

**THE LAW OF MONGOLIA**

**12 December 2002**

**Ulaanbaatar**

**SECURITIES MARKETS LAW**

**ARTICLE ONE**

**General provisions**

**Provision 1. Purpose of the law**

1.1. Purpose of the law is to regulate relations concerning issue, registration, depositing and selling of securities, securities trading, transfer of rights certified by securities, provision of information on securities to investors and protection of their rights, activities of securities issuers, professional organizations and entities operating on the securities markets and monitoring thereof.

**Provision 2. Legislation on securities**

2.1. The legislation on securities is comprised of this law. Civil law, Company law and other relevant legislative acts.

2.2 If an international treaty to which Mongolia is a party provides otherwise, the provisions of the international treaty shall prevail.

**Provision 3. Definitions**

3.1. In this law the terms shall have the following meaning:

3.1.1. " Securities" means debt instruments /bonds/ issued by the Government and other authorized bodies, all kinds of company shares, options entitling to sell or purchase shares issued or proposed to be issued by a company, shares of an investment fund, and other instrument declared by the Securities Commission (hereinafter referred to as " the Commission") to be a security for the purposes of this Law.

3.1.2. "Materialized securities" means a security printed in compliance with prescribed rules;

3.1.3 "Dematerialized securities" means securities, which was not specifically printed and the legal title to which is evidenced by an electronic message stored in a computer.

3.1.4. "Derivative securities" means options, that are issued in relationship to a certain securities, prices of which are dependant on this securities and entitling the holder to sell or buy shares, and other securities entitling to convert securities other than common shares to the common shares within specified period of time.

3.1.5. "Share" is a security certifying the investment into a company, which allows to participate in the shareholders meeting and vote, to receive dividends and portion from the proceedings from the sale of assets in case of the company bankruptcy and to certify other rights specified by the law;

3.1.6. "Bond" is a security which certifies the obligation to repay after a specific period principal and interest rates in the form of cash, assets and rights for the assets,

3.1.7. "Securities market" means relations related to the public offering of securities, registration, trading, depository arrangements, and transfer of the rights evidenced by the securities;

3.1.8 "Primary market of securities" mean relations related to the public offering or selling of securities by the issuers, by themselves or through underwriters,

3.1.9. "Secondary market of securities" mean relations arising from re-selling, buying and trading of securities issued on the primary market.

3.1.10 "Brokerage activities" means selling and buying of securities at the securities markets on behalf of others;

3.1.11. "Dealers activities" means selling, buying and trading of securities using own assets for the purpose of making profit;

3.1.12. "Underwriting activities" means preparing statements on securities for public offering in accordance with the contract with a security issuers, buying all or a certain portion of newly or additionally issued securities, or selling securities on behalf of issuers by public offering;

3.1.13. "Public offering" means offer for sale of securities of the issuers to more than 50 bodies through securities trading institution in accordance with the regulations of the Commission;

3.1.14. "Tender offer" means public offer for buying controlling block or more of common shares of open shareholding companies by single or affiliated persons in compliance with this law and Commission regulations;

3.1.15. "Inside information" means information which may affect the market price of securities and gave certain advantage during securities trading, and information not disclosed to the public and determined by the Commission as inside information;

3.1.16. "Professionals operating on the securities markets" means entities licensed by the Commission as professional organizations to conduct major professional activities and services on the securities market;

## **ARTICLE TWO**

### **Issue of securities, selling and trading**

#### **Provision 4. Issuer of securities**

4.1. A legal entity engaged in business for profit may issue a security in compliance with the Company law find this law.

4.2. Securities may be issued by the Government upon permission from the State Great Khural (Parliament) and by the Governors of the aimags and Capital city upon permission from the Citizens Representative's Meetings.

A security issued by the Government and by the Aimag and city Mayors shall be registered at the Securities Commission and at the Stock Exchange as any other securities.

4.3. The provisions 5-9 of this law does not apply for public offering or trading in securities issued by the Government and by the Governors of aimags and city Mayors.

#### **Provision 5. Issuing of securities**

5.1. Securities may be issued for trading by way of the public offering or selling by way of a close (not offered to the public) offering.

5.2. Issuer of securities may sell its securities in the market of a foreign country.

5.3. A decision to issue a securities for offering to the public shall be made for every new offering and as well as for every additional issue of securities. A written decision shall consist of the following provision or the following shall be attached to the decision notes:

5.3.1 Rights of securities holders and obligations of issuers of securities regarding rights of securities holders:

5.3.2 The sample of securities if the materialized securities are offered to be issued;

5.4. A decision notes shall be in two copies and the one to be kept by an issuer and the other to be kept by the Securities Commission.

5.5. A securities holder shall have the right of access to the Decision notes kept by the Commission and by the Issuer of securities,

5.6. A decision about Issue of securities shall not be changed after it has been registered.

### **Provision 6. Securities documentation**

6.1. Securities shall consist of the following information:

6.1.1. Securities name and the type;

6.1.2. The name of the Issuer of securities

6.1.3. The nominal price of securities;

6.1.4. The name of the securities holder, In case if the securities are issued namely to a particular person;

6.1.5. Conditions of repayment of the dividends/interests;

6.1.6. Conditions for payment;

6.1.7. The registration and register numbers of securities;

6.1.8. Stamp of an issuer;

6.1.9 The signature of the delegated personal of an issuer

6.2. A certificate can be issued, if the securities holder wants to keep the certificate which certifies the ownership of the securities.

