A Critical Analysis of Judicial Practice in the Legal Characterization of Juridical Acts by Judges in Iran

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Abstract

Legal characterization plays a decisive yet often underestimated role in private law adjudication, as it constitutes the judicial operation through which factual situations are transformed into legally meaningful categories. This article examines the concept and practice of legal characterization in Iranian private law with a particular focus on Supreme Court jurisprudence. It argues that legal characterization is a normative–judicial operation that must be distinguished from interpretation, completion of contracts, and application of law, and that persistent failure to maintain these distinctions has produced structural inconsistencies in judicial reasoning. Drawing on doctrinal analysis and a qualitative review of Supreme Court decisions issued between approximately 2011 and 2025, the study identifies recurring patterns of mischaracterization across key areas, including mixed contracts (especially pre-sale construction agreements), banking and financial instruments, digital and fintech transactions, and emerging unilateral juridical acts such as electronic wills and smart contracts. The findings reveal that courts frequently rely on party labels, conflate characterization with interpretation, or apply legal norms without prior determination of legal nature, resulting in unpredictable judgments and fragmented jurisprudence. The article further demonstrates that these inconsistencies are not incidental but stem from the absence of a coherent theoretical framework governing legal characterization in Iranian doctrine and judicial practice. By situating characterization as a question of law and a judicial duty grounded in objective structural criteria, the study highlights the need for methodological discipline and explicit reasoning at the level of classification. The article concludes that recognizing legal characterization as a foundational judicial function is essential for restoring legal certainty, enhancing appellate coherence, and enabling Iranian private law to respond effectively to complex modern transactions while preserving doctrinal integrity.

Keywords: Legal characterization; Judicial reasoning; Iranian private law; Supreme Court jurisprudence; Legal certainty

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1. Introduction

Legal characterization occupies a pivotal position in private law adjudication because it constitutes the logical and normative passage through which raw facts are transformed into legally meaningful categories. In any civil law system, including Iran's mixed system rooted in codified law and influenced by continental doctrine, the application of legal rules presupposes a prior determination of the legal nature of the act or relationship in dispute. This determination is not a merely descriptive exercise but a juridical operation that connects social reality to normative consequences. As Gérard Cornu explains, law does not deal with facts as such, but with facts once they have been "qualified" within pre-existing legal concepts, a process that enables the rule of law to operate on concrete situations (Cornu, 2007). Without this operation, the legal norm remains abstract and inoperative, incapable of guiding judicial reasoning or producing binding outcomes.

In Iranian private law, legal characterization performs this same gateway function between facts and norms. Before a judge can interpret contractual clauses, assess validity, or determine legal effects, the judge must first answer a more fundamental question: what kind of juridical act is at issue? This question precedes interpretation and application of law and determines which legal regime governs the dispute. Nasser Katouzian emphasizes that the classification of contracts and juridical acts is the foundation upon which all subsequent legal analysis rests, because each category carries its own mandatory and default rules (Katouzian, 2010). When this foundational step is performed incorrectly or inconsistently, the entire adjudicative process becomes unstable, leading to outcomes that may be formally reasoned yet substantively flawed.

A critical distinction must therefore be drawn between merely naming a transaction and legally characterizing it. Parties to a contract may label their agreement as a sale, a lease, a partnership, or any other familiar title, but such labels do not bind the court. The act of naming is a linguistic or strategic choice made by private actors, often influenced by economic interests or regulatory avoidance. Legal characterization, by contrast, is a judicial determination grounded in objective legal criteria and aimed at identifying the true legal nature of the act. Jean-Louis Bergel underlines that legal methodology requires judges to move beyond surface terminology and examine the structural elements and legal effects of an act in order to situate it within the legal system (Bergel, 2001). This methodological demand applies with full force in Iranian courts, where reliance on contractual labels has frequently obscured the underlying juridical reality.

The difference between naming and characterizing becomes especially significant in complex or atypical transactions, such as mixed contracts, modern financial instruments, or digital agreements. In such cases, the parties' terminology often fails to correspond to any single classical category. Karl Larenz's methodological analysis demonstrates that legal categories are not descriptive mirrors of social practices but normative constructs that impose order on social complexity (Larenz, 1991). Consequently, the judge's task is not to adopt the parties' vocabulary but to determine which legal construct best captures the structure and function of the transaction. This insight resonates strongly in Iranian private law, where traditional contractual categories coexist with rapidly evolving economic practices.

Despite the centrality of legal characterization, Iranian legal doctrine lacks a coherent and explicit theory governing this judicial function. While major Iranian scholars have addressed contracts, obligations, interpretation, and judicial reasoning, legal characterization often appears only implicitly within broader discussions. Mehdi Shahidi, for example, analyzes the general theory of civil law with attention to intention, consent, and legal effects, yet the methodological autonomy of characterization as a distinct judicial operation remains underdeveloped (Shahidi, 2014). Similarly, works on judicial reasoning tend to focus on interpretation and application of law rather than the preliminary act of classification that conditions both. Mohammad Ghamami's analysis of judicial reasoning highlights the importance of structured legal analysis but also reveals the absence of a systematic framework for characterization in Iranian jurisprudence (Ghamami & Eshragh-Arayi, 2019).

