

Challenges of State Civil Liability Arising from Manipulation and Intervention in the Stock Market and Securities in Iranian Law

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Abstract

The capital market, as one of the key pillars of the economy, is profoundly influenced by the actions of the state, which acts as the most powerful player and regulator. Macroeconomic decisions, interventionist policies, and public statements by government officials can lead to extensive losses for investors. The central question of this study is: considering the existing challenges, what are the legal grounds and mechanisms for establishing the state's civil liability in relation to its harmful interventions in the stock market? Using a descriptive-analytical method, this study demonstrates that despite strong theoretical foundations in Islamic jurisprudence and law—such as the principles of *la ḍarar* (no harm), causation (*tasbib*), and deception (*ghurur*)—for holding the state liable, the practical realization of such liability faces three major obstacles: substantive, evidentiary, and structural. The most significant substantive obstacle lies in the government's invocation of the “shield of sovereign immunity” (*a‘mal-e ḥākemiyyat*) to justify its economic actions. This challenge is compounded by the evidentiary difficulty of proving a “causal relationship” within a multifactorial market, as well as the “legislative silence” of the Securities Market Act, which leaves investors trapped in a vicious cycle of “judicial confusion” between the Administrative Justice Court and the general courts. Findings indicate that overcoming this deadlock requires an integrated reform package: Legislative reforms to explicitly establish the government's liability and introduce a “presumption of causation”; Structural reforms to ensure the independence of the supervisory authority through revising the composition of the High Council of the Stock Exchange; and Judicial reforms through the creation of a specialized capital market court and protection of investors' legitimate expectations. Establishing such a system of accountability is a prerequisite for public trust and the sustainable development of the capital market.

Keywords: State civil liability, capital market, market intervention, sovereign and proprietary acts, Securities Market Act.

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1. Introduction

In recent decades, the capital market has played an unparalleled role as one of the key pillars of the national economy, facilitating corporate financing and directing liquidity within society (Soltani, 2017). However, the complex and dynamic nature of this market has rendered it vulnerable to various forms of intervention and manipulation (Leuz et al., 2017). Among these influences, the actions of the *state*—as both the most powerful actor and the principal regulator of the economy—hold particular significance (Sabahi & Hasanzadeh Yazdi, 2022). Macroeconomic decisions, interventionist policies, and even public statements made by government officials can exert intense fluctuations on the market, resulting in widespread losses for investors (Mubin, 2016).

This study explores one of the most intricate yet underexamined dimensions of Iranian economic law: *the state's civil liability arising from intervention and manipulation in the stock market* (Sabahi & Hasanzadeh Yazdi, 2022). The significance of this issue stems from the fact that investors—particularly small shareholders—enter the market based on trust in the stability of regulations and the government's promises of support. They thus require effective legal mechanisms to obtain compensation for losses resulting from the breach of that trust (Rostami & Kamarkhani, 2015). However, realizing such liability in practice faces fundamental challenges.

The central question of this article is: considering the existing legislative gaps and structural obstacles, on what grounds can the government's civil liability for its harmful actions in the capital market be established? To address this question, the article first examines key concepts such as *state civil liability*, *intervention*, and *market manipulation* (Emami & Ostovar Sangari, 2011). It then relies on the theory of *the separation of sovereign and proprietary acts* to analyze the dual and complex nature of governmental actions within the capital market (Tavazizadeh, 2021). Subsequently, by assessing the structure of supervisory institutions and demonstrating their dependence on the executive branch, it clarifies the basis for attributing liability to the state (Dadgar & et al., 2021). With reference to Islamic-legal and civil foundations—such as the doctrines of *no-harm* (*la-darar*), *causation* (*tasbīb*), and *deception* (*ghurur*)—the theoretical underpinnings of such liability are laid out (Katouzian, 2015). Finally, after analyzing the constituent elements of liability and the practical challenges of enforcing rights, the article proposes concrete legal remedies at legislative, structural, and judicial levels to overcome the current deadlock and realize a coherent system of governmental accountability (Hosseini, 2015).

2. Concepts

2.1. State Civil Liability

Civil liability, meaning the legal obligation of a person to compensate for harm inflicted upon another, is a fundamental principle of law that finds its roots in Islamic jurisprudence (e.g., the principles of *la darar* and *itlāf*) and statutory law (Article 1 of the Civil Liability Act) (Katouzian, 2008). When such liability is attributed to a legal entity such as the *state*, it refers to the obligation of the government to compensate for damages caused by its institutions and agents to citizens (Hosseini, 2015).

In the Iranian legal system, the acceptance of such liability—through the ratification of Article 171 of the Constitution and, more specifically, Article 11 of the Civil Liability Act—represented a shift away from traditional notions of state immunity and established a framework for compensating losses arising from employee negligence or administrative deficiencies (Rahimi, 2018). However, the present study goes beyond these conventional instances, focusing instead on the government's liability *as a single juridical person* arising from its macro-level policymaking and interventions in the capital market (Sabahi & Hasanzadeh Yazdi, 2022). This type of liability, grounded in the trust and legitimate expectations created by the state, requires a more intricate analysis, which lies at the heart of this article's discussion (Rostami & Kamarkhani, 2015).

