

Z. Narantuya: Custodian Services will bring a Securities Market to a new level of development

The opportunity to turn Ulaanbaatar into an International Finance Hub

Bring the Strategic Deposits to the Stock Exchange

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Mongolian FINANCE



Editor's Note



This is a greeting for our readers of this first issue of the “Mongolian finance” magazine launched by the Financial Regulation Committee.

The Committee regulates the activities in the securities, insurance and micro-financial sectors. Following the social developments, the Committee’s activities expand, and now include stocks and securities, financial pledges, agriculture stock exchange and custodian banking activities.

Our team works toward providing the flexible and transparent services to support businesses and ensure the most risk-less profitable environment.

This quarterly magazine is designed to provide with constructive information about the financial market and its regulations to all the participating businesses, professional unions and people who are interested in the developments in this field.

The readers will find many interesting reports, reviews and discussions on financial strategies and resolutions, financial regulations and possibilities of Ulaanbaatar to become the international financial center. Under the “one topic” we featured the stock market and its specifics.

We believe that our magazine shall become your reliable guide in the financial market, the pulse of the country’s economic life.

B. Batselenge,
Managing Director
FRC

MONGOLIAN FINANCE

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As a result of Government initiatives taken in terms of setting a proper legal and regulatory environment in order to promote the banking and financial services sector, Mongolia has now made new services such as custodial banking available for the first time.

Consequently, we bring you the statement made by the Director of Financial Regulatory Commission, Z. Narantuya, to emphasize the positive influence the custodian services have



Z. NARANTUYA: CUSTODIAN BANK SERVICES SHALL BRING TO A NEW LEVEL THE DEVELOPMENT OF THE SECURITIES MARKET

on capital markets in terms of development and facing other financial challenges.

What is the most important for developing the Mongolian securities market in the right course?

First of all we are in need of the renovation of the infrastructure base for the securities market. Foremost we must develop the Center of the Securities Payments and Integrated Savings as the Center and bring in its primary and classic function of securities registration and movement. The Clearing Office needs to be separated, and work independently, co-ordinate the primary and secondary markets platforms, introduce the real-time mode, complete the proper conditions of implementation for the commercial order processes and quoting. We work towards creating the overall market regulating-system.

Could you give us close understanding on the “Custodian Bank”. Several banks were rendered the right for carrying out custodian activities. Are they catching up?

Custodian Bank is a completely new understanding for us. For investors the Custodian Bank is the most important institution. Amending its Securities and Bank laws, Mongolia introduced the legal foundation for the Custodian Bank services. Among those, the Golomt Bank was the first to initiate the registration system, received the authorization and about to start the activities. Two banks are commencing these activities which are a step forward towards developing these services.

This is an entirely new understanding for us.

Investment, pension, private and other funds deposit their

securities and capital for confidential and reliable services of a Custodian Bank.

The financial market has wide opportunities to bring in investments and other profits. Our people and businesses do not go beyond the profits from a banker’s deposit rates. What is advantage for people from the capital market?

The easiest way to explain, this is exactly the same scheme as if a person profits from the banker’s deposit rates. The Central Bank regulates and oversees the commercial banks activities properly; therefore people trust the banks and open their savings and other accounts. And they obtain their financial needs even with high rates for a short term.

On the other hand, through the Mongolia’s Stock Exchange, the Mongolian com-

panies sell their stocks even for more profitable rates than banks' saving rates, but people do not participate in the Stock Exchange activities and do not buy Mongolians' companies stocks-securities who want to build up necessary finances through issuing the securities.

On the one hand people are not used to these services, from the other hand they are not aware with the commercial and money-building processes. And it is important that people trust the financial institution as they trust in banks.

Why do you think our Stock Exchange is still underdeveloped?

Over the last 25 years, the businesses active on the Stock Exchange were not be able be developed up to the professional level because of the legal, foreign and domestic factors.

From the other side the history of the "blue" and "pink" vouchers affected the people's belief in profits from securities. Nowadays, the banking and financial institutions technologically highly developed compared to the old times. And there are progressive changes in the legal environment. And also in commercial terms there are some positive changes.

So can we consider the financial market is going up to a new level of development?

The most important is that the capital market should be

risk-free and gainful. Thus, first of all the barriers on the way to enter this field must be eliminated. For this purposes the introduction of the "easy-access" in other words simple automated permission is underway.

Secondly, there are actions taken to ease the fee pressures at every step of processing. And finally, we are working on proposal to amend the related laws and regulations to create more attractive environment in terms of taxes, customs and investment.

Studies are underway on the establishing of the free financial zones, escalating the investments, decreasing of the primary financial sources and completing the legal foundation.

At the same time we need in comprehensive community activities to improve the public's financial education and broaden the financial services market. Many projects by the international organizations cover these issues. However, there is poor coordination between the policy makers, regulating and implementing institutions, because of absence of the combined information and statistics data pool. And this situation does not allow reaching significant achievement. Thus our agency is leading and coordinating all the processes to consolidate the interests of all participating parties.

Is it true that with through the foreign bank in the country the foreign investors shall contribute the

development of the security market?

