

THE LAW OF MONGOLIA

December 12, 2002
Ulaanbaatar

ON SECURITIES MARKET

CHAPTER ONE

General provisions

Article 1. Purpose of the law

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

Article 2. Legislation on securities market

2.1. The legislation on securities market is comprised of this law, civil code, company law and other relevant legislative acts.

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

Article 3. Definitions of the law

3.1. Following terms applied in this law shall have the following meanings:

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

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

3.1.3 "**Dematerialized securities**" is a security, which is not specifically printed and the legal title to which is evidenced by an electronic data stored in a computer memory;

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

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

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

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

3.1.8 "**Primary market of securities**" is the relation related to the public offering or selling of securities by the issuers, by themselves or through underwriters;

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

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

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

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

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

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

3.1.15. "**Inside information**" is the information, which may affect the market price of securities and provide certain advantage during securities trading, and

information not disclosed to the public and declared by the Commission as inside information;

3.1.16. **“Professionals operating on the securities markets”** are the legal entities licensed by the Commission as professional organizations to conduct professional activities and services in the securities market;

CHAPTER TWO

Issue of securities, selling and trading

Article 4. Issuer of securities

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

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

A security issued by the Government and by the aimag and capital Governors shall be registered with the Commission and the Stock Exchange as any other securities.

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

Article 5. Issuing of securities

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

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

5.3. A decision to issue a securities for offering to the public shall be made for every new offering and as well as for every additional issue of securities. A written decision, in addition to provisions stipulated in Article 6 of this law, shall include or attach following:

5.3.1 Rights of securities holders and obligations of issuers of securities for the implementation of such rights;

5.3.2 The sample of securities if the securities to be offered in materialized form;

5.4. A decision note shall be in two copies and the one to be kept by an issuer and the other to be kept by the Commission. If two copies are inconsistent, the copy kept by the Commission shall prevail.

5.5. A securities holder shall have the right of access to the decision note kept by the Commission and by the issuer of securities,

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

Article 6. Securities documentation

6.1. Securities shall consist of the following documented information:

6.1.1. securities name and the type;

6.1.2. the name of the issuer of securities;

6.1.3. the indicative price of securities;

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

6.1.5. repayment conditions of the dividends/interests;

6.1.6. payment conditions;

6.1.7. the registration and register numbers of securities;

6.1.8. stamp of an issuer;

6.1.9 the signature of the delegated official of an issuer

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

Article 7. Registration of securities

7.1. The issue of securities for public offering shall be registered with the Commission in compliance with established regulation and this regulation is not apply for issuing of closed securities offer.

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

7.3. In order to register its securities, an issuer shall submit the application for issuing of securities; prospectus and decision notes on issuing of securities; if the joint stock company will be formed through issuing of shares, then the documents required for establishing of a legal entity; in case if special licenses are required for issuing of that particular type of securities and also documents required by the Commission.

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

- 7.4.1. the name and the address of an issuer /founder/;
- 7.4.2. copy of the Certificate of State Registration;
- 7.4.3. information on securities holders who holds more than 5 percent of shareholders capital of an issuer;
- 7.4.4. information on numbers and the percentage of the securities held by official of an issuer, if they hold any;
- 7.4.5. audited financial statements of an issuer and information on issuer debt and loans.
- 7.4.6. the size of the shareholding capital of an issuer, the number of total securities, the indicative price per security; the list of securities holders holding the controlling package of securities;
- 7.4.7. information on professional intermediary institution to be dealing with securities trading;
- 7.4.8. information on large transaction agreements of an issuer with others, economic justification for issuing of securities and the projections on earnings and revenues;
- 7.4.9. Other requirements provided by the Commission.

7.5. The provisions 7.4.3; 7.4.5; 7.4.6; 7.4.9 of this law are applicable for newly established joint stock companies. Nevertheless, those provisions shall be valid for restructured legal entity, which is becoming a joint stock company.

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

7.7. The inclusion of false information in the application, prospectus and other documents is prohibited. The authenticity of information submitted shall be the full responsibility of an issuer and the delegated official of an issuer.