### **Provision 7. Registration of securities**

7.1. The issue of securities for offering to the public shall be registered at the Securities Commission in compliance with related regulation this regulation is not valid for issuing of closed to the public securities.

7.2. The issue of securities closed to the public shall be registered at the Securities Commission if the previous issue of those securities were offered to the public.

7.3. In order its securities to be registered, an issuer shall submit the application for issuing of securities; introduction notes and decision notes on issuing of securities; if the joint stock company will be formed through issuing of shares, then the documents required for establishing of a legal entity; if the special licenses are required for issuing of that particular type of securities. Then the licenses issued and also other necessary documents required to the Securities Commission.

7.4. Introduction notes on issuing of securities shall consist of the following information:

7.4.1. The name and the address of an Issuer /founders/;

7.4.2. Copy of the Certificate of State Registration;

7.4.3. Information on securities holders who holds more than 5 percent of shareholders capital of an issuer;

7.4.4. Information *on* numbers and the percentage of the securities hold by officers/managers of an issuer, if they hold securities of an issue;

7.4.5. Audited financial statements of an issuer and information on issuer debt and loans.

7.4.6. The size of the shareholding capital of an issuer, the number of total securities, the nominal price per security; the list of holders of securities who holds the controlling package of securities;

7.4.7. Information on professional intermediary to be dealing with securities;

7.4.8. Information about big transactions of an Issuer with others, economic justification for issuing of securities and the estimation of effectiveness;

7.4.9. Other information required by the Commission.

7.5. The provisions 7.4.3; 7.4.5; 7.4.6; 7.4.9 are not valid for newly established joint stock companies. However. Those provisions shall be valid for reorganized legal entity winch is becoming a joint stock company.

7.6. Documents, such as replication for issuing of securities, introductory information on issuing and others shall be signed by the Chairman of the Board of Directors and by the Executive director of a company.

7.7. It is prohibited the application, introduction and other documents submitted to contain false information. The correctness of information submitted shall be the full responsibility of an issuer and the relegated personal of an issuer.

7.8. The Securities Commission shall make a decision to register the securities if all the requirements are met within 30 calendar days after it received the application, introduction and other documents from an issuer or it can make a decision not to register those securities

The Securities Commission has the right to request an issuer the submitted documents to be audited or investigated by the audit and valuation agencies and also request to get an explanation on submitted documents if it decides necessary.

7.9. The Securities Commission shall give/issue the registration number lo an issuer, the securities of which were registered.

7.10. The Securities Commission can refuse registering the new issue and the additional issue of securities for the following reasons:

7.10.1 Documents submitted to the Commission contain controversial information regarding contents among and the quantitative information necessary to be checked;

7.10.2. Documents submitted are false, or it became clear that the documents contain false information.

7.10.3. It is verified that the issuer of securities is insolvent

7.11.4. An issuer of securities can approach to the court if it does not accept the decision of the Securities Commission not to register its securities.

### **Provision 8. Disclosure of Introductory information on Issue of securities**

8.1. The Securities Commission shall determine the procedure on Disclosure of Introductory information on issuing of securities.

8.2. An issuer of securities and that particular professional intermediary to be dealing with securities shall ensure (that any interested person/entity to have an access to necessary information before the securities to be traded.

### **Provision 9. Securities selling and Reporting**

9.1. The securities registered at the Securities Commission only shall be traded in the securities markets.

9.2. An issuer of securities can sell its securities through primary of securities or it can also sell its securities to the underwriting company.

9.3. It is prohibited to sell securities for credit.

9.4. An issuer of securities shall not have an obligation to repurchase its securities other than open investment fund, in case other than that is permitted by law.

9.5. Accumulated fund resulted from issuing of securities shall only be spend for the purpose specified in the introductory Information on issuing of securities.

9.6. An issuer of securities shall submit the Securities transaction report to the Securities Commission within 30 days after the completion of trading of its securities. The securities transaction report shall contain the following information.

9.6.1. The dates start and completion of securities trading;

9.6.2. The number traded securities and the price of securities traded,

9.6.3. Total income earned from trading /by tugrug, y foreign currency, by the property type and by the types of options/ and the state of payment;

9.6.4. If the common shares were traded, then the list of owners of 5 or more than 5 percent of total shares;

9.7. The Securities Commission shall check the report submitted within 10 days and if the requirements are met, then it shall register the issued securities.

9.8. The registration shall become invalid; if it took more than a year after the registration of additional issue of securities and those registered securities were not traded.

## **Provision 10. General obligations of an issuer**

10.1. An issuer of securities shall have the following obligations:

10.1.1. A decision on issue of securities shall be discussed at the meeting of organization with delegated authority;

10.1.2. Information about securities transactions and reports shall be elaborated correctly in accordance with related methodology and shall be submitted to the Securities Commission on time specified;

10.1.3. An issuer of securities shall submit its audited semi annual and annual financial statements to the Securities Commission before the date specified in the Accounting law.

