officers and limiting their number to five demonstrates legislative attention to the structure of executive management. The limitation prevents the formation of excessively large and inefficient management teams while permitting large companies to delegate authority and specialize managerial functions.

4.2. Statutory Prohibitions Applicable to Directors under French Law

To protect the interests of companies and shareholders, the French legislature has imposed numerous prohibitions on directors of joint-stock companies. One of the most important concerns contracts concluded between directors and the company, known as "regulated agreements" or *conventions réglementées*. Under Article L. 225-38 of the French Commercial Code, any agreement concluded directly or indirectly between the company and a member of the board of directors, the chief executive officer, a deputy chief executive officer, a shareholder holding more than 10% of the voting rights, or a controlling company must receive prior authorization from the board of directors. The French regulated-agreements regime is one of the most comprehensive and effective mechanisms for supervising directors' transactions and is superior to the Iranian regime in several respects. First, it has a considerably broader scope and applies not only to directors but also to controlling shareholders holding more than 10% of the voting rights and to controlling companies. This breadth prevents circumvention through indirect transactions. Second, the express inclusion of indirect transactions demonstrates the legislature's awareness that transactions may be conducted through intermediaries or affiliated companies. Third, the requirement of prior board approval creates a preventive rather than merely punitive mechanism and is therefore more effective. Compared with Article 129 of the Iranian Legal Bill, which merely refers to board authorization without defining a precise procedure, the French provision is substantially clearer and more detailed. Under Article L. 225-40 of the French Commercial Code, regulated agreements must also be addressed in a special report prepared by the company's statutory auditors and must be approved by the annual general meeting. The interested person may not participate in the vote, and his or her shares are excluded from the calculation of the quorum and majority. This multilayered supervisory mechanism—board authorization, auditors' report, approval by the general meeting, and prohibition of voting by the interested party—is one of the most comprehensive systems of oversight. Its principal strengths include the following. First, the involvement of independent auditors as professional and impartial monitors enhances the credibility of the process. Second, final approval by the general meeting involves shareholders in decision-making and ensures transparency. Third, the express prohibition on voting by the interested party and the exclusion of that party's shares from quorum and majority calculations prevent an obvious conflict of interest, an issue left ambiguous under Article 131 of the Iranian Legal Bill. Fourth, the requirement of a "special" report demonstrates that such agreements must be separately and carefully examined rather than being obscured among other matters. This comprehensive approach minimizes the likelihood of abuse while providing a transparent procedure for legitimate transactions. The purpose of these provisions is to prevent conflicts of interest and promote transparency in corporate transactions (Mazarei & Kamali, 2015).

Another prohibition under French law concerns directors obtaining loans from the company. Under Article L. 225-43 of the French Commercial Code, natural-person members of the board of directors, the chief executive officer, deputy chief executive officers, and the permanent representatives of legal-person directors may not obtain loans from the company in any form, maintain an overdrawn current account with the company, or cause the company to guarantee or otherwise support their obligations toward third parties. The prohibition also applies to their spouses, ascendants and descendants up to the second degree, and intermediaries. Article L. 225-43 is more precise and comprehensive than Article 132 of the Iranian Legal Bill. Its advantages include the following. First, it expressly prohibits overdrawn current accounts, a common form of informal credit that is not addressed by Iranian legislation and may provide a means of circumventing the prohibition. Second, the prohibition against the company guaranteeing or supporting obligations toward third parties addresses indirect forms of credit and reflects the legislature's sophisticated understanding of financial practices. Third, limiting the prohibition to spouses and ascendants and descendants up to the second degree appears more balanced than the extensive list under Iranian law, which includes spouses, parents, grandparents, children, grandchildren, brothers, and sisters. The Iranian rule may be excessively broad and create implementation difficulties. However, the prohibition does not apply where the company is a bank or financial institution. This exception is logical and necessary because lending constitutes the ordinary business activity of banks and financial institutions, and an absolute prohibition would be impractical and irrational. Iranian law implicitly recognizes a comparable exception, but the express language of French law provides greater legal certainty. The French Commercial Code also limits the number of directorships that one person may hold simultaneously. Under Article L. 225-21, a natural person may not simultaneously serve on the boards of directors of more than five joint-stock companies established in France. The purpose of this prohibition is to ensure that directors devote sufficient time and attention to their duties (Abouata & Pourrashid, 2017). This limitation, which has no counterpart under Iranian law, demonstrates the French legislature's attention to the problem of excessive accumulation of mandates. It is justified for several reasons. First, a person serving on more than five boards cannot realistically devote sufficient attention to each company, rendering the supervisory function merely formal. Second, the prohibition prevents the formation of closed managerial networks in which a small group of individuals occupy positions on numerous boards. Third, it creates opportunities for new and talented individuals. Although the number five may appear arbitrary, prescribing a clear limit prevents uncertainty and divergent interpretations. The absence of such a prohibition in Iran may allow individuals to serve on the boards of dozens of companies without being capable of properly discharging their duties.

