



LAW ON THE SECURITIES MARKET
(Amended version as of 18 January 2018)

INTERNATIONAL COOPERATION DEPARTMENT

MAY 2020



LAW ON THE SECURITIES MARKET

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Ulaanbaatar.

Amended version

CHAPTER ONE. GENERAL PROVISIONS

Article 1. Purpose of this Law

- 1.1. The purpose of this law is to regulate the regulation and oversight of market participants' activities, and the protection of the investor interests in the securities market.
- 1.2. Principles of reducing systemic risks of the securities market and insuring its fairness, transparency and efficiency, shall be adhered to in implementation of the objectives of this law.

Article 2. Legislation on Securities Market

- 2.1. Legislation on the securities market shall consist of the Constitution of Mongolia, Civil Code, Company Law, this law, and other legislative acts (of Mongolia) adopted in conformity thereof.
- 2.2. If an international treaty to which Mongolia is a party is inconsistent with this law, the provisions of the international treaty shall prevail.

Article 3. Scope of this law

- 3.1. This law shall regulate relations with respect to issuance of securities via public offering, their trade, registration, execution of payments and clearing, and depository as well as relations related with running other regulated activities.
- 3.2. General relations with respect to issuance and trading of asset-backed securities shall be governed by this law, whereas specific relations thereof shall be governed by the relevant legislation on asset-backed securities.
- 3.3. General relations with respect to issuance and trading of commodities-based derivative instruments shall be governed by this law, whereas specific relations thereof shall be governed by the relevant legislation.
- 3.4. General relations with respect to exercise of professional investment activities in the securities market shall be governed by this law, whereas other relations with respect to specialty activities thereof shall be governed by the relevant legislation.
- 3.5. Relations related to the issuance and trading of securities issued by the Government shall be regulated in accordance with the Law on Debt Management.

Article 4. Definitions

- 4.1. The following terms used in this law shall have the meanings ascribed to them as follows:
 - 4.1.1. '*Securities market*' shall mean relations with regards to regulated market activities as well as traded or over-the-counter markets of registration of securities and derivative instruments, their issuance, trade, transfer of ownership rights, conducting payments and clearing and deposits;
 - 4.1.2. '*Regulated market*' shall mean activities set out in Article 24 of this law;
 - 4.1.3. '*Over-the-counter market*' shall mean selling and buying of financial instruments,

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with to May 2020*

- which are not prohibited by law, in the market by and between legal persons who hold special permits to engage in activities set out in Sections 24.1.1, 24.1.2, 24.1.4, 24.1.5, 24.1.10 and 24.1.12 through direct agreements, owned by them or authorized by the owner;
- 4.1.4. *'Primary market'* shall mean market activities with respect to trading by the issuer through public offering;
- 4.1.5. *'Secondary market'* shall mean market activities with respect to trading of the securities previously issued in the primary market;
- 4.1.6. *'Financial instruments'* shall mean securities, derivative instruments, and other financial instruments permitted for trading in the money market or regulated market;
- 4.1.7. *'Derivative Instruments'* shall mean options contracts, futures contracts and any other financial instruments permitted for trading in the regulated market;
- 4.1.8. *'Securities'* shall mean financial instruments set out as such in Paragraph 5.1 of this law;
- 4.1.9. *'Debt instrument'* shall mean an instrument which certifies the obligation of the issuer to repay the holder the principal and its interest in the form of cash, or specified assets, or property rights upon expiry of the term determined by the issuer as well as other similar instruments;
- 4.1.10. *'Options contract'* shall mean a derivative instrument which grants the buyer the right, but not the obligation, to buy or sell an asset of specified quantity at an agreed-upon price within a certain period of time, while the seller incurs the corresponding obligation to fulfill the transaction;
- 4.1.11. *'Futures contract'* shall mean a contract or a derivative instrument that obliges the parties thereto to buy or sell an asset of specified quantity at a pre-determined price within a certain period of time;
- 4.1.12. *'Depository receipt'* shall mean a security issued by a depository receipts issuer (depositor) for the purpose of trading in the securities market of another jurisdiction on the basis of having deposited an underlying security at an institution conducting securities depository services (custodian).
- 4.1.13. *'Issuer of the Depository Receipt'* (depository) shall mean a legal person who issues a depository receipt set out in Section 4.1.12 of this law;
- 4.1.14. *'Underlying securities'* shall mean (underlying primary) financial instruments which certify the depository receipts;
- 4.1.15. *'Securities' prospectus'* shall mean an accompanying set of documents prepared by an issuer pursuant to relevant rules and approved by the Financial Regulatory Commission for the purposes of offering and selling of securities;
- 4.1.16. *'Securities market participant'* shall mean an issuer, a regulated legal person and an investor;
- 4.1.17. *'Regulated legal person'* shall mean a legal entity authorized to conduct activities set out in Paragraph 24.1 of this law;
- 4.1.18. *'Professional investment activities'* shall mean efficient management activities of the funds within the scope of investment policy, at the professional level, by the legal entity stated in Section 4.1.19, but excluding non-bank financial institutions, underwriters and dealers;
- 4.1.19. *'Professional investor'* shall mean a legal person authorized to conduct insurance, underwriting, dealing, or non-bank financial operations, or to conduct investment or pension fund operations, which is engaged in professional investment activities, as well as any other legal person prescribed by the Financial Regulatory Commission or defined by this law as authorized to engage in professional investment activities;
- 4.1.20. *'Securities issuer'* shall mean a person registered, or is in the process of registering its securities with the Financial Regulatory Commission pursuant to this law which will be traded in the securities market;
- 4.1.21. *'Public offering'* shall mean public disclosure, to more than 50 (fifty) persons, through mass public media with respect to selling the securities by way of offering, in

- accordance with the rules set out by the Financial Regulatory Commission;
- 4.1.22. *'Registry of Securities Admitted to Public Offering'* shall mean the registry of the Financial Regulatory Commission of the securities admitted to public offering in accordance with this law;
- 4.1.23. *'Registry of Securities Ownership Rights'* shall mean the registry evidencing the ownership title of the securities in accordance with this law;
- 4.1.24. *'Securities Registrar'* shall mean a legal person who enters the securities in the central national depository and maintains the records thereof based on an agreement made with the issuer;
- 4.1.25. *'Nominal holder'*¹ shall mean a regulated person registered as the depositor, but not the beneficial owner of the securities, in the registry of securities ownership rights;
- 4.1.26. *'Beneficial owner'* shall mean the actual owner of the securities entitled to the ownership benefits thereof and who has registered the securities under ownership in the name of the nominal holder pursuant to this law;
- 4.1.27. *'Stock exchange listing'* shall mean the listing of the securities admitted by the exchange to be traded on that exchange;
- 4.1.28. *'Stock exchange'* shall mean a legal person which holds special permits to operate securities trading;
- 4.1.29. *'Influential shareholder'* shall mean an individual or a legal person who holds at least five percent of the total voting shares solely or jointly with its related persons and who exercises their voting rights as set out in this law and an agreement;
- 4.1.30. *'Related person'* shall mean the following persons:
- 4.1.30.a. with respect to an individual, the person's wife, husband, son, daughter, adopted son or adopted daughter, stepson, stepdaughter, brother-in-law, sister-in-law, grandchild, father, mother, parents-in-law, stepfather, stepmother, older brother, older sister, younger brother or sister, half- brother or half-sister;
 - 4.1.30.b. a legal person in which such person is an authorized (decision maker) person;
 - 4.1.30.c. a company or a legal person² in which a person referred to in Section 4.1.30 of this law holds 10 (ten) percent or more of the voting shares solely or jointly with related person(s);
 - 4.1.30.d. its employee, if such person is an employer;
 - 4.1.30.e. a parent, subsidiary, controlled, or sister company if such person is a company³;
 - 4.1.30.f. other legal persons prescribed as a *'related person'* by the Financial Regulatory Commission.
- 4.1.31. *'Affiliation of legal persons'* shall mean the following legal persons related to market participants:
- 4.1.31a parent company, partnership, or other legal persons of a market participant;
 - 4.1.31b subsidiary, controlled, or sister company, partnership or other legal persons of a market participant;
 - 4.1.31c parent company of a subsidiary or a controlled company of a market participant;
 - 4.1.31d persons owning the controlling block of shares of a legal person set out in Sections 4.1.31.a., and 4.1.31.b. of a market participant.
- 4.1.32. *'Investment Fund'* shall mean asset fund raised under management of the investment management company with the purpose of conducting activities defined in Section 4.1.18 of this law;
- 4.1.33. *'Investment management company'* shall mean regulated entity of the securities market which operates management of the investment fund based upon agreement

¹ Translator's note: The Mongolian text literally uses the word *'Nominal keeper'* instead of *'Nominal Owner'*.

² Translator's note: Though *'legal person'* includes *'company'* – along with cooperative, partnership, state organization, and non-public organization - both terms are used in the Mongolian text.

³ Translator's note. In the English version of the Company Law of Mongolia, *'subsidiary'* is used to signify an affiliate where 20-50% of the common shares are owned by the parent; *'controlled company'* – is an affiliate where at least 50% is owned by a parent.

entered with that investment fund.

CHAPTER TWO. ISSUANCE AND TRADING OF SECURITIES

Article 5. Securities

51. The following financial instruments shall constitute securities which are subject to regulation by this law:
 - 5.1.1. public company shares (hereinafter 'shares');
 - 5.1.2. company debt instruments;
 - 5.1.3. *(Section revoked on 18 February 2015)*
 - 5.1.4. shares or units of the investment fund;
 - 5.1.5. depositary receipts;
 - 5.1.6. asset-backed securities;
 - 5.1.7. warrants or rights to subscribe a specified quantity of shares or debt instruments offered to investors from the securities issuer at an agreed-upon price during a specified period;
 - 5.1.8. derivative financial instruments stated in this law;
 - 5.1.9. other financial instruments prescribed by the Commission as a security in accordance with this law.
52. Unless otherwise stated in this law, the following financial instruments shall not be regulated by this law:
 - 5.2.1. shares of limited liability companies;
 - 5.2.2. derivative financial instruments not permitted to be traded in regulated markets;
 - 5.2.3. bills of exchange and promissory notes;
 - 5.2.4. certificates of deposit issued by commercial banks;
 - 5.2.5. other instruments with a maturity term of up to one year issued by commercial banks for trading in the money market, pursuant to Paragraph 15.2 of the Law on Banks.
53. Financial instrument, stated in Section 5.2.4 of this law shall not constitute depositary receipts.

Article 6. Issuance of Securities

- 6.1. Securities may be issued through public offering or limited offering, without offering to the public.
- 6.2. List of persons prohibited to purchase securities offered to the public can be determined by law or by the Financial Regulatory Commission (hereinafter '*Commission*').
- 6.3. Securities may be issued for trading in Mongolia or in a foreign country or territory.
- 6.4. Securities listed in foreign exchanges may be traded in Mongolia in accordance to rules set out by the Commission.
- 6.5. Once the decision to issue securities is registered with the Commission, it cannot be changed until its primary market trade, unless approved by the Commission.
- 6.6. Securities to be traded in the Stock Exchange shall only be issued in a bearer type.
- 6.7. If the issuer, applying for initial listing in a regulated market, has previously issued non-bearer and inscribed types of securities, those securities shall be converted into the bearer type of securities in accordance with relevant rules.

Article 7. Securities' Issuer

- 7.1. The government and the company shall issue securities in accordance with this law and other relevant rules and regulations. If the government issues securities it shall comply with the Law on Debt Management.

Article 8. Regulation on Issuing Securities through Public Offering

- 8.1. *(Paragraph revoked, 18 February, 2015)*
- 8.2. Regulation, guidelines and sequence of the issuance procedures of the securities through public offering shall be approved by the Commission.

Article 9. Registration and Approval of the Securities to be offered to the Public

- 9.1. The securities to be offered to the public shall be registered by the Commission and it shall provide approval for public offering in the primary market.
- 9.2. *(Paragraph revoked on 18 February 2015).*
- 9.3. If the same class of securities is to be offered additionally within a closed group, but is initially issued through a public offering, those additional securities shall be registered by the Commission.
- 9.4. When an issuer of securities already offered through public offering issues another class of securities within a closed group, then those securities shall be registered by the Commission.
- 9.5. The following documents shall be submitted to the Commission when applying for registration in the registry of securities admitted for public offering:
 - 9.5.1. application;
 - 9.5.2. securities prospectus;
 - 9.5.3. payment receipt for the regulation service fee;
 - 9.5.4. other documents prescribed by the rules of the Commission.
- 9.6. The Commission shall review the request for registration within 20 working days of receipt of the prospectus, and other relevant documents, except for those cases specified in Paragraph 9.2 of this law; and shall make a decision to approve the listing if it considered to be satisfied with legal requirements or requirements defined by the Commission or based on reasonable grounds to refuse. The review period shall be counted from the day of receipt of the full and satisfying application of relevant requirements.
- 9.7. A decision-making period specified in Paragraph 9.6 of this law can be extended by up to 15 working days if additional documents, independent and professional reports and statements such as audit and appraisal report, are required.
- 9.8. An applicant shall bear the costs incurred by the action stated in Paragraph 9.7 of this law.
- 9.9. The Commission's admission for public offering of the securities shall be granted based on the decision to register, stated in Paragraph 9.6 of this law.
- 9.10. The Commission shall refuse to register the securities into the registry of securities admitted for public offering in the following circumstances:
 - 9.10.1 the application was not made in accordance with relevant regulations defined by the Commission;
 - 9.10.2 securities issuer or the application and supporting documents did not satisfy the established requirement;
 - 9.10.3 the required information was not provided in the application or provided incompletely;
 - 9.10.4 false, misleading, incorrect or conflicting information was provided;
 - 9.10.5 additionally requested information was not provided within the defined deadline;
 - 9.10.6 the Commission considered that the issuance of the securities would negatively affect investors' interests.
- 9.11. It shall be prohibited to publicly disclose or advertise securities which have not been registered in the register of securities approved for public offer or which the Commission has refused to register, except for securities issued by the government.
- 9.12. An issuer shall not have a right to make a second application to register the same securities within one year from the decision to refuse the previous registration was made.
- 9.13. The Commission's and Stock Exchange's registration of the securities and its prospectus and admission of the securities for public offer and trading in the primary market pursuant to Paragraphs 9.6 and 9.9 of this law shall not serve as a guarantee for the securities and these registering organizations shall not be responsible for the loss incurred by the investors.
- 9.14. Fair and accurate information must be provided in the prospectus and other relevant documents; and the issuer of the securities and its authorized persons shall be liable collectively for the losses incurred to others due to incorrect, false, incomplete, misleading, conflicting, and inaccurate information.