The security market critically needs the professional investors, investment banks and funds. I have mentioned that proposals are underway to work on related legal and other studies. Thus this financial field has to progress through the flexible policies open to both locals and foreigners. We are authorized to coordinate and monitor the risks and the market stability. In particular, we support the formation of the legal environment for joint ventures of the local financial institution with the foreign investment banks and funds and also creation of the special financial zones under the international laws, regulations and standards.

In the connection of the established investment funds, how the Custodian services will be provided for those funds in the investment market? And what are the activities implemented by your committee?

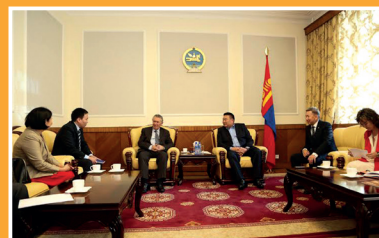
Four investment management companies were provided with official permissions. And we understand that they are now working on establishing of their funds. In accordance with the law they will have to establish the agreements with a Custodian bank in order to establish their Fund. And a Custodian Bank shall not only preserve the fund's property, but also ensure the protection and registration of the rights of every member of the fund.

Thank you for interview.

INNOVATION TO THE SECURITIES MARKET



- For increasing the stock market activities and improving its convertibility, the Stock Exchange deals are cleared within the next |T+1| working day.
- Golomt, TDB and KHAAN banks are provided with the special permissions for Custodian bank activities.
- In association with the Japanese cooperation JICA organization, the project is underway for the Mongolian companies registered at the Mongolian Stock Exchange to double register with the foreign Stock Exchanges.
- Sir Paul Judge, international development advisor, the founder of the business school of the Cambridge University, advised of establishing of the regional financial center in Ulaanbaatar.
- “The Stock dealers union” NGO was officially registered as the first self-coordinated institution active in the Mongolian Stock market.
- The shareholders capital was re-established as follows: Stock broker TG100 million, dealer TG200 million, underwriter TG1 billion, stock market activities TG2billion, securities deposit and clearing activities TG2billion.
- For the first time a secured obligation was successfully traded, proving that there are possibilities for attracting the capital from the stock market.
- The first private investment “Virtus real estate” fund was established within the framework of the comprehensive coordination of the investment funds.
- The working groups were established jointly with Erdenes Mongol Co.Ltd., and State Property Committee to provide the ground works for “the main principles of the privatization of some nine state properties in the 2015-2016” through the Stock Exchange and issuing additional securities.
- To protect the rights of the minor stock holders, the Financial Regulation Agency for the first time took to the court the management of the “State Department Store” Co. Ltd,.





RENOVATIONS IN THE ENVIRONMENT OF COORDINATION OF THE INSURANCE MARKET

- The insurance companies have opportunities to place the reserve capital in the investments funds. Up 20 percent of the insurance reserve capital could be placed in the non-banking institutions on the conditions of trust.
- Training of the professional actuary, the international actuary criteria and demands are approved.
- “Insurance income fee” is made public.
- The insurance sector’s coordination service charges are decreased by 30%.
- The Mongolia’s first local reinsurance “Agriculture reinsurance” company was established.
- Introduction of the computer based (paper-free) insurance registration process allowed the insurance companies to reduce the expenses and advance the contracting procedures.
- The new insurance services for homes and accidents of the people with low and medium income.
- Insurance services included the foreign drivers come into the country temporarily or for transit. The insurance broker companies run their activities in 19 border points of Mongolia.
- The (www.frc.mn) Financial Regulation Committee’s and the particular insurance company’s websites provide the information on the conditions for the vehicle insurance refusal.



RENOVATIONS IN THE MICRO-FINANCING MARKED ENVIRONMENT



- The “Law on Financial Activities” was drafted aiming to expand the access to the financial services, reduce the number of special permissions, to systemize the combined coordination, and transferring some of the state function to the professional unions.

- To categorize the assets of non-banking institutions, savings and credits cooperatives, found the loan loss provision. Assets are ranked in accordance with the maturity (not quality) criteria. The period for founding the loan loss provision is fixed, and the provision is now to be founded in the end of every month.

- Provided with the detailed information on credit history of every loan-holder, the opportunities are now open to assess the risks in non-banking sector.

- The City Council adopted the “plan for supporting the small business”, which strategically supports the savings and credit cooperatives. Some 97 cooperatives listed with 125 housing committees received TG9.7 for credit financing. Some 2338 members were provided with 1,2% loans and work place.

- The financial coordination fees were reduced for 10-20% in order to support the activities of the savings and credit cooperatives in rural areas.

- Some 80 such cooperatives were provided with computers in the framework of the ADB project to improve the skill and efficiency. Accordingly the accounting software was developed and is being introduced.

To expand the financial services, we support further increase of non-banking institutions, savings and credit cooperatives in rural areas.



POTENTIALS OF ULAANBAATAR AS AN INTERNATIONAL FINANCIAL CENTER



A. Batpurev, market development department chief, the Financial Regulation Agency.

SUMMARY:

Establishing of the regional financial center in Ulaanbaatar could be one of the directions of the strategy

for further development of the financial service field including the non-banking sector.