10.1.4. Shall publish its Balance sheets in conformity with regulation issued by the Securities Commission;

10.1.5. Registered joint stock companies shall submit the Minutes of its ordinary shareholder meeting with decisions notes attached to it before 1 June and Minutes of extraordinary shareholders meeting within 20 days after the meeting was held.

10.2. The Securities Commission shall determine the procedures on Information about market prices securities trading in volume and in value and other necessary information that could affect to trading process and on distribution of information to the public.

## **Provision 11. Tender offer**

11.1. A tender offer shall be made on basis of regulation of the Securities Commission issued in compliance with this law.

11.2. A single or affiliated persons can make a tender offer to all existing non-affiliated members of a joint stock company to acquire controlling package or more than that of ordinary shares in the company and that interested single person or affiliated persons shall inform the Securities Commission about it for its consideration.

11.3. A person making the tender offer to all unaffiliated shareholders shall follow the Procedures specified in the Company law.

11.4. The document on tender offer be disclosed for all unaffiliated shareholders shall contain the following information:

11.4.1. The name of persons making a tender offer;

11.4.2. Current holdings of ordinary shares in the company by persons making a tender offer;

11.4.3. Sources to acquire shares/how offer is funded;  
11.4.4. Proposal of the bidder's intention regarding the future of the company

11.5. The minimum offer period shall be 60 days and its maximum shall be 6 months.

11.6. The price offered by a person making a tender offer shall not be less than the highest average market price for a period of last 52 weeks of trading and the maximum price paid by a person making a tender offer to purchase the shares in the company, whichever is the greater. But the price offered shall not be lower than the nominal price of those shares.

11.7. A person/s making a tender offer shall disclose the information related to tender offer to all interested persons.

11.8. A person/s making a tender offer shall inform shareholders who own more than 10 percent of shares of that company and company management about the tender offer upon they submit their proposal on tender offer to the Securities Commission,

### **Provision 12. Liabilities/Obligations of a purchase of securities**

12.1. A purchaser of 5 or more than 5 percent of securities in the company is obliged to inform Securities Commission within 10 days after it purchased those securities.

12.2. A purchaser of the controlling package of common shares of an open to the public company shall meet the requirements specified in provision 12.1 of this law and also shall meet the requirements specified in the Company law.

12.3. A person specified in provision 12.1 of this law shall inform Securities Commission every time if the number of shares purchased by person increased by 5 percent.

12.4. Securities Commission shall issue a Regulation on Regulation of 5 or more than 5 percent of securities and of controlling package open to the public purchased.

## **ARTICLE THREE**

### **Protection of interests of investors**

Provision 13. Restrictions set out for protection of interests of investors in the securities markets.

13.1. It is prohibited to disclose information on number of securities owned by an investor and related to that information which was not disclosed for the public and it is also prohibited to offer of purchases of securities by an interested persons without owners permission.

13.2 If the professional organizations-participants in the securities markets violate the provision 13.1 of this law it becomes a justification/reason to suspend or revoke of granted licenses from those professional organizations/participants in the securities markets

#### **Provision 14. Disclosure of information related to securities to investors**

14.1. An issuer of securities shall disclose information specified in related laws for an investors.

14.2. A professional participants in the securities markets shall disclose the following information to investors at their request:

14.2.1. Documents related to special licenses to participate in professional dealings with securities in the markets and related to certificate of slate registration;

14.2.2. Information about the capital, debt, loans and the state of financial situation of professional market participants;

14.2.3. Information related to sanctions was imposed to any of their official in relation to her/his professional activities;

14. 2.4. Information on trading and on prices of trading for last 6 months issued by the professional participants;

14.3 The false information disclosed to investors violating the provision 14.2 of this law shall become a basis for making changes to the Agreement made between the investor and the professional market participant or to cancel the Agreement.

14.4 An investor has right during the process of purchasing and selling of securities to request any information specified in the law from an issuer or from the professional market participants.

#### **Provision 15, Decision of Securities Commission on Protection of interests of investors**

15.1. A regulations issued by the Securities Commission to implement laws shall be followed by all participants in the securities market.

15.2. Securities Commission can inform market participants about their non-performance of Commission's decision, impose sanctions provided in this law, suspend or revoke the granted to them licenses or it can propose other related agencies to investigate the case and make a decision if necessary.

## **Provision 16. Prohibited activities for an Issuer and for Professional market participants**

16.1. An issuer and professional market participants shall not be engaged in the following activities:

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16.1.1, disclose false information to the public during securities trading and during initial public offering

16.1.2. Participate in trading using inside information, hide or withhold information from the public and refuse of disclosing information to related persons;

16.1.3. Securities dealers, brokers and underwriters fictionally to maintain, increase or decrease the price of securities,

16.1.4. For the purpose of fictionally maintain, increase or decrease the price of securities to purchase or sale of securities among that does not involve a change in the ownership and interested affiliated persons.

16.1.5. For the purpose of creating and attempting to create a false or misleading appearance of active trading in any particular securities to form a dual transaction between brokers/dealers and the affiliated persons;

16.1.6. Introductory notes contain false, misleading and deceptive information or contain not full information:

16 1.7 Offer to sale securities to the public or advertise the sale prior Securities Commission made a decision to register those securities;

16.2. Securities Commission can conclude that the transactions were fictional or dual transactions were made for transactions made for the purpose id misleading the public on securities prices, trading volumes and processes and about the issuer of securities on the basis of state inspectors' conclusion.