- 9.15. A legal person involved in the prospectus preparation and relevant documents shall be liable for any losses incurred to others in relation with that legal person's service.
- 9.16. The securities issuer may submit an application to register in the registry of securities admitted for public offering and an application to be listed with the Stock Exchange, simultaneously.
- 9.17. Listing of the securities' issuer by the Stock Exchange shall not serve as grounds for approving the securities for public offering or registering in the registry of securities admitted for public offering.

Article 10. Securities' Prospectuses

- 10.1. The securities and its prospectuses shall be offered to the public within six months of the approval by the Commission; upon expiry of this period the securities shall be restricted from being offered to the public.
- 10.2. If the securities are to be offered to the public after the expiration of the period defined in Paragraph 10.1 of this law, the securities shall be subject to renewed registration with the Commission.
- 10.3. The securities' prospectuses shall contain information on the securities issuer, its shareholders, management, organizational structure, authorized persons, assets, liabilities and its financial situation, current and future prospects, risks, information on securities being issued and rights certified by those securities, rules related with the trade of those securities, independent conclusions, reports and other information that the Commission considers as necessary for investors to make a decision.
- 10.4. Securities' prospectuses shall be prepared pursuant to the instructions stated in Paragraph 8.2 of this law.
- 10.5. The following information shall be provided in the securities' prospectus:
 - 10.5.1. name of the issuer; permanent mailing and contact addresses; company operations; statement on whether the company is listed on a stock exchange;
 - 10.5.2. state registration number, registration certificate number and date of registration as a legal person;
 - 10.5.3. surnames, given names of influential shareholders, if legal entity the company name, state registration number; and volume and percentage of their shares held solely and together with their related persons;
 - 10.5.4. structure, organization of the issuer, information about the authorized persons, information on volume and percentage of shares under their ownership;
 - 10.5.5. value of issuer's share capital; volume, type and nominal value of the securities previously authorized, issued or bought-back; its equity value; and information on its tangible and intangible assets;
 - 10.5.6. financial statements and relevant auditor's reports;
 - 10.5.7. agreements and transactions under which obligations received by volume of more than 5% of the issuer's share capital; and information on their implementation;
 - 10.5.8. related persons of the issuer;
 - 10.5.9. volume, type, nominal price of the securities being offered; their public offering and trading terms, conditions and rules on dividend distribution; and in the case of debt instruments its maturity, terms and procedure of principal and interest payment;
 - 10.5.10. rights and liabilities associated with the securities offered to the public;
 - 10.5.11. business plan for spending the capital raised through the securities issuance;
 - 10.5.12. terms and rules on converting the securities into shares if that security has a condition to be converted to shares;
 - 10.5.13. risks pertaining to the issuer's operations and its risk management plan;
 - 10.5.14. information on the regulated person and other persons performing professional services and cooperating on the procedure of offering the securities to the public, rights, duties and obligations assumed, pursuant to the agreements made with them;
 - 10.5.15. repayment guarantee and collateral in case of a debt instrument;
 - 10.5.16. asset appraisal report conducted within last one year;

- 10.5.17. other information required by the Commission if necessary.
- 10.6. Accuracy and validity of information presented in the prospectus shall be verified by an independent lawyer registered as stated in Section 33.2.1 of this law; accuracy of financial statements shall be verified by an independent auditor registered as stated in Section 33.2.3 of this law.
- 10.7. The (issuer's) financial statements and legal opinions verified by organizations stated in Paragraph 33.2 of this law shall be inseparable parts of the securities prospectus.
- 10.8. If an independent expert's and a professional's assessment or conclusion is included in the securities prospectus, the following information and reference shall be provided with regards to that document:
 - 10.8.1 evidence of the right (of the expert or professional) to make that conclusion;
 - 10.8.2 name, address and experience of the expert which made that conclusion;
 - 10.8.3 attestation by the expert that the report was made pursuant to relevant regulations and without conflicts of interest; and
 - 10.8.4 statement confirming that there is no objection to disclose that conclusion to the public along with the securities prospectus.
- 10.9. The expert's conclusion shall include following information:
 - 10.9.1 family name, surname and given name of the expert; information which proves the right to issue the conclusion;
 - 10.9.2 information on the subscriber for the service;
 - 10.9.3 duration, frequency and date of the examination;
 - 10.9.4 subscriber's order;
 - 10.9.5 methodology and scope of the examination, documents used during the examination and uncovered issues;
 - 10.9.6 content of the expert's conclusion;
 - 10.9.7 expert's attestation confirming that the examination was conducted pursuant to relevant regulations and without conflicts of interest;
 - 10.9.8 signature and stamp of the expert; and
 - 10.9.9 other information required by the Commission and the Exchange.
- 10.10. Additional information to be included in the securities prospectus as stated in Paragraphs 10.5-10.9 of this law shall be defined by the Commission.
- 10.11. The issuer's application to the Commission, the securities' prospectus and their photocopies shall be validated through signatures of the company's Chairman of the Board of Directors, Chief Executive Officer, Chief Financial Officer and by an independent lawyer, auditor, and other independent experts who conducted examinations.
- 10.12. If any changes occurred in the information stated in Paragraph 10.5 of this law, an issuer is obliged to make changes to the securities' prospectus with the Commission's consent; and the issuer is prohibited to make any changes to the securities' prospectus without the Commission's consent.
- 10.13. In case of changes occurring during the period stated in Paragraph 10.1 of this law that could impact issuers, market condition and investment decisions, an issuer shall report to the Commission and make amendments to the prospectus.
- 10.14. Interested persons may refer to the Commission to clarify whether the securities prospectus presented to the public is registered with the Commission.
- 10.15. Preparation of the securities' prospectus cannot be required in the following cases.
 - 10.15.1. *(Section revoked on 18 February 2015)*
 - 10.15.2. issuance of securities wholly guaranteed by Government;
 - 10.15.3. stock split or stock merger of issued shares;
 - 10.15.4. converting debt instruments convertible to shares in accordance with the securities' prospectus which is already presented to the public; and
 - 10.15.5. others prescribed by this law.
- 10.16. The Commission shall set specific regulation on registering the securities stated in Paragraph 10.15 of this law, into the registry of securities admitted for public offering.

Article 11. Public Offering

- 11.1. Presentation and advertisement of the securities for sales in the primary market, to investors equal to or more than 50, by the issuer solely or jointly with a regulated person pursuant to their agreement, shall be construed as a public offer.
- 11.2. Securities shall be presented to a certain limited group if indicated as such in the securities' prospectus registered by the Commission.
- 11.3. When offering securities to the public, the issuer shall make a contract with a legal person authorized to perform underwriting services.
- 11.4. The issuer shall provide the securities' prospectus free of charge to interested parties when offering securities to the public.
- 11.5. The Commission shall suspend the public offering or invalidate the securities registration depending on the criticality of the violation if additional information is required from the issuer on the securities admitted, or it is proven that the issuer provided incomplete, false, or misleading information due to its registration process and presented the securities based on such information, or gave false promises. The Commission shall give a notice with reasonable grounds to the Exchange and the issuer, and shall inform the public.
- 11.6. The issuer shall be liable for costs and other losses incurred due to invalidation of the registry of the securities admitted for public offer, due to the default of the issuer pursuant to Paragraph 11.5 of this law.
- 11.7. The regulated person and independent experts, involved in public offering and trading of the securities in the primary market, must immediately report to the Commission and authorized state organizations upon its acknowledgment of the situation stated in Paragraph 11.5 of this law.
- 11.8. Compensation of the securities issuer for damages caused to others due to the violation specified in Paragraph 11.5 of this law shall not serve as grounds to release the governing person of the securities issuer, regulated entity and independent expert from material, violation and criminal liability.
- 11.9. The victim who incurred losses specified in Paragraph 11.6 of this law may claim its losses through the court.
- 11.10. The securities not registered into the registry of securities admitted for public offering and the securities of limited liability companies are prohibited to be offered to the public.

Article 12. Selling Securities in the Primary Market and its Reporting

- 12.1. The securities admitted to both the registry of securities for public offering and listed in the Stock Exchange's list shall be traded in the primary market.
- 12.2. The Commission shall grant permission to trade the securities in the primary market, based on the issuer's request and a relevant exchange's reference letter stating that the securities were admitted to the exchange's list and necessary preparations were made.
- 12.3. Selling securities on credit in the primary market and granting ownership of securities free of charge, unless otherwise stated in this law, are prohibited.
- 12.4. The issuer shall submit the primary market trade report to the Commission pursuant to the regulations defined, within three days after the trading in the primary market was concluded.
- 12.5. Primary market trade report of the securities shall include the Stock Exchange's statement confirming that the trading was conducted in accordance with relevant rules.
- 12.6. The Commission shall review the primary market trade report within three days and shall provide permission to start the secondary market trading of the securities if no violations are detected and the primary market trading is considered to be organized successfully.
- 12.7. The Commission shall consider the primary market trading as successfully organized based upon fulfilment of all or any of the following circumstances:
 - 12.7.1 in cases where the securities issued at its nominal value, the funds aimed to be raised by the trade have fully been settled in the issuer's account;
 - 12.7.2 in cases where the securities issued at a price more than its nominal price, funds sufficient for implementation of the project stated in the securities' prospectus have

- been fully raised and settled in the issuer's account; and
- 12.7.3 in cases where an underwriter is involved, (the underwriter has) fully transferred necessary payment in accordance with underwriting agreement or caused fulfilment of the situation stated in Sections 12.7.1 and 12.7.2 of this law.
- 12.8. Upon public acknowledgment made by the Commission of its decision made on the successful completion of the primary market trade of securities, that primary market transaction cannot be revoked.
- 12.9. The issuer is prohibited to utilize the funds raised from the securities trading for any other purposes except for the intended purpose stated in the securities' prospectus.
- 12.10. The registration of the securities shall be invalidated if the securities were not traded in the primary market within one year from the Commission's registry of securities admitted the public offering.
- 12.11. Paragraphs 12.1-12.10 of this law shall not apply to the issuance of securities by the Government or their sale on the securities market.

Article 13. Depository Receipts

- 13.1. Depository receipts shall attest the rights certified by the underlying securities in custody and other associated rights.
- 13.2. Depository receipts shall have a main condition to be freely converted to the underlying securities and when the depository receipts are sold to others, the underlying securities and rights indicated in Paragraph 13.1 of this law shall be transferred to the buyer, simultaneously.
- 13.3. The conversion of depository receipts to the underlying securities or vice versa shall be free of payment delivery transaction.
- 13.4. The issuer of depository receipts may issue the depository receipt only through taking the underlying securities into the custody of the legal entity which is authorized to conduct securities custodian activities (hereinafter '*custodian activity*').
- 13.5. Issuer of the depository receipts shall be considered as the executor of the orders provided by the underlying securities' issuer, pursuant to the agreement entered between them and it shall be the nominal owner of the underlying securities.
- 13.6. It is prohibited to issue depository receipts if the underlying securities are not held in custody or the size or volume is incomplete.
- 13.7. Depository receipts can be based upon newly issued securities or based upon previously issued securities of whichever owner provided its approval, or as combination of both.
- 13.8. Each depository receipt shall certify the same type of securities with *pro rata* rights.
- 13.9. One depository receipt may certify one or more of the underlying securities.
- 13.10. If it is stated in an agreement entered with the underlying securities' issuer and the depository receipts issuer, one underlying security can be certified by the number of depository receipts. In this case voting rights must be counted by accumulation of depository receipts.
- 13.11. Depository receipts shall have following types:
- 13.11.1. Mongolian depository receipts;
- 13.11.2. foreign depository receipts.
- 13.12. Depository receipts' issuer shall keep the registration of the beneficiary owners of the depository receipts and shall provide those registrations to the Commission and securities issuer upon their request.
- 13.13. Depository receipts' issuer shall be prohibited to be the beneficiary owner of depository receipts.

Article 14. Mongolian Depository Receipts

- 14.1. Financial instruments registered and issued for trading in the regulated market of Mongolia, of which the underlying securities are listed in foreign a stock exchange and held in custody by an authorized legal entity to conduct custodian activities, shall be construed as Mongolian depository receipts.

- 14.2. Unless otherwise stated in this law, based on the proposal of the Exchange the Commission shall define the types of underlying securities and lists of respective countries' securities markets and countries, of which underlying securities are listed.
- 14.3. It is prohibited to sell in Mongolia the depository receipts of which underlying securities are not included in the list defined by the Commission.
- 14.4. The rights and responsibilities between the depository receipts' issuer and underlying securities' issuer shall be determined by the agreement entered into between them and the main terms of that agreement shall be an inseparable part of the depository receipts' prospectus.
- 14.5. Although the issuer of underlying securities' may prescribe to comply with the legislation of their respective country in the agreement specified in Paragraph 14.4 of this law, the depository receipts issuer shall comply with Mongolian legislation in issuing and selling its Mongolian depository receipts.
- 14.6. The Commission shall determine the conditions and requirements for the Mongolian depository receipts' issuer, and shall set regulation with respect to issuing depository receipts, registering (it) into the registry of securities admitted for public offering, and granting permission for public offering and trading, and disclosing information to the public.
- 14.7. The following items must be reflected in the agreement specified in Paragraph 14.4 of this law:
 - 14.7.1 the depository receipt holder's rights certified by the underlying securities; and rules on exercising those rights, accumulation and representation of the votes attached to underlying securities unto the relevant party and presenting the results of that voting;
 - 14.7.2 an obligation of an underlying securities issuer to provide information, which is required to be disclosed publicly and related with the underlying securities and its issuer, in accordance with rules defined by the Commission, without any constraints; and
 - 14.7.3 on termination of the depository receipts upon first demand made by the depository receipt holder and organizing the registration of the relevant underlying securities ownership rights; and prohibition of termination of depository receipts without the consent of the depository receipt holder.