What is the financial center, the potentials of establishing such center in Ulaanbaatar; the following is review based upon the author's observations supported by some studies, about the preconditions, advantages and disadvantages of the city of Ulaanbaatar.

INTRODUCTION

The international financial center does not mean offshore region. The international financial center is the "cluster" developments in the certain region concentrating the financial services provided for the professional financial businesses under the trusted legal environment and favorable condition of infrastructure and services.

Quote by IMF, 2000: the definition of major world financial centers such as London, New-York and Tokyo.

Although the above definition describes the operation of world leading financial centers it is also to be the guideline for transnational financial centers. And developing the international financial centers refers not only to the hundreds years old prominent centers of London, New York etc. Especially in the situation when the world economic growth is moving to the Asian continent, the present financial centers are even more strengthening.

The contemporary studies on financial and special zone-regions focus on their competitive capacities, rather than the need in such centers. The following article looks into the Mongolia's reflection in the reviews of the advantages and disadvantages, success factors of international financial centers.

In connection of the international financial center, there are the issues of positive and negative influences by the international financial integration to the small economies as Mongolia's.

Financial integration is (the quote by Worthington @ Higgs from 2007.) There are many empiric conclusions on financial integration (quote by Cal-vi, 2010).

Deepening of the International and regional financial interdependence increase the risks of "transnational financial infections", in other words the financial crisis and instability in one country rapidly spread to the other countries. For instance there are some negative consequences within the European Union integration, nevertheless they do not blame the financial integration and retreat the process. The sector needs better coordination, monitoring, transparency and business models with minimum risks. There is also the need in transnational financial coordination. (Wihardja, 2013)

I have not found any studies or researches on the positive and negative impact of financial integration in Mongolia's example.

BRIEFS OF THE STUDY

The current situation of the Mongolian financial market and capital flow

We are in demand to move from the bank dominated (assets ratio is 96:4) to the multi-source financial system. The reason is that compared to other similar and developed economics our financial market lags way behind. (FRC 2015)



| | Market capitalisation to GDP | Turnover/market cap (liquidity) |
|-------------|------------------------------|---------------------------------|
| Mongolia | 7% | 1.7% |
| Vietnam | 24% | 55% |
| Indonesia | 52% | 31% |
| Thailand | 113% | 80% |
| Singapore | 256% | 26% |
| South Korea | 79% | 82% |
| Japan | 104% | 120% |

There are limited sources for long term with lesser interest rates financial channels to support the economic growth. The further development of the capital market shall bring the constructive innovations to the present situation when the average business loan interest rates of the commercial banks are 22% for 36 months term.

The economic growth distribution is low. If look into the stock holders' registration book of the "Erdenes TT" the share holding company, which was established during the privatization process, almost every Mongolian citizen has a stock account(portfolio), but only one percent of them is active in the market. In other words the market profits of the major share holding companies do not reach the people, thus there are no conditions for emerging of the middle-class.

The financial system is risky, the hard currency inflows through only two channels: direct foreign investment and income from the few exports. Because of the lack of the professional investors and financial institution to ease financial system risks, the banks and their saving account holders carry whole risk burden. The hard currency flow of the foreign financial investment amounts to USD3 billion, the direct foreign investment amounts to USD16billion. The same indicators of the developed countries are as follows: 60% of the overall foreign investment is the financial investments and the rest 40% are the direct investments. (McKinsey Global Institute, 2013).

The main financial sources to feed the economic growth are the people and companies' accumulations, and investments funds established supported by these sources, bank and insurance companies' accumulated

capital, and in some countries pension and natural resources funds.

As of June this year the country has no locally registered operating capital investment fund, the total stock exchange or stock –holders capital amounts to TG1.3 trillion, the total assets of the insurance companies totals TG 152 billion of which 10% could be utilized in the capital market. However, the bank savings amount of TG7.2 trillion out of which TG2,3 trillion is concentrated at the major savings holders' accounts, and the latter is considered as the potential investors. There is no government run investment fund, the social insurance funds are not utilized in the market. Some 10% of these social funds and together with the 10% of major bank savings accounts and assets of the insurance and non-banking institutions, and 10% of Chingis and Samurai bonds put into the capital market will bring the estimated additional TG547 billions of sources for forming the short-term potentials of the local capital market resources.

However, there is TG80-100 trillion of capital needs for financing of the mining and other projects to offer for local and foreign investors. In addition the UB city development projects up to 2030 need TG43 trillion of funds.

In a few words, along with using the local resources in the capital market, there is a critical need in building up the profitable system to join the transnational financial integration. With the above purpose we are in need to improve and develop the internationally competitive infrastructure and coordination environment for further establishment the transnational financial center in Ulaanbaatar.

THE TRANSNATIONAL FINANCIAL CENTERS

The British think tank institution ZY issues the top list of the internationally recognized "Global financial centers index".

This list is based on the analyses in accordance with the 105 indicators of 5 major sets of reviews and upon the surveys among 3500 financial executives of the customer institutions.

