

This English translation of the “Regulation on special licensing for investment management activities” has been prepared, reflecting up to the Resolution No 08 of the Financial Regulatory Commission dated as of January 15, 2014. This translation is awaiting Financial Regulatory Commission’s reviews, and is subject to change accordingly. This is an unofficial translation. Only the original Mongolian texts of regulation have legal effect, and the translations are to be used solely as reference material to aid in the understanding of Mongolian laws and regulations.

*Appendix to Resolution No 08 of Financial Regulatory Commission  
dated as of January 15, 2014*

## REGULATION ON SPECIAL LICENSING FOR INVESTMENT MANAGEMENT ACTIVITIES

### **One.General Provision**

1.1. The purpose of this regulation is to regulate relations regarding conditions and requirements for granting special licence for undertaking investment management activities, investing in securities, other permitted financial instruments by fund assets, managing investment fund assets in trust, custody, registration, monitoring, investment management agreement, and such other relations relevant to providing information to investors.

1.2. Investment management activities shall be only conducted on the basis of a special license issued by the Commission in accordance with Securities Market Law and Investment Fund Law.

1.3. Common issues related to Licensing for undertaking investment management activities, supervision activities shall be regulated by Resolution No 506 of 2013 on “Regulation on Licensing for undertaking regulated activities in the securities market” approved by the Commission where detailed issues shall be regulated by this regulation.

1.4. Activities of entity manages asset in trust of asset-backed securities as specified in Law on Asset-backed securities shall not be regulated by this regulation.

1.5. The following terms used in this regulation shall have the following meanings:

1.5.1. “investment management activities” means activities as stipulated in article 4.1.33 and 40.1;

1.5.2. “custodian” means legal entity licensed to undertake activities stipulated in article 4.1.12 of Investment Fund Law;

### **Two. Requirements for the entity undertakes investment management activities**

2.1. Financial Regulatory Commission /hereinafter “Commission”/ may issue special licence to undertake investment management activities to the company established in accordance with law and met requirements specified in Securities Market Law, Investment Fund Law and this regulation.

2.2. Investment management company with a special license to engage in investment management activities /hereinafter “investment management company”/ shall comply with the following requirements:

2.2.1. Corporated in a form as specified in Company Law;

2.2.2 Investment management company shall not engage in activities other than investment fund management and securities management in trust;

2.2.3. Custodian, contractual appraisers, and auditor shall not be included in the composition of founder-shareholders;

2.2.4. Chairman of Board of Directors /hereinafter “BOD”/, and its member shall comply with following requirements:

2.2.4.1. at least 3 years of experience in financial markets, and must be specialized in this field;

2.2.4.2. he/she was working in the management of company during the violation arised specified in 2.2.6.1 of this regulation, and it has been at least three years passed since the termination of special license;

2.2.4.3. it has been one year passed since the administrative penalty has been imposed due to violation in financial and securities market;

2.2.4.4. shall not have overdue debts, any liability by the court decision;

2.2.4.5. shall not have any conviction record of economic and financial crimes.

2.2.5. Management company shall have BOD with at least 3 members and majority of them must be independent. Independent member shall comply with following requirements other than those specified in Company Law;

2.2.5.1. shall not be employed in that company or in its affiliate or has not been employed in them within last three years;

2.2.5.2. not be an employee or official of parent company or subsidiaries, associates which are in business relationship with;

2.2.5.3. other requirements set by the company’s charter.

2.2.6. executive management and authorised officials other than chairman or member of BOD of the investment management company shall comply with following requirements;

2.2.6.1. shall not engage simultaneously in regulated entity in securities market, bank, insurance, executive management of other financial company, or other competent positions;

2.2.6.2. must have worked in management level investment decision-making position in foreign or domestic financial market for at least three years;

2.2.6.3. must have completed at least 2 credit course in following areas in mongolia or abroad, at least bachelor degree in finance or economics, must not be less than level 2 of international certified financial analyst (CFA):

2.2.6.3.1. quantitative analysis method;

2.2.6.3.2. macro, micro-economic theory, financial reporting;

2.2.6.3.3. financial statement analysis, corporate finance;

2.2.6.3.4. investment analysis, portfolio management, project evaluation;

2.2.6.3.5. obtained a right to engage in investment activities in securities market from the professional association spacificed in article 69.2 of Securities Market Law.