7.8. Within 30 working days of the date when a offering application filed with the Commission, the Commission shall review the application, prospectus and other documents and shall decide to register the securities if finds them in conformity with the established requirements or refuse to register indicating the justification of the decision.

If the Commission decides it necessary, has the right to request an issuer that the filed documents to be audited or investigated by the auditing and valuation agencies request to submit relevant explanation.

7.9. The Commission shall register the securities and provide the registration number to an issuer.

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

7.10.1 documents submitted to the Commission have conflicting information within their contents and the quantitative information are showing discrepancies or need to be rechecked;

7.10.2. documents submitted are false, or it becomes evident that the documents contain false information or data;

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

7.10.4. an issuer of securities has right to file compliant to the court if does not accept the decision of the Commission to not register the securities.

Article 8. Publicity of prospectus on issuing of securities

8.1. The Commission shall define the procedure on disclosure of prospectus on the issuing of securities.

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

Article 9. Securities selling and reporting

9.1. Only the securities registered with the Securities Commission shall be traded in the securities market.

9.2 An issuer of securities may sell its securities directly in primary securities market or to the underwriting company.

9.3. It is prohibited to sell securities on credit.

9.4. Otherwise provided by law, an issuer of securities shall not have an obligation to repurchase its securities other than open investment fund.

9.5. Accumulated fund resulted from issuing of securities shall only be disbursed for the purpose specified in the prospectus on the issuing of securities.

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

9.6.1. the start and completion dates of securities trading;

9.6.2. The number and price traded securities;

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

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

9.7. The Commission shall review the filed report within 10 working days and if finds that the requirements are met, then it shall register the issued securities.

9.8. The registration permit becomes valid, if the additional securities were not traded within a year of their registration date.

Article 10. General obligations of securities issuer

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

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

10.1.2. information about securities transactions and reports shall be prepared truthfully in accordance with related methodology and format and shall be submitted to the Commission on time specified;

10.1.3. an issuer of securities shall submit its semi annual and audited annual financial statements to the Commission and Stock Exchange on time specified by the Accounting Law;

10.1.4. shall publish its balance sheets in conformity with regulation set by the Commission;

10.1.5. joint stock companies with registered securities shall submit the minutes of their ordinary shareholders meeting with decisions notes attached to it before 1 June and minutes of extraordinary shareholders meeting within 20 days after the meeting was held.

10.2. The Commission shall set the procedures on information on market prices securities trading in volume and in value and other necessary information that may affect the trading process and on distribution of information to the public.

Article 11. Tender offer

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

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

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

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

- 11.4.1. the name of persons making the tender offer;
- 11.4.2. number and percentage of shares held by the single person or affiliated persons making the tender offer;
- 11.4.3. resources to acquire and purchase the shares;
- 11.4.4. project proposal or suggestions for the future development of the company.

11.5. The validity of the tender offer shall be 60 days as 6 months as maximum.

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

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

11.8. When a person making a tender offer and filed an application for tender offer with the Commission shall notify shareholders who own more than 10 percent of shares and the company management.

Article 12. Obligations of securities purchaser

12.1. A person who purchased 5 or more percent of securities of the publicly offered has obligation to inform the Commission within 10 working days after purchasing the securities.

12.2. A purchaser of the controlling package of publicly offered common shall meet the requirements specified in provision 12.1 of this law and as well as the requirements specified in the Company law.

12.3. A person specified in provision 12.1 of this law shall inform the Commission each time when the number of shares increases by 5 percent.

12.4. The Commission shall issue a regulation on the registration of purchase of 5 or more percent of the publicly offered securities.

CHAPTER THREE

Protection of interests of investors

Article 13. Restrictions for the protection of interests of investor in the securities market

13.1. The disclosure of information on number of securities owned by an investor, related information, which was not disclosed for the public and the offer of selling such securities to party without the owner's permission, shall be prohibited.

13.2 The violation of the provision 13.1 of this law by a professional institution operating in the securities market shall constitute a reason for suspension or revoke of license of such institution to carry out activities in the securities market.

Article 14. Disclosure of information related to securities to investors

14.1. An issuer of securities has obligation to disclose information specified in related laws to the investors and to the public.