16.3. It is prohibited to make profits using inside information about the plan for company reorganization obtained them an issuer of securities underwriter contracted by an issuer or from the official with delegated authority of an investment adviser.

## **Provision17. Keeping inside information in secret**

17.1. Insiders of information specified in the provision 3 1-15 are management of an issuer company and official of an issuer dealing with inside information and also any person determined to be insider by the Securities Commission.

17.2. It is prohibited that an insider to participate in market transactions using inside information end to disclose into others.

17.3. Securities Commission shall issue Procedures to regulate activities of an insider and inside information related activities.

## **ARTICLE FOUR**

### **Participants in the securities markets**

#### **Provision 18. Participants in the securities markets**

18.1. An issuer of securities professional organizations dealing with securities transactions and investors are called participants in the securities markets.

#### **Provision 19. Professional participants in the securities markets and their general responsibilities**

19.1. Professional participants in the securities markets are Stock Exchange, Trading center of securities dealers, Securities Settlement, Clearing and Central Depository Systems, Trust fund, Investment fund, Brokers, Dealers, Underwriters, Investment Management and Investment Advisers,

19.2. Professional participants in the securities markets have the following responsibilities

19.2.1. submit the<sup>1</sup> information and reports related to securities transactions elaborated in compliance with the relevant methodology and forms;

19.2.2. Determine and follow the fees for registration securities transaction, clearing and<sup>1</sup> depository, membership and seats and fees for other related services;

19.2.3. Issue and allow the regulations and instructions for their own activities by the permission of the Securities Commission in conformity with laws.

19.2.4. To inform Securities Commission and the public in case if its members, an issuer of the securities and other participants in the securities related the law;

19.2.5. To submit its audited semi-annual and annual financial statements elaborated on time specified by the Accounting law to the Securities Commission and to the professional participants in the securities markets publish its balance sheets and inform the investors about it;

19.2.6. To have and update the list of insiders and monitor the performance of their duties.

19.2.7. To provide increased persons by fair information on timely basis;

19.2 8. to make transactions related to securities trading and options on fair, transparent and timely manner;

19.2.9. To submit the proposals for improving the activities in the securities markets to the Securities Commission;

9.2 10. To protect the common interests on an issuer and an investors;

19.2 11 to have the Loss provisions. The sources of Loss provisions shall come from shareholders capital and from the company profits;

19, 3. It is applicable that the persons specified in provision 19.1 of this law to be insured to avoid of risks.

### **Provision 20. Granting of special licenses to professional participants in the securities market**

20.1. Securities Commission shall grant special licenses to professional participant in the securities markets specified in provision 19.1 of this law.

20.2. Securities Commission can grant special licenses to The Stock Exchange. Clearing and Settlement and Central Depository Systems and to the Securities dealers centers separately to each or it can grant a license for combined activities.

20.3. Securities Commission shall grant a special license to commercial banks in consultation with the Bank of Mongolia and grant a special license to insurance agencies and pension funds in consultation with central government agency in charge of financial and social affairs.

20.4. In order for applying to get a special licenses specified in the provision 20,1 of this law an applicant shall attach the following documents to its application other than those provided by the Law on special licenses:

20.4.1. Verification of meeting the minimum capital requirements;

20.4.2. Certified copy of the Company Charter;

20.4.3. Business plan that contains an estimation of planned profits for first three years;

20.4.4. Detailed introduction on consistent activities of securities clearing depository organizations with the networks of the Stock exchange or with the networks of center for trading of securities dealers;

20.4.5. Reference which verifies that the applicant is financially solvent and with non-past due loans;

20.4.6. Risk management plan;

20.4.7. Reference notes on professional and experienced personal employed;

20.4.8. Notes that certifies the place of business, equipment necessary for participating in securities trading.

### **Provision 21. Securities trading organization**

21.1 Securities trading organization is a company such as a Stock exchange and a Dealers trading center engaged in securities registration and trading activities.

21,2. A special license can be granted to a securities trading organization which meets the following requirements in addition to those specified in provision 20.4 of This law:

21.2 1 it shall have at least 5 members licensed by the Securities Commission to conduct brokers and dealers activities in the securities markets. Any particular member only can be a member of the Stock exchange or a member of Dealers trading center.

21.2.2. The following provision shall be provided in its Charter adopted by the Founders:

21.2.2a. regulation on membership, minimum capital requirement for members, entry and membership fee and, requirements for professional officers;

21.2.2b. reasons and regulation to revoke membership and sanctions to be imposed;

21.2.2. c. measures for ensuring implementation of laws, regulation and instructions;

21.2.2. d. measures for protecting interests of customers and investors;

21.3. Securities trading organization shall take the following responsibilities in addition to those specified in provision 19 of this law.

21.3.1 to be engaged in securities trading activities in fair, transparent and timely manner through providing its members and the public by the information related to timing of trading, the list, code of securities permitted to be traded at the Stock exchange, results of trading and also providing by other necessary information specified in the law;

21.3.2. impose sanctions, suspend and revoke the membership in case if its members violated the law, regulations and instructions to be followed or acted to mislead the customers or it verified that the member was engaged in false transactions and inform about it Securities Commission;

21.3 3. provide the public by the information related to trading and the prices securities at timely manner.