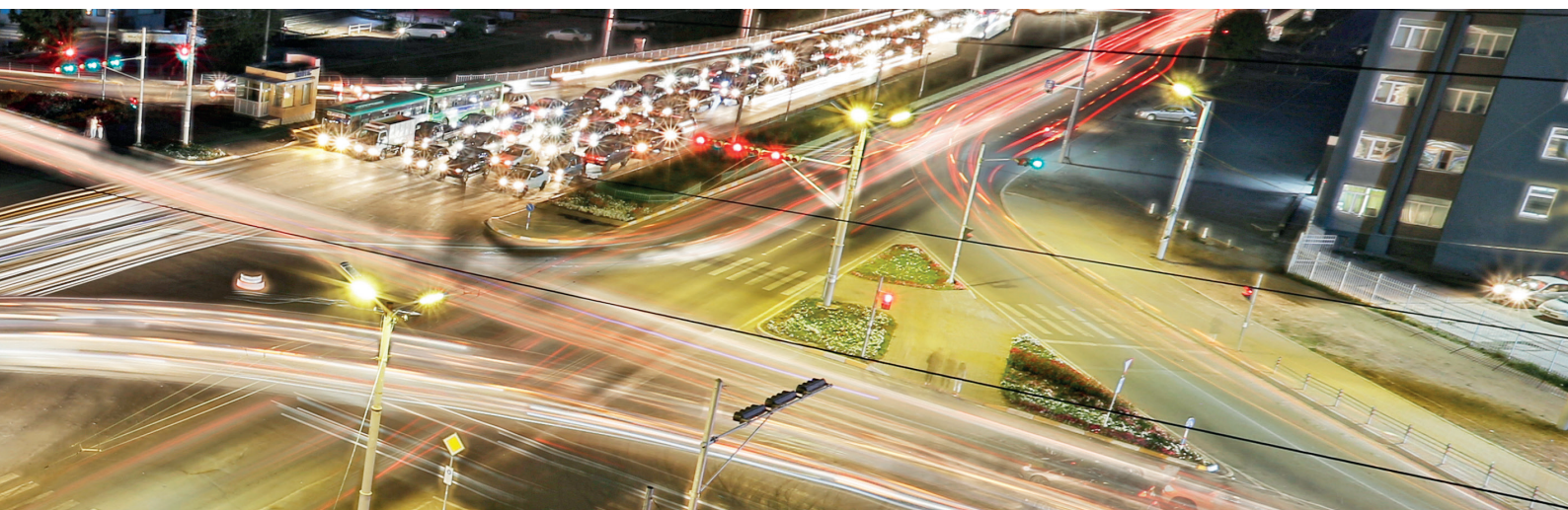


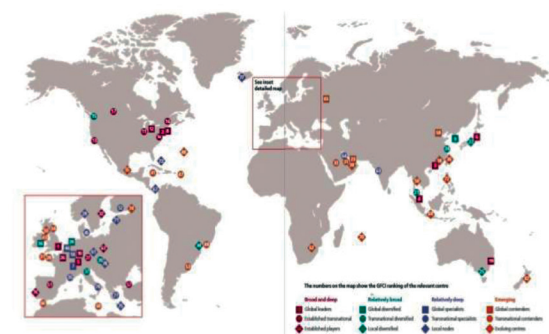
Chart 2: Global financial centers index.

| Centre | GFCI 17 | | GFCI 16 | | CHANGES | |
|---------------|---------|--------|---------|--------|---------|--------|
| | Rank | Rating | Rank | Rating | Rank | Rating |
| New York | 1 | 785 | 1 | 778 | - | ▲ 7 |
| London | 2 | 784 | 2 | 777 | - | ▲ 7 |
| Hong Kong | 3 | 758 | 3 | 756 | - | ▲ 2 |
| Singapore | 4 | 754 | 4 | 746 | - | ▲ 8 |
| Tokyo | 5 | 722 | 6 | 718 | ▲ 1 | ▲ 4 |
| Zurich | 6 | 719 | 7 | 717 | ▲ 1 | ▲ 2 |
| Seoul | 7 | 718 | 8 | 715 | ▲ 1 | ▲ 3 |
| San Francisco | 8 | 708 | 5 | 719 | ▼ 3 | ▼ 11 |
| Chicago | 9 | 707 | 12 | 702 | ▲ 3 | ▲ 5 |
| Boston | 10 | 706 | 9 | 705 | ▼ 1 | ▲ 1 |
| Toronto | 11 | 704 | 11 | 703 | - | ▲ 1 |
| Washington DC | 12 | 703 | 10 | 704 | ▼ 2 | ▼ 1 |
| Geneva | 13 | 702 | 13 | 701 | - | ▲ 1 |
| Riyadh | 14 | 698 | 21 | 685 | ▲ 7 | ▲ 13 |
| Vancouver | 15 | 696 | 14 | 700 | ▼ 1 | ▼ 4 |
| Shanghai | 16 | 695 | 20 | 690 | ▲ 4 | ▲ 5 |
| Luxembourg | 17 | 694 | 15 | 697 | ▼ 2 | ▼ 3 |

The global financial centers' index analyses the connection of financial centers to the world market, their reputation, market segmentation indications, business economic segmentations, regional market concentration and others.