Article 15. Foreign Depository Receipts

- 15.1. Financial instruments issued through the authorized legal person to conduct custodian activities based upon securities initially issued in Mongolia and issued only by the issuer of depository receipts shall be construed as foreign depository receipts.
- 15.2. Foreign depository receipts may have a title to represent the market and the country in which they shall be traded.
- 15.3. The securities' issuer shall inform to the public, the Commission and the Exchange, in writing, within five working days from which its decision has been made to issue foreign depository receipts based upon its underlying securities.

Article 16. Company Debt Instruments

- 16.1. The company which complies with requirements set by the Commission and the Exchange may issue and offer debt instruments to the public.
- 16.2. The Commission shall define the regulation on registering and public offering of company debt instruments.
- 16.3. A company debt instrument may have a guarantee for its completion of duties.
- 16.4. The total value of the debt instrument to be issued by a company shall not exceed the company's equity value; as well the total value of the debt instrument issued by a company with a third-party guarantee shall not exceed the sum of the equity value of that company and the guarantee amount made by a third party.

Article 17. Issuance of Securities in foreign countries by a company listed on the Stock Exchange

- 17.1. Unless otherwise stated in this law, a company listed on the Stock Exchange of Mongolia may dual list and trade a certain part of its securities and depositary receipts on a foreign stock exchange.
- 17.2. In order to issue securities in other countries, the company specified in Paragraph 17.1 of this law shall register (those securities) with the Commission. The Commission shall set the registration regulation.
- 17.3. In case of listing in a foreign stock exchange, a legal person registered in Mongolia shall inform the Commission.

Article 18. Issuance of Securities in Mongolia by a Legal Person Listed in Foreign Country

- 18.1. A legal person listed on a foreign exchange may list and trade its securities on a stock exchange operating in Mongolian territory upon approval of the Commission.
- 18.2. Unless otherwise stated in this law, the regulation and rules to be followed by the securities' issuer stated in Paragraph 18.1 of this law shall be set by the Commission.
- 18.3. The legal person, specified in Paragraph 18.1 of this law, shall reflect in the prospectus of the securities to be issued in Mongolia, about the regulatory differences between Mongolia and the country in which the securities were initially issued, and shall make provisions for investor's potential risks arising from that issuance, and arrangements allowing the investor to exercise his/her rights.
- 18.4. The criteria for foreign securities issuers to issue securities in Mongolia and the list of accepted foreign exchanges shall be defined by the Commission.
- 18.5. The listing rules specified in Paragraph 18.1 of this law shall be endorsed by the Stock Exchange upon approval by the Commission.
- 18.6. Unless otherwise stated in this law, securities issuance in Mongolian securities market by a legal person registered abroad shall not be considered as conducting its operation in Mongolia.
- 18.7. The Section 20.1.3 of this law will not be applicable for the legal person stated in Paragraph 18.1 of this law.

Article 19. Trading of Derivative Financial Instruments

- 19.1. Persons authorized to conduct securities dealing operations may issue derivative instruments and trade them among legal persons which conduct professional investment activities, in accordance with rules of the relevant organization which organizes those trades.
- 19.2. Paragraph 19.1 of this law does not apply in issuance and trading of the asset-backed securities.
- 19.3. The conditions, requirements, criteria and standards for derivative financial instruments, and their trading regulation shall be set by the trading organization and the Commission.
- 19.4. Derivative financial instrument may be issued based on certain securities price and trading index, provided that it is approved by the Commission.

Article 20. General Responsibilities of the Securities' Issuer

- 20.1. Unless otherwise provided by law, a securities issuer shall have the following general obligations:
 - 20.1.1. have their decision to issue securities discussed and made by a meeting of an authorized organization (body);
 - 20.1.2. prepare and submit accurate information and reports which are related to the securities' trade to the Commission and disclose to the public, in compliance with relevant methods and forms within the specified period;
 - 20.1.3. have a number of independent members (of the Board) not less than indicated in the Company Law;
 - 20.1.4. appoint or elect a fit and proper person for authorized positions;
 - 20.1.5. inform the public and shareholders, if the project implementation has changed from

- which had been stated in the securities' prospectus;
- 20.1.6. submit the mid-year and year-end financial statements, attested by the auditing firm registered with the Commission, to the Exchange and the Commission within the period indicated in Article 13 of the Law on Accounting;
- 20.1.7. disclose to the public information regarding the company's operational and financial situation in accordance with the regulation set by the Commission;
- 20.1.8. disclose shareholders' meeting decisions immediately and to submit to the Commission and the Exchange relevant information and documents within three working days after the meeting was held;
- 20.1.9. report immediately to the public upon acknowledgment of the situations that may affect the price and volume of the securities at a noticeable level (or materially);
- 20.1.10. comply with corporate governance principles endorsed by the Commission.
- 20.2. *(Paragraph revoked on 18 February 2015)*
- 20.3. The Exchange shall define the types of information and its public disclosure rules, which may affect the price and volume of the trade at a noticeable level (or materially), upon the approval of the Commission.

Article 21. Demanding Information related to Securities' Issuer and Making a Claim

- 21.1. In accordance with the defined regulations, the Commission has a right to demand information from the securities' issuer and its related persons, if the following circumstances are created or may be created.
 - 21.1.1 conducted or conducting unlawful operations such as fraud, deceit and swindling or violation of the investors' interest has occurred;
 - 21.1.2 the company was established for unlawful purposes such as for fraud, deceit and swindling;
 - 21.1.3 a founder, a majority shareholder or an authorized person of a company conducted unlawful actions such as deceiving and swindling the company and its investors; and
 - 21.1.4 information to be disclosed to investors and the public has not been provided pursuant to the regulations.
- 21.2. The Commission may submit a claim to the court against the issuer or the authorized persons of the Company, on behalf of the investors, if the Commission considered that they conducted unlawful actions and violated the interests of the investors and shareholders.
- 21.3. The contradicting amendments with the court decisions shall be prohibited to be added to the Charter of the issuer.

CHAPTER THREE. FULL ACQUISITION OF A COMPANY OR ACQUISITION OF ITS MAJORITY STAKE

Article 22. Take-Over Offer

- 22.1. An offer to take over a company's shares (hereinafter 'offer') shall be made in the following forms:
 - 22.1.1 A shareholder solely or jointly with its related persons or a person who does not own shares of this company makes an offer to acquire all of the equity securities or more than the controlling interest voluntarily; and
 - 22.1.2 A shareholder who purchased the controlling interest of the company solely or jointly with its related parties makes an offer in order to perform its obligation under Paragraph 57.1 of the Company Law.
- 22.2. The organization, which operates custodian activities, shall inform within five working days to the Commission, the Stock Exchange and the public via its website about the obligations occurred in relation with the purchase of the controlling interest of the company, specified in Section 22.1.2 of this law, since execution of that purchase (transaction).
- 22.3. The company controlling shareholder solely or together with its related persons shall

- inform the Commission, Stock Exchange and the public via its website about every occasion of a five per cent increase or decrease in the share volume of the controlling shareholders in the company within five working days.
224. An offeror shall notify the Commission and public about its offer to acquire the company simultaneously.
225. An offeror shall comply with the rules specified in Paragraph 57.1 of the Company Law during its share purchase offer delivery for the shareholders; and the information related to that take-over shall be disclosed to all interested parties simultaneously.
226. The following information shall be included in the information to be disclosed to the public in relation with the company share purchase offer:
- 226.1 offeror's family name, surname, given name, permanent residential address; in the case of a legal entity the name and address of that entity, its office address; and
- 226.2 total volume of shares offering to buy and the minimum price to pay for each share.
227. The offer shall be valid for not less than one month but not more than three months.
228. The offeror shall inform the company's Board of Directors before applying to the Commission regarding the take-over offer.
229. The offering price of the offeror to buy shares shall be not less than the market price of that particular share and the Commission shall define a methodology of defining market price on the bases of a proposal of the Stock Exchange.

Article 23. Conduct of a Take-Over

- 23.1. The Commission shall set rules with respect to the conduct of a take-over.
- 23.2. The following matters shall be included in the rule specified under the Paragraph 23.1 of this law:
- 23.2.1 methods and type to offer;
- 23.2.2 content of documents related to the offer and timeframe to inform the public;
- 23.2.3 proof of financial capability to ensure completion of a takeover offer (hereinafter '*take over*');
- 23.2.4 actions to be taken by the company management in relation with the take-over;
- 23.2.5 rights, liabilities and responsibilities of the parties engaged in the take-over;
- 23.2.6 regulatory actions in the securities trade in relation with the take-over;
- 23.2.7 surveillance on the offering and conduct of the take-over;
- 23.2.8 prohibited matters in a take-over; and
- 23.2.9 any other additional requirements that the Commission considers necessary to ensure appropriate conduct of a take-over.
- 23.3. It is prohibited to pursue takeover attempts without making an offer or making the offer without compliance with the regulations set by the Commission.
- 23.4. If the person specified in Section 22.1.1 of this law and its related persons did not comply with the regulation on the conduct of take-over specified in this law, all shares purchased through that transaction, shall have no voting rights.
- 23.5. If a person specified in Section 22.1.2 of this law and its related parties did not perform its obligation specified in Paragraph 57.1 of the Company Law or breached the take-over rules specified in this law, all shares under that shareholder's ownership shall have no voting rights.
- 23.6. The Commission shall disclose information on the shares deprived of their voting rights to the public within fifteen days through its website.

CHAPTER FOUR. REGULATED OPERATIONS

Sub-chapter One. General Regulation

Article 24. Regulated Operations

- 24.1. The following operations shall be considered as regulated operations:
- 24.1.1. securities brokerage;

- 24.1.2. securities dealing;
 - 24.1.3. securities investment consultancy;
 - 24.1.4. securities trust;
 - 24.1.5. underwriting;
 - 24.1.6. securities ownership rights registration;
 - 24.1.7. securities trade clearing;
 - 24.1.8. securities trade settlement;
 - 24.1.9. centralized depository of the securities;
 - 24.1.10. custody;
 - 24.1.11. securities trading;
 - 24.1.12. investment fund;
 - 24.1.13. investment management;
 - 24.1.14. financial rating;
 - 24.1.15. legal advisory services for the securities market participants;
 - 24.1.16. asset appraisal services for the securities market participants;
 - 24.1.17. auditing service for the securities market participants;
 - 24.1.18. other operations prescribed as regulated by the Commission.
- 24.2. Operations specified in Sections 24.1.1-24.1.14 and 24.1.18 of this law shall be operated on the bases of special permits granted by the Commission.
- 24.3. Authorized legal entity to operate as stated in Sections 24.1.15-24.1.17 of this law shall be performed upon registration by the Commission by fulfilling conditions and set requirements.
- 24.4. The special permit specified in Section 24.1.14 of this law shall be granted by the Commission upon consensus made with the Bank of Mongolia.
- 24.5. A shareholder of a regulated person stated in Sections 24.1.1-24.1.11, 24.1.13 and 2.1.18 of this law is prohibited from selling, trading, pledging and transferring the shares in any other shall mean without consent from the Commission; and this provision shall apply to the influential shareholders of the regulated person with the form of public (or joint stock) company.
- 24.6. A regulated person conducting operations stated in Sections 24.1.1-24.1.14 and 24.1.18 of this law shall establish its branch or representative offices upon Commission's approval.
- 24.7. The commercial name of a regulated person running operations stated in Sections 24.1.1-24.1.14 and 24.1.18 of this law shall consist of its given name and the detailed mark of '*Securities' Company*', or abbreviated mark of '*SC*'.
- 24.8. It is prohibited for legal persons other than stated in Paragraph 24.7 of this law to use the detailed mark of '*Securities' Company*' or abbreviated mark of '*SC*' in its commercial name.
- 24.9. The Paragraph 24.7 of this law shall not apply to organizations which operate as stock exchange, central depository and commercial bank.

Article 25. Principles for Regulated Operations

- 25.1. Regulated persons shall comply with the following principles in their operations.
- 25.1.1. implement legislation, regulations, rules and public norms;
 - 25.1.2. know and study investment objectives and opportunities of the client;
 - 25.1.3. provide clients with information and advice necessary for them to make an informed investment decision;
 - 25.1.4. avoid conflicts of interest with the client and other relevant persons; and to inform the client immediately if a conflict of interest arises;
 - 25.1.5. not to promote self-interest over interests of the client, and not to utilize for self-benefit information obtained in the course of providing services;
 - 25.1.6. ensure security for customers' assets by separating each customer's account from its own and others' accounts;
 - 25.1.7. possess financial resources sufficient to run the operations and to overcome potential risks;

- 25.1.8. to coordinate internal operations effectively and establish internal surveillance (or compliance) structure;
- 25.1.9. record and keep primary-level records and documents with respect to the operations pursuant to the standards;
- 25.1.10. have adequate human resources which will meet the requirements to operate with special permits; and
- 25.1.11. not to conduct any other operations unrelated to the operation with special permits.