21.4. The following procedure shall be used for organizing securities trading;

21.4.1. start the trading in case of selling of securities from its minimum price and in case of purchasing of securities from its maximum price;

21.4.2 during trading hours to follow the principle of first is first served, in case if the sale and purchase are equal;

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21.5. For the purpose of protecting the rights of seller, purchaser of securities and an investor, Securities Commission can make a decision to stop trading based on the conclusions made by the inspectors or by other persons with delegated authority.

21.6. A decision specified shall be sent to the securities trading organization with justification attached to it within a day after this decision was made. It also shall inform an issuer of securities about it.

21.7. A length to stop securities trading in its first instance shall be not more than two months. Securities Commission shall make a decision to restore the trading if the fault is vanished/cleared off.

## **Provision 22. Stock Exchange**

22.1. Stock Exchange is a company engaged in securities trading business and engaged in other activities that are not prohibited by law.

22.2. The minimum capital requirement for the Stock Exchange shall be 1 billion tugrug.

22.3. Stock Exchange shall take the following responsibilities in addition to those specified in provisions 18 and 21 of this law:

22.3.1. Grant a seat for its members and register officials to be participated in securities trading on their behalf.

22.3.2. Ensure the trading facility, including the building, equipment and information network that are appropriate for securities trading by membership of Stock Exchange; I

22.3.3. Avoid of fictionally maintain, increase or decrease the prices of securities traded in Stock Exchange.

22.3.4. provide members and customers by related information,

22.3.5. Issue a regulation on Ethics for its members and officials of member organization;

22.4. Only members with seats can be engaged in the securities trading at the Stock Exchange and non –members can only be participated in trading trough members of the Stock Exchange.

22.5. A members of the Stock Exchange can sell end lease its seals to others in conformity with related Procedures. A purchaser or a lease of seats shall be the professional participants in the securities markets licensed by the Securities Commission.

22.6. It is prohibited for officials of the Stock Exchange lo be engaged in securities dealing.

## **Provision 23. Securities dealers center**

23.1. Securities dealers' center is a company with members who shall be the professional participants in the securities markets and with responsibilities to conduct in securities trading activities.

23.2. The minimum capital requirement for Securities dealers' center shall be 500 thousand tugrug.

23.3. The Securities dealers' center shall have at least 5 members.

23.4. A securities trading/transactions can be conducted by the officials with delegated authority of member organizations through computer networking not depending on where the Securities dealer center is located.

23.5. A managers of the Securities dealers' center shall be in charge of reliability of the network and the privacy of the network information.

23.6. A securities dealer's center shall have the internal control unit and this unit shall monitor the trading activities conducted through network of the center on regular basis,

23.7. A securities dealer's center shall issue procedures related to securities registration, trading of securities, monitoring of trading activities, disclosure of information for the public and also related to coordination of activities of member organizations.

23.8. The responsibilities specified in provision 22. 3 shall also be related to Securities dealers enter activities.

#### **Provision 24. Securities clearing and settlement system/institution**

24 1. Secures clearing and settlement institution is a company lo provide a payment services resulted from the securities trading on contractual basis.

24.2. A member organizations shall form the capital of the Securities clearing and settlement institution and its minimum shall be 100 million tugrug.

24.3. Securities clearing and settlement institution shall provide the following services/take the following responsibilities in addition to those specified in provision 19 of this law.

24.3.1. To check/review the documents received from securities trading organization/center and securities companies, determine the payment responsibilities among customers make payments and elaborate related documents.

24.3.2. To transfer related document to a Depository organization regarding the transfer of ownership certified by the securities;

24.3.3. To avoid of possible risks through establishing a Loss provision and to provide payment services on timely manner;

24.3.4. To provide payment services to an issuer of securities on contractual basis.

#### **Provision 25. Securities Depository system/organization**

25.1. Securities depository organization is a company to provide services registering the ownership that certified by the securities, registering the transfer of ownership and to keep securities for others.

25.2. A member organization shall form the capital of Securities depository organization and its minimum shall be 100 million tugrugs

25.3. Securities depository organization shall be responsible for damages occurred due to its fault to ensure the conditions for completeness of securities kept.

25.4. Securities depository organization shall take the following responsibilities in addition to those specified in provision 19 of this law:

25.4.1. To register the securities to be issued and the changes occurred in ownership that certified by the securities on the basis of request of authorized persons and on the basis of other necessary documents;

25.4.2. To register the transfer of ownership that certified by the securities on the basis of documents sent by Securities clearing and settlement institution and at the request of an issuer of securities;

25.4.3. To provide the Securities Commission, Stock Exchange, authorized persons and an issuer of securities by the information on registration of securities holders in fair and timely manner;

25.5. It is prohibited for Securities depository organization to be engaged in activities other than securities depository and payment service activities licensed by the Securities Commission.

## **Provision 26. Securities Trust Fund and Investment Fund**

26.1 Securities Trust Fund (hereinafter referred to as “Trust Fund”) is a company that deal with purchases and sell securities using certain amount of resources collected by the insurance and pension fund for special purposes on the securities market; Investment Fund (further referred to as Fund) is a company that deal with the purchase and sell of securities using the resources collected from based on agreement with Investment management fund and Clearing, settlement and depository

26.2. The Trust and Investment Funds may deal with the sell and purchase of the securities on the market through either the Investment management company or directly itself.