If refer to the world atlas below, we could see that the Central and East Asian regions with their vast territories with enormous natural resources and many millions of population do not accommodate one regional leader financial center.

Picture 1. Ratings of the global financial centers. Atlas



The following table is the competitiveness criteria of the global financial centers.

Chart 3: competitiveness.

| Business environment | Financial sector | Infrastructure | Human capital | General |
|------------------------------------|-------------------------------------|-------------------------------------|---------------------------------------|---|
| Political stability, rule of law | Commercial capacity and fluctuation | Constructions offices | Availability of professionals | The city image |
| Government, regulation environment | Capital availability | Transportation | Education growth | Innovation grade |
| Macro-economic environment | Business expansion | Communication | Flexible job market and it regulation | City scenery and cultural and historical classification |
| Tax and expenses | Employment, economic solutions | Environment sustainable development | Quality of living | Geographic location |

DISCUSSIONS AND SUGGESTIONS

We need to organize the professional evaluation on establishing the regional financial center in Ulaanbaatar, all the pros and cons, advantages and disadvantages and develop the comprehensive implementation plan for discussion.

The following factors are paramount according to the US Securities Industry Association (2009).

- Transparent and fair financial market
- Free capital flow, free convertibility of the hard currency
- Professional staff and flexible labor law
- English language
- Transparent, resourceful and fair legal system, market regulation
- International accounting standards
- Competitive and stable taxation regime
- High quality reliable information technology
- Minimum office expenditure
- Stable political and economic environment

If Ulaanbaatar is assessed in accordance with the above factors and criteria, the city might be quite competitive in the region.

Open and democratic political system, free exchange rate (without capital control), tax environment are the factors Mongolia leads in the region.

However, we still need to work to create the stable environment, efficient regulation organism and trustworthy and reliable legal system. Or follow the Dubai example and create a special region which exercises the common international laws.

Proposals for further activities based upon the above review:

The actual evaluation of Ulaanbaatar city competitiveness in accordance with all criteria.

Comprehensive studies on the international financial integration influences to the country's social and economic life.

Draught the policy for implementation of the transnational financial center in Ulaanbaatar proposed the Financial Regulation Committee and Ulaanbaatar city council within the framework of financial development and renovation program 2020.

Source

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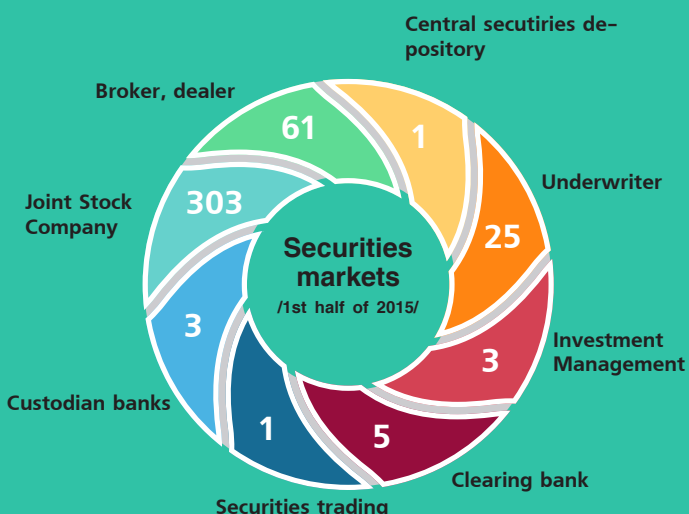
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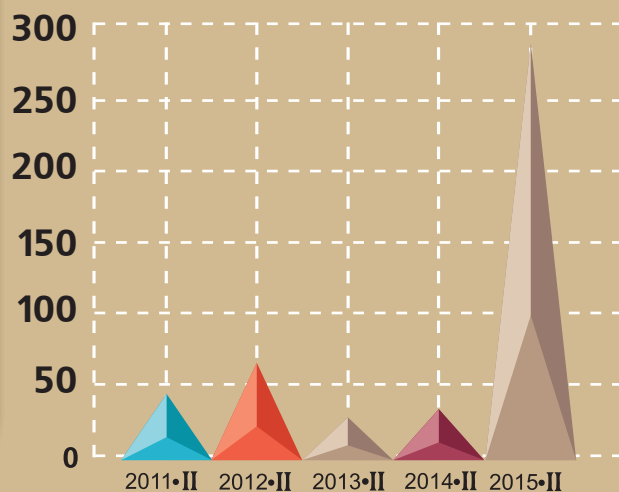
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Stock Market



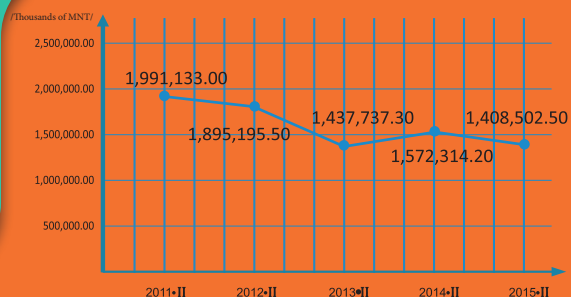
/in billions/



Securities market has increased 21.5 times over the same period of the previous year reaching MNT 290.6 billion for the first half.