2.2. Governmental Intervention in the Stock Market

Intervention in the market refers to large-scale and purposeful actions by policymaking bodies—particularly the government and its affiliated institutions—aimed at influencing the natural processes of the market and steering prices or trading volumes (Dadgar & et al., 2021). Unlike manipulation, the motive behind intervention is not necessarily to gain unlawful profit but often to achieve macroeconomic objectives such as stabilizing the market during crises, supporting key industries, controlling economic variables, or implementing promotional policies such as public calls for investment (Sabahi & Hasanazadeh Yazdi, 2022).

These actions, which fall under the domain of the state's "competition policies," are top-down in nature and are executed by public authorities (Rostami & Kamarkhani, 2015). Depending on their compliance with legal norms and general principles of law, such interventions may be deemed legitimate or illegitimate and thus form a basis for liability (Chaffari Farsani, 2012).

2.3. Market Manipulation

In contrast to intervention, *market manipulation* refers to a set of deliberate and fraudulent actions aimed at creating a false and misleading impression of the supply, demand, or price of securities, ultimately to secure unlawful gain (Mubin, 2016). This act—one of the most significant capital market offenses—seriously undermines the trust and informational efficiency upon which the market is built (Hasanzadeh Sarvestani, 2019). The Iranian legislature, in Article 46 of the 2005 Securities Market Act, criminalized major forms of manipulation. These include three main categories:

- (1) trade-based manipulation such as sham transactions or trend creation;
- (2) information-based manipulation such as disseminating false news; and
- (3) deceitful inducement of others to trade through fraudulent means (Ghasemi Hamed & et al., 2018).

The essential distinction between manipulation and intervention lies in the *fraudulent intent and goal of obtaining unlawful profit at the expense of others*, with perpetrators typically being internal market participants (natural or legal persons) (Mubin, 2016).

2.4. Analysis of the Nature of State Actions in Light of the Theory of the Separation of Sovereign and Proprietary Acts

The theory dividing governmental acts into *sovereign acts* (those grounded in public authority and non-delegable to the private sector) and *proprietary acts* (economic and service activities akin to those of private entities) provides a foundational framework for determining the governing legal regime of state activities and, consequently, the scope of its liability (Tavazizadeh, 2021). Although this theory—originating in French administrative law—has faced criticisms and its criteria of distinction remain controversial (Katouzian, 2015), it continues to be invoked in Iranian law, particularly in the country's development programs and administrative doctrines (Tabatabaei Mo'tameni, 2015).

Governmental actions in the capital market can be analyzed along a spectrum between pure sovereignty and pure proprietorship.

The first category, *sovereign acts*, consists of regulatory actions undertaken by the government to preserve market stability and efficiency. Examples include enacting general rules such as defining price fluctuation limits or suspension and reopening procedures for listed companies, supervising legal compliance, issuing operational licenses to financial institutions, and detecting or prosecuting market crimes (Soltani, 2017). These actions, executed primarily through the Securities and Exchange Organization as the government's regulatory arm, are generally covered by the privileges of public power and ordinarily do not give rise to civil liability. Such immunity, however, dissipates when these actions are accompanied by gross negligence or malicious intent—known as *gross administrative fault* (Hosseini, 2015).

At the other end of the spectrum are the state's *proprietary acts*, which reflect its entrepreneurial and commercial role. The government, as a major economic actor and owner of large listed companies, engages in activities of a purely proprietary nature. Article 43 of the Law on the Implementation of the General Policies of Principle 44 of the Constitution explicitly subjects all

public and governmental entities to the provisions of Chapter 9 of that law concerning competition and anti-monopoly regulations (Ghaffari Farsani, 2012).

Accordingly, actions such as the initial public offering of state-owned companies to cover budget deficits, block sales of shares for privatization purposes, or market-making through quasi-governmental investment funds to support specific equities all fall into this category (Dadgar & et al., 2021). These operations are substantively no different from the behavior of large private institutional investors. Therefore, the state, in its entrepreneurial capacity, must be subject to the same rules and liabilities that govern other market participants (Rostami & Kamarkhani, 2015). Under the principle of equality and the necessity of preserving competition, the state cannot, in its proprietary role, benefit from sovereign immunities (Alimohammadi, 2014).

The main challenge arises in cases of *hybrid governmental actions*, where a single act simultaneously bears both sovereign and proprietary features. For instance, the boundary between the two disappears when the government, through official statements of its authorities (sovereign and advisory in nature), encourages public investment in the stock market while concurrently offering its own shares at inflated prices—a proprietary and profit-driven act (Mubin, 2016). This duality may constitute the creation of a misleading appearance in trading trends, potentially giving rise to civil liability (Leuz et al., 2017).