Article 26. Set of Regulations on Regulated Operations

- 26.1. Relations with conducting regulated operations in the securities market shall be regulated by a set of regulations approved by the Commission.
- 26.2. The set of regulations for regulated operations shall consist of the following regulations, rules, guidance and instructions:
 - 26.2.1. regulation on granting, extension, suspension, reinstatement and revocation of the special permits referred in Paragraph 24.2 of this law; and rule on measures to take in case of a suspension and revocation of special permits;
 - 26.2.2. conditions and requirements for regulated persons, methods and criteria for determining their solvency and regulation on the supervision of their operations;
 - 26.2.3. regulation on establishment, utilization, and monitoring of the risk fund for regulated persons;
 - 26.2.4. unless otherwise stated in this law, setting the maximum limit on service charges and fees of regulated persons.
 - 26.2.5. regulation on the submission of information stated in this law to the Commission and disclosure to the public; and rule on supervision on that procedure;
 - 26.2.6. regulation on advertisement activities by the regulated persons and the securities' issuers;
 - 26.2.7. regulation and instruction on provision of the services for customers and its documentation;
 - 26.2.8. regulation on receipt and execution of customer orders;
 - 26.2.9. regulation on appointment of authorized persons at regulated entities, and defining fit and proper candidates;
 - 26.2.10. regulation on collection, maintenance and transfer of archive documents of the regulated persons.
 - 26.2.11. instructions on information and report submission to the Commission;
 - 26.2.12. condition and requirements on opening branches and representative offices of the regulated persons;
 - 26.2.13. setting the amount of regulatory fees for the regulated persons;
 - 26.2.14. regulation on delivery of information on related parties and regulated persons to the Commission and its public disclosure.

Sub-chapter Two. Granting Special Permits for the Legal Persons to Operate Regulated Activities and their Registration

Article 27. Application to Acquire Special Permits

- 27.1. A legal person, willing to obtain special permits stated in Paragraph 24.2 of this law, shall submit an application to the Commission according to set forms.
- 27.2. The following documents shall be attached to an application stated in Paragraph 27.1 of this law, in addition to those defined in the Law on Special Permits of Business Entities:
 - 27.2.1 copy of a legal person's company charter;
 - 27.2.2 information regarding the founders or shareholders, payment capacity of the company, reference document that no overdue loans are outstanding at banking or financial institutions, or in any other legal persons, information confirming that (an applicant) is fit and proper;

- 27.2.3 proof document on fulfilment of the minimum amount of share capital and current assets (criteria);
 - 27.2.4 proof document on its employment that it has employed qualified personnel with sufficient professional experience and expertise;
 - 27.2.5 proof document on its fulfilment of the requirements for the office, equipment and software;
 - 27.2.6 business and risk management plan for conducting special permit operations for at least three years; and
 - 27.2.7 other additional information and documents prescribed by regulations defined by the Commission.
- 27.3. In the event if a bank, its parent, or a legal entity that is a member of a banking group or owns more than five percent of the bank's shares issues a request to the Commission for conducting regulated activities, the relevant procedures set forth in the Banking Law shall be followed.
- 27.4. A legal person willing to obtain special permits for securities clearing, settlement, or custodian operation shall have connected its electronic network with the electronic trading network of the Stock Exchange; and relevant documents shall be attached to an application stated in Paragraph 27.1 of this law.
- 27.5. A legal person willing to obtain a special permit for securities trading operation shall have connected its electronic network with the network of the securities clearing and settlement organization; and relevant documents shall be attached to an application stated in Paragraph 27.1 of this law.

Article 28. Granting of Special Permits

- 28.1. The Commission shall grant special permits, provided that an applicant meets the following conditions and requirements:
- 28.1.1 conducting regulated operations shall not contradict with other operations of the applicant, and it is considered that no conflicts of interest will occur;
 - 28.1.2 the authorized person (of the applicant) is considered as fit and proper;
 - 28.1.3 (an applicant) satisfies human resource requirements prescribed by the Commission;
 - 28.1.4 (an applicant) satisfies the minimum capital and current asset requirements prescribed by the Commission;
 - 28.1.5 (an applicant's) office, equipment and software satisfies the requirements for conducting special permit operations; and
 - 28.1.6 the legal person satisfies other additional conditions and requirements prescribed by the Commission pursuant to this law.
- 28.2. The Commission shall refuse to grant a special permit, if it considers that the applicant does not satisfy the conditions and requirements necessary for conducting the regulated operation.

Article 29. Suspension of a Special Permit

- 29.1. Under the following circumstances, the Commission may suspend a special permit by the term defined in the Law on Special Permits of Business Entities:
- 29.1.1 upon request by the special permit holder;
 - 29.1.2 if the special permit holder breached this law and regulations defined by the Commission; and the petition for suspension of the special permit is filed by the Stock Exchange, securities trade clearing, settlement and depository organization is valid;
 - 29.1.3 (the special permit holder) has violated or no longer fulfils terms, conditions, and requirements of the special permits;
 - 29.1.4 the special permit holder fails to comply with orders given by the Commission pursuant to Article 66 of this law;
 - 29.1.5 the special permit holder fails to provide information on time, as required by the Commission and provides inaccurate, contradicting, false, incorrect, incomplete, and misleading information;

- 29.1.6. the authorized person of a legal person fails to maintain fit and proper status; or
- 29.1.7. the special permit holder fails to pay the regulatory service fee within the specified time.
- 29.2. Upon remedy of the circumstances for the special permit suspension, a special permit holder may file a petition for reinstatement of the special permit to the Commission.
- 29.3. The Commission shall resolve the petition referred to in Paragraph 29.2 of this law within 30 days.
- 29.4. The suspension of a special permit shall not constitute grounds for change of initial terms granted by the special permit.

Article 30. Revocation of a Special Permit

- 30.1. Under the following circumstances, the Commission shall revoke a special permit:
 - 30.1.1. upon request issued by the special permit holder;
 - 30.1.2. (a special permit holder) fails to remedy violations during the suspension period and requests to submit to the Commission its petition to reinstatement of its special permit;
 - 30.1.3. upon repeated and/or serious (or material) violations of the conditions and requirements of the special permit;
 - 30.1.4. (a special permit holder) causes substantial damage to a client;
 - 30.1.5. (a special permit holder) has not conducted operations with the special permit for a period of a year;
 - 30.1.6. upon bankruptcy or liquidation of the legal entity; and
 - 30.1.7. upon occurrence of other contradicting circumstances with respect to conducting the regulated operation.
- 30.2. A revoked special permit shall not be reinstated.

Article 31. Consequences of Suspension and/or Revocation of a Special Permit

- 31.1. The Commission shall inform the special permit holder of its decision referred to in Articles 29, and 30 of this law, in writing; and following information shall be specified in that decision:
 - 31.1.1. grounds for the decision;
 - 31.1.2. the effective date of the decision; and
 - 31.1.3. follow-up actions, assignments and official notices to be undertaken in relation to decisions made.
- 31.2. A suspension or revocation of a special permit shall not constitute grounds for termination of an agreement or a transaction between that legal entity and third parties, or a waiver from the compensation liabilities of damages caused to others in respect of any such agreement or transaction.
- 31.3. For customer protection purposes, a legal entity, whose special permit is suspended or revoked, is prohibited to enter any agreement or a transaction, unless it is permitted by the Commission.

Article 32. Follow Up Actions by the Commission after Suspension, Reinstatement and Revocation of a Special Permit

- 32.1. The Commission shall inform the public within five working days following its decision for suspension, reinstatement or revocation of a special permit.
- 32.2. Transfer of the duties to service clients during a suspension period; as well as transfer of the rights and responsibilities held for clients after revocation of the special permit to another legal person shall be conducted according to regulation defined by the Commission.
- 32.3. The Commission may take measures to suspend rights to enter (manage) into customers' accounts, or to organize transactions; or may freeze and segregate its property or monetary assets during the suspension period, if deemed necessary.
- 32.4. The Commission may take measures to restrict rights to enter (manage) into customers'

- accounts, or to organize transactions; or may freeze and segregate its assets; or may take into protective archive documents related with its operation, in order to protect investor rights and ensuring market stability.
- 32.5. The legal entity, whose special permit is revoked, is obliged to endorse a decision regarding its liquidation, unless it operated other operations with special permits, through hearing of its authorized organization, within 45 days of the special permit being revoked.
- 32.6. The Commission shall appeal to the court for enforced liquidation of the legal entity, which has not made a decision to liquidate within a deadline stated in Paragraph 32.5 of this law.

Article 33. Regulated Operations to be conducted upon Registration

- 33.1. The operations stated in Sections 24.1.15-24.1.17 of this law shall be conducted upon registration with the Commission.
- 33.2. A legal entity willing to undertake operations stated in Sections 24.1.15-24.1.17 of this law shall satisfy the following criteria:
- 33.2.1. have a defined number of lawyers, which are qualified for selection and permanently employed on contract, if the legal entity is to provide legal advisory services;
- 33.2.2. have a defined number of appraisers, which are permanently employed on contract and hold special permits to conduct asset appraisal (valuation), if the legal entity is to provide asset valuation services; and
- 33.2.3. have a defined number of auditors, which are permanently employed on contract and hold special permits to conduct auditing, if the legal entity is to provide auditing services.
- 33.3. The Commission shall set the conditions and requirements for each of the regulated operations indicated in Sections 24.1.15-24.1.17 of this law, considering relevant opinions of the securities market's self-regulatory organizations stated in Article 69 of this law, Lawyers Association stated in Article 44 of the Law on Lawyers Association, professional organization for assets appraisal, and the Institute of Certified Public Accountants stated in Article 13 of the Law on Auditing.
- 33.4. The Commission may organize professional training in collaboration with respective professional organizations for employees of the registered legal entities.
- 33.5. The Commission shall resolve the application for registration, within 20 working days of its receipt.
- 33.6. The Commission shall reject applications in the following situations:
- 33.6.1 (an applicant) has not satisfied criteria set out in Paragraph 33.2 of this law;
- 33.6.2 (an applicant) has not satisfied conditions and requirements set out in Paragraph 33.3 of this law;
- 33.6.3 the financial capacity of the legal person, which undertakes such services, is insufficient;
- 33.7. The Commission shall delist the legal entity in the following situations:
- 33.7.1. upon request submitted by that legal entity;
- 33.7.2. upon provision of services not in compliance with rules and standards; and critical (or material) professional default made; or
- 33.7.3. its violation of law is proven.
- 33.8. The Commission shall not re-register the legal entity within three years, of its delisting from the registration.
- 33.9. The registration of the Commission shall be valid except for the circumstances set out in Paragraph 33.7 of this law.

Article 34. Right to File Appeal

- 34.1. In the event of disagreement with the decision of the Commission stated in Paragraphs 28.2, 29.1, 30.1, 33.7, and 33.8 of this law, a person shall have 14 days to file an appeal with the Monitoring Council pursuant to the Article 28 of the Law on the Legal Status of the Financial Regulatory Commission.
- 34.2. Filing of an appeal as set out in Paragraph 34.1 of this law shall not constitute grounds for

- suspension of the decision and only upon the decision of the Monitoring Council, the enforcement of the Commission's decision may be temporarily suspended.
- 34.3. The Commission shall be obliged to enforce the lawful decisions rendered by the Monitoring Council.
- 34.4. In the event of disagreement with the decision of the Monitoring Council, court resolution may be sought.

Sub-chapter Three. Granting a right to a professional participant

Article 35. Granting a Right to a Professional Participant (employee)

- 35.1. A professional to work for a legal entity with regulated operations shall obtain a right (or an authorization) from the professional association stated in Paragraph 69.2 of this law.
- 35.2. The authorization to be granted to a professional shall have certain types and ranks dependent upon the level of expertise and types of services to be provided.
- 35.3. The Commission shall define the types and ranks stated in Paragraph 35.2 of this law, considering opinions of the professional associations and self-regulated organizations of the securities market.
- 35.4. The right stated in the Paragraph 35.1 of this law shall be granted for a three years' term to an individual who passed the professional selection, based on the conclusion of the Professional Board stated in Paragraph 35.5 of this law.
- 35.5. The professional selection process shall be conducted by the Professional Board and it shall consist of nine members.
- 35.6. A Professional Board member shall be an individual nominated by a respective public administrative organization, self-regulatory and professional organizations, with a minimum of three years working experience in finance, economics and the legal sector.
- 35.7. The Commission shall define the regulation on operations and appointment of the Professional Board.
- 35.8. The Professional Board shall be chaired by a Commissioner designated by the Chairman of the Commission.
- 35.9. The Commission shall define the regulation on conducting professional selection, issuing rights for the professionals, suspension and revocation of the rights.

Sub-chapter Four. Types of Regulated Activities

Article 36. Brokers' Operations

- 36.1. Engaging in intermediary services related to the sale and purchase of securities on behalf of clients using clients' funds upon the client's instructions on the basis of a contract shall be construed as brokers' operations (hereinafter '*broker's operation*').
- 36.2. A broker is obliged to abide by laws, regulations and rules approved by the Commission, and self-regulated membership institutions such as the Stock Exchange and the securities clearing, settlement and depository organization.
- 36.3. The relations between a broker and a client shall be subject to an agreement. The Commission shall set the rules on entering into that agreement and the standard terms of the brokerage services.
- 36.4. A broker shall be obliged to provide fair and professional, qualified execution for its client in accordance with the terms and requirements set forth in the agreement. A broker shall be obliged to inform the client if it considers that terms need to be changed and therefore shall be obliged to seek renewal of instructions provided by the client.
- 36.5. A broker shall be obliged to execute its clients' instructions first, despite that the broker also engages in securities dealing; and execute clients' instructions (orders) according to the time sequence they were placed with a broker.
- 36.6. The broker shall be obliged to inform the client prior to entering into (the service) agreement on the existence of any conflict of interests; and shall be obliged to inform the client immediately if any conflict of interest arises at any time after entry into an agreement.