The French Commercial Code also regulates directors' transactions in the company's shares. Articles L. 225-177 to L. 225-186 establish specific conditions for granting stock options to directors and employees. In addition, Article L. 621-18-2 of the French Monetary and Financial Code requires directors of listed companies to report personal transactions in the company's shares to the financial-market supervisory authority. Requiring immediate disclosure to an independent market regulator constitutes an advanced form of supervision over directors' transactions and is entirely absent from

Iranian law. The superiority of this approach lies in several features. First, disclosure to an independent supervisory authority, rather than merely to the company, promotes public transparency and enables effective monitoring. Second, the information is generally made publicly available, allowing other investors to assess directors' conduct. Third, the immediacy of the disclosure requirement produces a deterrent effect and discourages directors from misusing inside information. By contrast, Article 166 of the Iranian Legal Bill merely requires notification of share ownership to the company, without imposing a specific deadline or creating an effective supervisory mechanism, and is therefore practically ineffective. Directors are also prohibited from trading in the company's shares during specified periods, particularly when they possess confidential information that has not yet been disclosed to the public. These prohibitions are intended to prevent insider trading. The concept of blackout periods constitutes one of the most advanced instruments for combating insider trading. Directors are prohibited from trading during sensitive periods, such as before the publication of financial reports, during merger negotiations, or while possessing undisclosed material information. This approach is effective in two respects. First, it is preventive and operates before the violation occurs. Second, it is comparatively simple to enforce because there is no need to prove improper intent or actual use of inside information; trading during the prohibited period is itself a violation. No comparable concept exists under Iranian law. Violations may result in severe civil and criminal penalties. These prohibitions seek to ensure market transparency and protect investor confidence (Kahangi Shahreza et al., 2025). The combination of civil remedies, including compensation, and criminal sanctions, including fines and imprisonment, reflects the seriousness with which the French legislature treats these violations. Moreover, the penalties are periodically updated to reflect inflation and economic change, in sharp contrast with the outdated and negligible fines prescribed by Iranian legislation.

5. Mechanisms for Supervising Directors' Performance in France

The French legal system provides several mechanisms for supervising the performance of directors of joint-stock companies. One of the most important is supervision by statutory auditors. Under Article L. 823-1 of the French Commercial Code, joint-stock companies must appoint at least one statutory auditor. Statutory auditors are appointed by the ordinary general meeting for a six-year term and are responsible for certifying the accuracy of the company's financial statements and their compliance with applicable laws and regulations. Compared with the one-year term generally used in Iran, the six-year term prescribed in France provides a better balance between independence and accountability. First, a longer term allows auditors to express independent opinions without being continuously concerned about reappointment. Second, over six years, auditors acquire a deeper understanding of the company's operations, thereby improving audit quality. Third, the costs associated with frequent changes of auditor are reduced. An excessively long term may, of course, create overly close relationships between auditors and management, but six years appears to provide a reasonable balance.

Statutory auditors must report any irregularity or inaccuracy in their annual report to the general meeting. They also perform a specific function in relation to regulated agreements and must submit a special report concerning those agreements to the general meeting. This dual reporting structure—a general report and a special report concerning regulated agreements—reflects the particular importance attached by the French legislature to potentially conflicted transactions. It ensures that transactions involving directors are publicly scrutinized and cannot be obscured among other matters. Where statutory auditors discover acts that may constitute criminal offenses, they must report them to the public prosecutor. This duty to report offenses to the prosecutor constitutes an important mechanism for transforming private supervision into public prosecution. The system is advantageous because auditors function as market gatekeepers and, owing to their full access to corporate documents, are in the best position to detect misconduct. Although this duty may place auditors in a difficult position, it is necessary for the protection of public order. Iranian law does not expressly impose an equivalent duty on auditors. This independent and professional supervision plays an important role in limiting directors' authority and preventing abuse of position (Mohammadi Darvishvand et al., 2023).

Another supervisory mechanism under French law is shareholders' right to information. Under Article L. 225-108 of the French Commercial Code, the board of directors or management board must respond to written questions submitted by shareholders. Under Article L. 225-115, every shareholder is entitled, at any time, to inspect specified corporate documents, including the financial statements for the preceding three years, the list of members of the board of directors, supervisory board, or management board, and the reports submitted by the board and statutory auditors to general meetings during the preceding three years. The broad and continuing scope of shareholders' information rights in France constitutes a fundamental instrument of corporate governance. The principal features of the system are as follows. First, the expression "every shareholder," without any ownership threshold, grants access rights even to very small minority shareholders. Second, the expression "at any time" indicates that the right is not confined to specified periods and that shareholders may continuously monitor directors' performance. Third, access to information covering the preceding three years permits trend analysis rather than merely an assessment of the current situation. Fourth, requiring responses to shareholders' written questions creates a direct accountability mechanism. By contrast, Iranian law contains only limited and fragmented provisions in this field, and shareholders' information rights are neither clearly defined nor adequately protected. Moreover, shareholders may submit written questions to the board before the general meeting, and the board must answer those questions during the meeting. This procedure allows shareholders to prepare for meaningful participation in the general meeting. Requiring public responses during the meeting also ensures transparency and obliges directors to provide convincing explanations. The right to information is therefore an important instrument enabling shareholders to monitor directors' performance and, where necessary, take measures to protect their interests (Rahmani et al., 2025).