26.3. Shareholder capital of the Trust and Investment Funds will be not less than 100 million tugrug.

26.4. The Fund will be in an open form that regularly offer the sell of the securities for others, that issue the securities based on the demand and that is responsible for repurchasing the securities back for itself; and in a closed form that issue the securities in the form of public offering within the capital limit described by the founder and sell it

with market price and/or that is not responsible for re-purchasing the issued by itself securities.

26.5 The Fund will publicly offer and sell the securities based only on the permission of the Commission.

26.6 The Fund will provide the Commission with the introduction of the securities to be issued and publicly offered in accordance with prescribed procedures. The introduction should indicate investment policy of the Fund, methodology to calculate fee and information about the Fund managers, employees, controlling package owner of the securities and contracted Investment Management Company.

26.7. The Fund charter should reflect the following:

26.7.1. Minimum capital requirement of the open Fund, procedure under which the price to re-purchase its own securities should be determined;

26.7.2. Information to be necessarily reflected in the introduction for Fund shareholders;

26.7.3. Requirements for accounting, financial inspection and submitting reports and statements;

26.7. 4. Procedure on trading and re-purchasing of the publicly offered securities,

26.8. In accordance with the procedure established by the Commission, the Trust and Investment Funds will be responsibilities for informing the Fund shareholder about the Fund net capital, unit price of a share, service fee, clearing and settlement rules as well as changes in the structure of the of the investment management company that is implementing Fund certified management and shareholders who are owing more than 5% of issued by the Fund securities. The information should be provided on semi-annual basis.

26.9. The Trust and Investment Fund are prohibited to deal with the following activities:

26.9.1 Deal with other activities and services on the securities market, not specified in this law

26.9.2. Issue and publicly offer bond and preferred stock;

26.9.3. Issue profit making guarantee, to issue loan guarantee for the Fund investors.

26.9.4. make a commitment to re-purchase the shares with certain price rate and issue a guarantee;

2 6.9.5. Get a loan based on Fund guarantee, to issue loan guarantee for the third party, and give a loan for others,

26 9.6 The Fund management is not allowed to spend the fund resources for private purposes/interests and to exceed the management expenditure without any basis;

26.9.7.Purchase company securities hat is exceeding 5% of the working capital of the Fund;

26.9.8 Purchase more than 20% of total shares and 25% of bonds issued by a company.

26.10. The Commission will define the procedures on dissemination of introduction and information on publicly offered securities, calculation of expenses, advertisement, and evaluation of the Fund shares, depository, registration, financial inspection and their reporting.

### **Provision 27. Brokerage and Dearer Company**

27.1. Shareholder capital of the company (hereinafter referred to as "Broker and Dealer Company") to deal with the broker and dealer operation should be not less than 50,0 million tugrug. If the broker and dealer company holds a license to deal with several types of activities at the same time on the securities market, the shareholder capital of the company will be increased by the amount permitted for the body to deal with those activities, under this Law.

27.2. The broker and dealer company will be a member of the organization to deal with securities trading.

27.3. Except those stated in the article 19 of this Law, the broker and dealer company will implement the following functions:

27.3.1. To has detailed registration of the customers;

27.3.2. To trade the cash capital and securities of the customers only in the case where the customers gave a permission and order to do so;

27.3.3. In care of the sell and purchase of the securities, to complete the order its own and affiliated group after the fully completion of the customers' order.

27.3.4. If there is interest conflict among the customer, broker, dealer and the affiliated group during the completion of the order, the company is required to inform the customer about the conflict immediately.

27.4. The Commission should qualification level of, and to carry out accreditation for the brokers and dealers and provide their enforcement.

### **Provision 28. Underwriter company**

28.1. Shareholder capital of the company to deal with underwriting (hereinafter referred to as "Underwriter company") actively should be not less than 200.0 million tugrug, of which cash and quickly sold working capital shall be not less than 100.0 million tugrug.

28.2. The underwriter company, except the functions stated in the article 19 of this Law, is responsible for monitoring accuracy of the facts and information reflected or attached in to the introduction of issuing and publicly offering the securities, and for any losses caused by incorrect that is not revealed by the company.

### **Provision 29. Securities investment Management Company**

29.1. The securities investment management company (hereinafter referred to as “Investment Management Company”) should be a company that made contracts with no more than 5 Trust funds and the Funds and that deliver investment management service.

29.2. The Trust and Investment Funds should pay a service fee, in accordance with the contract made with the investment management company.

29.3. The investment management company is prohibited to deal with other, than stated in this Law, types of activities and services on the securities market, and while using the Fund capital it is also prohibited contributions allowed by the contracts.

### **Provision 30. Securities investment advisory company**

30.1. The company to deal with securities investment advisory activity (further referred to as "Investment company") will gather information to be publicly disseminated by the securities issuer and professional institutions that are participating on the securities market in accordance with the legislation on securities market, carry out studies, make analysis and provide the investors with consulting service.

## **ARTICLE FIVE**

### **Securities market regulatory and supervisory authority**

#### **Provision 31. Securities Commission**

31.1 The Commission is a state institution that is responsible for coordinating operations of the stakeholders engaged into the securities market relation, monitoring, providing implementation of the securities market related legislation, protecting rights and interests of the investors and providing them with information

31.2 The Commission consists of 5 members

31.3. The Commission will have working office that is responsible for supporting the commission members, providing the investors with sufficient information. The activity of the working office will be regulated by the Commission charter.