This doctrinal gap has significant practical consequences. In the absence of a clear theory, judges often oscillate between competing approaches: sometimes deferring to the parties' expressed intent, sometimes relying on analogical reasoning, and sometimes prioritizing perceived economic functions without explicit methodological justification. Claus-Wilhelm Canaris warns that such methodological ambiguity undermines legal certainty because it allows judicial discretion to expand without normative discipline (Canaris, 1995). In the Iranian context, this lack of discipline has manifested in inconsistent judicial outcomes, particularly at higher levels of adjudication.

One of the most visible consequences of mischaracterization is the unpredictability of judgments. When courts fail to apply stable criteria for classifying juridical acts, similar cases may yield divergent outcomes. Predictability is a core value of private law because it enables individuals and businesses to plan their conduct with reasonable confidence in legal consequences. John Henry Merryman notes that civil law systems derive much of their legitimacy from the consistency and foreseeability of judicial decisions, which depend heavily on correct legal classification (Merryman & Pérez-Perdomo, 2007). In Iran, however, the absence of a unified approach to characterization has weakened this predictability, especially in commercial and financial disputes.

Closely related to unpredictability is the erosion of legal certainty. Legal certainty requires not only that rules exist, but that they are applied in a stable and intelligible manner. When the same type of transaction is characterized differently across cases, the normative boundaries of legal categories become blurred. François Terré emphasizes that legal certainty in obligations law depends on the integrity of legal categories, because each category anchors a coherent set of rights and duties (Terré et al., 2018). In Iranian practice, inconsistent characterization has diluted this integrity, producing uncertainty not only for litigants but also for lower courts seeking guidance from higher judicial authorities.

Perhaps the most structurally damaging consequence of mischaracterization is the fragmentation of Supreme Court jurisprudence. The Supreme Court of Iran plays a crucial role in ensuring uniformity in the interpretation and application of law. Yet when the Court itself lacks a stable framework for characterization, its decisions may reinforce inconsistency rather than resolve it. Benjamin Cardozo famously observed that appellate courts shape the law not merely by deciding cases, but by articulating principles that guide future adjudication (Cardozo, 1921). Where characterization is treated as an ad hoc or intuitive exercise, Supreme Court rulings risk becoming isolated solutions rather than precedential anchors.

This fragmentation is particularly evident in cases involving bank guarantees, mixed contracts, and modern financial arrangements. Roeland Bertrams shows that mischaracterizing bank guarantees can fundamentally alter their legal function and international acceptability (Bertrams, 2013). Similar risks arise in Iran when guarantees or financing arrangements are reclassified without clear criteria, leading to doctrinal confusion and commercial distrust. The problem is exacerbated in digital and electronic transactions, where traditional categories are already under strain. The UNCITRAL Model Laws on Electronic Commerce and Electronic Signatures highlight the need for functional equivalence and careful legal classification in digital contexts (Uncitral, 1996, 2001). Without a robust theory of characterization, Iranian courts face increasing difficulty in integrating such transactions into existing legal frameworks.

At a deeper level, the problem of inconsistent characterization reflects a broader tension between judicial discretion and normative constraint. Brian Leiter's analysis of legal realism illustrates how unchecked discretion can lead to outcomes driven by intuition rather than structured reasoning (Leiter, 2007). While some degree of discretion is inevitable, particularly in novel cases, private law adjudication requires methodological boundaries to preserve coherence. Neil MacCormick's theory of legal reasoning underscores that rational adjudication depends on identifiable stages of reasoning, including the correct identification of the applicable legal category (MacCormick, 1978). Characterization is one such stage, and its neglect destabilizes the entire reasoning process.

In Iranian civil procedure, the judge's authority to determine the legal basis of a claim is well established, even when parties frame their arguments differently. Abdollah Shams explains that courts are not bound by the legal labels chosen by litigants and must apply the correct legal rules to the facts presented (Shams, 2013). Seyed Hossein Safaei similarly emphasizes that procedural fairness does not require blind adherence to party characterizations but demands correct legal assessment within the limits of the claim (Safaei, 2009). These procedural principles implicitly recognize the necessity of independent judicial characterization, even though they stop short of articulating its substantive criteria.

Against this background, the central research question of this article emerges clearly: why must the Iranian judge independently characterize juridical acts, and according to which normative criteria should this characterization be carried out? This question is not merely theoretical. It addresses the structural deficiencies of current judicial practice and seeks to identify a principled foundation for a function that judges already perform, often unconsciously and inconsistently. By situating legal characterization as a core judicial function rather than a marginal or technical task, the article aims to contribute to a more coherent and predictable system of private law adjudication in Iran.

Answering this question requires rethinking characterization as an autonomous judicial operation governed by objective legal criteria rather than subjective intent or pragmatic convenience. Comparative insights reinforce this necessity. Konrad Zweigert's comparative analysis shows that despite differences among legal systems, the need for disciplined legal classification is universal in civil law traditions (Zweigert & Kötz, 1998). Iranian private law, sharing many structural features with these systems, stands to benefit from a similarly explicit and methodologically grounded approach. The present study therefore begins from the premise that legal characterization is not only unavoidable but normatively indispensable, and that clarifying its role is a prerequisite for restoring coherence, certainty, and authority to Iranian judicial practice.

2. Theoretical and Doctrinal Foundations of Legal Characterization

Legal characterization must be reconstructed as a normative–judicial operation that stands at the heart of adjudication rather than at its margins. At its most fundamental level, characterization functions as a bridge between social reality and legal normativity, enabling judges to translate concrete situations into legally intelligible forms. Law does not operate directly on raw facts; it operates on facts once they have been organized within juridical categories that carry determinate legal consequences. Gérard Cornu emphasizes that the law's relationship with reality is mediated through concepts, and it is only by situating facts within these concepts that the law can speak meaningfully to social life (Cornu, 2007). In this sense, legal characterization is neither a preliminary convenience nor a technical accessory but the very condition of possibility for legal reasoning.