Another important supervisory mechanism under French law is the ability to bring a derivative action against directors. Under Article L. 225-252 of the French Commercial Code, shareholders, acting through one or more representatives, may bring an action in the name and for the benefit of the company against directors for losses caused to the company. This action, known as the *action sociale*, may be brought where the company's lawful organs decline to institute proceedings against the directors. The derivative action constitutes one of the most important instruments for protecting minority shareholders and is not expressly recognized under Iranian law. Its importance lies in several features. First, it resolves the problem of corporate-organ inaction. Where the alleged wrongdoers themselves control the board or the general meeting is dominated by controlling shareholders aligned with them, the company cannot reasonably be expected to sue its own directors. The derivative action permits minority shareholders to act on behalf of the company. Second, any recovery belongs to the company rather than to the shareholder bringing the action, which is appropriate because the loss was sustained by the company. Third, the mechanism enhances directors' accountability because directors remain exposed to proceedings initiated by minority shareholders even where they enjoy majority support. The absence of this mechanism in Iran constitutes a serious weakness in the protection of minority shareholders. Under Article L. 225-120 of the French Commercial Code, shareholders holding at least 5% of the company's capital may also request that the commercial court appoint a management expert. The expert examines one or more specified management operations and submits a report to the applicants, the public prosecutor, and the company's organs. The report is also presented to the next general meeting and appended to the statutory auditors' report. The management-expert mechanism, or *expertise de gestion*, is a distinctive instrument absent even from many advanced legal systems and is certainly not recognized under Iranian law. Its advantages include the following. First, the comparatively low threshold of 5% empowers meaningful minorities without requiring a controlling stake. Second, the expert is appointed by the court rather than management, thereby ensuring impartiality. Third, the inquiry may be limited to one or more specific management operations questioned by shareholders rather than extending to the company's entire management. Fourth, the report is submitted not only to the applicants but also to the prosecutor, the company's organs, and the general meeting, thereby ensuring comprehensive transparency. The mechanism provides a powerful means of identifying potential mismanagement or misconduct before full litigation becomes necessary. These mechanisms enable shareholders to take appropriate measures to protect the company's and their own interests in the event of mismanagement or directors' misconduct (Rahmani, 2007). Taken together, the French supervisory mechanisms—independent statutory auditors, extensive information rights, derivative actions, and management experts—create a comprehensive, multilayered network of checks and balances that either does not exist under Iranian law or is implemented only incompletely. This fundamental difference helps explain why corporate governance operates more effectively in France than in Iran.

6. Comparative Study of Directors' Legal Prohibitions

6.1. Comparison of the Philosophical and Legal Foundations of Prohibitions in the Two Systems

A comparative examination of the Iranian and French legal systems demonstrates that the prohibitions imposed on directors of joint-stock companies rest on certain common philosophical foundations, although the two systems differ in their approaches and implementation. Both recognize the potential conflict of interest between directors and the company as a fundamental challenge and seek, through statutory prohibitions, to protect the interests of the company and its shareholders. Nevertheless, drawing on an older legal tradition and longer experience in company law, the French legal system has adopted a more comprehensive and flexible approach. This greater comprehensiveness and flexibility reflects gradual legal development and the system's responses to practical challenges. The fundamental difference is that, instead of adopting a one-dimensional and prescriptive approach, the French legislature has considered the diversity of companies and their differing needs. By contrast, the Iranian Commercial Code, largely formulated during the 1960s and amended only to a limited extent since then, has failed to keep pace with economic developments and the increasing complexity of joint-stock companies. In France, agency theory constitutes one of the principal theoretical foundations for regulating relationships between directors and shareholders, and directors' legal prohibitions have been shaped accordingly. Agency theory, which has exerted substantial influence on economics and company law, expressly recognizes the inherent conflict of interest between the agent, namely the director, and the principals, namely the shareholders. Prohibitions and supervisory mechanisms are designed on this basis. This scientific and systematic approach has enabled the French legislature to develop precise mechanisms for reducing agency costs. By contrast, under Iranian law, these prohibitions have primarily been formulated on the basis of general legal concepts such as fiduciary duty and agency, although the influence of modern company-law theories has become increasingly apparent in recent years (Bazrpach & Razaghi, 2024). Although traditional rules of fiduciary duty and agency provide a reasonable starting point for regulating complex relationships in modern joint-stock companies, they are insufficient. These rules were designed for simple bilateral relationships, whereas joint-stock companies contain multilayered agency relationships among shareholders and directors, directors and the chief executive officer, and the company and third parties. The failure to address these complexities is one reason why certain Iranian provisions have proved ineffective in practice.