14.2. A professional institution involved in the securities market shall disclose the following information to investors at their request:

14.2.1. documents related to special licenses to carry out professional activities in the securities market and to the certificate of state registration;

14.2.2. information on own capital, debt, loans and the financial situation of the institution carrying out the professional activities;

14.2.3. information related to sanctions imposed to any of its officials in relation to her/his professional activities;

14. 2.4. information on trading and prices of trading for last 6 months issued by the professional institution operating in securities trading;

14.3 The false information disclosed to investors violating the provision 14.2 of this law shall become a basis for making changes to the agreement made between the investor and the professional institution operating in the securities or to terminate the agreement as provided by the law.

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

Article 15. Decision of Commission on protection of interests of investors

15.1. Regulations issued by the Commission to implement legislative acts shall be followed by all participants in the securities market.

15.2. The Commission may notify inform the market participants to take actions for their non-performance of Commission's decision, impose sanctions provided in this law, suspend or revoke the granted and if necessary address the matter to relevant authorities for resolution.

Article 16. Prohibited activities for an issuer and for professional institution operating in securities market

16.1. An issuer of securities and professional participant institution in securities market shall not be engaged in the following activities:

16.1.1. disclose false information to and mislead the public during securities trading and during initial public offering;

16.1.2. participate in trading using inside information, conceal or withhold information destined to the public and investors, refuse to disclose information to related persons;

16.1.3. securities dealers, brokers and underwriters intentionally manipulating the price to maintain at certain level, increase or decrease;

16.1.4. during securities trading when the owner is not changed or between affiliated persons with same joint interest make false transactions for the purpose of maintaining, decreasing or increasing the price with manipulative intention;

16.1.5. for the purpose of creating and attempting to create a false or misleading image of any securities trading as active to make a dual transaction between brokers, dealers and the affiliated persons;

16.1.6. intentionally leave out, falsely report information required to be included in the prospectus as provided by the law;

16.1.7 offer to sell or advertise prior to the Commission's decision on registration of the securities.

16.2. The Commission may conclude that the transactions were fictional or dual transactions were made with the purpose of misleading the public on securities prices, trading volumes, processes and the issuer of securities based on the recommendations of the state inspector of securities transaction.

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

Provision 17. Keeping the confidentiality of inside information

17.1. Insiders of information holder specified in the provision 3.1.15 of this law, management of Securities Issuer Company, official of an issuer holding publicly undisclosed information and any person assigned by the Commission as inside information holder shall be understood as inside information holder.

17.2. It is prohibited that an inside information holder to participate in securities market transactions using inside information or transfer it or disclose it to others for profit making purpose.

17.3. The Commission shall set procedures to regulate the activities related to inside information and inside information holder and shall enforce their implementation.

ARTICLE FOUR

Participants in the securities market

Article 18. Participants in the securities market

18.1. The participants in securities market shall include the issuer of securities, professional institution operating in the securities market and investors.

Article 19. Professional participant institutions in the securities market and their general duties

19.1. Professional participant institutions in the securities market are Stock Exchange, Trading Center of Securities Dealers, Securities Settlement, Clearing and Central Depository Systems, Trust Fund, Investment Fund, Brokers, Dealers, Underwriters, Investment Management and Investment Consulting Companies.

19.2. A professional participant institution in the securities market shall implement the following duties:

19.2.1. submit to the Commission in due course the information and reports related to securities transactions prepared in compliance with the relevant methodology and forms;

19.2.2. define and follow the fees for registration, securities transaction, clearing and depository, membership and seats and fees for other related services;

19.2.3. develop and follow the regulations and instructions for own activities with the permission of the Commission in conformity with legislation;

19.2.4. inform the Commission and the public in case its member, an issuer of the securities and other participants in the securities market violate the legislation;

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

19.2.6. maintain the list of inside information holder and monitor the performance of their legal duties.

19.2.7. provide promptly the true information related to the securities market to the interested parties;

19.2.8. make fair, prompt and transparent transactions related to securities trading and transfer of ownership rights certified by securities;

19.2.9. develop and submit the proposals for improving activities in the securities market to the Commission;

19.2.10. protect the common interests of an issuer and investors;

19.2.11 have risk protection fund. The sources of the fund shall come from shareholders' capital and company profits;

19.3. the person specified in Article 19.1 of this law may take actions for risk protection by being covered with insurance policy.