MNT 283.4 billion of Government Securities have been traded in the primary market and MNT 1.5 billion is traded in the secondary market. In total MNT 284.9 billion or 98 percent of total trading is attributed Government securities.

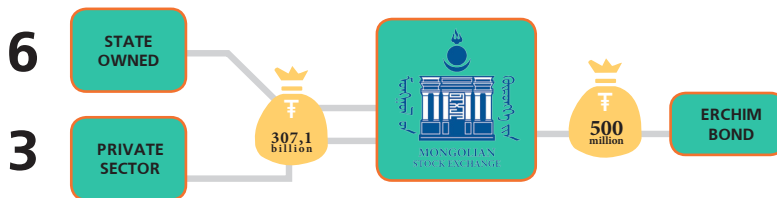
PROFESSIONAL INVESTOR



Nine companies issued worth of MNT 307.1 billion worth of shares in 2015. Furthermore, "Erchim Engineering" LLC issued bonds worth of MNT 500 million. "Virtus real estate Investment Management Company (IMC)" LLC, a private investment fund was registered.

MARKET VALUE

NEW PRODUCTS



MIC ASSET FOUR

THE TOTAL AMOUNT OF SECURITIES ISSUED

452,278,100,000 ₮

MIC ASSET FIVE

294,343,300,000 ₮

MIC ASSET SIX

261,699,200,000 ₮

THE NUMBER OF BORROWERS

9,961

5,997

5,277

ASSET BACKED SECURITIES

Microfinance market

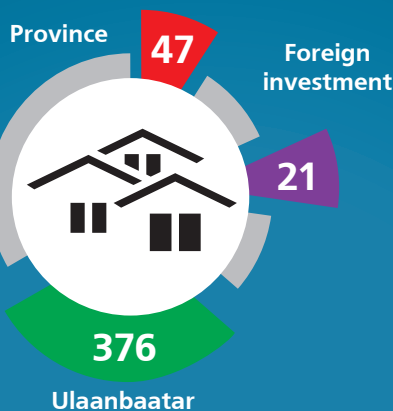
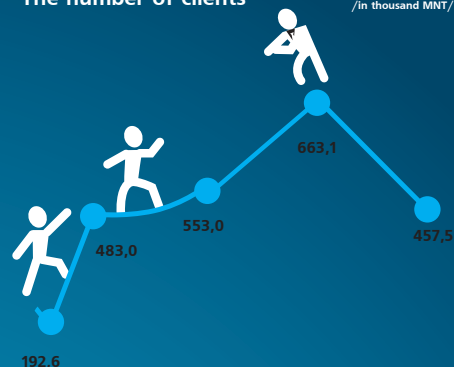


NON-BANK FINANCIAL INSTITUTIONS

The number of non-bank financial institutions



The number of clients /in thousand MNT/



The total capital of NBFIs



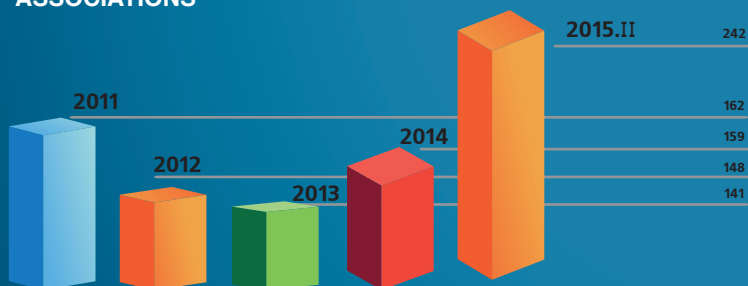
Debt amount



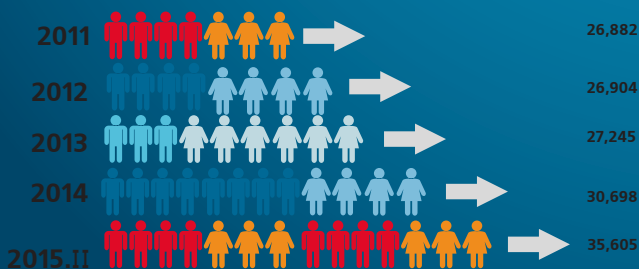
The amount of total assets have been increased by 40.6% and outstanding debt level have been raised by 41.7% percent for industry wide averaged last four years