Another significant difference concerns the legal status and nature of directors in the two systems. In French law, legal doctrine and judicial practice recognize the chief executive officer as an organ of the company vested with broad statutory authority. This approach is clearly reflected in Article L. 225-56 of the French Commercial Code, which grants the chief executive officer the broadest powers to act on behalf of the company in all circumstances (Segrestin et al., 2021). This clarity and certainty in defining the chief executive officer's status have important practical advantages. First, they provide legal certainty for the chief executive officer regarding the scope of his or her authority and responsibilities. Second, they assure third parties that the chief executive officer can bind the company. Third, they prevent the waste of time and resources on litigation arising from uncertainty regarding authority. By contrast, the legal nature of the chief executive officer's position remains disputed under Iranian law. Some Iranian scholars regard the chief executive officer merely as an agent and representative of the company whose authority is confined to matters delegated by the board of directors. Others, drawing on French law, regard the chief executive officer as an organ of the company vested with inherent powers. Although such theoretical disagreement may be acceptable in academic discourse, it is highly damaging in practice. The lack of consensus concerning the legal nature of the chief executive officer results in unpredictable and contradictory judicial decisions, uncertainty for third parties dealing with the company who may later face the argument that the chief executive officer lacked authority, and practical constraints on the chief executive officer's day-to-day management because he or she must constantly question whether a particular act falls within the delegated authority. The logical solution is the express statutory recognition of the chief executive officer as a corporate organ, which accords more closely with the realities of modern commerce. This theoretical difference affects the interpretation and application of directors' legal prohibitions in the two systems. In addition, by providing two different governance systems, traditional and two-tier, the French Commercial Code affords companies greater structural flexibility than Iranian legislation (Khoshnoudi & Yaghoubi Nader, 2023). The absence of such flexibility in Iran reflects an inappropriate one-size-fits-all approach. Small family-owned companies and large multinational companies have very different needs, yet Iranian law requires all companies to adopt the same structure. This inflexibility imposes unnecessary costs on small companies and prevents large companies from optimizing their governance arrangements.

The two legal systems also differ fundamentally in their treatment of directors' authority in relations with third parties. French law attaches particular importance to public reliance and the protection of third parties acting in good faith. Under Article L. 225-64 of the French Commercial Code, limitations contained in the company's articles of association concerning directors' powers cannot be invoked against third parties. Thus, even where a director exceeds his or her authority, the excess cannot prejudice a third party acting in good faith. This principle, rooted in the doctrine of apparent authority, is economically and legally justified. Its superiority rests on several grounds. First, it reduces transaction costs because third parties need not examine the company's articles of association and board minutes in every transaction to determine whether the director possesses authority. Second, it accelerates commerce and reduces bureaucracy. In the contemporary world, where transactions are conducted rapidly, parties cannot reasonably be expected to undertake extensive investigations into managerial authority. Third, it protects markets and public confidence because third parties can rely on the authority of the company's apparent representative. Fourth, it allocates risk appropriately. The risk that a director may exceed his or her authority should be borne by the company that appointed the director, rather than by third parties who exercise no control over that person. This approach, known as the doctrine of apparent authority, promotes transactional security and protects public reliance. By contrast, the Iranian legal system adopts a stricter approach to directors who exceed their authority. Under Article 118 of the 1968 Legal Bill, directors' authority is limited to the corporate purpose, and acts performed outside that purpose may be treated as invalid even in relation to third parties. The Iranian approach is objectionable not only legally but also economically. Its adverse consequences include uncertainty for third parties who, after completing a transaction, may be confronted with the claim that the transaction fell outside the corporate purpose and is therefore invalid; increased transaction costs because third parties must undertake extensive legal inquiries for every transaction; slower commerce and reduced competitiveness of Iranian companies in international markets; and opportunities for abuse because companies that regret a transaction may invoke the corporate-purpose limitation to evade their obligations, thereby undermining contractual justice. This difference reflects the distinct balance struck by the two systems between protecting the company and shareholders, on the one hand, and protecting third parties, on the other (Ghani, 2018). The French legislature has correctly concluded that this balance should favor third parties because companies can compensate for their losses through internal mechanisms, including directors' civil or criminal liability and dismissal, whereas third parties possess no comparable means of protection. The Iranian legislature should draw upon this lesson and revise its approach.