Article 20. Granting of special license to professional participant in the securities market

20.1. The Commission shall grant special licenses to professional participant institutions in the securities markets specified in Article 19.1 of this law.

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

20.3. The Commission shall grant a special license to commercial banks in consultation with the Bank of Mongolia and grant a special license to insurance agencies and pension funds in consultation with central government agency in charge of social affairs (*This provision was amended by law of November 17, 2005*).

20.4. In order to obtain special licenses specified in the provision 20.1 of this law, the applicant shall attach the following documents to its application other than those provided by the Law on Business Operation Licenses:

20.4.1. verification of the minimum capital requirements of shareholders equity and working capital as provided by law;

20.4.2. certified copy of the Company Charter;

20.4.3. business plan containing projected profits for first three years;

20.4.4. detailed introduction on consistent and coordinated activities of securities clearing depository organizations with the networks of the Stock Exchange or with the networks of trading centers of securities dealers;

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

20.4.6. risk management plan;

20.4.7. reference notes on professional and specialized personnel employed;

20.4.8. confirmation of business facilities, equipment furnishing and computer networking.

Article 21. Securities trading institution

21.1 Securities trading institution is a company engaged in securities registration and trading activities and shall be organized in form of Stock Exchange and Dealers Trading Center.

21.2. A special license shall be granted to a securities trading institution which meets the following requirements in addition to those specified in provision 20.4 of this law:

21.2.1 shall have at least 5 members licensed by the Commission to conduct brokers and dealers activities in the securities market. One of the members shall be a member of either the Stock Exchange or Dealers Trading Center.

21.2.2. The following provisions shall be included in its charter adopted by the founders:

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

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

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

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

21.3. Securities trading institution shall have the following duties in addition to those specified in Article 19 of this law:

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

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

21.3.3. provide the public with regular information related to trading and securities prices and rates.

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

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

21.4.2 during trading hours, follow the principle of "first-in-first-out" in event where the selling price offer is identical with purchasing price;

21.5. For the purpose of protecting the rights of seller, purchaser of securities and an investor, the Commission may make a decision to temporarily stop the trading

based on the conclusions drawn by the inspectors or by other persons with delegated authority.

21.6. The decision specified in the provision 21.5 of this law shall be sent to the securities trading institution along with attached justification and explanation within a working after the decision was made. This matter shall be informed to the issuer of securities.

21.7. The duration of the temporary suspension of the securities trading in its first instance shall be not more than two months. The Commission shall make a decision to restore the trading if it finds the violation is remedied.

Article 22. Stock Exchange

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

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

22.3. Stock Exchange shall have the following duties in addition to those specified in Articles 18 and 21 of this law:

22.3.1. grant seats for its member organizations and register their representative officials to be participated in securities trading;

22.3.2. ensure the trading facility, including the building, equipment and information network that are appropriate the members of the Stock Exchange to carry out the securities trading;

22.3.3. prevent the intentionally maintained, increased or decreased prices of securities traded in Stock Exchange;

22.3.4. provide members and other clients with related information,

22.3.5. develop and follow a regulation on ethics of its members and officials.

22.4. Only members with seats shall be engaged in the securities trading at the Stock Exchange and non –members may only participate in trading through members of the Stock Exchange.

22.5. Members of the Stock Exchange may sell and lease their seats to others in conformity with related procedures. A purchaser or a leaser of seats shall be the professional participants in the securities market licensed by the Commission.

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

Article 23. Securities dealers center

23.1. Securities dealers (hereinafter referred to as “Dealers Trading Center”) center is a company with members who shall be the professional participant

institution in the securities market and with responsibilities to conduct the securities trading activities.

23.2. The minimum capital requirement of shareholders equity for Dealers Trading Center shall be 500 million tugrug.

23.3. The Dealers Trading Center shall have at least 5 members.

23.4. A securities trading/transactions shall be conducted by the officials with delegated authority of member organizations through computer networking not depending of the Dealers Trading Center's location.