Another example is when the Securities and Exchange Organization, acting as a sovereign supervisory body, abruptly changes rules such as price fluctuation limits to prevent the fall of prices of state-owned companies under privatization, which reflects a proprietary economic motive (Dadgar & et al., 2021). Such dual actions are legally intricate. In these cases, one cannot disregard the proprietary and harmful effects of the act merely by invoking its sovereign nature. Modern legal doctrine maintains that when purposes are intertwined, the *predominant nature* and market impact of the act must determine its legal characterization (Tavazizadeh, 2021). Whenever the government uses sovereign instruments to pursue proprietary or economic interests, its actions fall outside the scope of sovereign immunity and should be governed by civil liability, as such conduct undermines investor trust—the cornerstone of a stable capital market (Ghasemi Hamed & et al., 2018).

3. Structural Analysis of Supervisory Authorities and Their Link to the State

To articulate the state's civil liability for harmful developments in the capital market, reliance on general rules of liability alone is insufficient; rather, one must clearly demonstrate the legal and structural linkage between the actions of market-regulatory bodies and the executive branch. Although Iran's principal capital-market institutions—namely, the High Council of the Securities and Exchange and the Securities and Exchange Organization—appear to possess independent legal personality, analysis of their structures and governing processes reveals their profound dependence on the government. This dependence constitutes the principal basis for attributing the decisions and performance outcomes of these bodies to the state and, consequently, the foundation of its civil liability. (Rostami & Kamarkhani, 2015)

Pursuant to Article 3 of the Securities Market Act, the High Council of the Securities and Exchange is the highest policy-making organ; however, an examination of its membership composition exposes the dominance of the executive branch. The presence of the Ministers of Economic Affairs and Finance and of Industry, Mine, and Trade, together with the Governor of the Central Bank, and the appointment of other members upon the recommendation of the Minister of Economic Affairs and approval of the Cabinet, effectively grants an absolute majority of votes to government representatives. This structure has practically transformed the Council from an independent regulatory authority into an executive arm of the government's fiscal policies, particularly toward objectives such as offsetting budget deficits. (Dadgar & et al., 2021) This inherent conflict of interest severely undermines the independence of the supervisory authority and paves the way for policies harmful to investors. (Sabahi & Hasanzadeh Yazdi, 2022)

At the executive layer, the Securities and Exchange Organization—designated by Article 5 of the same Act as a “non-governmental public institution”—does not enjoy the requisite operational independence. Its five-member Board of Directors is selected upon the proposal of the Minister of Economic Affairs and with the approval of the very Council influenced by the government, and the Organization's Chair, as the highest executive official, is appointed with the Council's final approval (Article 6). This appointment cycle creates a vertical dependency that weakens the supervisory body's autonomy against

governmental political and economic pressures. (Sabahi & Hasanzadeh Yazdi, 2022) In such circumstances, expecting the full discharge of oversight duties—such as decisively confronting market manipulation or enforcing transparency—would not be realistic, and this structural passivity can itself give rise to civil liability. (Mubin, 2016)

From a legal perspective, attributing liability for these decisions and omissions to the state is justifiable on two principal grounds. First is the theory of agency and effective control: although these bodies possess independent legal personality, the government's effective control over their structure and management means that, in practice, they function as instruments for executing state policies. This relationship, which evokes the structure of principal and agent, causes liability for harmful consequences of decisions to attach to the principal—namely, the state. (Hosseini, 2015) Second is liability for negligent selection and supervision: aligned with the tenor of Article 12 of the Civil Liability Act and the theory of “fault in organization,” the state is liable for designing a dependent structure for the supervisory authority and appointing managers lacking independence, thus failing in its sovereign duty to ensure an efficient and fair market. (Emami & Ostovar Sangari, 2011; Katouzian, 2015) This mismanagement in organization constitutes an independent basis for the state's civil liability. Therefore, whether under agency principles or negligent supervision, there exists a firm legal nexus warranting the attribution of liability to the state for the actions of capital-market supervisory institutions. (Vizheh, 2013)

4. Evidence for Establishing the State's Civil Liability in the Stock Market

Having demonstrated the supervisory authority's structural dependence on the state, we turn to the statutory and jurisprudential bases of liability. In the Iranian legal system, constitutional principles, provisions of the Civil Liability Act, and jurisprudential rules such as *la darar* (no harm), *tasbib* (causation), and *ghurur* (deception) serve as principal sources for civil-liability evidence and play a pivotal role in establishing the state's obligation to compensate investors' losses. (Katouzian, 2015)