6.2. Differences and Similarities in Enforcement Mechanisms in Iran and France

A comparison of the enforcement mechanisms applicable to violations of directors' legal prohibitions in Iran and France reveals significant similarities and differences. In both systems, violations may give rise to civil and criminal liability, but the severity and scope of those liabilities differ. The general similarity—the recognition of both civil and criminal liability—demonstrates that both legal systems appreciate the importance of protecting the company and its shareholders. The differences in severity and scope, however, reflect differing levels of seriousness and effectiveness. Under Iranian law, violations of the prohibitions concerning transactions with the company under Article 129, competition with the company under Article 130, participation in voting under Article 131, and obtaining loans under Article 132 are punishable under Article 259 of the 1968 Legal Bill by imprisonment for two to six months, a fine of IRR 20,000 to IRR 200,000, or both. These penalties may have been proportionate when the legislation was enacted in 1968, but after more than 50 years and inflation amounting to many thousands of percent, they have become entirely meaningless and ineffective. A fine of IRR 200,000 for misconduct that may yield billions of rials in benefits to the offending director not only lacks deterrent effect but effectively encourages violations. This situation demonstrates the legislature's failure to update the law. By contrast, under French law, criminal sanctions are proportionate to the seriousness of the violation. For example, the bad-faith misuse of corporate property or credit contrary to the company's interests, known as *abus de biens sociaux*, is punishable under Article L. 242-6 of the French Commercial Code by imprisonment for up to five years and a fine of up to EUR 375,000. The difference between a fine of IRR 200,000 in Iran and EUR 375,000 in France illustrates the profound disparity between the two systems. The French fine is designed to be genuinely deterrent, proportionate to the potential financial benefit derived from the offense, periodically updated to reflect inflation, and accompanied by imprisonment of up to five years, which constitutes a severe sanction for senior directors. The contrast in the severity of penalties reflects the greater seriousness with which the French legal system addresses directors' misconduct and its stronger commitment to corporate governance (Anousheh, 2022). It should also be noted that French law differentiates among offenses and prescribes sanctions proportionate to their seriousness, whereas Article 259 of the Iranian Legal Bill imposes the same punishment on several distinct violations, thereby disregarding the principle of proportionality in criminal justice.

Differences also exist in the field of civil liability. Under Article 142 of the 1968 Iranian Legal Bill, directors are individually or jointly liable toward the company and third parties for violations of statutory provisions, the articles of association, or resolutions of the general meeting. Conferring liability only for violations of statutory provisions, the articles of association, or general-meeting resolutions is fundamentally defective because many corporate losses result from incompetence, negligence, or unsound business decisions that do not necessarily constitute an express statutory or constitutional violation. This limitation allows ineffective directors who technically comply with the law but cause substantial harm to the company to avoid liability. Under French law, directors' civil liability is classified according to three categories of fault: violation of laws and regulations, violation of the articles of association, and managerial fault. Importantly, the concept of managerial fault is interpreted broadly and may encompass unsound business decisions that cause loss to the company. Recognizing managerial fault as a basis of liability reflects a more comprehensive and realistic approach. It permits courts to hold directors liable where incompetence, negligence, or failure to comply with professional standards causes corporate loss, even in the absence of an express statutory violation. Nevertheless, the concept is balanced by the business judgment rule, which protects directors against liability for honest but unsuccessful decisions. No comparable balance exists in Iranian law. Directors may either escape liability because no express legal rule was violated or face broad liability once such a violation is established. The concept of commercial fault is less developed in Iranian law, and no clear standards exist for identifying it. French courts also apply the doctrine of disregarding the company's separate legal personality more extensively, permitting directors to be pursued personally where the corporate form has been abused (Rajabali Damavandi et al., 2021). Piercing the corporate veil is an important instrument used where directors exploit the company's separate legal personality as a shield against liability. The broader application of the doctrine by French courts demonstrates that they consider the substance and reality of transactions rather than merely their form. Although Article 144 of the Iranian Legal Bill permits directors' personal liability in certain circumstances, Iranian courts apply the doctrine more narrowly and generally adopt a cautious approach. Another important difference concerns the procedure for bringing claims against directors. French law recognizes two forms of action: the derivative action, brought in the name and for the benefit of the company, and the individual action, brought by shareholders or third parties to recover personal losses. The distinction is important both theoretically and practically. A derivative action concerns losses sustained by the company and, indirectly, by all shareholders in proportion to their holdings, whereas an individual action concerns particular loss sustained by one or more shareholders. The distinction ensures that each type of harm is addressed through an appropriate remedial mechanism. Through the *ut singuli* mechanism, shareholders may bring a derivative action in the company's name even where the company's organs refuse to act. This mechanism is one of the most important innovations of French law because it resolves the fundamental problem of lack of accountability. Where the alleged wrongdoers themselves control the company, for example because they are also controlling shareholders, the company will naturally be unwilling to sue them. The *ut singuli* mechanism empowers minority shareholders to act on the company's behalf and bring the offending directors before the courts. It therefore rebalances power in favor of minority shareholders and limits uncontrolled majority rule. Iranian law also permits claims against directors, but the available mechanisms are insufficiently developed. Under Article 276 of the 1968 Legal Bill, where the general meeting does not approve the annulment of a transaction governed by Article 129, a liability action may be brought against the directors interested in the transaction. Iranian law does not, however, expressly recognize a general derivative-action mechanism. Article 276 is extremely limited because it applies only to transactions under Article 129 rather than to all forms of misconduct and corporate loss. Moreover, the provision is conditioned upon the general meeting's failure to approve annulment, which constitutes a significant limitation. Where the general meeting is controlled by the offending directors and approves the transaction, the law provides minority shareholders with no effective remedy. This legislative gap places minority shareholders in an extremely weak position and may, in practice, protect directors' abuse. The difference substantially affects shareholders' access to justice and their ability to hold offending directors accountable (Abouata & Pourrashid, 2017). Consequently, whereas French minority shareholders possess powerful instruments to challenge mismanagement, Iranian minority shareholders remain largely unprotected and must either rely on the goodwill of the majority or exit the company, neither of which constitutes an equitable solution.