- 36.7. A broker shall be liable for any material damage incurred to the client as a consequence of its failure to inform the client of a conflict of interest beforehand or immediately after such conflict of interest has arisen if it has occurred since entry into an agreement.
- 36.8. A broker shall place clients' money and securities in their client accounts opened in their clients' own names at an authorized organization for cash and securities deposits, which is separate from the broker's monetary and securities assets.
- 36.9. Clients' cash and securities deposit accounts stated in Paragraph 36.8 of this law shall be the accounts prescribed only for the securities settlement of the securities trade.
- 36.10. As stated in Paragraph 36.8 of this law, no other person except for the client or his/her trustee shall be allowed to spend the cash placed in the client's account and only for purposes other than conducting the clearance and settlement of the securities' trade shall be restricted.
- 36.11. Unless otherwise stated in the law and/or an agreement entered between broker and client, a broker shall be obliged to transfer the cash, received from the client pursuant to their agreement or received from others on client's behalf pursuant to the agreement made with others upon the client's instruction, to the client's account at an authorized cash depository organization.
- 36.12. A broker shall be obliged to keep primary-level accounting records of the client's monetary assets and securities by each client and to present records to the client pursuant to the prescribed rules.
- 36.13. A broker shall be obliged to know its clients, and to check an entitlement of the client for participation in particular securities' trade in accordance with the legislation, regulation and rules; and if its client is not entitled to participate in the trade, a broker shall refuse to execute instruction provided by his/her client.
- 36.14. Client's money shall not be utilized for compensation of liabilities of the broker to others.
- 36.15. A broker shall be prohibited from transferring cash between his/her and a client's account, unless the broker provided credit for the securities trade to the client pursuant to their agreement.
- 36.16. Intermediary services for selling and buying of the securities at the international securities market shall be undertaken upon the Commission's permission; and the Commission shall prescribe regulation governing this activity.

Article 37. Dealer's Operations

- 37.1. Selling and buying of securities on its own account with its own money shall be construed as a dealer's operation (hereinafter '*dealer's operation*').
- 37.2. A dealer may offer the following terms for its operation referred to in Paragraph 37.1 of this law:
 - 37.2.1 minimum and maximum amount of the securities to be purchased or sold;
 - 37.2.2 the validity period of the purchase or sale price offered; and
 - 37.2.3 others (terms) that are not prohibited by law.
- 37.3. A dealer may change or cancel its offers issued in accordance with Paragraph 37.2 of this law by the same means and form they were initially offered, pursuant to the rules set by the Stock Exchange.
- 37.4. Upon receipt of an acceptance to the dealers offer to sell or purchase of the securities, a dealer shall be obliged to execute without any dispute.
- 37.5. A dealer shall deposit the securities and monetary assets under his ownership in a special account at an authorized independent organization for securities and cash deposits.
- 37.6. Any damage resulting from a failure of performance of the obligation referred to in Paragraph 37.4 of this law can be claimed under court litigation.
- 37.7. The rule on relations related with the securities trading accounts stated in Paragraphs 36.8 and 37.5 of this law shall be defined jointly by the Bank of Mongolia and the Commission.

Article 38. Investment Fund Operations

- 38.1. The investment fund shall have the purpose to increase the fund assets efficiently by fully

- representing investors interests.
- 38.2. The investment fund's assets shall be separated from its founders in terms of accounting and shall be placed in an account opened at the organization which holds special permits to conduct custodian operation or in an authorized commercial bank.
- 38.3. Investment funds can have the status of a legal entity or may have other legal status specified in this law; and legal status of the investment fund shall be defined by the specific law.
- 38.4. Investment fund shall issue '*unit right*' in accordance with the Commission's regulation.
- 38.5. Investment funds shall have the following types:
- 38.5.1. of which permanently offers to sell its securities based upon the volume of the demand and obliged to purchase back its securities, as '*open ended*';
 - 38.5.2. of which issues its securities through public offer, by the market price, within an asset volume defined by the founders and not obliged to purchase back those issued securities, as '*close ended*'; or
 - 38.5.3. other types accepted by the Commission.
- 38.6. The following operations shall be prohibited for the investment fund:
- 38.6.1. conduct other tasks and activities and spend fund assets other than authorized by law or by the Commission and not stated in the investment policy;
 - 38.6.2. shareholders of investment funds making profit, redemption of shares at a specified price, issuing a guarantee, getting a loan and providing a loan to others in excess of the established limits depending on the type of investment funds;
 - 38.6.3. grant the fund unit right as a loan;
 - 38.6.4. in terms of fund management, to spend fund assets for personal interest; and increase management fees without grounds;
 - 38.6.5. centralizing risks in the course of exercising management.
- 38.7. The management of the investment fund shall be conducted upon a contractual basis by the investment management company which holds a special permit granted by the Commission.
- 38.8. An investment management company is prohibited to make any payment and fee withdrawals from the fund assets, other than its service fee and performance bonuses.
- 38.9. The Commission shall define rules on procedure of granting special permits for the investment management company, its extension, suspension, and revocation.
- 38.10. Other specific relations not specified in this law shall be regulated by separate law and regulation defined by the Commission.

Article 39. Securities Investment Advisory Operations

- 39.1. Conducting research and analysis based upon publicly available information disclosed by the securities' issuer; and providing professional consultation services on price, terms and timing of the securities sell and purchase for the clients for fee shall be construed as '*securities investment advisory operations*'.
- 39.2. The following cases shall not be considered as conducting securities investment advisory operations.
- 39.2.1. a regulated person conducting research and analysis for its own operations purposes;
 - 39.2.2. an investor conducting research and analysis for his/her investment decision; or
 - 39.2.3. producing research studies for the public or scientific purposes and disclosing results to the public.

Article 40. Securities Trust Operations

- 40.1. Exercising ownership rights of the securities and other relevant assets of the client within limits of the trust agreement shall be construed as a securities trust operation.
- 40.2. The conductor of the securities trust operation (hereinafter '*trustee*') shall be liable for any losses incurred due to the conflict of interest that was not informed to the parties in

- advance arisen between the trustee and its client or between its clients.
- 40.3. The beneficial owner shall exercise his/her ownership rights only in accordance with the agreement, once the securities and monetary assets are transferred to the trustee.
 - 40.4. Obligations that the trustee bears to others that are unrelated to the operation stated in Paragraph 40.1 of this law shall not be compensated by the securities of the beneficiaries.
 - 40.5. The trustee may enter into agreements and transactions related with the derivative financial instrument, if its client is the (legal person) which operates professional investor operations.
 - 40.6. Specific regulation on conducting trust operations shall be set by the Commission.

Article 41. Underwriting Operations

- 41.1. Providing professional services related to offering shares to the public and purchasing the securities issuer's shares that had not been sold at the primary securities' market in accordance with the agreement entered with the securities' issuer shall be construed as underwriting operations.
- 41.2. A special permit for underwriting operations may be issued to a legal person holding a special permit for brokers' or dealers' operations.
- 41.3. Revocation of a special permit for brokers' or dealers' operations shall constitute grounds for revocation of a special permit for underwriting operations.
- 41.4. The underwriting services shall be provided in the following forms.
 - 41.4.1. prepare the securities' prospectus and to determine the offering price of the securities;
 - 41.4.2. purchase all securities offered to the public by the securities' issuer;
 - 41.4.3. make the best efforts to sell the securities by introducing the securities to investors;
 - 41.4.4. buy all the remaining securities not sold after its public offering;
 - 41.4.5. provide a guarantee to buy securities at a price stated in the agreement if publicly offered securities are not sold;
 - 41.4.6. organize actions to present and sell the securities to its own clients;
 - 41.4.7. other terms stated in the agreement.
- 41.5. The underwriter may provide services referred to in Paragraph 41.4 of this law by itself or in cooperation with other legal persons holding a special permit to conduct underwriting operations; and in which case, parties shall enter into agreement where the following conditions shall be stated:
 - 41.5.1 the extent of the rights, obligations and responsibilities of the parties during the joint provision of underwriting services; and
 - 41.5.2 the validity term of the agreement
- 40.6. The Commission shall specify standard terms and conditions for underwriting service agreement and the regulation for underwriting operations.

Article 42. Securities Ownership Rights Registration Operations

- 42.1. Receiving information related with the transfer of the securities ownership rights under an agreement with the securities issuer, and recording, storing, processing the information in the registration database of the securities ownership rights and reporting this information in accordance with applicable legislation shall be construed as the securities ownership rights' registration operation.
- 42.2. The ownership rights' registration operation shall be of the following types:
 - 42.2.1 securities' central registration;
 - 42.2.2 securities' particular registration.
- 42.3. Securities ownership rights' registration shall be (organized with) as an integrated structure, therefore the securities' central registration shall be conducted by a legal entity which holds a special permit to undertake securities' central depository operations. Such legal entity shall assign a uniform identification number to securities in accordance with the (principles of) international securities identification number.
- 42.4. A legal person authorized to conduct securities' particular registration shall have a

- mandatory membership with the securities' central depository organization. The changes (made) in the securities' particular registration shall be recorded in the central securities registration in a timely manner.
- 42.5. The securities' particular registration database shall contain information on the securities owned by each beneficiary (inclusive of trustee), their rights and obligations, and information on related persons and other additional information as prescribed by the Commission.
- 42.6. The securities' central registration database shall contain the following information:
- 42.6.1. type and volume of financial instruments (inclusive of both issued and announced) which are authorized to be traded in a regulated market of Mongolia; relevant information of the securities' issuer;
 - 42.6.2. type and volume of securities (inclusive of both issued and announced) of the securities' issuers which are listed on a stock exchange operating in Mongolian territory but traded in foreign countries, and other financial instruments issued based upon those securities; and relevant information of the securities' issuer;
 - 42.6.3. type and volume of securities (inclusive of both issued and announced) of an issuer dual listed on a foreign stock exchange, whose securities are also traded in Mongolia, and other financial instruments issued based upon these securities; relevant information of the securities' issuer;
 - 42.6.4. central securities registration by sub-accounts opened by its members.
- 42.7. A legal entity undertaking the securities' ownership rights registration is obliged to maintain and accurately preserve the securities' ownership rights information and documents for the period as specified in the legislation, to inform and report in accordance with respective regulations.
- 42.8. The Commission shall set the regulation regarding undertaking operations stated in Paragraph 42.7 of this law.
- 42.9. A securities' issuer shall be entitled to obtain a copy of the investors' registration of the securities it issued once a year free of charge.
- 42.10. A person at fault shall be liable for any damage caused due to inaccurate records of information on the ownership rights registration.
- 42.11. A person acting as securities' ownership rights registrar has the right to refuse to conduct the registration due to grounds set out in law and respective regulations, and to report and have the information examined by the authorities.
- 42.12. Securities' owners (inclusive of trustee), person acting as securities' custodian and brokers are obliged to provide information necessary for the securities registration accurately and on a timely basis.
- 42.13. Trustee shall co-register the beneficiary of the securities when registering the particular securities ownership rights.
- 42.14. List of securities owners who are not required to be co-registered in particular securities ownership rights registration shall be approved by the Commission.
- 42.15. Securities shall be registered with only one legal person acting as a securities' particular registrar and it is prohibited to be registered with other legal entities (as a duplicating registry).
- 42.16. A person acting as a securities' ownership rights' registrar is prohibited to arbitrarily spend (or dispose) securities recorded under others' ownership without the consent of the owner.
- 42.17. Paragraph 42.16 shall not apply for the case when the securities owner failed to make securities payments on time set out in Paragraph 44.2 of this law.
- 42.18. The fees for the securities ownership right registration service shall be defined by the securities' ownership rights registrar itself.

Article 43. Securities Trade Clearing Operations

- 43.1. The securities trade clearing operations (hereinafter '*clearing operations*') shall be construed as the composition of the following consecutive procedures:
- 43.1.1. determining the amounts payable by each agreement and in cumulative totals based

- on the transactions and agreements made between the trade participants after the securities trading, and undertaking relevant accounting and financial records;
- 43.12 making preparations for the settlement, and sending payment orders to authorized settlement organization;
- 432 An authorized person to execute clearing operations (hereinafter '*clearing organization*') shall have membership; and shall establish a special fund with the purpose of mitigating risks of cancellation of trade agreements or transactions made during the securities trading.
433. The clearing organization shall analyze the securities market systemic risks and provide recommendations to the securities trade settlement organization on minimizing (those) risks.
434. The Commission shall set the regulation on clearing operations.

Article 44. Securities Trade Settlement Operations

- 44.1. Securities trade settlement operations (hereinafter '*settlement operations*') shall be construed as composition of the following consecutive procedures:
- 44.1.1. transferring payments from the buyers account into the sellers account based on the order received from the clearing organization;
- 44.1.2. transferring the relevant number of shares from the sellers account into the buyers account;
- 44.1.3. conducting settlement transactions simultaneously within the given period sending orders to the central securities depository of the custodian and cash depository organization;
- 44.1.4. confirming transactions by completing financial records in accordance with statements reflecting the completed payment report;
- 44.1.5. sending relevant information to the securities depository and registration organization.
- 44.2. Securities trade settlement transactions shall be conducted within three working days after the trade.
- 44.3. Securities trade settlement transactions can only be conducted once, except by decision made by an inspector of the Commission in a special situation, of which reasonable request was submitted by the securities trading, clearing, settlement organizations and the securities and cash remain in their respective accounts.
- 44.4. The settlement organization may receive collateral from the payer side, have a guarantee issued and charge liabilities pursuant to the agreement to minimize credit and settlement risks that might be faced during the settlement process.
- 44.5. The securities settlement shall be conducted based on the delivery versus payment principle.