23.5. The management of the Dealers Trading Center Securities dealers' center shall be responsible for the reliability of the network and the privacy of the network information.

23.6. The Dealers Trading Center shall have internal control unit and this unit shall monitor regularly the trading activities conducted through network of the center using the center's network system.

23.7. The Dealers Trading Center shall follow procedures approved by the Commission on issues related to securities registration, trading of securities, monitoring of trading activities, disclosure of information for the public and the coordination of activities of member organizations.

23.8. The duties specified in provision 22. 3 of this law shall have same force to the Dealers Trading Center.

Article 24. Securities clearing and settlement institution

24 1. Securities clearing and settlement institution (hereinafter referred to as "Clearing and Settlement Institution") is a company to provide payment services resulted from the securities trading on contractual basis.

24.2. The member organizations shall form the stakeholders' equity capital of the Clearing and Settlement Institution and its minimum shall be 100 million tugrug.

24.3. The Clearing and Settlement Institution Securities shall implement the following duties in addition to those specified in Article 19 of this law:

24.3.1. to check/review the documents received from securities trading organization/center and securities companies, determine the payment responsibilities between clients, make payments and complete related documents;

24.3.2. to transfer related documents to a Depository Organization regarding the transfer of ownership certified by the securities;

24.3.3. to prevent from possible risks through establishing a risk fund and ensure implementation of payment obligations of the clients;

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

Article 25. Securities Depository system/organization

25.1. Securities depository organization (hereinafter referred to as “Depository Organization”) is a company to provide services registering the ownership certified by the securities, registering the transfer of ownership and to keep and maintain securities.

25.2. Member organizations shall form the stakeholders’ equity capital of Depository Organization and its minimum shall be 100 million tugrugs

25.3. The Depository Organization shall be responsible for damages cause due to its failure to ensure the completeness of the maintained securities.

25.4. The Depository Organization shall implement the following duties in addition to those specified in Article 19 of this law:

25.4.1. to register the securities to be issued and the changes occurred in ownership certified by the securities based on the request of authorized persons and other relevant documents;

25.4.2. to register the transfer of ownership certified by the securities based on documents sent by Clearing and Settlement Institution and at the request of an issuer of securities;

25.4.3. to provide the Commission, Stock Exchange, authorized persons and an issuer of securities with true information on registration of securities holders.

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

Article 26. Securities trust fund and investment fund

26.1 Securities trust fund (hereinafter referred to as “Trust Fund”) is a company that deals with securities market, purchasing and selling securities using certain amount of resources collected by the insurance and pension fund for special purposes; Investment fund (hereinafter referred to as “Fund”) is a company that deals securities market, purchasing and selling securities using the resources collected from stakeholders based on agreement with Investment Management Company, Clearing and Settlement Institution and Depository Organization.

26.2. The Trust and Investment Funds may deal with the selling and purchasing of securities in the market through either the Investment Management Company or directly.

26.3. The stakeholders equity capital of the Trust and Investment Funds shall be not less than 100 million tugrug.

26.4. The Fund shall be in an open form that regularly offers the sale of the securities for others, that issue the securities based on the demand and that is responsible for repurchasing the securities back for itself; and in a closed form that issues the securities in the form of public offering within the capital limit described by the founder and sells it with market price and/or that is not responsible for repurchasing the issued securities.

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

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

26.7. The Fund charter shall reflect the following:

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

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

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

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

26.8. In accordance with the procedure established by the Commission, the Trust and Investment Funds shall be responsible for informing the Fund shareholders about the Fund net capital, unit price of a share, service fee, clearing and settlement rules as well as changes in the structure of the of the investment management company that is implementing the Fund Accredited Management and shareholders who own more than 5% of issued securities by the Fund on semi-annual basis.

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

26.9.1 deal with other activities and services in the securities market not specified in this law

26.9.2. issue and publicly offer bond and preferred stock;

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

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

26.9.5. obtain a loan based on Fund guarantee, to issue loan guarantee for the third party, and provide a loan for others,

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

26.9.7. purchase company securities amount exceeding 5% of the working capital of the Fund;

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

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

Article 27. Broker and dealer company

27.1. The stakeholders' capital of the company (hereinafter referred to as "Broker and Dealer Company") to deal with the broker and dealer operation should be not less than 50,0 million tugrug. If the Broker and Dealer Company holds a license to deal with several types of activities at the same time in the securities market, the stakeholders' capital of the company shall be increased by the amount permitted a legal person to deal with those activities as specified by this law.