6.3. Successful Models in the French Legal System

The comparative analysis demonstrates that several models and mechanisms under French law may be used to improve the Iranian system of legal prohibitions applicable to directors. One successful model is the flexibility of the governance structure of French joint-stock companies. As explained above, the French Commercial Code permits companies to choose between the traditional and two-tier systems. This flexibility allows each company to select a governance structure suited to its specific needs and circumstances. Structural choice not only creates flexibility but also permits companies to experiment and identify the most effective governance model. Companies operating in different industries, possessing different ownership structures, or occupying different stages of their life cycles have different needs. Family-owned companies may prefer the traditional system, whereas companies with numerous institutional investors may select the two-tier system to achieve a clearer separation between supervision and execution. Companies may also move from one system to another on the basis of experience. Such flexibility creates a form of corporate-governance Darwinism in which the most effective mechanisms are naturally selected. Under the two-tier system, supervisory functions are clearly separated from executive functions, which may reduce conflicts of interest and improve supervision of directors' performance. This structural separation creates an internal checks-and-balances mechanism. The supervisory board, elected by shareholders but excluded from day-to-day management, can exercise genuine and impartial oversight over the executive management board. The arrangement resolves the fundamental difficulty inherent in the traditional system, under which the board must both manage and supervise itself. Introducing comparable flexibility into Iranian law could strengthen corporate governance and reduce potential abuses by directors. The possibility of separating the board chairperson's role from that of the chief executive officer under the French traditional system constitutes another model that could improve the balance of power in Iranian joint-stock companies (Mohammadi Darvishvand et al., 2024). Separating the roles of board chairperson and chief executive officer is one of the most widely accepted corporate-governance recommendations internationally. The rationale is straightforward: where one person both manages and supervises himself or herself, genuine oversight does not occur. Separating the roles enables the chairperson to challenge the chief executive officer, ask difficult questions, and, where necessary, remove the chief executive officer—functions that become practically impossible when both offices are held by the same person.

Another successful French model is the comprehensive regulated-agreements regime. This system places every agreement between the company and its directors or controlling shareholders under close supervision and establishes a transparent and precise approval process. In addition to requiring prior authorization from the board of directors, such agreements must be addressed in a special report by the statutory auditors and ultimately approved by the general meeting. This multilayered process ensures greater transparency and reduces the likelihood of abuse. The system's strength lies in the combination of three independent layers of supervision: the board of directors, which grants initial authorization; the independent statutory auditors, who provide a professional report; and the general meeting, which grants final approval. Each layer may prevent a suspicious transaction, and the existence of three layers minimizes the possibility that a corrupt transaction will be approved. The full transparency of the process, particularly the public auditors' report and approval by the general meeting, also permits informal scrutiny by the media, shareholder activists, and the legal community. By comparison, the Iranian system under Article 129 of the 1968 Legal Bill is less comprehensive and precise and could be strengthened by drawing upon the French model. In particular, more precise definitions of the agreements subject to the regime and more effective sanctions for violations could improve Iranian law (Papi & Niknejad, 2021). The Iranian system has three principal weaknesses in comparison with its French counterpart. First, it fails to define covered agreements precisely and comprehensively. Article 129 begins with ambiguous expressions such as "transactions similar to those of the company," which permit divergent interpretations. Second, it does not mandate meaningful involvement by independent auditors. The Iranian inspector is merely informed and required to express an opinion but has no genuine role in the approval process. Third, the applicable sanctions are weak and disproportionate. Reform inspired by the French system would therefore require fundamental change in all three areas.

A further successful model is the broader range of mechanisms available to French shareholders for supervising directors' conduct. Shareholders holding at least 5% of the company's capital may request the appointment of a management expert to investigate suspicious management operations. The management expert is a preventive and diagnostic mechanism that permits shareholders to establish the facts before initiating formal litigation. The mechanism has several advantages. First, the relatively low 5% threshold makes it accessible to meaningful minorities. Second, appointment by the court ensures the expert's independence. Third, the expert's full right of access to company documents enables a genuine investigation. Fourth, the report enables shareholders to determine whether to proceed with litigation. Fifth, the very possibility of appointing an expert has a deterrent effect and discourages misconduct. In addition, the derivative-action mechanism allows shareholders to institute proceedings in the company's name against directors where the company's organs fail to act (Salhi et al., 2020). Together, these mechanisms give shareholders greater power and enable them to perform a more active supervisory role. The combination of the management-expert procedure and the derivative action creates a complete sequence of graduated measures: suspicion of mismanagement, an application for expert investigation, receipt of the expert's report, and, where misconduct is confirmed, commencement of a derivative action. This graduated approach discourages unmeritorious litigation while preventing misconduct from remaining unpunished. Incorporating comparable mechanisms into Iranian law could strengthen shareholders' rights, particularly those of minority shareholders, and increase directors' accountability. The more extensive French information-disclosure regime, particularly concerning directors' transactions in the company's shares, constitutes another model that could improve transparency in the Iranian capital market. The French disclosure system is based on the principle that sunlight is the best disinfectant. Immediate disclosure of directors' share transactions, publication of detailed auditors' reports, and broad shareholder access to information collectively create a transparent environment in which misconduct is difficult and costly. Overall, adopting these successful models could significantly improve the Iranian legal system concerning directors' legal prohibitions and strengthen corporate governance (Kahangi Shahreza et al., 2025). It must be emphasized that these models should not be adopted separately but as components of an integrated system. The effectiveness of the French regime results from the interaction and mutual reinforcement of its different mechanisms. Any Iranian legislative reform should therefore adopt a comprehensive approach rather than fragmented and incomplete amendments.