The normative nature of legal characterization becomes apparent when it is distinguished from factual description. A factual description recounts what has occurred in the external world: the exchange of money, the delivery of goods, the assumption of obligations, or the issuance of guarantees. Such descriptions belong to the domain of evidence and proof. Legal characterization, by contrast, asks a different question: under which legal category does this constellation of facts fall? Jean-Louis Bergel clarifies that methodology in law requires a movement from descriptive observation to normative classification, a movement that is guided by legal criteria rather than empirical ones (Bergel, 2001). This movement transforms a sequence of events into a sale, a lease, a guarantee, or another juridical act, each of which triggers a distinct legal regime.

Because characterization determines the applicable legal framework, it cannot be reduced to a discretionary privilege of the judge. Instead, it constitutes a judicial duty imposed by the structure of the legal system itself. Nasser Katouzian argues that the judge is bound to apply the correct legal rules to the facts as established, and this obligation necessarily presupposes the correct identification of the legal nature of the act in question (Katouzian, 2010). If the judge were free to accept or reject characterizations arbitrarily, the coherence of private law would collapse into subjectivity. Legal characterization is therefore constrained by normative standards embedded in legislation, doctrine, and jurisprudence, even though it requires evaluative judgment.

This duty-bound character of legal characterization situates it firmly within the realm of questions of law rather than questions of fact. The classical distinction between subject-matter questions and rule-based questions is central to understanding this placement. Questions of fact concern the existence, occurrence, or content of events in the external world, such as whether a payment was made or a contract signed. Questions of law concern the legal meaning and consequences of those events. Mohammad Jafar Jafari Langarudi underscores that while facts are established through evidence, legal meaning is produced through juridical reasoning (Jafari Langarudi, 2002). Legal characterization belongs to this latter category because it involves assigning legal significance to established facts rather than discovering those facts themselves.

The classification of characterization as a question of law has important implications for judicial authority and appellate review. In civil law systems, higher courts typically exercise greater control over questions of law than over questions of fact, precisely because legal coherence depends on uniform interpretation and application of legal categories. Karl Larenz explains that the determination of a legal category involves interpretive reasoning grounded in the systematic structure of the legal order, not empirical verification (Larenz, 1991). This reasoning process transforms factual material into juridical form by assessing which legal concept best captures the normative essence of the situation.

Judicial reasoning plays a decisive role in this transformation. Neil MacCormick's theory of legal reasoning illustrates that adjudication proceeds through identifiable stages, including the identification of relevant facts, the selection of applicable legal

norms, and the justification of conclusions (MacCormick, 1978). Legal characterization operates at the critical juncture between fact-finding and norm application. Without a coherent characterization, the selection of legal norms becomes arbitrary or misguided. The judge's reasoning must therefore articulate why a given set of facts corresponds to one legal category rather than another, relying on structural features such as the distribution of rights and obligations, the economic function of the transaction, and the legal effects it produces.

The normative status of characterization also clarifies the limits of party autonomy in private law. While party autonomy is a foundational principle that allows individuals to shape their legal relations, it does not extend to determining the legal categories that govern those relations. Parties may describe or label their agreement as they wish, but such labels cannot override the objective requirements of the legal system. Mehdi Shahidi notes that intention is a necessary element of juridical acts, yet intention operates within the boundaries set by law and cannot redefine legal categories at will (Shahidi, 2014). Legal characterization must therefore examine intention as one element among others, rather than as a decisive criterion.

The tension between objective structure and subjective intention becomes especially salient in complex transactions. Parties may intend to achieve certain economic outcomes and select labels that reflect those intentions, but the legal structure of their arrangement may correspond to a different category altogether. François Terré emphasizes that obligations law prioritizes the objective configuration of rights and duties over the parties' linguistic choices, because legal certainty depends on stable and recognizable categories (Terré et al., 2018). In Iranian private law, this principle implies that judges must scrutinize the substantive content of transactions rather than defer to contractual terminology.

Delegating legal characterization to the parties would undermine the normative coherence of the legal system. Abdollah Shams explains that procedural law grants judges the authority to apply the correct legal rules regardless of how parties frame their claims, precisely to prevent manipulation or error (Shams, 2013). Seyed Hossein Safaei similarly argues that judicial independence in legal qualification is essential to ensuring fairness and consistency in adjudication (Safaei, 2009). If characterization were left to the parties, legal categories would lose their normative force and become tools of strategic behavior.

The philosophical foundations of legal characterization further reinforce its normative and judicial character. The long-standing debate between legal realism and legal formalism provides valuable insights into how judges engage with legal categories. Legal realists emphasize the role of judicial discretion and the influence of social and psychological factors on decision-making. Brian Leiter's analysis of American legal realism shows that judges inevitably exercise judgment beyond mechanical rule application (Leiter, 2007). However, realism does not deny the existence of legal categories; it challenges the illusion that their application is automatic. In the context of characterization, realism highlights the need for transparent reasoning rather than intuitive classification.