27.2. The Broker and Dealer Company shall be a member of the organization dealing with securities trading.

27.3. In addition to those stated in the Article 19 of this law, the Broker and Dealer Company shall implement the following duties:

27.3.1. to have detailed registration of the customers;

27.3.2. to trade the cash capital and securities of the clients only with the prior request and permission of the clients;

27.3.3. only after the completion of client's order to sell and purchase securities, complete own or affiliated group's request;

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

27.4. The Commission shall approve regulations to carry out accreditation for the brokers and dealers and enforce their implementation.

Article 28. Underwriter company

28.1. The stakeholders' active capital of the company to deal with underwriting (hereinafter referred to as "Underwriter Company") should be not less than 200.0 million tugrug, of which, cash and liquidable working capital shall be not less than 100.0 million tugrug.

28.2. The Underwriter Company, in addition to duties stated in the Article 19 of this law, is responsible for monitoring accuracy of the facts and information reflected in or attached to the introduction of issuing and publicly offering the securities, and for any losses caused by incorrect information not revealed by the company.

Article 29. Securities investment management company

29.1. The securities investment management company (hereinafter referred to as "Investment Management Company") shall be a company providing investment management services and entered into contracts with no more than 5 Trust and Investment Funds.

29.2. The Trust and Investment Funds shall pay a service fee, in accordance with the contract made with the Investment Management Company.

29.3. The Investment Management Company is prohibited to deal with types of activities and services other than provided in this law and using the Fund capital to earn income other than service fee as stipulated in the management contract.

Article 30. Securities investment consulting company

30.1. Securities investment consulting company (hereinafter referred to as "Investment Company") dealing with securities investment advisory activity shall gather information to be publicly disseminated by the securities issuer and professional participant institutions in the securities market, carry out studies, develop recommendations and provide consultancy services to the investors in accordance with the legislation on securities market.

CHAPTER FIVE

Securities market regulatory and supervisory authority

Article 31. Securities Commission

(This Article was invalidated by law of November 17, 2005).

Article 32. Commissioners

(This Article was invalidated by law of November 17, 2005).

Article 33. Requirements and prohibitions for the Commissioners

(This Article was invalidated by law of November 17, 2005).

Article 34. Rights of the Commission

34.1. In addition to those rights provided in the Law on Financial Regulatory Commission, The Commission has the following rights:

(This provision was amended by law of November 17, 2005).

34.1.1. organize and monitor implementation of the legislation on securities market;

34.1.2. formulate government policy for securities market development, submit the policy proposal to the authorized body for resolution;

34.1.3. approve rules, regulations and procedures within its authority and enforce their implementation;

34.1.4. grant licenses to the professional participant institutions in the securities market to deal with professional activities on the securities market, monitor their activities, temporarily suspend and revoke the licenses.

34.1.5. provide the professionals working on the securities market with the rights to carry out the activities and service, attest, temporary suspend and revoke the rights.

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

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

34.1.8 in accordance with the procedures stipulated in this law, permit, register and monitor tender offers of the individuals and affiliated group to purchase controlling package or larger percentage of shares of a joint stock company;

34.1.9. monitor whether the securities issuer, securities owners and professional participant institutions in the securities market are publicly disseminating the information provided in the procedures set by the Commission;

34.1.10. develop procedures on the compulsory criteria and application of report and statement forms that must be included the financial reports, statements and explanatory notes of the issuer of securities, securities owner and professional participant institution in the securities market and enforce their implementation;

34.1.11 in order to protect the interests of the investors, if the request of either participating party in the securities market on a conflicting issue is considered reasonable, temporarily stop and review the securities trading and in event of such violation is confirmed and evidenced, invalidate the agreement of such trading;

34.1.12 recommend the reduction of service fee set by a professional participant institution in the securities market and if such recommendation is not accepted, invalidate the decision to set such fee and inform the public;

34.1.13. oblige the verification and confirmation of financial statements and other documents of the issuer of securities by auditing and evaluation organization;

34.1.14. request information on the securities owned by the Commission's member, working staff, senior and executive staff of the professional participant institution in the securities market and their affiliated group;

34.1.15. grant the right of state inspector of securities transaction and invalidate the right;

34.1.16. organize activities for the delivery of public information services and provision of professional consultancy services to the participants of the securities market in accordance with the established procedures.