SAVINGS AND LOAN ASSOCIATIONS

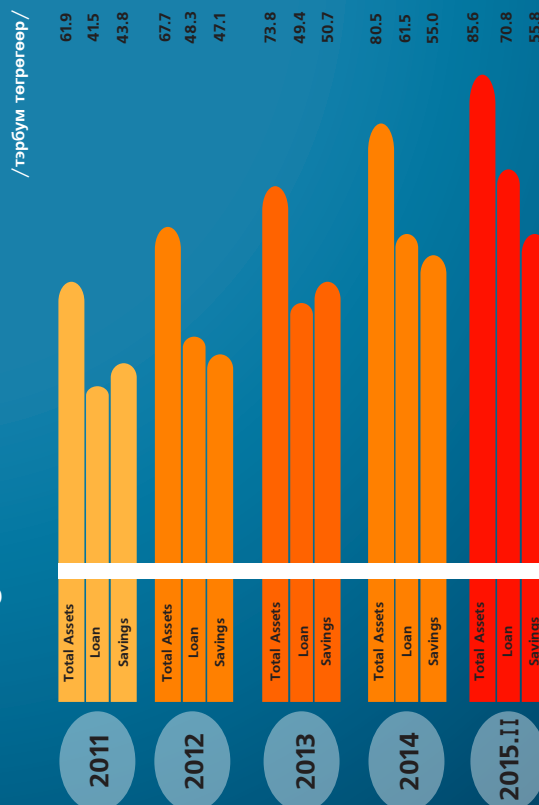
THE NUMBER OF SAVINGS AND LOAN ASSOCIATIONS



The number of members



Amount of total assets, loans and deposits of Savings and loan associations



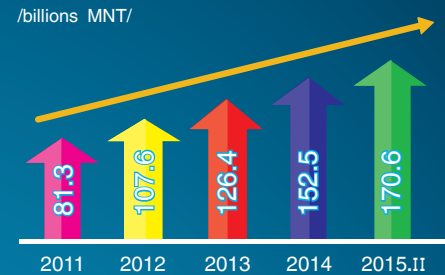
Insurance market



Mongolian insurance market participants

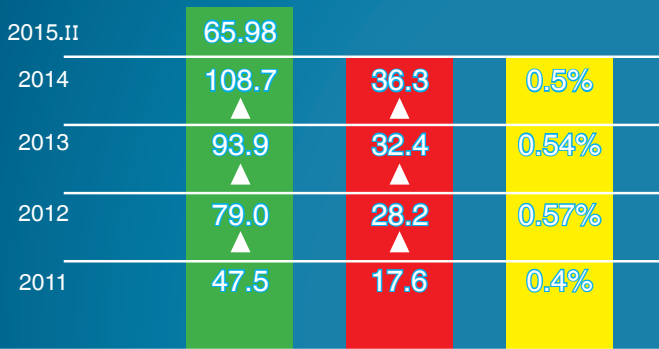


Total assets of Insurance and reinsurance companies



The total assets of Insurance and reinsurance companies had increased 2.1 times from 2011 to 2015

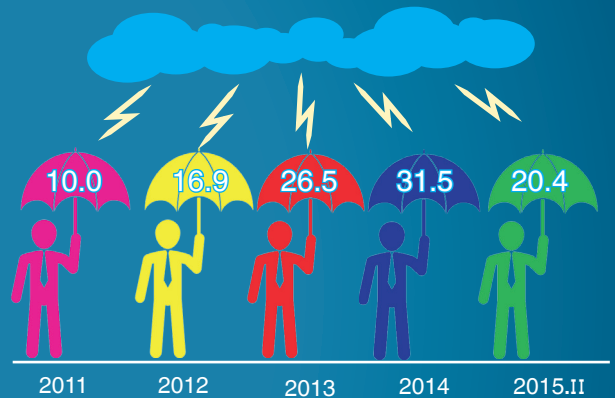
Total insurance premium income



- Total insurance premium /billion/
- Per capita insurance premium /thousand MNT/
- Total insurance premium revenue as a percentage of GDP