Legal formalism, by contrast, stresses the autonomy and determinacy of legal concepts. While strict formalism may underestimate the role of judgment, it correctly insists that legal categories possess an internal structure that constrains interpretation. Claus-Wilhelm Canaris articulates a middle path by emphasizing systematic coherence: legal concepts must be applied in a way that preserves the internal consistency of the legal order (Canaris, 1995). Legal characterization, from this perspective, is a structured normative exercise guided by the system of private law as a whole.

Structural objectivity emerges as a key concept in reconciling these approaches. Structural objectivity refers to the idea that legal categories are objective not because they mirror social reality perfectly, but because they are defined by their position within a normative system. Konrad Zweigert's comparative analysis demonstrates that despite cultural and doctrinal differences, civil law systems rely on structurally objective categories to maintain coherence and predictability (Zweigert & Kötz, 1998). Iranian private law, sharing this structural orientation, requires judges to anchor characterization in the objective architecture of legal concepts rather than in subjective preferences.

Reason, custom, and equity also play important roles in legal characterization, but their influence is mediated by normative constraints. Reason operates as a tool for assessing coherence and proportionality in classification decisions. Custom may inform the interpretation of social practices, yet it cannot override statutory categories without undermining legal certainty. Gérard Cornu notes that custom contributes to the life of legal concepts only when it is integrated through juridical reasoning

(Cornu, 2007). Equity serves as a corrective principle, guiding judges in borderline cases, but it does not authorize the creation of ad hoc categories.

In modern contexts, particularly in commercial and financial law, the normative foundations of characterization face additional challenges. Roeland Bertrams illustrates how mischaracterization of bank guarantees can disrupt international commercial expectations and legal uniformity (Bertrams, 2013). These challenges underscore the necessity of a principled approach to characterization that can adapt to new forms of transactions without sacrificing coherence. International instruments such as the UNCITRAL Model Laws emphasize functional analysis in digital contexts, reinforcing the need for judges to engage in careful normative classification rather than rely on superficial analogies (Uncitral, 1996, 2001).

Ultimately, reconstructing legal characterization as a normative–judicial operation clarifies its foundational role in private law adjudication. It is neither a factual inquiry nor a consensual arrangement, but a disciplined exercise of judicial reasoning that transforms social reality into legal meaning. By situating characterization within questions of law, limiting the role of party autonomy, and grounding the process in philosophical and methodological principles, this reconstruction provides the theoretical basis for addressing the inconsistencies observed in Iranian judicial practice. The subsequent analysis builds upon this foundation to examine how deviations from these principles have contributed to doctrinal fragmentation and to explore pathways toward greater coherence in legal adjudication.

3. Legal Characterization versus Interpretation, Completion, and Application of Law

A persistent source of doctrinal confusion in Iranian jurisprudence lies in the failure to distinguish legal characterization from other judicial operations that occur in adjudication, most notably interpretation, completion of contracts, and the application of law. These operations are conceptually distinct, methodologically sequential, and normatively constrained in different ways. When they are conflated, judicial reasoning loses clarity and coherence, producing decisions that may appear persuasive on the surface but rest on unstable analytical foundations. Clarifying these distinctions is therefore essential to restoring methodological discipline to private law adjudication and to explaining why legal characterization must be understood as an autonomous judicial function rather than a subset of interpretive discretion.

The most common and consequential confusion arises between legal characterization and interpretation. Interpretation focuses on meaning, asking what the parties intended to express through their words or conduct. It is concerned with decoding linguistic expressions, contextual signals, and shared understandings in order to reconstruct the will that underlies a juridical act. Ali Khazaei explains that interpretation operates within the framework of an already identified legal institution, aiming to clarify ambiguous terms or resolve uncertainties in expression (Khazaei, 2004). By contrast, legal characterization addresses a different question altogether: it seeks to determine the legal nature of the act itself, independent of how the parties describe or understand it. This distinction is not merely semantic; it reflects two different moments in legal reasoning that must not be collapsed into one another.

Interpretation necessarily presupposes prior characterization because one cannot meaningfully interpret an act without first knowing which legal regime governs it. The rules of interpretation applicable to a sale differ from those applicable to a lease, a guarantee, or a unilateral juridical act. Gérard Cornu emphasizes that interpretation unfolds within the boundaries of a legal category, and those boundaries are established through qualification (Cornu, 2007). If the category is misidentified, interpretive reasoning proceeds on false premises, leading to distorted conclusions. In Iranian judicial practice, however, courts have often interpreted contractual clauses before clearly determining whether the transaction constitutes a sale, a lease, or a mixed contract, thereby allowing interpretive reasoning to substitute for proper characterization.

This methodological inversion has been reinforced by an overemphasis on subjective intention. While intention is undeniably relevant to interpretation, it cannot determine legal characterization on its own. Mehdi Shahidi notes that intention must be assessed within the objective framework of legal institutions, rather than treated as a sovereign force capable of redefining legal categories (Shahidi, 2014). When judges rely excessively on what the parties "meant" without first asking what kind of juridical act their arrangement objectively constitutes, interpretation becomes a surrogate for characterization. This practice obscures the normative structure of private law and allows subjective narratives to displace legal analysis.

The confusion between characterization and interpretation also affects appellate review. Interpretation often involves mixed questions of law and fact, granting trial courts a degree of latitude. Characterization, by contrast, belongs to questions of law and should therefore be subject to stricter oversight. Karl Larenz explains that the determination of legal nature involves systematic reasoning that transcends the particularities of individual cases (Larenz, 1991). When Iranian courts treat characterization as interpretive discretion, they effectively shield it from meaningful review, contributing to inconsistent outcomes across similar cases.