Article 45. Securities' Central Depository Operations

- 45.1. Providing safekeeping for securities pursuant to the agreement made with the securities' issuer and other participants and keeping relevant records shall be construed as securities central depository operations.
- 45.2. The permit for central securities depository operations shall be granted to only one legal entity.
- 45.3. The Commission shall define the conditions and requirements to be imposed on the management, structure, organization and operation of the entity which will operate securities central depository operations; and shall set the list on the mandatory terms to be included in their agreement for entering with the with securities' owners.
- 45.4. A legal entity authorized to undertake securities central depository operations may undertake securities particular registrars and custodian operations, simultaneously.
- 45.5. A legal entity authorized to undertake securities central depository operations is prohibited to dispose of securities in its deposit and shall be responsible for any damage caused to those securities due to default caused by the security of the deposited assets.
- 45.6. A legal entity authorized to undertake securities central depository operations shall inform

- the securities issuer upon his/her request and the securities registrar regarding the transfer of ownership rights.
- 45.7. A legal entity authorized to undertake securities central depository operations shall not be authorized to hold cash deposits, therefore dividends and payments of the shares shall be transferred to his/her account at a commercial bank.
- 45.8. The liabilities of the legal entity authorized to undertake securities central depository operations to others, shall be prohibited to be compensated by the securities and relevant monetary assets in the clients' accounts.
- 45.9. The securities offered to the public shall be registered in the securities central registration.

Article 46. Securities' Custody Operations

- 46.1. Providing safekeeping of the securities owned by the client, and conducting other services related to exercising ownership rights attested by the securities shall be construed as custodian operations.
- 46.2. Custodian operations can be conducted by the banks and central depositories.
- 46.3. A legal person acting as custodian, is prohibited to spend (or dispose); or enter into contract with any party with regards to the securities in its custody, except with the securities' owners.
- 46.4. A person acting as a custodian shall ensure reliability and safekeeping by having a separate account from its customers' accounts and keep the books of each customer's account separately.
- 46.5. The Commission and the Bank of Mongolia shall jointly set the regulations of custody operations.
- 46.6. The liabilities of the custody organization are prohibited from compensation by the securities and relevant monetary assets located in the clients' accounts.

Article 47. Securities Trading Operations

- 47.1. Providing conditions to make agreements and contracts to offer and trade securities and derivative financial instruments, and organize securities trading shall be construed as securities trading operations.
- 47.2. The Stock Exchange shall approve and make public the following regulations:
- 47.2.1. regulation on facilitating the securities trading;
 - 47.2.2. regulation on accepting the securities for the trade;
 - 47.2.3. regulation on making securities trade agreement and registration;
 - 47.2.4. regulation on execution of securities trade agreement;
 - 47.2.5. regulation on securities trade surveillance;
 - 47.2.6. schedule for rendering the service by facilitating the securities trading;
 - 47.2.7. other rules and regulations necessary for securities trading operations;
 - 47.2.8. other information requiring public disclosure as provided in legislation and internal regulations.
- 47.3. The Stock Exchange shall disclose the following information to the public regarding the securities trade:
- 47.3.1. the date of the transaction, securities registration number and trading symbol;
 - 47.3.2. total volume of the securities traded, quotes, opening and closing prices;
 - 47.3.3. other information requiring public disclosure as provided in legislation and respective regulations.
- 47.4. The Stock Exchange may undertake the following operations, besides operations stated in Paragraph 47.1 of this law:
- 47.4.1. trading operations for commodity-based derivative financial instruments;
 - 47.4.2. clearing operations;
 - 47.4.3. allowing rent of specific properties for the purpose of organizing securities trading in accordance with specified regulations;
 - 47.4.4. other activities provided in the legislation and regulations of the Commission.
- 47.5. The Stock Exchange is prohibited to undertake operations except for those stated in

Paragraphs 47.1 and 47.4 of this law.

- 47.6. The Stock Exchange may own shares of the legal entity which undertakes securities clearing operations and securities settlement operations.
- 47.7. An authorized person of the Stock Exchange is prohibited to take up any position as a regulated legal person that is a market participant.

Article 48. Participation in the Stock Exchange Trade

- 48.1. Brokers, dealers, and underwriters registered under this law shall participate in trading at the Stock Exchange.
- 48.2. In case the securities are cleared by a legal person other than the organization that is organizing the trade, such legal entity's operation shall not be regarded as a participation in the Stock Exchange trade.

Article 49. Conditions and Requirements for the Stock Exchange Operations

- 49.1. The Stock Exchange shall be obliged to meet the following conditions and requirements in its operations:
 - 49.1.1. provide relevant services for trading securities and commodity-based derivative financial instruments on the Stock Exchange;
 - 49.1.2. approve the listing rules of the Stock Exchange;
 - 49.1.3. approve the procedures for listing, delisting, and trading of derivative financial instruments;
 - 49.1.4. seek authorization from the Commission with respect to the regulations and procedures subject to approval by the Stock Exchange under this law and the amendments to such regulations and procedures;
 - 49.1.5. monitor (surveillance) to make sure the trading is being undertaken in accordance with the applicable procedures;
 - 49.1.6. operate a fair, orderly and transparent market, and to make necessary preparations by their own resources.
- 49.2. In order to perform its obligations referred to in Section 49.1.5 of this law, the Stock Exchange shall be entitled to require necessary information from the securities trade participants, securities owners and issuers.
- 49.3. The Stock Exchange shall have the right to set the amount of the service fee and the promotion.

Article 50. Financial Rating Operations

- 50.1. Independent and external rating of the issuer's financial credit strength in accordance with specially-developed procedures shall be construed as a financial (credit) rating operation.
- 50.2. A legal person authorized to act as a financial rating organization, may conduct analysis on certain types of financial instruments in the securities market and may assign different ranks dependent upon their quality, risk, and return, provided that the person satisfies relevant terms and conditions.
- 50.3. A legal person authorized to act as a financial rating organization is prohibited to perform services with conflicts of interest, to assign inaccurate rankings, or assign rankings based on incomplete information and analysis.
- 50.4. The Commission shall prescribe the methodology for financial rating and the regulations for operations.

Article 51. Conducting Combined Regulated Operations

- 51.1 The following operations may be conducted additionally by each person indicated below.
 - 51.1.1. securities dealing and underwriting and investment advisory operations by a person authorized to undertake brokers operations;
 - 51.1.2. custodian, clearing and settlement operations by an organization authorized to undertake securities central depository operations;
 - 51.1.3. securities particular registration operations by an authorized legal entity to undertake

- custodian operation;
- 51.1.4. settlement operations by an organization authorized to undertake custodian operations;
- 51.1.5. operations permitted by the Commission.
- 512. Other regulated operations except for ones stated in Paragraph 51.1 of this law, shall be prohibited to be conducted simultaneously (by the same regulated person or legal entity).
- 513. The total financial requirements of the one regulated legal entity shall be defined by the sum of every regulated operation's individual requirements, if that legal entity undertakes a number of regulated operations simultaneously.

Sub-chapter Five. Accounting Records and Auditing

Article 52. Keeping Accounting Records

- 521. A regulated person shall be obliged to keep and maintain primary accounting records and books that accurately reflect all transactions made in relation to the licensed activities and the changes in its own assets and its clients' assets and present accurate statements of balance sheet, income statement and performance in a timely manner.
- 522. A regulated person shall maintain the documents and records stated in Paragraph 52.1 of this law in its archive for at least five years.
- 523. The Commission or its appointed representatives shall be entitled to review and obtain copies of documents stated in Paragraph 52.1 of this law free of charge.

Article 53. Auditing

- 531. A regulated person shall select and contract an auditing organization registered with the Commission, and inform the Commission within one month after granting the special permit.
- 532. The following legal person shall be prohibited from being selected as auditor stated in Paragraph 53.1 of this law:
 - 5321. a person who is employed as authorized person in the regulated legal entity or shareholder of the regulated legal entity or its client;
 - 5322. related person of the legal person stated in Section 53.2.1;
 - 5323. auditor which is not registered with the Commission.
- 533. A regulated person shall inform the Commission in writing, within seven days, about termination of the contract entered with the auditing organization.

Article 54. Auditing examination

- 54.1. A regulated person shall have its accounts and other records audited at the end of each financial year and submit a certified copy of the audited financial statements to the Commission along with the auditor's opinion within the period specified in the Law on Accounting.
- 54.2. An auditor shall immediately report to the Commission and to the regulated person in writing, if during the performance of the audit of a regulated person, an auditor becomes aware of any matter which would critically affect the financial position of that regulated person or discovers evidence of violation of financial regulations.
- 54.3. The Commission if it deems necessary may demand the regulated person to have its quarterly financial statements audited.

CHAPTER FIVE. SECURITIES MARKETS INFORMATION

Article 55. Securities Primary Market Information

- 55.1. An issuer of securities in the securities primary market is obliged to provide the following information to interested parties free of charge.
 - 55.1.1. information stated in the securities' prospectus;
 - 55.1.2. rules on securities issuance and trade, specified in the securities issuer's charter and rules;

- 55.1.3. financial and operational reports;
- 55.1.4. other information prescribed by the Commission, Stock Exchange, and other authorized organizations; and information set to be informed to the public by rules of the securities' issuer.

Article 56. Securities Secondary Market Information

- 56.1. The securities issuer, whose securities are traded in the securities secondary market, is obliged to inform the public through its website, the Commission, the Stock Exchange, within one day of the following circumstances:
 - 56.1.1. the management structure of securities issuer is changed;
 - 56.1.2. an influential shareholder's structure is changed; and its shareholding in other companies is changed;
 - 56.1.3. the securities issuer, or its subsidiary, controlled or parallel companies were restructured;
 - 56.1.4. the securities issuer's property was frozen or confiscated;
 - 56.1.5. information with respect to a special permit obtained, is suspended or revoked;
 - 56.1.6. a shareholder meeting resolution is issued;
 - 56.1.7. other price-sensitive information.
- 56.2. The Stock Exchange is obliged to disclose to the public the following information related to its listed securities and securities issuers through its website:
 - 56.2.1. securities quotes and other price-sensitive information;
 - 56.2.2. operations and financial condition of securities issuers;
 - 56.2.3. shareholders meetings of securities issuers and their subsequent decisions;
 - 56.2.4. significant transactions and agreements with conflicts of interest, made by the securities issuers;
 - 56.2.5. percentage and volume of shares and derivative financial instruments owned by the authorized persons of securities issuers;
 - 56.2.6. changes in management and organizational structure and information about the independent members of the Board of Directors;
 - 56.2.7. information about the influential shareholders of the securities issuers and related persons;
 - 56.2.8. other information required by legislation, the Commission and the Stock Exchange.
- 56.3. The securities issuer shall be responsible for the reliability of information stated in Paragraph 56.2 of this law.

Article 57. Information of Regulated Persons

- 57.1. A regulated person operating with a special permit shall provide the following information to relevant persons:
 - 57.1.1. information to clients about a circumstance that might adversely affect the rights and interests of investors;
 - 57.1.2. non-confidential information about the securities and the issuer to the clients when taking purchase or sale order of the securities;
 - 57.1.3. information to the clients on the restrictions placed on the securities or the securities issued by an authority, and special terms related to those securities;
 - 57.1.4. a reasonable explanation to the clients, if the regulated person had not executed or refused to execute the client's instruction;
 - 57.1.5. information concerning an agreement, a trade or a transaction of the securities that are required to be reported to the Commission pursuant to the legislation and information of the participants to such transaction;
 - 57.1.6. information directed to a client from a relevant person to such client;
 - 57.1.7. information to the clients and the Commission about changes in the person's operation, organization, structure, charter and rules, pursuant to the established rules.

Article 58. Information of Investors

- 58.1. An investor is obliged to provide all necessary information with respect to the securities to

- the securities registrar and nominal owner, when registering and transferring its securities to the nominal owner.
- 58.2. The securities registrar and nominal owner shall not be liable for any damages incurred to others due to the investor not performing his obligation stated in Paragraph 58.1 of this law.
- 58.3. The investor is obliged to provide information with respect to the securities under his/her or related person's ownership, upon demand of the Commission.

Article 59. Information of the Commission

- 59.1. The Commission shall be obliged to provide the following information to the public, in addition to that required by this law:
- 59.1.1. registered securities and their prospectuses;
 - 59.1.2. notes, reports, and conclusions provided to the Commission by the securities issuer;
 - 59.1.3. decisions for issuing a special permit for a regulated person, registering, and grounds for such decisions;
 - 59.1.4. annual financial and operational reports received from regulated persons and self-regulatory organizations;
 - 59.1.5. annual operational reports of the Commission; and
 - 59.1.6. other additional information as prescribed by the Commission.
- 59.2. Matters concerning the release of information by the Commission to regulatory agencies of foreign countries and international organizations shall be subject to Article 65 of this law.

Article 60. Commission's Right to Demand Information from Others

- 60.1. The Commission is authorized to demand information from individuals and legal entities except for those indicated in Paragraph 82.1 of this law, in order to conduct its functions accordingly and to take effective actions or by the request of foreign regulatory agencies and international organizations.
- 60.2. The information stated in Paragraph 60.1 of this law shall be treated as confidential information of the Commission unless otherwise stated in this law, and such information shall only be used for official purposes and shall not be disclosed to others without consent from the provider of information.

CHAPTER SIX. SECURITIES MARKETS REGULATION

Sub-chapter One. State Regulation in the Securities Markets

Article 61. State Central Authority for Finance and Budget Matters

- 61.1. The State central authority for finance and budget matters shall exercise the following powers:
- 61.1.1. determine state policies for the securities markets in cooperation with relevant state administrative organizations, in line with the comprehensive policy on investment and economy;
 - 61.1.2. cooperate with the Commission and to provide support to its activities;
 - 61.1.3. other functions set out in this law

Article 62. Organization Implementing the State Regulation in the Securities Markets

- 62.1. The Commission shall exercise powers of the State to regulate and supervise the securities market.
- 62.2. Securities market participants are obliged to implement the decisions made by the Commission to implement the legislation in the securities market.