Article 35. Commission meeting

(This Article was invalidated by law of November 17, 2005).

Article 36. Rights of the Commission member

(This Article was invalidated by law of November 17, 2005).

Article 37. Rights of the state inspectors of the securities transaction and guarantee to implement them

37.1. The Commission members and working office staff (hereinafter referred to as "state inspector") of the Commission shall have the rights of the state inspector of the securities transaction. The state inspector shall have a credential and use personal identification badge and fine-writing ticket (*This provision was amended by law of November 17, 2005*).

37.2. The state inspector has the following rights:

37.2.1 to monitor implementation of the securities legislation and submit required issues for discussion of the Commission meeting;

37.2.2. to ask relevant business entities and official to provide information, data, studies, notes, recommendation and other documents required for monitoring and inspection work, on fee-of-charge basis;

37.2.3. to temporarily stop securities trading or separate the securities in case of violation of the securities legislation is suspected or the violation is confirmed and evidenced;

37.2.4. to draw up report based on the inspection findings, oblige follow-up actions and request to take timed measures to correct the revealed violation;

37.2.5. to submit recommendations to the Commission for resolution to impose appropriate legal sanctions, temporary stop the activities and if necessary, to suspend or revoke the license for those who failed to meet the requirements specified in provision 37.2.4 of this law and violated the legislation on the securities market;

37.2.6. to temporary stop the transactions to be made through an account at the centralized depository in case it is factually confirmed that someone is about to violate the securities legislation or the violation is already evidenced.

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

37.3.1. violation of the legislation is revealed or a criminal case committed by him/her is confirmed by the Court.

37.3.2. released from the work assignment.

37.4. The state inspector, in addition to those stated in the Civil Service Law, shall be provided with the following guarantees:

37.4.1. public transportation fee (excluding taxi fares) paid by the inspector while performing the duties to monitor and inspect shall be reimbursed from the Commission's budget in accordance with the established procedures;

37.4.2. if the inspector temporary lost his/her work ability while performing the duties to monitor and inspect, the inspector shall receive a benefit of temporary work ability loss, plus the difference of his/her base salary during the period of work absence, and if he/she becomes disabled, the inspector shall receive disability pension, plus the difference of his/her base salary during the whole period while disabled;

37.4.3. if the inspector lost his/her life while performing the duties to monitor and inspect, the family of the deceased shall receive one-time grant aid equivalent to his/her three years' base salary;

37.4.4. the benefit, pension, base salary difference and one-time grant aid as stipulated in provisions 37.4.2 and 37.4.3 of this law shall be financed from the state central budget.

CHAPTER SIX

Article 38. Penalties to be imposed to the violators of the legislation on securities market

38.1. If the violators of the legislation on securities market are not be prosecuted under criminal offence, the state inspector of the securities transaction shall impose the following administrative penalties:

38.1.1. In case of violation of the provisions 7.2, 9.5, 9.6, 10.1.2, 10.1.3, 10.1.4, 10.1.5, 11.7, 11.8, 14.1, 14.2, 15.1, 19.2.1, 19.2.4, 19. 2.5, 19.2.6, 19.2 7, 19.2.8. 19.2.11, 21.3.1, 21.3.3, 21.4, 26.8, 27.3, 12 of this law, a fine in amount of 20000-40000 tugrug shall be imposed to citizen; 30000-50000 tugrug to government official and 100000-200000 to legal entity;

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

Article 39. Law enforcement date

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

39.2 The provisions 26.3 and 27.1 describing the size of stakeholders' equity of the Investment Funds, Broker and Dealer Company shall enter into force starting on July 1, 2003.

S. TUMUR-OCHIR

SPEAKER OF PARLIAMENT OF MONGOLIA