4.1. Statutory Evidence for the State's Civil Liability

Existing statutory capacities—apart from jurisprudential foundations—provide a multilayered framework for holding the state liable for its harmful interventions in the capital market. These grounds range from fundamental constitutional principles and general rules of civil liability to emerging doctrines in administrative law and together furnish a coherent set of proofs for liability. (Tabatabaei Mo'tameni, 2015; Vizheh, 2013)

The first and most fundamental ground is Article 40 of the Constitution, which, by prohibiting “abuse of right,” establishes a critical higher-order rule: “No one may exercise his right as a means of causing harm to another or of encroaching upon the public interest.” Although the state's powers in macroeconomic policymaking—such as administrative price-setting for products of listed companies or abrupt alterations in foreign-exchange policy—may initially appear to fall within “sovereign acts,” such powers are neither absolute nor unlimited. (Emami & Ostovar Sangari, 2011) When the state exercises these powers in a manner that directly diminishes the value of investors' assets, it effectively converts its right into a “means of harming others.” This constitutes a clear instance of the doctrine of *abuse of rights*, a violation of Article 40, and a strong basis for state liability for losses stemming from its economic policies. (Katouzian, 2015)

At another level, Articles 1 and 11 of the Civil Liability Act (1959) specifically clarify the grounds of liability arising from acts or omissions of state agents. Article 1—articulating the general fault-based rule—renders any damage to the property or rights of others caused by “carelessness or lack of due care” a source of liability. This provision applies to two specific contexts relevant to state liability in the capital market: (Hosseini, 2015)

(a) Liability for supervisory omissions (fault by omission): Under clauses 3 and 8 of Article 7 of the Securities Market Act (2005), the Securities and Exchange Organization is obligated to “monitor the proper enforcement of laws” and to “take necessary measures to prevent violations.” Passivity and silence in the face of price bubbles, trading based on insider information, or market manipulation exemplify “carelessness” and a failure to discharge a statutory duty (administrative fault). (Mubin, 2016) Since such passivity often flows from a management structure dependent on the government—or, in the terms of Article 11 of the Civil Liability Act, from a “defect in administrative facilities” (e.g., lack of structural and financial

independence)—the ultimate duty to compensate rests with the state as the superior juridical person. (Sabahi & Hasanzadeh Yazdi, 2022)

(b) Liability for affirmative acts (fault by commission): Repeated official statements by government authorities encouraging the public to invest in the stock market, followed by contradictory measures (such as cascade offerings of state-owned shares to finance budget deficits or sudden changes to feedstock pricing for petrochemical companies) that cause widespread loss, constitute a “harmful act.” By creating misleading and artificial trust, such conduct injures the property and rights of individuals and, under Article 1 of the Civil Liability Act, generates liability. This scenario closely resembles the creation of “artificial prices,” which is criminalized as a form of market manipulation under clause 3 of Article 46 of the Securities Market Act. (Ghasemi Hamed & et al., 2018; Soltani, 2017)

Finally, the principle of protection of *legitimate expectations*, a foundational doctrine of modern administrative law, completes this framework. It obliges the state to adhere to promises, practices, and decisions that have created “legitimate and reasonable expectations” for citizens. Public calls by senior officials to invest in the stock market and repeated assurances of its safety and profitability create precisely such a protectable legitimate expectation. When the state subsequently violates that expectation and causes investor loss, it has infringed a fundamental legal principle. On this basis, courts (particularly the Administrative Justice Court) can characterize the government’s conduct as a liability-generating administrative wrong contrary to “general principles of law” and award damages. (Tabatabaei Mo’tameni, 2015; Veldan, 2013)

4.2. Jurisprudential (Fiqh) Evidence

4.2.1. Reliance on the *La Darar* Principle in Relation to Harmful Macroeconomic Policies

The jurisprudential maxim “*la darar wa la dirar fi al-Islam*”—which is also reflected in Article 40 of the Constitution—signifies that no one may exercise their rights in a way that causes harm to others (Katouzian, 2015). Although the government possesses authority in exercising sovereignty and managing macroeconomic policy—such as currency or trade policy—this authority is not unlimited. When the state, in an effort to curb inflation, imposes mandatory pricing for products of listed companies, it directly undermines their profitability and consequently diminishes their share value. Although such actions are undertaken within the framework of sovereign authority, they constitute clear harm to shareholders who invested in reliance on the free-market mechanism (Rostami & Kamarkhani, 2015).

The loss inflicted upon investors here is definite, direct, and quantifiable. By exercising its sovereign powers, the state has caused harm to citizens (investors), and under this principle, such harm must not remain uncompensated (Hosseini, 2015). Therefore, aggrieved investors may invoke this maxim—together with the theory prohibiting the *abuse of rights*—to hold the government, as the primary cause of injury, liable for damages resulting from its interventionist and harmful policies (Sabahi & Hasanzadeh Yazdi, 2022).