A second, equally problematic conflation occurs between legal characterization and the completion of contracts. Completion addresses situations in which a contract is silent or incomplete on certain points. In such cases, the judge fills gaps by resorting to default rules, customary practices, or implied terms. François Terré describes completion as a supplementary operation that presupposes an existing and correctly identified legal framework (Terré et al., 2018). It does not alter the legal nature of the contract but operates within it. Legal characterization, by contrast, precedes completion and determines which default rules and supplementary principles are applicable in the first place.

In Iranian jurisprudence, however, completion has sometimes been misused as a tool for altering the legal nature of transactions. Courts have occasionally invoked equity, fairness, or implied obligations to justify reconfiguring a contract's fundamental structure, effectively changing its category under the guise of filling gaps. Mohammad Ghamami criticizes this practice, noting that it blurs the line between normative supplementation and conceptual transformation (Ghamami & Eshragh-Arayi, 2019). When completion is used to redefine a transaction rather than to supplement it, judicial reasoning oversteps its methodological boundaries and undermines legal certainty.

The distinction between characterization and completion is particularly important in mixed or atypical contracts. Such contracts may combine elements of different legal institutions, creating genuine analytical challenges. Nonetheless, these challenges must be addressed through careful characterization rather than post hoc completion. Nasser Katouzian argues that mixed contracts require an initial determination of their dominant or composite nature before any gap-filling measures can be applied (Katouzian, 2010). Using completion to resolve uncertainty about legal nature reverses this logic and allows judges to reshape transactions in ways that lack doctrinal justification.

This misuse of completion often reflects a deeper reluctance to confront the difficulty of characterization directly. By framing the issue as one of supplementation rather than classification, courts avoid articulating explicit criteria for determining legal nature. Claus-Wilhelm Canaris warns that such avoidance strategies weaken the systematic coherence of private law because they substitute pragmatic adjustments for principled reasoning (Canaris, 1995). Over time, this practice erodes the stability of legal categories and encourages ad hoc decision-making.

A third and equally significant confusion involves the relationship between legal characterization and the application of law. Application of law refers to the process of selecting and enforcing specific legal norms once the relevant legal category has been identified. It is the final stage of adjudication, translating abstract rules into concrete consequences. Legal characterization, by contrast, operates at an earlier stage, determining which set of norms is applicable. Benjamin Cardozo observed that judicial reasoning follows a sequence in which classification precedes rule application, because rules derive their meaning from the categories to which they apply (Cardozo, 1921). Disrupting this sequence compromises the integrity of legal reasoning.

The logical order of adjudication can thus be described as a progression from characterization to legal qualification and finally to the application of norms. Legal qualification refers to the articulation of the legal consequences associated with a category, while application involves enforcing those consequences in a specific case. Neil MacCormick emphasizes that rational adjudication depends on maintaining this order, as each step constrains and informs the next (MacCormick, 1978). When Iranian courts apply legal norms before clearly establishing the legal nature of the act, they risk fitting facts to rules rather than selecting rules appropriate to the facts.

Reversing this order has tangible consequences. Courts may apply rules designed for one category of transactions to another, producing outcomes that conflict with legislative intent and doctrinal coherence. Seyed Hossein Safaei explains that procedural justice requires judges to identify the correct legal framework before applying substantive rules, as premature application distorts both reasoning and outcome (Safaei, 2009). Yet in practice, Iranian courts have sometimes justified their decisions by

invoking statutory provisions without first clarifying whether those provisions are applicable, effectively allowing the chosen rule to dictate the characterization rather than the other way around.

This rule-driven approach to characterization undermines legal certainty and invites strategic litigation. Parties may frame their claims to trigger favorable legal provisions, knowing that courts might accept these frames without independent characterization. Abdollah Shams highlights that one of the core functions of the judge is to resist such strategic framing by identifying the correct legal basis of the claim regardless of the parties' submissions (Shams, 2013). Failure to perform this function transforms adjudication into a contest of procedural tactics rather than a principled application of law.

A comparative perspective further illuminates these distinctions and their practical importance. In French law, legal characterization is explicitly recognized as a judicial responsibility under the concept of qualification juridique. French courts are required to give the correct legal characterization to acts and facts, irrespective of the labels chosen by the parties. Gérard Cornu notes that this duty reflects the civil law commitment to objective legal categories as instruments of coherence (Cornu, 2007). French jurisprudence consistently treats characterization as a preliminary and autonomous operation, distinct from interpretation and supplementation.

German law adopts a similarly structured approach through the concept of Rechtsnaturbestimmung, or determination of legal nature. Karl Larenz explains that this process involves situating a transaction within the systematic framework of private law, guided by doctrinal concepts and legislative purposes (Larenz, 1991). German courts emphasize that legal nature cannot be altered through interpretive or supplementary techniques, as such alterations would disrupt the systematic unity of the legal order. Claus-Wilhelm Canaris further underscores that methodological rigor in determining legal nature is essential to maintaining the internal rationality of the system (Canaris, 1995).

By contrast, common law systems exhibit greater reluctance toward judicial re-characterization. Courts in these systems often prioritize the parties' expressed intentions and are cautious about overriding contractual labels. Ewan McKendrick notes that while common law courts do engage in re-characterization when necessary, they tend to do so sparingly and with explicit justification (McKendrick, 2020). This restraint reflects the different structural role of precedent and contractual freedom in common law traditions. Nonetheless, even in these systems, mischaracterization is recognized as a source of legal uncertainty, particularly in complex commercial arrangements.