2.2.6.4. not a related entity of custodian, authorised official of evaluation and audit firm which is working under a contract with the company;

2.2.7. Management company shall have an internal supervisory unit with at least three members appointed by the BOD and at least one of member shall be special licensed to undertake auditing activities and have three years of experience in the same field;

2.2.8. Investment management company shall have minimum shared capital of 100 million tugriks;

2.2.9. Investment funds under the management of investment management company shall comply with the requirements of asset structure as determined by law and Commission;

2.2.10. Estimate net asset and net asset value of funds that are being managed within the period defined by the Commission;

2.2.11. To meet its obligation by publishing information provided by the law and Commission to the public, to ensure providing necessary information required to authorised entity in a timely manner;

2.2.12. To have internal supervisory staff that are not carrying out other jobs concurrently and those who have competent managers of numbers of funds not less than that are being managed.

### **Three. Application for special licensing, attachment documents and materials**

3.1. Applicant requesting special license to undertake investment management activities shall submit following documents as specified in article 11 of Law on Licensing, article 27.2 of Securities Market Law, and Investment Fund Law respectively.

3.1.1. Application of requesting special license according to Appendix 1 to this regulation;

3.1.2. Notarized copy of state registration certification of legal entity;

3.1.3. Decision made by the authorised body of company on undertaking investment management activities;

3.1.4. Company's charter;

3.1.5. Documents evidencing that meeting the minimum amount of shared capital set by the Commission, contributed capital by founders are legal income, and if founder is a legal entity, audited financial reports of last three years, and documents to prove that it's a taxpayer;

3.1.6. Detailed information of shareholders held 1 or more than 1 percent of total shares of company;

3.1.7. Detailed informations of BOD members of company, executive management, managers or specialists who conduct main activity of company shall be delivered in followings:

3.1.7.1. Detailed application form described in appendix 2 of this regulation;

3.1.7.2 copy of license to undertake investment activities in securities market of executive management, managers, and specialists to conduct main activities of company;

3.1.7.3 statement by police organization proves that it has been not committed to any crime before;

3.1.7.4 Statement of Mongolbank, and relevant department of Commission proves that they have not been responsible for any administrative penalty within last 1 year during the employment at financial organization, and were not charge in any competent position in financial organization where its special license had been terminated due to violations;

3.1.8. Notarized statement in handwriting affirmed that executive management, members of BOD, officers who conduct main operation of company are complying with requirements specified in 2.2 of this regulation, and copies of relevant diploma and certification;

3.1.9. Details of office building, equipment, if the building is their own, its real estate certification, if it is under leasing, lease agreement, and description of equipment, facilities and program;

3.2. Investment management company shall develop following regulations and shall obtain approval of unit holders' meeting:

3.2.1. Operation procedures of BOD of investment management company;

3.2.2. Internal supervisory procedures of investment management company;

### **Four. Receiving application and documents for special licensing, granting special license**

4.1. Commission shall review application for special licensing, relevant documents, and materials within 30 days.

4.2. The period specified in 4.1 of this regulation may start to be counted from the day of submission of true, complete documents for requesting special licence in compliance with requirements in relevant law and legislation.

4.3. Special licence for undertaking investment management activity shall be granted for a period up to 10 years.

4.4. Relations regarding monitoring and review of special license to undertake investment management company, refusal on issuing special licence, granting, suspension of license by the Commission, requirement to deposit shared capital in certain account, and registering special licence in the general registration respectively shall be regulated by the article 5 and 6 of regulation on “special license to undertake regulated activities in securities market” adopted by resolution No 506 of 2013 of Commission.

4.5. Working group established by the order of Chairman of Commission shall review the documents and materials of special license for undertaking investment management activities and shall prepare proposal to be presented to the Commission’s meeting. Head of division of Commission may lead the working group.

4.6. It shall be prohibited that investment management company may undertake other kind of activities.

#### **Five. Activities of investment management company and functions**

5.1. Investment management company may establish investment fund upon obtaining special license by the Commission as specified in article 14.1 of Investment Fund Law.

5.2. In respect of establishing investment fund, investment management company may perform obligations related to management and custody of investment fund assets in accordance with asset entrusted management agreement.

5.3. Investment management company shall preserve the assets of investment fund under the management of such company, only at entity undertakes custodian activities.

5.4. Investment management company is responsible for engaging in activities for the benefit of the investors’ interest, without conflict of interest, and in independent situation in respect of providing services to the investment fund.