4.2.2. Reliance on the *Tasbib* (Causation) Principle Concerning Supervisory Omissions

The principle of *tasbib* (indirect causation), also codified in Article 331 of the Civil Code, holds that whoever indirectly causes the loss or destruction of another’s property is liable, provided that their causation predominates over the direct actor (Katouzian, 2008). This principle is particularly relevant to the state’s civil liability in the capital market concerning supervisory omissions. The Securities and Exchange Organization bears the intrinsic duty of safeguarding market transparency and integrity, including preventing price bubbles and countering manipulation (Soltani, 2017).

When the Organization, owing to its structural dependency on the government, fails to fulfill these duties and passively allows the formation of large speculative bubbles, it becomes the effective cause of losses to investors who entered the market at artificial prices. In this scenario, although the immediate actor (*mubashir*) of the loss may appear to be the investor, the predominant cause (*sabab aqwa*) is the omission of the supervisory authority, which was legally obliged to prevent such an abnormal state but neglected to act (Mubin, 2016). Since this omission arises from governmental influence and control over the Organization, ultimate responsibility lies with the state as the principal cause of the harm (Hosseini, 2015).

4.2.3. *Reliance on the Ghurur (Deception) Principle Regarding Supportive Promises*

The *ghurur* or deception principle applies when an individual, through deceitful conduct or statements, induces another to enter a transaction that leads to loss, thereby rendering the deceiver (*gharrir*) liable for compensation (Katouzian, 2015). This principle aptly applies to the situation in which government officials publicly invite citizens to invest in the stock market while offering assurances of support and stability.

When senior executive officials repeatedly encourage the public to invest, portray the market as secure and profitable, and promise comprehensive support, they generate *legitimate expectations* and public trust. Citizens, relying on such statements and believing that the government will safeguard their investments, enter the market. If, following this public invitation, the government—through actions such as cascade share offerings to address budget deficits or through omissions such as failing to provide effective support during downturns—causes widespread losses, the *ghurur* principle is clearly realized (Sabahi & Hasanzadeh Yazdi, 2022). By its assurances and misleading appearances, the state has enticed individuals into transactions under false pretenses and thus, as the *gharrir*, bears responsibility for compensating deceived investors.

5. Elements of the State's Civil Liability Arising from Market Manipulation

For establishing the state's civil liability in the capital market, the three constituent elements of civil liability—*harmful act*, *damage*, and *causal relationship*—must be analyzed and proven with regard to the specific characteristics of this market and the state's unique role within it. While general rules of liability provide the overarching framework, evidentiary challenges in this domain demand deeper examination (Katouzian, 2015).

5.1. *The State's Harmful Acts in the Capital Market*

A harmful act by the state in the stock market can manifest either as an affirmative act—through interventionist measures—or as an omission—through failure to perform statutory duties. In both forms, such conduct violates legal obligations or general legal principles and thus generates liability (Hosseini, 2015).

Positive acts include direct decisions or measures taken by government entities or those under governmental influence that adversely affect the market's natural functioning. One of the clearest examples is the implementation of harmful macroeconomic decisions, such as the imposition of mandatory pricing on products of publicly listed companies. While often justified as anti-inflation policy, this measure directly undermines corporate profitability and reduces share values. Though carried out as an exercise of sovereign authority, it constitutes a harmful act due to the direct injury it inflicts on shareholders and the violation of their property rights (Rostami & Kamarkhani, 2015).

Furthermore, directive statements and deceptive promises by senior government officials pledging market support and encouraging public investment, when unfulfilled and resulting in investor losses, may constitute *fraudulent misrepresentation* (*tadlis*) or a breach of *legitimate expectation* and thus a harmful act (Sabahi & Hasanzadeh Yazdi, 2022). Direct interventions in supply and demand—such as the large-scale sale of shares in state-owned companies to finance budget deficits—represent another evident example of a harmful act that disturbs market equilibrium (Dadgar & et al., 2021).

Conversely, omission arises when a statutory body fails to perform its essential duties and such failure causes harm. Given the structural dependency of the Securities and Exchange Organization on the state, its passivity in fulfilling supervisory obligations is attributable to the government. Article 7 of the Securities Market Act assigns the Organization duties including oversight of law enforcement and the adoption of preventive measures against violations. Failure to act to control price bubbles or silence in the face of excessive market growth leads to losses for uninformed investors. Similarly, neglecting to counter market manipulation by major actors is a clear instance of supervisory omission and constitutes the predominant cause of losses to small investors (Mubin, 2016).

5.2. *Occurrence of Loss in the Capital Market*

The concept of loss as an element of civil liability in the capital market is more complex than in ordinary cases of material harm. Establishing loss in this context involves distinguishing it from ordinary market volatility. Loss here does not merely denote nominal depreciation of assets but may encompass definite damage arising from portfolio devaluation and loss of *expected profit* or *missed opportunity* for reasonable gain. If state intervention prevents the realization of profits that would have been achieved under normal market conditions, such lost profits can ground a claim for damages, provided that their realization was reasonably certain (Katouzian, 2015).