Comparative analysis thus reveals that while legal systems differ in their tolerance for judicial intervention, they share a recognition of legal characterization as a distinct analytical step. Konrad Zweigert's comparative methodology shows that functional equivalence across systems depends on preserving the integrity of classification processes, even when doctrinal techniques vary (Zweigert & Kötz, 1998). For Iranian private law, this insight underscores the need to articulate a clear framework for characterization that respects domestic legal principles while aligning with comparative best practices.

The lessons for Iranian jurisprudence are clear. Legal characterization must be disentangled from interpretation, completion, and application of law if judicial reasoning is to regain coherence and predictability. Interpretation should clarify meaning within an established legal category, not determine the category itself. Completion should supplement incomplete contracts without altering their nature. Application of law should enforce norms selected through prior characterization, not dictate classification through strategic rule selection. Recognizing and respecting these distinctions does not constrain judicial reasoning; it disciplines it, ensuring that discretion operates within normative bounds.

By reconstructing these boundaries, Iranian private law can move toward a more transparent and principled model of adjudication. Such a model would enhance legal certainty, strengthen appellate oversight, and restore confidence in judicial outcomes. Most importantly, it would reaffirm legal characterization as what it truly is: a foundational judicial operation that structures the entire process of legal reasoning rather than a residual or incidental step.

4. Judicial Practice in Iran: Critical Analysis of Supreme Court Case Law

This section examines Iranian Supreme Court case law as the empirical terrain on which the theoretical problems of legal characterization materialize most clearly. The analysis proceeds qualitatively and focuses on decisions issued roughly between 2011 and 2025, selected for their doctrinal salience, internal contradictions, and tangible economic or commercial consequences. The aim is not to catalogue decisions exhaustively, but to identify recurring patterns of reasoning that reveal

how legal characterization is performed, misperformed, or displaced by other judicial operations. Throughout this period, Supreme Court jurisprudence demonstrates a persistent instability in classification methods, an instability that cannot be explained solely by factual variation and instead reflects deeper methodological shortcomings.

One of the most revealing clusters of cases concerns mixed contracts, particularly pre-sale agreements in the construction sector. These disputes typically arise where purchasers make advance payments for buildings to be constructed and delivered in the future, often accompanied by temporary possession, installment schedules, or collateral undertakings. In different rulings, the Supreme Court has characterized such arrangements alternately as sales, leases with a promise of sale, or sui generis contracts. This variability is striking because the underlying economic and structural features of the transactions are often similar. The absence of stable criteria for classification suggests that courts have not agreed on which elements are decisive for characterization, whether immediate transfer of ownership, timing of delivery, or allocation of risk. From a doctrinal perspective, this uncertainty conflicts with the principle that legal categories must be identified by their objective structure rather than by incidental features, a point emphasized in private law theory (Katouzian, 2010).

The structural causes of inconsistency in these mixed contract cases become apparent when judicial reasoning is examined closely. In some decisions, the Court prioritizes the parties' terminology, treating the label "sale" as determinative even where ownership transfer is deferred. In others, the Court focuses on possession and use, drawing analogies to lease arrangements. This oscillation reflects an underlying confusion between factual description and legal characterization, a confusion that Jean-Louis Bergel identifies as a methodological error arising from failure to separate empirical observation from normative classification (Bergel, 2001). By shifting between criteria without articulating a hierarchy among them, Supreme Court jurisprudence undermines predictability and invites lower courts to select whichever characterization appears most convenient in a given case.

The doctrinal impact of this inconsistency is compounded by its economic consequences. Pre-sale contracts play a central role in Iran's construction market, and uncertainty regarding their legal nature affects risk allocation, financing, and enforcement. When similar agreements are classified differently across cases, parties cannot reliably anticipate which rules will apply in disputes. Gérard Cornu's observation that legal certainty depends on the stability of legal categories is particularly apt in this context (Cornu, 2007). Supreme Court case law, by failing to consolidate a coherent approach, has contributed to a fragmented legal environment in which contractual planning becomes increasingly precarious.

A second major cluster of cases involves banking and financial contracts, especially independent guarantees issued by banks in commercial transactions. Internationally, such guarantees are widely understood as autonomous obligations, distinct from the underlying contractual relationship they secure. Roeland Bertrams explains that the autonomy of bank guarantees is essential to their commercial function, as it allows beneficiaries to rely on prompt payment without becoming entangled in disputes over the primary contract (Bertrams, 2013). In Iranian Supreme Court jurisprudence, however, this autonomy has not always been respected. Several decisions have mischaracterized independent guarantees as accessory obligations, thereby subjecting them to defenses arising from the underlying contract.

This mischaracterization reflects a deeper reluctance to depart from traditional accessory models of security, such as suretyship. Rather than examining the structural features of the guarantee—its abstract promise, independence from underlying obligations, and standardized international usage—the Court has sometimes relied on familiar categories that fail to capture its legal nature. Karl Larenz's analysis of legal methodology warns against precisely this tendency, noting that clinging to outdated categories can distort the legal treatment of new instruments (Larenz, 1991). The Iranian Supreme Court's approach in these cases illustrates how insufficient attention to characterization can undermine the functionality of modern commercial tools.