7. Legislative Deficiencies and Reform Strategies

7.1. Weaknesses in the Iranian System of Legal Prohibitions

An examination of the Iranian legal system concerning the prohibitions imposed on directors of joint-stock companies reveals several deficiencies requiring reform and reconsideration. One of the most important is the failure to update the monetary penalties prescribed for directors' violations. In view of inflation and changes in the value of the national currency, the fines contained in the 1968 Legal Bill have become negligible and lack deterrent effect. For example, the fine prescribed by Article 259, ranging from IRR 20,000 to IRR 200,000, bears no relationship to the seriousness of contemporary directors' misconduct. The problem originates in the absence of an automatic mechanism for adjusting penalties in accordance with inflation. Whereas many jurisdictions link monetary penalties to economic indices, Iranian legislation prescribes fixed rial amounts that become meaningless after only a few years. This structural defect reflects the legislature's failure to anticipate economic change and communicates an inappropriate message to the commercial community: that corporate governance is not taken seriously. In addition, Iranian law lacks a clearly defined mechanism allowing shareholders to bring a derivative action against offending directors, thereby undermining the protection of shareholders, particularly minority shareholders (Niknejad et al., 2020).

Other deficiencies also require serious attention. Uncertainty regarding the legal nature and scope of the chief executive officer's authority produces divergent interpretations and legal uncertainty, which is economically costly. Legal uncertainty increases transaction costs, slows commerce, generates additional litigation, and reduces foreign investors' confidence. A seemingly technical ambiguity may therefore impose enormous costs on the national economy. The absence of flexibility in the governance structure of joint-stock companies prevents companies from selecting a model appropriate to their particular needs. This one-size-fits-all approach is not only inefficient but also imposes unnecessary costs on small companies and prevents large companies from optimizing their governance arrangements. Another deficiency is the absence of adequate mechanisms requiring directors to disclose information, particularly transactions involving the company's shares, thereby creating opportunities for insider trading. Insider trading directly harms ordinary investors, undermines public confidence in capital markets, reduces market efficiency, and diverts directors' incentives from genuine value creation toward manipulation of information. Despite these risks, Iranian law contains no effective mechanism for disclosing directors' transactions or preventing trading during sensitive periods, thereby transforming the Iranian capital market into an uneven playing field (Ganjian et al., 2024).

7.2. Practical Strategies for Improving the Iranian Legal System

In view of the deficiencies in the Iranian legal system, several practical strategies may be proposed for improving the legal prohibitions imposed on directors of joint-stock companies. The first is to update monetary penalties in accordance with contemporary economic conditions so as to strengthen their deterrent effect. Such an update should not constitute a one-time adjustment but should involve a structural change in the manner in which sanctions are determined. Fines should be defined as a percentage of the value of the offending transaction or as a multiple of the statutory minimum wage, enabling automatic adjustment to inflation and economic change. This approach would ensure that the penalty remains proportionate to the seriousness of the misconduct and does not become meaningless over time. Expressly recognizing a derivative-action mechanism for minority shareholders, comparable to the French model, could also strengthen shareholder rights and improve supervision of directors' performance. A 5% threshold would provide a reasonable balance between access for meaningful minority shareholders and the prevention of vexatious litigation. Additional protective mechanisms should nevertheless be considered, including the possibility of aggregating the holdings of several small shareholders, establishing a fund to support minority-shareholder litigation, and adopting measures to prevent corporate retaliation (Mohammadi Darvishvand et al., 2023).

Other strategies include adopting comprehensive rules governing directors' disclosure obligations, introducing greater flexibility into corporate governance structures, clarifying the legal nature of the chief executive officer, and strengthening the regulated-agreements regime. The requirement that directors immediately disclose transactions involving the company's shares should include detailed rules defining "immediate" disclosure as occurring within 24 to 48 hours, identifying the authority to which disclosure must be made, prescribing the method of public disclosure, defining the scope of related persons, including family members and controlled companies, establishing blackout periods of 30 days before financial reports, imposing severe sanctions for non-disclosure, and creating an automated electronic reporting system. Greater structural flexibility could be introduced by offering the two-tier system as an alternative to the traditional model, permitting companies to select the structure best suited to their needs. Implementing such flexibility would require precise statutory definitions of powers and responsibilities, procedures for transitioning between systems, practical implementation guidance, and the encouragement or temporary requirement that large companies use the two-tier model during an initial trial period to generate experience. Clarifying the chief executive officer's legal nature through express adoption of the organ theory would promote legal coherence and certainty. Strengthening the regulated-agreements regime through more precise definitions and more effective sanctions would also improve transparency in directors' transactions (Rahmani et al., 2025).