The main challenge lies in distinguishing losses caused by state conduct from those stemming from systematic market risks. To prove liability, the claimant must demonstrate that the decline in asset value exceeded normal fluctuations and occurred directly following a specific governmental act or omission. (Leuz et al., 2017)

5.3. *Causal Link Between State Conduct and Investor Loss*

Establishing a logical and legal nexus between the state's harmful act and the loss suffered by the investor is the most difficult part of proving civil liability. Because numerous factors simultaneously affect stock prices, demonstrating that the state's act was the "primary cause" of the loss is highly complex (Katouzian, 2015). In cases such as mandatory price-setting, causation is easier to prove, since economic analyses can show how the promulgation of a governmental decree directly led to a decline in the share prices of a given industry (Soltani, 2017). By contrast, in supervisory omissions, it must be shown that had the Securities and Exchange Organization fulfilled its duty, the loss would have been prevented. Here, the "ordinary cause" test provides the basis of analysis; namely, whether—viewed by an expert—failure of supervision would ordinarily result in such a loss (Katouzian, 2008; Tabatabaei Mo'tameni, 2015). With respect to officials' public statements, connecting an index plunge to a particular statement requires a precise analysis of market sentiment. If evidence shows that immediately after a supportive promise or a negative announcement by a responsible official the market experienced an abnormal drop, the causal relationship may be presumed (Leuz et al., 2017; Mubin, 2016). To overcome these evidentiary challenges, courts should extensively rely on expert opinions from finance and economics in order to disaggregate the effect of the state's act or omission from other market forces and, on that basis, apportion the state's liability for compensation (Dadgar & et al., 2021; Vizheh, 2013).

6. **Challenges to the State's Civil Liability for Intervention and Manipulation in the Capital Market**

Realizing state civil liability for its harmful interventions in the capital market—despite sound theoretical bases in the general rules of civil liability—faces a web of intertwined substantive, evidentiary, and structural obstacles in practice. Rooted in the state's dual nature as regulator and market actor, these challenges turn investor redress into an arduous path and significantly undermine the effectiveness of the compensation regime (Hosseini, 2015; Rostami & Kamarkhani, 2015).

6.1. *The Sovereign-Acts "Immunity Shield"*

The first and most fundamental impediment to bringing claims against the state is the classical doctrine distinguishing "sovereign acts" from "proprietary acts." Under this theory, the state bears civil liability only for its proprietary (commercial) activities that resemble the private sector, and is generally not answerable for sovereign acts performed under public authority (Alimohammadi, 2014; Vizheh, 2013). In the capital-market arena, this distinction has become a practical tool for the state to evade liability. Owing to its multiple roles (policymaker, supervisor, and economic actor), the state can present its interventionist measures—seemingly economic and proprietary in nature—under the cover of macro-level sovereign justifications (Tavazizadeh, 2021). For example, officials' public invitations to invest in the stock market, mandatory pricing policies for listed companies, and the offering of state ETFs are all measures that directly affect the market and shareholders' assets. Yet the state can characterize these not as economic conduct, but as sovereign policies pursuing objectives such as "liquidity guidance," "economic regulation," or "popularizing the economy," thereby seeking to exempt itself from liability

(Dadgar & et al., 2021; Sabahi & Hasanzadeh Yazdi, 2022). This duality makes it exceedingly difficult for claimants to invoke rules such as Article 11 of the Civil Liability Act. Consequently, the claimant's central challenge is to prove the proprietary nature of the harmful state act in the face of the government's interpretive power—an endeavor rendered difficult by legal complexities and a cautious judicial practice—and it underscores the need to revisit this traditional dichotomy in fields such as the capital market (Katouzian, 2015).

6.2. *Uncertainty of "Causation" in a Multi-Factor Market*

Even if the claimant overcomes the substantive hurdle of the sovereignty–proprietary divide, they still confront the formidable challenge of proving causation. In civil liability, the claimant must prove that the loss was the direct consequence of the defendant's harmful act (Katouzian, 2015). In the complex environment of the capital market—shaped by countless domestic and external variables—this becomes a legal–economic quandary. Stock prices reflect multiple factors, including macroeconomic conditions, political developments, industry news, and market psychology. In such a context, definitively attributing a specific loss (e.g., a portfolio decline) to a single governmental measure (e.g., a statement or decree) using traditional causation theories is nearly impossible. This “plurality of causes” enables the state to spotlight other factors (such as global crises or investors' profit-taking) to blur or sever the causal chain (Leuz et al., 2017). For instance, the state may contend that an index crash was driven not by its policies but by investors' behavior or international events. Disproving such claims and determining the precise “contribution share” of each factor requires sophisticated econometric analyses—tools and expertise that conventional judicial processes often lack (Dadgar & et al., 2021; Vizheh, 2013). This informational and technical asymmetry between claimant, state, and court effectively turns causation into the “Achilles' heel” of civil claims against the state in capital-market disputes (Mubin, 2016).