The international repercussions of such mischaracterization are significant. Iranian banks participating in cross-border transactions risk being perceived as unreliable counterparties if domestic courts fail to uphold the autonomy of guarantees in line with international standards. Comparative private law underscores the importance of harmonized understanding in commercial instruments, a point emphasized in comparative analyses of legal systems (Zweigert & Kötz, 1998). Supreme Court decisions that blur the distinction between autonomous and accessory obligations thus have consequences that extend beyond domestic doctrine, affecting Iran's integration into global commerce.

A third and increasingly important area of judicial practice concerns financial technology and digital transactions. Supreme Court cases addressing installment sales, platform-based payments, and online financing arrangements reveal deep uncertainty

about legal characterization in technologically mediated contexts. Courts have often struggled to distinguish between installment sales and interest-free loans, particularly where deferred payments and service fees are involved. In some rulings, the Court has characterized such arrangements as loans, invoking prohibitions on interest, while in others it has treated them as sales with deferred consideration. This inconsistency mirrors the broader doctrinal challenge of adapting classical categories to new economic realities.

The difficulty lies not in the novelty of the technology itself, but in the absence of a functional approach to characterization. International instruments emphasize functional equivalence as a guiding principle for integrating electronic transactions into existing legal frameworks (Uncitral, 1996). When Iranian courts focus narrowly on surface features, such as payment schedules, without examining the allocation of rights and obligations, they risk mischaracterizing transactions and applying inappropriate legal regimes. The UNCITRAL Model Law on Electronic Signatures further highlights the need to assess legal effects rather than formal attributes (Uncitral, 2001). Supreme Court case law, however, has not consistently internalized these principles, resulting in divergent outcomes for structurally similar digital transactions.

Platform-based payment structures present an additional layer of complexity. These arrangements often involve multiple actors, including users, service providers, and intermediaries, with obligations distributed across digital interfaces. Supreme Court decisions have sometimes attempted to force these arrangements into traditional bilateral contract models, thereby overlooking their multilateral and functional dimensions. Neil MacCormick's theory of legal reasoning underscores that correct classification requires sensitivity to institutional context and practical consequences, not merely formal resemblance (MacCormick, 1978). The Court's difficulty in this area reflects a broader hesitation to articulate new or composite categories when existing ones prove inadequate.

Judicial hesitation is even more pronounced in cases involving unilateral juridical acts, such as electronic wills and smart contracts. These cases raise fundamental questions about the legal nature of self-executing code and digitally expressed intent. Supreme Court jurisprudence has shown a marked reluctance to characterize such acts decisively, often avoiding clear classification by focusing on procedural or evidentiary issues. This avoidance strategy points to a conceptual vacuum rather than a lack of authority. From a doctrinal perspective, unilateral acts have long been recognized in private law, and their adaptation to electronic form does not negate their juridical nature. Mehdi Shahidi's analysis of civil law theory affirms that the essence of unilateral acts lies in legally effective intention, regardless of medium (Shahidi, 2014).

The reluctance to characterize smart contracts illustrates the consequences of conflating characterization with interpretation or application. Courts have sometimes treated smart contracts merely as technical tools implementing pre-existing agreements, thereby sidestepping the question of their legal nature. Brian Leiter's critique of judicial intuitionism is relevant here, as it highlights the risks of decisions driven by discomfort with novelty rather than by structured reasoning (Leiter, 2007). Without explicit characterization, courts cannot develop coherent rules governing these instruments, leaving both users and lower courts without guidance.

Across these diverse case clusters, several systemic patterns of judicial inconsistency emerge. One such pattern is the over-reliance on party labels. Supreme Court decisions frequently adopt the terminology used by litigants, even when that terminology conflicts with the objective structure of the transaction. This practice effectively delegates characterization to the parties, contrary to the judicial duty to determine legal nature independently. Abdollah Shams emphasizes that judges are not bound by the legal arguments or labels presented by parties and must apply the correct legal framework ex officio (Shams, 2013). The persistence of label-based reasoning suggests a gap between procedural doctrine and judicial practice.

Another recurring pattern is the confusion between characterization and interpretation. Supreme Court rulings often justify classification decisions by invoking interpretive principles, such as the parties' common intention, without first establishing the applicable legal category. Ali Khazaei notes that interpretation operates within a legal framework and cannot substitute for its identification (Khazaei, 2004). When courts collapse these stages, they obscure the normative basis of their decisions and weaken the possibility of doctrinal critique.

A further pattern is the lack of methodological discipline in reasoning. Decisions frequently cite statutory provisions without explaining why those provisions apply to the transaction at issue. This rule-driven approach reverses the logical order of adjudication, allowing the desired outcome to dictate characterization. Seyed Hossein Safaei warns that such reasoning

compromises both fairness and coherence by subordinating legal analysis to expediency (Safaei, 2009). The Supreme Court's role as a unifying authority is undermined when it fails to articulate clear methodological pathways for lower courts to follow.

The cumulative effect of these patterns is a fragmented jurisprudence that lacks a stable center. While individual decisions may be defensible in isolation, their collective inconsistency reveals a systemic problem. Benjamin Cardozo's insight that appellate courts shape the law through principled reasoning rather than isolated outcomes is particularly relevant (Cardozo, 1921). In the Iranian context, Supreme Court case law has not yet fulfilled this unifying function with respect to legal characterization.