Article 63. Powers of the Commission

- 63.1. The Commission shall exercise the following powers:

- 63.1.1. prepare proposals for the development of legislation on securities markets and ensure enforcement of respective legislation;
- 63.1.2. approve and enforce rules that set norms and standards for market participants in order to enforce implementation of the securities legislation;
- 63.1.3. determine state policies for the securities market development and seek authorization from the competent organization;
- 63.1.4. take measures deemed as necessary for promoting fair, efficient, competitive, and transparent practice in the securities market;
- 63.1.5. specify the regulated persons' operational conditions and requirements of the special permit; grant special permit and renew, suspend or revoke it;
- 63.1.6. register and cancel registration of legal persons to provide auditing, appraisal, and legal services in the securities market;
- 63.1.7. set the standard terms of the agreement made between the regulated person and its client;
- 63.1.8. supervise the operations of regulated persons, impose corrective actions and orders remedy breaches found during the examination, and impose sanctions;
- 63.1.9. define fit and proper eligibility of candidates for managing positions in regulated entities, grant permission of appointment, or discharge persons unsuitable for the position;
- 63.1.10. register the securities and derivative financial instruments of foreign and domestic issuers that shall be offered to the public in Mongolian territory, grant the permission for trading those securities, suspend temporarily the trading, terminate and revoke transactions related to those securities, and de-register the securities;
- 63.1.11. grant permission to approve the rules and regulations that shall be followed by self-regulatory organizations and regulated persons;
- 63.1.12. regulate and monitor investment fund operations;
- 63.1.13. set regulation on takeover offer procedures;
- 63.1.14. set regulation on over-the-counter market operation and monitor its implementation;
- 63.1.15. create conditions necessary for protecting the legitimate rights and interests of investors based on the principle that securities market clients shall take responsibility for their own investment decisions;
- 63.1.16. appeal to the court on behalf of clients without his/her proxy for the client's own benefit, if necessary;
- 63.1.17. cooperate with authorized foreign regulators or international organizations, exchange information and provide mutual assistance;
- 63.1.18. make a proposal to decrease a commission rate set by market participants, if the participant does not accept the proposal, invalidate decision to set a commission percentage, and make public announcement if such action has been taken;
- 63.1.19. exercise other functions as permitted in this law.

Article 64. Cooperation with Authorized Regulators of a Foreign Country or International Organization

- 64.1. The Commission may enter into a memorandum of understanding for cooperation with authorized regulators of foreign countries and international organizations for the purpose of sharing information, providing mutual assistance.
- 64.2. The Commission shall take into consideration the following aspects when providing assistance to authorized regulators of foreign countries and international organizations:
 - 64.2.1. whether a memorandum of understanding for cooperation or an agreement has been entered with the organization requesting assistance;
 - 64.2.2. whether a reciprocal assistance has been or could be received in response to a comparable request;
 - 64.2.3. whether it could ensure the confidentiality of information.
- 64.3. An authorized regulator of a foreign country or an international organization shall specify the objective, intended purpose of the information requested and the confidentiality of the

- information, when requesting assistance from the Commission.
- 64.4. The Commission may request clarification on the requested information from an authorized regulator of a foreign country or an international organization.
- 64.5. The Commission may refuse to provide assistance if no reply has been received to the request stated in Paragraph 64.4 of this law.
- 64.6. The information provided by the Commission shall only be used for the purpose specified in the request; and using information for other purposes, disclosing and transferring the information to other party without consent from the Commission shall be prohibited.
- 64.7. The information provided by the regulator of a foreign country or an international organization shall only be used for the purpose specified in the request of the Commission; and the use of information for other purposes, disclosing and transferring the information to other party without the consent from the regulator of a foreign country or an international organization, shall be prohibited.

Article 65. Issuance of Recommendations

- 65.1. The Commission shall be entitled to issue recommendations to market participants with respect to the following purposes:
- 65.1.1. protect investors' interests;
 - 65.1.2. ensure fairness, transparency and efficiency of the securities trading, clearing, settlement and depository operations;
 - 65.1.3. reduce the systemic risk of the securities market;
 - 65.1.4. create a fair and proper governance structure for regulated persons;
 - 65.1.5. enforce implementation of the legislation in the securities market;
 - 65.1.6. enforce contract implementation by regulated persons; and
 - 65.1.7. other matters provided in this law and as deemed necessary by the Commission.
- 65.2. The Commission shall deliver its recommendations in writing, to inform the public through mass public media or other tools, if deemed necessary.

Article 66. Orders

- 66.1. In the following circumstances, the Commission shall be entitled to give orders to self-regulatory organizations, regulated persons and issuers:
- 66.1.1. if the lawful interest of a client, or an investor needs protection;
 - 66.1.2. if an authorized person is found to be not satisfying the fit and proper criteria;
 - 66.1.3. if a circumstance is detected that might breach the legislation and norms of the securities market by the Commission;
 - 66.1.4. if (the relevant legal person) provided false, misleading, inaccurate and contradictory information and disclosed such information to the public.
 - 66.1.5. other circumstances as the Commission deems necessary for protection of investor rights.
- 66.2. The Commission's order may include the following requirements:
- 66.2.1. terminate the operations in breach of laws and remedy the consequences of that breach;
 - 66.2.2. refrain from entering into specific types of transactions;
 - 66.2.3. refrain (or restrict) from engaging in specific types of activities;
 - 66.2.4. refrain (or restrict) from disposing of specific assets and/or to demand not to dispose the assets for purposes other than those permitted;
 - 66.2.5. require to place a certain amount of funds on a commercial bank's account instructed by the Commission for the purpose of ensuring the performance of a duty arising from regulated operations, and protecting the rights of the investors;
 - 66.2.6. other actions as prescribed by the Commission as deemed necessary for preventing market risk.
- 66.3. The orders referred to in Paragraph 66.1 of this law shall be valid for such period as specified by the Commission.
- 66.4. A person shall be obliged to comply with orders given by the Commission within the

specified period and report the performance in accordance with due procedures.

Article 67 Registration of Regulated Persons

- 67.1. The Commission shall conduct a registration of regulated persons, and such registration shall be publicly disclosed.
- 67.2. The Commission shall set the rules on registering the regulated persons and such registration shall include detailed information about each of the regulated persons and any changes to such information.

Article 68. Defining the Fit and Proper

- 68.1. The Commission shall define the legal person as fit and proper, if it satisfies following requirements:
 - 68.1.1. the person is able to carry out a regulated operation in a competent and honest manner;
 - 68.1.2. in case of an individual, the individual's profession, expertise, experience, previous employment, and whether the person had been imposed with sanctions in the previous employment, financial status and integrity are considered as proper for the position;
 - 68.1.3. additional requirements as prescribed by the Commission.
- 68.2. The Commission shall rely on the following information when determining '*fit and proper*'.
 - 68.2.1. application and other documents received from that legal person;
 - 68.2.2. information provided by the authorized person of the regulated entity and any other legal person(s) representing that entity;
 - 68.2.3. if a regulated person is a member of an association of legal persons, information on members of the association, influential shareholders, related and authorized persons of members;
 - 68.2.4. information concerning operational rules and regulations set by the regulated person and existence of proper internal control procedures and risk management systems in place;
 - 68.2.5. additional information deemed necessary by the Commission.
- 68.3. The Commission may demand necessary information from other members of the association, if the regulated person is a member of legal persons' association.

Sub-chapter Two. Self-Regulatory Organizations in the Securities Markets

Article 69. Self-Regulatory Organizations

- 69.1. Powers of a self-regulatory organization in the Mongolian securities market shall be exercised by a legal entity registered with the Commission.
- 69.2. The self-regulatory organizations indicated in Paragraph 69.1 of this law, the professional associations, the Stock Exchange, securities clearing, settlement and depository organization, shall have membership of regulated persons and professionals which are authorized in accordance with Paragraph 35.1 of this law and shall have objectives to protect interests of members, set professional and ethical standards, enhance the capacity of members, and to develop and ensure sustainability of the securities market.
- 69.3. A regulated person holding a special permit shall maintain membership with a self-regulatory organization registered with the Commission.

Article 70. Powers of Self-Regulatory Organizations

- 70.1. A self-regulatory organization shall exercise the following powers:
 - 70.1.1. submit proposals to government organizations for improvement of securities market legislation and to comment on draft legislation, regulations and rules developed by them;
 - 70.1.2. conduct professional training and re-training;
 - 70.1.3. enact general rules, professional ethical norms, guidelines and recommendations to be followed by members in their operations, upon approval of the Commission; to

- internally enforce their implementation, and to resolve complaints and disputes associated with members' ethics.
- 70.1.4. demand from members information that is not confidential pursuant to this law;
 - 70.1.5. conduct research and analysis in members' operations; to assign ranking and disclose (that) information to the public;
 - 70.1.6. inspect its members' operations within the limits set out in its regulations and rules, to give orders on remedying a violation, to submit opinions on suspension or revocation of a member's special permit to the Commission depending upon criticality of the violation and to report (that) violation to relevant organizations;
 - 70.1.7. protect the lawful interests of its members;
 - 70.1.8. take measures to reduce risks associated with its members' operations;
 - 70.1.9. other powers as approved by the Commission within the scope of this law.
- 70.2. A self-regulatory organization is obliged to deliver information received from the Commission and other authorized organizations, with respect to its members' operations to each member in a timely manner.
- 70.3. A self-regulatory organization shall be obliged to implement the Commission's orders.

Article 71. Registration of Self-Regulatory Organizations

- 71.1. A self-regulatory organization shall be registered by the Commission on the basis of following criteria:
- 71.1.1. admitted membership of more than 50% of the total regulated persons holding special permits;
 - 71.1.2. a legal person incorporated in Mongolia;
 - 71.1.3. charter or rules comply with conditions and requirements stipulated under Article 72 of this law.
- 71.2. If a self-regulatory organization fails to meet the criteria set out in Paragraph 71.1 of this law, the Commission shall refuse to register.
- 71.3. The powers of a self-regulatory organization shall cease upon deregistration of the self-regulatory organization by the Commission or the organization ceases to satisfy the requirements set out in Paragraph 71.1 of this law.

Article 72. Regulations and Rules of Self-Regulatory Organizations

- 72.1. The following matters shall be stated in the regulations and rules of a self-regulatory organization:
- 72.1.1. membership admission criteria, membership fees, and rules on membership suspension and termination;
 - 72.1.2. code of professional ethics of its members and officials to be followed during the course of its operations;
 - 72.1.3. rules on supervision of members' operations and resolving complaints and disputes;
 - 72.1.4. rules on management, administration and operation of the self-regulatory organization;
 - 72.1.5. rules on training members and organizing other measures to improve the professional skills of officials;
 - 72.1.6. rules on coordination of actions to promote fair trading practices such as to prevent market manipulation and insider trading; and
 - 72.1.7. other matters as stated in legislation.
- 72.2. Regulations and rules of a self-regulatory organization shall be approved by a general meeting of all members and shall enter into force upon registration with the Commission.
- 72.3. Rules and regulations effective as indicated in Paragraph 72.2 of this law must be followed by members.

Article 73. Management and Administration of Self-Regulatory Organization

- 73.1. The ultimate authority of a self-regulatory organization excluding securities central

- depository and trade organization shall be a general meeting of all members.
- 73.2. General meetings of all members shall exercise the following powers:
- 73.2.1. approve and amend the rules and regulations stated in Paragraph 72.1 of this law;
 - 73.2.2. discuss and approve operational and financial reports of the organization.
 - 73.2.3. appoint and dismiss board members, set the validity term of their power, and decide on compensation schemes;
 - 73.2.4. appoint and dismiss supervisory board members, set the validity term of their power, and decide on compensation schemes;
 - 73.2.5. approve the annual budget of the organization and determine the membership fees;
 - 73.2.6. other powers stated in the legislation.
- 73.3. An annual general meeting of members shall be announced by the board and held once a year. An extraordinary meeting of members may be held upon proposal of more than 10 percent of members or upon initiation by a majority of board members.
- 73.4. In the period between general meetings of members, the board consisting of at least nine members shall exercise powers of the governing body.
- 73.5. The board shall exercise the following powers:
- 73.5.1. approve the organizations' vision and strategy; and appoint or dismiss the organization's executive management; and determine salary and incentives to be paid;
 - 73.5.2. oversee operations of the executive management;
 - 73.5.3. make decisions within the powers granted by the general meeting of members;
 - 73.5.4. other matters stated in the organization's charter.
- 73.6. The executive management shall report to the board annually and it shall be heard by a general meeting of members.
- 73.7. Subject to their performance, the executive management may be dismissed prior to expiration of its term.

Article 74. Communication between the Commission and Self-regulatory Organization

- 74.1. A self-regulatory organization is obliged to report immediately information related to a breach of legislation, rules and regulations by its members and actions taken in relation of that breach.
- 74.2. If the Commission deems necessary, it may seek opinions or assessments from the self-regulatory organizations' independent experts prior to making any decision related with the interests of the self-regulatory organizations and/or their members.
- 74.3. A self-regulatory organization's amendments to its rules and regulations shall become effective upon acknowledgment and registration by the Commission.
- 74.4. The Commission may order the self-regulatory organization to amend or repeal all or part of the contradicting rules and regulations with the legislation.
- 74.5. The Commission shall be prohibited from interfering in the internal operations of a self-regulatory organization, except in matters provided in the legislation and prescribed by the Commission's rules.

Article 75. Supervision of Operations of a Self-Regulatory Organization

- 75.1. A self-regulatory organization shall submit to the Commission and disclose its financial statements and operational reports to the public within a specified period;
- 75.2. The Commission shall conduct examination of operations and financials of the self-regulatory organization.
- 75.3. The self-regulatory organization is obliged to provide necessary documents with relevant interpretations to a person appointed by the Commission and conducting the examination.
- 75.4. In the event that a self-regulatory organization or its authorized person or an employee is in breach of this law, relevant rules and regulations, the Commission shall take the following actions and publicize them accordingly:
- 75.4.1. deliver a warning notice;
 - 75.4.2. give orders;
 - 75.4.3. restrict certain activities and functions of the self-regulatory organization;

- 75.4.4. suspend or revoke its registration; or
- 75.4.5. impose liabilities provided in the law.
- 75.5. The board or all-member meeting of (the self-regulatory organization) shall hear the matter and report to the Commission, within 60 days once action specified in Sections 75.4.1-75.4.3 has been taken.
- 75.6. If the power of a self-regulatory organization is revoked, its members shall be transferred to another authorized self-regulatory organization. The Commission shall approve the rule on transfer of the self-regulatory organization's membership.