6.3. *Legislative Silence and Forum Uncertainty in the Judiciary*

Beyond substantive and evidentiary obstacles, a set of structural and jurisdictional challenges arising from the legal–judicial system effectively creates a halo of practical immunity around harmful state actions in the capital market and renders investor redress protracted and often fruitless. These barriers severely weaken the practical enforceability of liability even where robust theoretical grounds exist. The first and most fundamental structural hurdle is the meaningful silence of the Securities Market Act. Although enacted in 2005 to establish a transparent and efficient market—and despite criminalizing market manipulation with precision (Article 46) and recognizing civil liability for certain actors such as issuers and auditors—the Act is conspicuously silent regarding the state's own civil liability as a macro-level policymaker or direct market intervenor (Mubin, 2016; Soltani, 2017). This legislative gap deprives victims of a clear, specialized statutory basis and forces them to rely on the general rules of civil liability (e.g., Article 11 of the Civil Liability Act)—a route that, as analyzed earlier, is fraught with serious substantive (sovereign/proprietary divide) and evidentiary (causation) obstacles (Sabahi & Hasanzadeh Yazdi, 2022).

This silence is compounded at the apex of market oversight by the High Council of the Securities and Exchange's dual role and conflicts of interest. As the highest capital-market organ, the Council includes senior government officials such as the Minister of Economic Affairs and Finance, the Head of the Plan and Budget Organization, and the Governor of the Central Bank, alongside private-sector representatives (Article 3 of the Act). This composition structurally embeds the Council in a “conflict of interest” position: it is tasked with policymaking and investor protection while its governmental members are themselves implementers or advocates of policies that may harm the market (Dadgar & et al., 2021). Given the state's dominant presence on the Council and the Securities and Exchange Organization's structural dependence upon it, expecting effective countermeasures against state interventions or meaningful state accountability is unrealistic (Hosseini, 2015).

The complexity peaks when the aggrieved investor seeks judicial relief and encounters jurisdictional conflict and forum uncertainty. If the harmful state action takes the form of a “decree” or “regulation,” review of legality and annulment falls within the jurisdiction of the Administrative Justice Court; however, as a matter of practice, that Court generally does not adjudicate damages, referring the claimant to the general civil courts. Conversely, general civil courts—vested with general jurisdiction over damages claims—may decline jurisdiction on the ground that the state's conduct was an “administrative

decision” within the remit of the Administrative Justice Court (Rahimi, 2018; Tabatabaei Mo'tameni, 2015). This vicious cycle between fora not only prolongs proceedings but can ultimately result in denial of justice. Altogether, this chain of structural impediments renders the state's accountability framework in the capital market ineffective and leaves investors' rights vulnerable. The entrenched combination of substantive, evidentiary, and structural–jurisdictional obstacles effectively builds an immunity perimeter around harmful state actions and reveals the necessity of foundational legislative, structural, and procedural reforms (Emami & Ostovar Sangari, 2011; Ghorbanian, 2010). Proposed solutions include expressly codifying the state's civil liability in the Securities Market Act, ensuring genuine independence for the supervisory authority, and establishing a specialized capital-market court.

7. Legal Solutions for Overcoming the Challenges and Realizing State Accountability

Having dissected the multilayered challenges that cloak the state in practical immunity, exiting the status quo and re-engineering the legal system toward state accountability requires foundational, concurrent reforms across three complementary levels—legislative, structural, and judicial. These three axes must be approached as an integrated policy package, since the success of each depends on the others. As an urgent first step, legislative reform is necessary to fill existing gaps. The most vital amendment is to remedy the Securities Market Act's meaningful silence by adding an explicit provision recognizing the civil liability of the state and public bodies for all harmful actions, including macro-level decisions (such as mandatory pricing) and officials' statements. This provision should render inapplicable—in the capital-market context—the cumbersome classical distinction between sovereign and proprietary acts that has long served as a shield against liability, given its ambiguous criteria and diminished utility for modern economic governance (Alimohammadi, 2014; Tavazizadeh, 2021). In addition, to overcome the formidable challenge of proving causation—the “Achilles' heel” of these suits—the legislature should introduce innovative mechanisms such as a *presumption of causation* and *shifting the burden of proof*, so that upon showing temporal concurrence between the state act and widespread loss, causation is presumed and the burden shifts to the state to prove non-influence (Leuz et al., 2017; Mubin, 2016).

At the second level, structural reforms are essential to guarantee the independence of the supervisory authority. Revising the composition of the High Council of the Securities and Exchange—whose majority of governmental members undermines supervisory independence and effectively turns it into an executive arm of government policy—by reducing the number of governmental members and increasing the share of independent experts would strengthen resistance to political pressure (Dadgar & et al., 2021). Simultaneously, the jurisdiction of the Competition Council over anti-competitive practices in the capital market should be explicitly affirmed, and its decisions should be recognized as “strong judicial presumptions” for proving state fault in court (Ghaffari Farsani, 2012).