This empirical analysis demonstrates that the difficulties identified at the theoretical level are not abstract concerns but concrete problems with real consequences. The absence of explicit criteria for characterization, the conflation of distinct judicial operations, and the reluctance to engage with new transactional forms have all contributed to a jurisprudence marked by unpredictability and doctrinal fragmentation. Recognizing these patterns is a necessary step toward reform. Only by confronting the methodological roots of inconsistency can Iranian private law move toward a more coherent and reliable system of judicial classification.

5. Conclusion

This study has sought to demonstrate that legal characterization is not a peripheral or merely technical aspect of adjudication in Iranian private law, but a foundational judicial operation upon which the coherence, predictability, and legitimacy of judicial decisions ultimately depend. By tracing the concept from its theoretical foundations through its interaction with interpretation, completion, and application of law, and finally into the concrete terrain of Supreme Court practice, the analysis has revealed a persistent structural problem: legal characterization is routinely performed, yet rarely acknowledged, disciplined, or justified as an autonomous stage of judicial reasoning. This invisibility has allowed methodological inconsistencies to proliferate and has weakened the normative force of private law adjudication.

At the conceptual level, the analysis has shown that legal characterization functions as the bridge between social reality and legal normativity. It is the operation through which facts acquire legal meaning and become subject to specific regimes of rights and obligations. Treating characterization as a factual inquiry or as an extension of party autonomy obscures its normative character and undermines the judge's responsibility to identify the applicable legal framework independently. When courts fail to distinguish clearly between describing what happened and determining what kind of juridical act occurred, the legal system loses its capacity to apply rules in a principled and coherent manner.

The examination of doctrinal debates has further clarified that characterization belongs to questions of law rather than questions of fact. This classification has important implications for judicial authority and appellate review. If characterization is recognized as a legal determination, it must be governed by objective criteria derived from the structure of legal institutions, rather than by subjective impressions or pragmatic considerations. Such recognition also reinforces the role of higher courts in ensuring uniformity and consistency, as questions of law are precisely those that demand centralized guidance. The absence of an explicit theory of characterization in Iranian legal doctrine has left judges without a shared methodological compass, encouraging individualized and sometimes contradictory approaches.

The comparative analysis underscores that this problem is not inevitable. Other legal systems, while differing in technique and emphasis, have developed clearer conceptual boundaries around legal characterization. Whether through explicit doctrines or entrenched judicial practices, these systems acknowledge characterization as a distinct analytical step that precedes interpretation and application of law. The reluctance to override party labels in some traditions does not negate this recognition; rather, it reflects different balances between autonomy and institutional control. The Iranian experience suggests that without such recognition, even strong commitments to party autonomy and fairness can produce incoherent outcomes.

The empirical analysis of Supreme Court case law provides concrete evidence of how these theoretical deficiencies manifest in practice. Across diverse areas—including mixed contracts, banking and financial instruments, digital transactions, and unilateral juridical acts—the Court's reasoning reveals recurring patterns of inconsistency. Similar transactions are classified differently without clear justification, and novel instruments are forced into ill-fitting traditional categories or left unclassified altogether. These outcomes cannot be attributed solely to factual complexity or legal novelty. Instead, they reflect a deeper methodological uncertainty about how legal characterization should be performed and justified.

One of the most significant findings of this study is that judicial inconsistency in characterization has systemic rather than accidental causes. Over-reliance on party labels, confusion between characterization and interpretation, and premature application of legal norms all point to a lack of methodological discipline. These practices not only undermine predictability for litigants but also erode the Supreme Court's capacity to function as a unifying authority. When higher courts fail to articulate clear criteria and reasoning pathways, lower courts are left to navigate legal classification through intuition or expediency, further fragmenting jurisprudence.

The economic and social consequences of this fragmentation should not be underestimated. In areas such as construction, banking, and digital commerce, legal uncertainty affects investment decisions, contractual planning, and access to justice. Parties cannot confidently assess their rights and obligations when the legal nature of transactions remains unstable. Over time, this uncertainty weakens trust in the legal system and encourages strategic behavior aimed at exploiting doctrinal ambiguity rather than complying with clear legal standards.

This study argues that addressing these problems requires a conceptual shift rather than piecemeal doctrinal adjustments. Legal characterization must be explicitly recognized as a core judicial function with its own normative logic and methodological requirements. Such recognition does not constrain judicial creativity or adaptability; on the contrary, it provides a structured framework within which judges can engage with new forms of transactions and evolving social practices. By grounding characterization in objective structural criteria—such as the distribution of rights and obligations, the allocation of risk, and the legal effects of transactions—courts can adapt existing categories or develop new ones without sacrificing coherence.

Reform in this area need not be limited to legislative intervention. While statutory clarification could be beneficial, much can be achieved through judicial self-reflection and doctrinal development. Supreme Court decisions that explicitly articulate the reasoning behind legal characterization would provide valuable guidance to lower courts and contribute to the gradual formation of a coherent jurisprudence. Judicial training and scholarly engagement can further support this process by foregrounding characterization as a distinct analytical task rather than an implicit assumption.

Ultimately, the future of private law adjudication in Iran depends on the capacity of courts to reconcile flexibility with structure. Legal characterization occupies a central position in this reconciliation. It is the mechanism through which the legal system maintains continuity while responding to change. By bringing characterization out of the shadows and into the center of judicial reasoning, Iranian private law can strengthen its normative foundations, enhance legal certainty, and better serve the needs of a complex and evolving society.

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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