CHAPTER SEVEN. RESTRICTED PRACTICES IN THE SECURITIES MARKETS

Sub-chapter One. Restricted Practices for Holder of Insider Information

Article 76. Insider Information

- 76.1. Any information affecting price and volume of the certain securities and not publicized shall be construed as insider information.
- 76.2. Analysis based on publicly available information shall not be construed as insider information even if it has the potential to affect price and volume of the securities.

Article 77. Possessor of Inside Information

- 77.1. The following persons shall be construed as possessors of the inside information:
 - 77.1.1. Influential shareholders, authorized persons and employees of an issuer and their related persons;
 - 77.1.2. Persons who obtained the information in the course of performance of their official duties and during preparation, ratification and implementation of an agreement and their related persons.
- 77.2. Irrespective of the direct or indirect method of gaining inside information, the person stated in Paragraph 77.1 of this law shall be deemed to be a possessor of the inside information.

Article 78. Prohibition to Trade Using Inside Information

- 78.1. A possessor of inside information is restricted from conducting the following activities:
 - 78.1.1. participate in a trade of any securities or financial instrument based upon those securities, whose price and volume may fluctuate due to such information;
 - 78.1.2. suggest or to convince others to participate in a trade of any securities and financial instruments based upon those securities, whose price and volume may fluctuate, regardless of whether the person is aware or unaware of the fact that it was inside information;
 - 78.1.3. disclose inside information, unless that possessor is obliged to disclose that information to the public due to his/her position or work duties.
- 78.2. If the possessor of inside information or his/her related person(s) participated in a trade of listed (or registered) securities or financial instruments based upon those securities, this shall be deemed to have breached Paragraph 78.1 of this law.

Article 79. Public-Disclosure of Inside Information

- 79.1. The securities issuer is obliged to disclose to the public information stated in Paragraph 76.1 of this law, in accordance with the rules defined by the Stock Exchange and the Commission; and it shall notify the Commission and the trading organization when disclosing such information to the public.
- 79.2. Inside information shall be disclosed to the public by the following means:
 - 79.2.1. through the websites of the securities issuer, the Commission and the trading organization;
 - 79.2.2. through publication pursuant to rules set by the Commission;
 - 79.2.3. other means allowing direct access to this information by any interested person.

- 79.3. The Commission shall determine the list of information referred to in Paragraph 76.1 of this law and shall set the rule on its public disclosure.

Sub-chapter Two. Market Manipulation

Article 80. Prohibition of Market Manipulation

- 80.1. Actions of setting an artificial price or by deceiving the market participants to participate or not to participate in the trade or by any other means to manipulate securities market shall be prohibited.
- 80.2. Any trade which is intended to give market participants a false impression as to the trade being actively conducted whereby the holders were not changed or to enter buy or sell orders simultaneously for a similar number of securities giving similar prices and to trade by plotting shall be considered a false trade.
- 80.3. Where there is a participation in two or more transactions aimed to increase, decrease or to keep the price at a certain level, in order to prevent other persons from buying, selling, or trading certain securities, shall be construed as artificial price-setting.
- 80.4. The following means shall be considered to have driven or kept the participants from trading by fraud:
- 80.4.1. issued or published misleading or false statements, representations or assumptions or by concealing important facts;
 - 80.4.2. the other party to the transaction was misled or confused by a false statement which contradicts the actual event;
 - 80.4.3. used a deceptive device or means to mislead the other party to the transaction.
- 80.5. The term '*securities*' used in Article 80 of this law shall refer to the securities and derivatives financial instruments based upon those securities.

Article 81. Compensation of Damages

- 81.1. Any person who has traded using inside information, who has not disclosed the inside information to the public in accordance with the regulations, or manipulated the market, shall be obliged to compensate any damage caused to others due to such action.
- 81.2. Income and profits generated by manipulating the market or using inside information may be claimed pursuant to the Civil Law.

CHAPTER EIGHT. SECURITIES MARKETS SUPERVISION AND EXAMINATION

Article 82. Demanding an Information

- 82.1. The Commission shall be entitled to demand information in writing, which is necessary to exercise the Commissions' authority or to demand information stated in the foreign regulator's or international organization's request, to be delivered in a required form and defined time from the securities issuer, a regulated person, and their related persons and any other respective person involved in the situation.
- 82.2. The person stated in Paragraph 82.1 of this law shall be obliged to deliver that (required) information.
- 82.3. Paragraphs 82.1 and 82.2 of this law shall be applicable to a commercial bank, if such commercial bank is a public company or a related person of any regulated person.
- 82.4. Matters with respect to requiring delivery of information specified in Article 82 of this law, shall be regulated by this law, if otherwise stated in other laws.
- 82.5. Documents, materials, and information received under the authority stated in Paragraph 82.1 of this law are prohibited to be disclosed or transferred to a third party without the Commission's consent.

Article 83. Continuous Supervision

- 83.1. The Commission shall conduct continuous supervision on whether a regulated person complies with this law, and rules and regulations set by the Commission in conformity with this law and the conditions and requirements of special permits.
- 83.2. A regulated person is obliged to deliver documents and materials required by the Commission within a specified time.
- 83.3. Paragraphs 83.1 and 83.2 of this law shall be applicable to a commercial bank, if such commercial bank is a public company.
- 83.4. If a commercial bank is a member of an association of regulated persons, the Commission shall inform the Bank of Mongolia prior its execution of authorities stated in Paragraphs 83.1 and 83.2 of this law and may conduct a joint or independent examination.

Article 84. Examination on the Regulated Person's Operation

- 84.1. The Commission shall conduct an examination of a regulated person and securities issuer's operation, whether they comply with this law, other relevant legislations, and rules and regulations set by the Commission in conformity with them.
- 84.2. The Commission may conduct an examination at any time on its own initiative if it deems necessary or upon request or based on information received from citizens, legal entities, or foreign regulatory organizations.
- 84.3. Paragraphs 84.1 and 84.2 of this law shall be applicable to a commercial bank, if such commercial bank is a public company.
- 84.4. If a commercial bank is a member of an association (corporation) of regulated persons, the Commission shall inform the Bank of Mongolia prior to its execution of authorities stated in Paragraphs 84.1 and 84.2 of this law and may conduct a joint or independent examination.

Article 85. Inspector's Rights

- 85.1. An inspector of the Commission shall exercise the following powers:
 - 85.1.1. supervise compliance with the securities market legislation and other rules defined in conformity with the legislations for public enforcement; present necessary matters for hearing to the Commission's meeting;
 - 85.1.2. request information, research, interpretation, references and other relevant documents that are necessary for the supervision or examination, free of charge from securities issuer, a regulated person or their related party; and receive clarifications;
 - 85.1.3. if potential violation or violation of the securities market legislation is found, suspension and segregation of securities in accordance with regulations set forth in the Law on Investigation of Regulatory Infringement;
 - 85.1.4. impose an act based on the results of the examination and enforce its implementation; assign timely orders and tasks to remedy the violations found and enforce its performance;
 - 85.1.5. in case of non-fulfillment of the obligations and official requirements set forth in Section 85.1.4 of this law, or a serious breach or breach of this law during the inspection, the regulated person and the securities' issuer shall be liable in accordance with this law; suspend activities in whole or in part in accordance with the procedure set forth in the Law on Investigation of Regulatory Infringement, inform the public thereof and, if necessary, submit to the Commission proposals for suspension and revocation of licenses as needed.
 - 85.1.6. suspend transactions with the securities accounts in the central depository of those who are the subject of a case of documentary evidence of breach or breach of securities market legislation in accordance with the regulation specified in the Law on Investigation of Regulatory Infringement.
 - 85.1.7. enter the workplace of a person holding or has held the controlling package of the regulated person's shares or workplaces of a regulated person and its related persons;
 - 85.1.8. demand photocopies of relevant documents free of charge;
 - 85.1.9. inquire and demand responses to questions with regard to the examination;

- 85.1.10. submit the relevant documents to a respective authority, if the violation found during the examination is of a criminal nature;
 - 85.1.11. the inspector is obliged to strictly comply with the legislation, to conduct examination devoid of any external influence, to respect the lawful interests and reputation of the market participants and their relevant persons or clients, to refuse to conduct the examination if it is related to family members and relatives, and to conduct a full examination;
 - 85.1.12. maintain responsibility for the accuracy of the grounds and evidence of the examination, its conclusion, report, official order, documents and data;
 - 85.1.13. impose penalties stated in the Law on Infringement pursuant to this law;
 - 85.1.14. other powers indicated in the legislation.
- 85.2. The State inspector-general and state senior inspectors of the Commission shall exercise the following powers in addition to common powers set out in Paragraph 85.1 of this law:
- 85.2.1. involve a professional organization in the examination process upon agreement with the respective organization; and to have them conduct an examination to ascertain necessary matters;
 - 85.2.2. have relevant decisions made pursuant to regulations with regard to compensating for any damages caused to the investors and clients by the issuer, the regulated person and their related persons;
 - 85.2.3. unless otherwise stated in this law, to enforce implementation of the state inspector's decision by authorization of the court if the decision specified in Section 84.1.4 of this law has not been complied with, or to have the decision made by a relevant authority regarding a proposal to permanently terminate the issuer's production and services.
 - 85.2.4. file an appeal to a court in order to have the person liquidated pursuant to relevant laws, if the Commission considers that the liquidation of such regulated person shall align with the client's interests.
 - 85.2.5. approve the directives for scheduled and unscheduled examinations;
 - 85.2.6. other powers as prescribed by this law.
- 85.3. The inspector shall conduct the examination in accordance with the directive, and shall present the directive to the regulated person or the issuer in advance.
- 85.4. Scheduled examination of regulated persons and issuers shall be conducted at least once in two years, without interfering in their daily operations.
- 85.5. A person, whom the state inspector considers as possessing documents related to the examination, is obliged to provide such documents within a specified period by the requested means to the inspector and must provide assistance in other means such as providing commentary and explanatory notes.
- 85.6. The state inspector shall be provided with a guarantee to exercise his/her powers as a state inspector, in accordance with the legislation on civil service and the Law on State Examination.

Article 86. Prohibition against Hindering the Supervision and Examination

- 86.1. It is prohibited to hinder supervision and examination procedures stated in Articles 83 and 84 of this law, by the following means:
- 86.1.1. avoid from supervision or examination;
 - 86.1.2. hinder the operations of the inspector; to attempt to influence the conclusion and the decision of the examination;
 - 86.1.3. refuse to provide the relevant documents for examination without any grounds, to refuse to provide the information temporarily, to damage, forge, fix, destroy, or avoid such documents or create false documents;
 - 86.1.4. others.
- 86.2. If the situation referred to in Paragraph 86.1 of this law is established, it shall constitute grounds for revocation of the special permit by the Commission of the given regulated person.

Article 87. Arise of Extraordinary Situations

- 87.1. The following cases shall be considered as extraordinary situations:
- 87.1.1. if regulated party is the subject of a bankruptcy case being initiated;
 - 87.1.2. if regulated party is in the situation of a possible close-down;
 - 87.1.3. if regulated entity decides to restructure based on the grounds set in this law
- 87.2. The Commission shall take the following actions against extraordinary situations specified in Paragraph 87.1 of this law:
- 87.2.1. separate the assets of a regulated person from the balance sheet and financial statements until it fully complies with clients' claims;
 - 87.2.2. assign an entitled receiver of the regulated party which became insolvent;
 - 87.2.3. change the management of the regulated person, invalidate its decisions, and to limit its authority to manage capital and other assets;
 - 87.2.4. revoke, and suspend regulated person's operation partially or wholly.
- 87.3. The regulated person shall transfer all related accounts, documents and materials that are necessary for protecting clients' asset to an entitled receiver.
- 87.4. The entitled receiver shall exercise the following duties:
- 87.4.1. submit a request to the Commission on transfer of clients to another regulated person;
 - 87.4.2. terminate unrealized orders;
 - 87.4.3. terminate labor contracts of regulated person and to hire necessary employees;
 - 87.4.4. disclose information deemed necessary to the public.
- 87.5. Based upon opinions submitted by an entitled receiver, in accordance with Section 87.4.1 of this law, the Commission shall make resolutions.
- 87.6. Regulations reflected in the Article 87 of this law shall not apply for undertaking operations reflected in the Sections 24.1.15-24.1.17 of this law.
- 87.7. The Commission shall set specific regulation on enforcement of Article 87 of this law.

CHAPTER NINE. MISCELLANEOUS

Article 88. Dispute Resolution Board

- 88.1. The Commission shall have a Dispute Resolution Board authorized to settle disputes between the regulated persons, securities issuers, investors and clients, and the Commission shall determine the methods of operation and composition of the Board.
- 88.2. The Dispute Resolution Board shall review the dispute and present the relevant proposed decision in the Commission's meeting. The Commission shall decide on one of the following:
- 88.1.1. approve the opinion;
 - 88.1.2. change the opinion;
 - 88.1.3. return the opinion of the Dispute Resolution Board for re-examination.

Article 88¹. Dispute settlement by regulation

- 88¹.1. If there is an arbitration agreement, disputes between regulated entities, securities issuers, investors and customers shall be settled by arbitration regulation.
- 88¹.2. Article 88 of this law shall not apply when the dispute is resolved by arbitration procedure, in accordance with Paragraph 88.1 of this law.

Article 89. Liabilities upon Infringement of Legislation

- 89.1. If the actions of an official violating this law are not of a criminal nature, he/she shall be subject to liability as specified in the Civil Code.
- 89.2. Penalties stated in the Criminal Law and Law on Infringement shall be imposed for individuals and legal entities that violated this law.

Article 90. Entry into Force

- 90.1. This law shall come into force on 1 January 2014.

Z. Enkhbold