5.5. Investment management company shall exercise following functions:

5.5.1. To preserve the assets of investment fund under its management only at entity which undertakes custodian activities;

5.5.2. To deliver copies of primary documents related to transfer of investment fund to the authorised entity to undertake custodian activities;

5.5.3. To provide required information and reports in the form prescribed by the Commission in a timely manner;

5.5.4. To make information related to investment fund accessible to public, provide such information to interested parties in accordance with the procedures established by the Commission;

5.5.5. To not make any changes to the amount of own shared capital, and components of share holders, executive management and fund manager without approval by the Commission;

5.5.6. To not establish representative office, branch without Commission’s permission,

5.5.7. To perform tasks and obligations provided by Commission in a timely manner.

5.6. Investment management company has a right to refuse to perform its contractual duties under the asset entrusted management agreement established with the investment fund.

5.7. If it refuses to do so as specified in 5.6 of this regulation, it shall notify about it to the Board of Directors of Investment Fund and Commission in writing.

5.8. Unless the BOD of investment management company decides otherwise, investment management company shall perform its contractual obligations accordingly until the subsequent investment management company's contract enter into force.

5.9. Investment management company specified in 5.8 of this regulation shall transfer investment fund asset, documents to the newly appointed investment management company.

5.10. Service fee, bonus to investment management company shall be paid from the investment fund assets and this kind of relations shall be regulated by the asset entrusted management agreement within the scope of article 28.1, 28.3 of Investment Fund Law.

### **Six. Investment management service agreement**

6.1. Investment management company may establish investment management service agreement /hereinafter, asset entrusted management agreement/ to provide investment management service in respect of managing investment fund assets, customer securities and assets.

6.2. It shall be prohibited for investment management company to provide any investment management service to the customer, investment fund without concluding an agreement specified in 6.1 of this regulation.

6.3. Investment management company must introduce relevant laws and legislation of management of asset upon trust when establishing an agreement with customer referred to in 6.1 of this regulation.

6.4. Parties may reflect such other provisions in the agreement referred to in 6.1 in addition to those specified in 6.5 of this regulation and other than those prohibited by the laws, and legislation.

6.5. Asset entrusted management shall include the following:

- 6.5.1. type, form of services provided;
- 6.5.2. entrusted assets and securities;
- 6.5.3. parties' rights and obligations;
- 6.5.4. unit holders' meeting,
- 6.5.5. buying back unit rights
- 6.5.6. investment property type and sizes
- 6.5.7. service fee, bonuses and related information;
- 6.5.8. details of management of assets upon trust and custody;
- 6.5.9. type of information to be provided to unit holders of investment fund and form of delivery of such information, and frequency;
- 6.5.10. details of corporate finance, accounting of investment management company;
- 6.5.11. termination grounds and procedures of agreement;
- 6.5.12. force majeure conditions;
- 6.5.13. legal framework, and dispute settlement procedures;
- 6.5.14. other necessary provisions other than those prohibited by the laws.

6.6. It shall be prohibited investment management company to transfer its contractual obligation under asset entrusted management agreement to the third party and shall not take him to execute such obligations.

6.7. Parties may amend asset entrusted management agreement at any time, however, unless otherwise stated in asset entrusted management agreement, parties may amend such agreement based on only resolution by the unit holders' meeting of investment fund regarding the following issues:

6.7.1. To increase the amount of investment management service fee, and bonuses;

6.7.2. To make modification to period of service of asset management upon trust;

6.7.3. To make amendment to the amount of profits and benefits of unit holders and customers;

6.8. To notify about amendment made to the asset entrusted management agreement to Commission and members of investment fund within 3 working days.

### **Seven. Prohibited activities for investment management company**

7.1. Following activities shall be prohibited for investment management company in addition to those prohibited by Securities Market Law and Investment Fund Law:

7.1.1. investing in other instruments by the investment fund assets that are not included in the investment policy of such investment fund;

7.1.2. entering into contracts which will cause violation of prudential ratio criteria and requirements defined by the Commission;

7.1.3. transferring investment fund assets in any form to others for free;

7.1.4. entering into contracts with the condition to transfer assets which is not transferred completely to the fund as an asset of the investment fund;

7.1.5. to receive a loan using investment fund assets as a pledge or guarantee.