Finally, without transformation at the judicial level and in procedural pathways, these reforms will remain sterile. A key proposal is establishing a *Specialized Capital-Market Court* with dual administrative and civil competence to review both the lawfulness of government measures and damages claims, thereby ending the forum uncertainty between the Administrative Justice Court and the general civil courts (Rahimi, 2018). Beyond institutional design, judicial practice should proceed boldly, applying expansive interpretations of modern liability bases—most notably the doctrine of *legitimate expectations* and the *ghurur* (deception) principle—to these disputes (Sabahi & Hasanzadeh Yazdi, 2022; Tabatabaei Mo'tameni, 2015). When the state, through senior officials' promises, induces public trust in the market, it cannot evade liability for damages by abruptly changing policies and breaching the legitimate expectations it itself created (Katouzian, 2015).

8. Conclusion

This study, undertaken to examine the legal dimensions and challenges of *the state's civil liability arising from intervention in the stock market*, reached a central conclusion: the Iranian legal system faces a deep and structural contradiction in this area. On one hand, strong theoretical and jurisprudential foundations—such as the *la darar* rule (derived from Article 40 of the Constitution) against harmful macroeconomic policies, the *tasbib* rule concerning supervisory omissions, and the *ghurur* rule regarding misleading governmental promises—provide powerful bases for justifying and proving state liability. These

principles form the theoretical cornerstone for holding any person, natural or legal, accountable for damages inflicted upon others.

However, in practice, the aggrieved investor finds themselves facing a nearly impenetrable three-layered barrier—substantive, evidentiary, and structural—that renders these theoretical foundations ineffective. The greatest substantive barrier lies in the traditional dichotomy between *sovereign* and *proprietary* acts. By invoking this distinction, the state manages to classify its interventionist and inherently economic actions—such as mandated pricing of state-owned company shares or the large-scale offering of government ETFs for financing purposes—under the guise of sovereign justifications and public-policy implementation (such as the execution of Principle 44 of the Constitution). This “immunity shield” remains the government’s most effective tool for evading accountability.

This challenge is compounded by the arduous task of proving *causation* within the complex, dynamic, and multi-factor environment of the capital market. Distinguishing the effect of a single governmental decision or statement among thousands of other variables—including normal market fluctuations, global political-economic changes, and the behavior of other actors—places an almost impossible burden of proof on the claimant. Without access to advanced, resource-intensive economic analysis, this becomes practically unattainable. The situation is further exacerbated by the *legislative silence* of the Securities Market Act, which, despite imposing civil liability on other market participants, makes no explicit reference to the state’s responsibility—creating a clear legal vacuum.

Ultimately, these obstacles culminate in *judicial and structural confusion*. An injured investor must turn to the Administrative Justice Court to annul a harmful governmental decree, yet must file a separate damages claim in civil courts for the resulting loss. This jurisdictional conflict not only prolongs litigation and imposes heavy costs but also increases the risk of inconsistent rulings, effectively turning the pursuit of justice into a dead end.

Accordingly, the present study demonstrates that the central research question—how to define and realize the state’s civil liability in the capital market—has no answer short of comprehensive and fundamental legal reform. Reliance solely on theoretical reasoning and general liability principles, without accompanying structural reform, is insufficient to dismantle this *de facto* immunity. Overcoming this impasse requires implementing a *cohesive and concurrent reform package* that addresses three key dimensions:

- **Legislative reform:** through an immediate revision of the Securities Market Act to explicitly recognize the state’s civil liability, abolish the outdated sovereign/proprietary dichotomy in this domain, and introduce evidentiary facilitation mechanisms such as a *presumption of causation* in favor of the injured party.
- **Structural reform:** through a fundamental reconfiguration of the High Council of the Securities and Exchange to reduce government dominance, ensure the supervisory authority’s independence, and prevent conflicts of interest that currently enable governmental interference.
- **Judicial reform:** by establishing *specialized capital-market courts* with dual administrative and civil jurisdiction to ensure unified adjudication of claims, and by cultivating a judicial mindset oriented toward the protection of modern liability doctrines—particularly the principle of *legitimate expectations* for investors.

In summary, unless these three categories of reform are implemented decisively and in harmony, public trust—the cornerstone of an efficient capital market and the foundation of sustainable financing—will continue to erode. The fundamental rights of investors will remain unprotected against the harmful conduct of the market’s most powerful actor, the state, and the nation’s economic development prospects will face serious challenges. Establishing such a system of accountability is not a matter of choice but an unavoidable necessity for transitioning toward a transparent, competitive, and law-based economy.

Ethical Considerations

All procedures performed in this study were under the ethical standards.

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Conflict of Interest

The authors report no conflict of interest.

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