31.4. The Commission will be financed by the state budget.

31.5. Senior and executive positions of the Commission will belong to the state administrative positions.

31 6 The Commission will report its activities to the Parliament on an annual basis.

31.7. The Commission will follow the principles to respect rights and legal interests of the formal letterhead made in accordance with established rules.

31.8. The Commission will follow the principles to respect rights and legal interests of the securities market slaveholders, not to be impacted by external influence and to prefer community management in its operation.

### **Provision 32. Commissioners**

32.1. Chairman of the Commission will be nominated by the Parliament Speaker and approved by the Parliament for 5 year term. Government member in charge of financial issues, Governor of the Bank of Mongolia will nominee one person each, and the Economic Policy Sending Committee of the Parliament will nominate the remaining 2 persons as members of the Commission and the Parliament will approve the 4 members of the Commission for 5 years term. The nominee offered by the Standing Committee should be a representative of the securities issuers.

32.2. Members of the Parliament, Government and Constitutional Court, all levels of judges and prosecutors are not allowed to be appointed as a Commissioners member.

32.3. If a nominee for the Commissioner is not appointed/approved by the Parliament, an authorized body stated in the 32.1 of this Law shall nominate different candidate within 14 working days and submit his/her proposal to the Parliament,

32.4. The Commissioners shall be released from their functions to the following extent:

32.4.1. Authorized term is expired.

32.4.2. unable to perform his/her functions due to health and other considerable reasons;

32.4.3. Voluntarily submitted requests to be released from the Commissioner.

32.5. To the extent stated in 32.4 of this Law, the body who initially nominates him/her as a commission member, shall submit a proposal to release from the Commission member to the Parliament.

32.6. If the commission member did not appropriately perform his/her functions, or violated legislation, based on the proposal of the body that nominated him/her as a commission member, and if the member did a criminal case, based on the valid court resolution, the Parliament will dismiss. him/her from the Commission member.

32.7. If the authority of the member expired before the legally established deadline, the authorized body stated in the 32.1 of this Law shall nominee different person and submit a proposal to the Parliament.

32.8. The Commissioner may be responsible only once.

32.9. The position of the Commission Chairman shall be full time, but the members' positions shall be part time.

32.10. Salary of the Commission Chairman shall be defined by the Parliament. The Commission charter shall regulate compensation for the Commissioners.

### **Provision 33. Requirements and prohibitions for the Commissioners**

33.1. The Commissioner should meet the following requirements:

33.1.1. are majored in either of economics, finance, accounting or law;

33.1.2. have not less than 5 year expedience with his/her background;

33.2. The Commissioners are prohibited to carry out the following activities during the assignment:

33.2.1. Inform and transfer internal information without permission of the Commission;

33.2.2. participate in the securities trading while using the internal information;

33.2.3. are a shareholder of the professional institution that is participating in the securities market, to be elected and appointed for the Management Board;

33.2.4. Consider the discussed issues from the personal point of view.

### **Provision 34. Rights of the Commission**

34.1. The Commission has the following rights:

34.1.1. Organize and monitor implementation of the securities legislation

34.1.2. formulate state policy on securities market development, submit the policy proposal to the authorized organization and have a decision on it;

34.1.3. approve rules and procedure: within its authority and provide enforcement,

34 1.4. License the professional institutions that are participating in me securities market to deal with professional activities on the securities market, monitor their activities, temporarily restrict and invalidate the license.

34.1.5. Provide the professionals working on the securities market with the right to carry out the activities and service, attest, temporary restrict and invalidate the rights.

34.1.6 temporarily stop the securities trading if it is considered to be damaging for the interests of investors.

34.1.7. register the publicly offered securities issued throughout the territory of Mongolia, stop and forbid unregistered securities trading;

34.1.8 in accordance with the procedures of this Law, permit, register and monitor tender offers of the individuals and affiliated group to purchase control package or more percentage of shares of JSC; I

34.1.9. Monitor if the securities issuer, securities owners and professional institutions that are participating in the securities market are publicly disseminating the legal acts and information describes in the Commission Issued procedures.

34.1.10. Develop procedures on using criteria to necessarily reflected in the financial reports, statements and clarification of the securities issuers and professional institutions that are participating in securities market and provide their enforcement;

34.1.11 temporarily stop and review trading of that securities, if the trading is considered as conflicting to protect interests of the investors or if the request of either part participating in the securities trading is seen as considerable; and if the violation is confirmed, the trading agreement of that will be securities will be invalidated;

34.1.12 submit a suggestion to reduce service fee defined by the professional institution participating in the securities market, if the suggestion is not received, invalidate the decision defining the fee and inform the public about the decision;

34.1.13. Require that the financial report and other documents of the securities issuer are to be reviewed and consolidated by audit and evaluation institutions;

34.1.14. Have information about the securities owned by the Commission member, working staff, senior and executive staff or the professional institutions participating in the securities market: and their affiliated group;

34.1.15. Confer a right of a state inspector of securities transaction and to invalidate the right;

34.1.16. To organize delivering public information service and to provide the participant of the securities market with professional consultancy in accordance with the established rules.