7.1.6. to issue a loan to the others using investment fund assets;

7.1.7. to use investment fund assets for payment of its own or third party debts as of pledge or guarantee;

7.1.8. investment management company to purchase unit rights of private investment fund by the mutual investment fund assets that founded the company;

7.1.9. investing in financial instruments which exceeded the limit defined by investment policy by the investment fund assets;

7.1.10. if it is managing more than 2 investment funds, investing by the assets of investment fund under its management into another investment fund, or selling and buying unit rights of such fund;

7.1.11. transfer investment fund assets into its own ownership in any form;

7.1.12. transfer investment fund assets into its own ownership in the forms other than service fee and bonuses of assets management upon trust;

7.1.14. to transfer its contractual obligations under asset entrusted management agreement to the third party and take him to execute such obligations on behalf of itself;

7.1.15. to purchase securities issued by the investment fund which is under its management, company which rendering custodian and other services to the fund, and their affiliated entities by the investment fund assets;

7.1.16. to purchase unit rights of investment fund which is under its management.

7.1.17. to engage in other type of activities other than managing investment fund and managing securities upon trust.

7.2. Investment fund may invest in derivative financial instruments in accordance with article 26.1.9 of Investment Fund Law and in this case, total investment amount may not exceed from 5 percent of net asset value of investment fund.

### **Eight. Supervision over custody, disposal of investment fund assets**

8.1. Unit rights issued by investment fund shall be registered and held at entity licensed to undertake custodian activities and investment fund assets, investment instruments in fund assets shall be deposited in the account opened in the name of such investment fund at custodian.

8.2. Only one custodian may carry out activities such as registering and holding unit rights issued by one investment fund.

8.3. The Custodian may register securities owned by investment fund in a separate account on its name.

8.4. The Custodian which provides asset custody services for fund under the agreement shall conduct monitoring and supervision on investment management company activities given that its compliance and performance against contractual obligations under procedures set by the Commission, fund's charter, funds investment policy documents, and agreement established with investment fund respectively.

8.5. If transfer or any other form of disposal of fund assets will breach this Law and other legislations, rules, guidelines approved by the Commission, fund's charter, investment policy document, agreements entered with the investment fund and rules on conducting fund asset management upon trust, the Custodian has a right to refuse to provide approval for disposal of fund assets to the investment management company.

8.6. If Custodian breaches its obligation in 8.4, 8.5 of this regulation, the Custodian shall take collective responsibility in front of members of the investment fund together with the fund manager.

### **Nine. Responsibility**

9.1. An entity violated this regulation shall be subject to administrative sanctions as provided by State inspector of Commission in accordance with Securities Market Law, Investment Fund Law and other legislation.

9.2. This regulation shall not impose responsibility on violations due to performance of obligations under asset entrusted management agreement.

9.3. Imposing administrative sanction as specified in article 1 of this regulation shall not serve as a ground to exempt such entity from any performance obligation in front of others.

*Appendix 1 to "Regulation on special licensing for investment management activities" adopted by Resolution No 08 of 2014 of Financial Regulatory Commission*

SPECIAL LICENCE APPLICATION

Date : .....

Where: Financial Regulatory Commission,  
 Government Building IY  
 Baga Toiruu -6  
 Ulaanbaatar -210646  
 Mongolia.

From: .....

.....  
 .....

*(Full name of applicant, position, address, telephone number, fax, e-mail)*

.....  
*Name of investment management company/ LLC*

*Component of Shareholders:*

<i>№</i>	<i>Last and first name /Name of legal entity/</i>	<i>Registration number</i>	<i>ID number /state registration number of legal entity/</i>	<i>Address</i>	<i>Size, shared capital (thousand tugriks)</i>

APPLICANT:

*/. . . . . / / . . . . . /  
 /signature/ /full name /*

*/..... / position /*



/seal/

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Authorised official of company may be following persons: /chief executive officer, fund manager, general accountant, internal supervisory staff /

No	Full name	Current job position	Registration number	ID number	Position in professional organization

Staff that undertake company’s main activities are following persons:

No	Full name	Registration and ID number	Home address	Period of employment in such position	Position	Number of licence

All documents submitted are true and prepared in accordance with requirements specified in “Regulation on special licensing for investment management activities” adopted by Resolution No as of ... month ... date of 2014 of Financial Regulatory Commission. We will be responsible for any false, misleading information that might be included in submitted documents.

Please grant special licence to undertake investment management activities based on review of submitted application together with relevant documents accordingly.

We hereby declare that we will fully comply with guidance and requirements specified in Civil Law, Company Law, Securities Market Law, Investment Fund Law and other legislations and requirements by Commission in our operation accordingly.

/..... / /..... /  
/signature/ /full name /  
/..... / / position /

/seal/