7.3. Legislative Proposals for Reforming Directors' Prohibitions

On the basis of the foregoing practical strategies, specific legislative proposals may be formulated for reforming the prohibitions applicable to directors of joint-stock companies under Iranian law. The first proposal is to amend Article 259 of the 1968 Legal Bill and update its monetary sanctions in accordance with current economic conditions. Article 259 could be amended as follows: "A violation of Articles 129 to 133 shall be punishable by imprisonment for six months to three years and a fine of not less than IRR 1 billion and not more than ten times the value of the relevant transaction or benefit obtained. These amounts shall be adjusted every three years by the Judiciary on the basis of the inflation index." This wording would prescribe a genuine and deterrent fine proportionate to the seriousness of the violation, include a mechanism for periodic adjustment, and increase the term of imprisonment applicable to senior directors. A new provision should also expressly recognize the right of minority shareholders holding at least 5% of the shares to bring a derivative action against offending directors. The proposed provision should permit shareholders to aggregate their holdings to satisfy the threshold, require that the company's organs have refused to bring the action or failed to act within 60 days, provide that the action is brought in the company's name and for its benefit, specify that any recovered damages belong to the company, permit litigation costs to be recovered from the unsuccessful defendant, and prohibit the company's organs from waiving or restricting this right.

Other proposals include adding a provision requiring directors to disclose share transactions to the Securities and Exchange Organization within 48 hours, amending the Commercial Code to recognize the two-tier governance system, amending Article 124 to clarify the chief executive officer's legal status through adoption of the organ theory, comprehensively revising Article 129 to strengthen the regulated-agreements regime, and adding a provision enabling minority shareholders to request the appointment of a management expert. A new provision governing disclosure of share transactions should require disclosure within 48 hours, immediate publication on an official website, blackout periods during the 30 days preceding financial reports, a prohibition on trading while possessing confidential information, a fine equal to five times the value of the transaction, disqualification from board membership for five years, and the establishment of an integrated electronic system by the Securities and Exchange Organization. The amendment to Article 124 should expressly provide that the chief executive officer is an organ of the company vested with all powers necessary within the corporate purpose and that restrictions contained in the articles of association cannot be invoked against third parties acting in good faith. Finally, these legislative proposals constitute a comprehensive reform package and should be enacted as an integrated whole. Fragmented enactment would not only be ineffective but might generate further inconsistencies. The legislature should adopt a comprehensive and strategic approach by proposing, enacting, and implementing these reforms through an integrated bill amending the Commercial Code, with the active participation of the private sector, academic scholars, and supervisory institutions. Enacting legislation is only the first step. Effective implementation will also require training judges and lawyers, establishing the necessary administrative infrastructure, and continuously supervising enforcement (Mohammadi Darvishvand et al., 2024).

8. Conclusion

The legal prohibitions imposed on directors of joint-stock companies play a substantial role in regulating directors' conduct and preventing abuse of their powers and authority. Different legal systems have adopted different approaches to these prohibitions, and their comparative examination can enrich domestic legislation. The principal objective of this study was to compare the legal prohibitions applicable to directors of joint-stock companies under Iranian and French law in order to determine the nature of those prohibitions and identify the similarities and differences between the two systems. The study employed a descriptive-analytical method and a comparative approach and examined the laws and regulations of the two countries through library-based research. The findings demonstrated that both Iranian and French law impose prohibitions on directors of joint-stock companies but differ significantly in the approach, scope, and implementation of those prohibitions. The French legal system provides greater structural flexibility by recognizing two different governance systems, traditional and two-tier, whereas Iranian law does not offer such a choice. The comprehensive French regime of regulated agreements also subjects transactions between companies and their directors to more rigorous supervision. With regard to enforcement, French criminal sanctions are adjusted to contemporary conditions and possess a stronger deterrent effect, whereas Iranian monetary penalties have not been updated. Broader shareholder-supervision mechanisms, including derivative actions and applications for the appointment of management experts, constitute further positive features of French law that may serve as models for reforming Iranian legislation. Overall, the French legal system is more comprehensive, flexible, and effective than the Iranian system in regulating the legal prohibitions applicable to directors of joint-stock companies. Reforming Iranian legislation in light of successful French experience could strengthen corporate governance and provide more effective protection for the company and its shareholders.

Authors' Contributions

Authors contributed equally to this article.

Declaration

In order to correct and improve the academic writing of our paper, we have used the language model ChatGPT.

Transparency Statement

Data are available for research purposes upon reasonable request to the corresponding author.

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In this research, ethical standards including obtaining informed consent, ensuring privacy and confidentiality were observed.

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