### **Provision 35. Commission meeting**

35.1. The main type of the Commission activity will be meeting.

35.2. The meeting in which majority of the Commission members took part, shall be considered as valid meeting and issue will be solved based on the majority vote that participated in the meeting.

35.3 The Commission shall determine the procedures to be considered during the meeting.

35.4. There shall be resolution and protocol on each issue that is discussed and solved at the meeting. The chairman of the Commission shall consolidate the resolution and protocol by signing them.

### **Provision 36. Rights of the Commission member**

36.1. The chairman of the Commission, except the rights of the commission member and the state inspector of the securities transaction, shall have the following rights:

- 36.1.1. To represent the Commission in the home and external relations;
- 36.1.2. Define issuers to be discussed by the commission meeting, date of the meeting and lead the meeting;
- 36.1.3. Allocate function and responsibilities of the commission members and staff, and monitor their performance;
- 36.1.4. Submit an order within his/her authority.

36.2. While the chairman of the commission is out, one of the commission members will back him/her up upon the decision of the con-mission.

36.3. The commission member, except the rights of the s ate inspector of the securities transaction, has the right to submit a proposal to discuss certain issues at the commission meeting, to participate in the commission mooting with voting powers, and has the other legally stated rights.

### **Provision 37. Rights of the state inspectors of the securities transaction and guarantee to implement them**

37.1. The Commission members and working office staff (hereinafter referred to as "state inspector") of the commission shall have the rights of the state inspector of the securities transaction. The state inspector shall have a certificate and use personal identification badge and fine ticket.

37.2. The state inspector has the following rights:

- 37.2.1 To monitor implementation of the securities legislation and submit required issues for discussion of the Commission meeting.
- 37.2.2. Ask relevant business entities and official to provide information, data, studies, notes, recommendation and other documents required for inspection work, on fee free basis.
- 37.2.3. To temporarily stop securities trading in case of violation of the securities legislation or the violation is confirmed and to separate the securities;
- 37.2.4. To impose a write-off based on the inspection findings, provide its follow-up, give a guidance to take corrective action on the revealed flaws within certain period of the time and put requirements.

37.2.5. To impose appropriate legal sanctions to the body who didn't meet the requirements stated in the 372.2.4 of this Law and violated securities legislation, to temporarily stop their activities, if required, submit the to the Commission to temporarily stop and invalidate the license and get the proposal solved;

37.2.6. in case it is confirmed that someone is going to the violate the securities legislation and in the case where the violation is revealed the inspector has a right to temporary stop the transaction through account in the centralized depository.

37.3. The Commission shall invalidate the rights of the state inspectors in the following cases:

37.3.1. Violation of the legislation is revealed or a criminal cases done by him/her is confirmed by the Court.

37.3.2. Released from the assignment.

37.4. The state inspector, except it is stated in the Civil Service Law, will be provided with the following guarantee:

37.4.1. Public transportation fee /except taxi fares/ paid by the inspector while he/she is performing the inspector's functions shall remunerated in accordance with the procedures established by the Commission;

37.4.2. If the inspector lost his/her work competence during the implementation of the inspectors functions, the inspector shall receive a benefit for losing the work ability and the difference of his/her position salary during the whole period of losing the work disabled persons and the difference of his/her position salary for the whole period of receiving the benefit for disabled persons.

37.4.3. If he/she is lost the life during the implementation of the inspectors' function, the inspectors' family shall receive one time financial aid that equals to his/her three year position salary.

37.4.4. The benefit pension, position salary difference and the one time financial aid, stated in the 37.4.2 and 37.4.3 of this Law, will be given the state budget.

## ARTICLE SIX

### **Provision 38. Penalties to be imposed to the Violators of the Securities Market Legislation**

38.1. If the state inspector of the securities transaction considers that the criminal Sanctions cannot be undertaken to the violator of the securities legislation, and then such person is deemed to be subject of imposition of administrative penalties is deemed to be subject of imposition of administrative penalties stated below:

38.1.1. In case of violation of the provisions 7.2, 9.5, 9.6, 10.1.2, 10 1 3, 10.1.4, 10.1.5, 11.7, 11.8, 14.1, 14.2, 15.1, 19.2.1, 19.2.4, 19 2.5, 19.2.6, 19.2 7, 19.2,8. 19.2.11, 21.3.1, 21.3.3, 21.4, 26.8, 27.3, 12 of this law, the fine in amount of 20000-40000 tugrug will be imposed to any citizen; 30000-50000 tugrug to any government official and 100000-200000 to any legal body.

38.1 2. In case of violation of the provisions 5.6.7.4, 9.3, 13.1, 17.2, 22.6, 25.5. 26.9. 29.3, 16, the fine in amount of 40000-60000 tugrug will be imposed to any government officials and 200000-250000 tugrug to any legal body.

**Provision 39. Law Enforcement Date**

39.1. This law will be effective on January 1. 2003

39.2 The provisions 26.3 and 27.1 that describe the shareholding capital size of the investment funds, brokerage and dealers companies will be enforced on the July1, 2003.

(signed).....S. Tumor- Ochir, Parliament Speaker

(signed) .....J. Narantuya, First Secretary<sup>1</sup> of the Parliament Secretariat