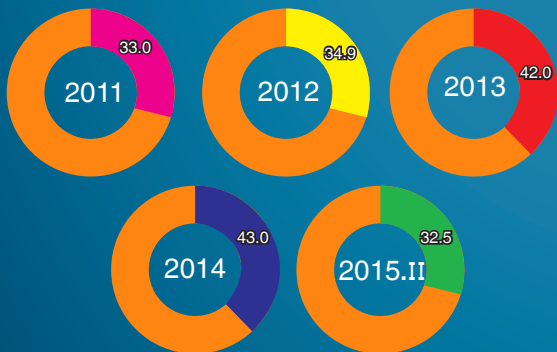
Total claims paid amount

/in billion MNT/



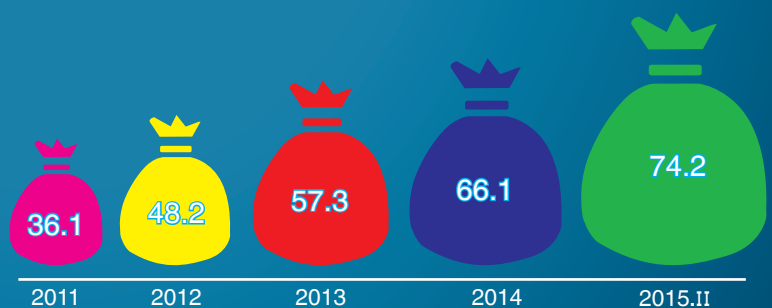
Loss ratio

/pct/



Insurance Reserve Fund

/billion MNT/



Compulsory driver's liability insurance



Voluntary insurance

SIR PAUL JUDGE: POSSIBILITIES TO CREATE CONDITION SAME AS DUBAI'S IN MONGOLIA

Sir Paul Judge, Member and International Development Policy Advisor of Council of City of London, visited Ulaanbaatar, Mongolia in August, 2015 per Mrs. Narantuya's, Chair of Financial Regulatory Commission of Mongolia, invitation. During his visit Sir Judge met with high ranking government officials to share his experience on preparing the project on the development concept that has been implemented in other countries and get the overview of long term development goals of the country. As for the meeting with Mrs. Narantuya, they discussed the importance of enhancing the regulation to international standards in order to join international financial integration and raise capital and the need for the international financial center in Ulaanbaatar. Here is the interview with Sir Judge.



What experience are you going to introduce to Mongolia?

First of all, we have to take the vision of the country into consideration. There are many countries with 15, 20 years development plan besides the short term plans. We are involved in defining the development goals of Mongolia. For instance, the Master Agreement between the London Stock Exchange ("LSE") and Mongolian Stock Exchange of utilization of LSE's trading system.

It is obvious that Mongolia has to make drastic changes in its financial sector to develop its economy. How would you rate Mongolia's capability?

Mongolia has really good educated work force and location. There can be a vision of developing Ulaanbaatar as financial hub since financial sector of neighboring two countries, Russia and China, are working well. In other words, Mongolia can be a meeting

point for Russia and China. Any of these destinations are reachable in 3 hours of flight.

Moreover, the difference of Mongolia from many other countries that it is a democratic country. Thus, the law enforcement has to be better. As we see, there is potential for Ulaanbaatar to become like Dubai. The important point here is that in order to become a big financial hub the English law has to be adopted instead of local one. Dubai has overcome the bias and earned the trust of its customers because of its membership to London's Law.

What Mongolia can learn from other countries on regional policy development?

Of course you need to learn from financial service sector. Morocco and Abu-Dhabi are aiming to become regional financial hubs. But you have to do it right. The most important thing is the legal environment. The contract made there has to be trustworthy. You

can learn it from the financial sector. As for the vision, some countries are ahead compared to others. For instance, Singapore made its priority the education. Singapore used to allocate a quarter of its annual budget for the first 20 years after its establishment. It was really effective and important thing to do. Its work force is the most competitive. Therefore, you have to define what is important. We have observed nine sectors. Industrial and business development sectors for example. According to World Bank survey, Mongolia has very good environment for businesses. And I can mention mining, agriculture and tourism, where the government's involvement is high.

You have mentioned that Mongolia has good geopolitical location. In the near future, which development direction is more suitable for us?

In the near future, the mining sector will be the main direction. Mongolia has abundant resources.

However, it is costly to extract it from the underground. Firstly, you have to drill and make a hole in the ground. Then, you'll need a refinery since the only small part of what you have extracted from the underground is the ore. Also, you will need transportation. Railway is the most optimal option, but Mongolia's facing a challenge to raise necessary capital to build one. London is the global center of the mining. I have met with Mining Minister of Mongolia. I have expressed my interest to support to raise capital for Mongolia. Mining is the most important sector. However, if you look at the bigger picture, there is some inefficiency

in the business development in this sector. Government has to take some measures on this part. This is really important for business development. From the work force perspective, agriculture is massive sector. It is predominantly nomadic at the moment. Even though Mongolia has a short period of warm weather, the quality of food is good. Therefore, you have to upgrade the nomadic style economy.

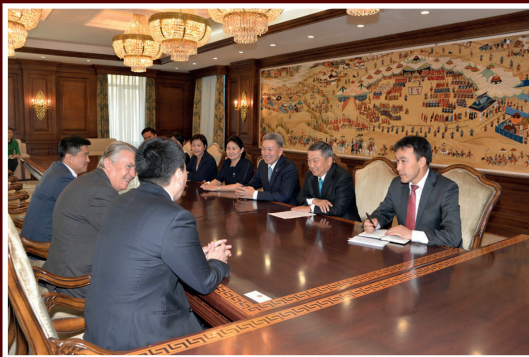
You are right. What effect creating financial hub will have on the economy? Also, what will investors think about it?

If Mongolia will implement this idea correctly, this will change

everything. I believe that Mongolia can do it. Even though it is bit complicated politically, from the practicality it is feasible. Financial center professionals will come from foreign countries. Based on the experience of other similar countries, one foreign professional creates 5-6 jobs locally. For instance, driver, maid, teacher, hospital personnel etc. Wages will increase thanks to better performance. Besides of all these benefits, foreigner brings in money. It will make financial sector more efficient. It will be easier to raise needed capital for Mongolia.

Thank you for talking to us. Wish you all the best.

SIR PAUL JUDGE EXCHANGED HIS VIEWS WITH GOVERNMENT OFFICIALS.



Mr. Enkhbold, Speaker of the Parliament of Mongolia received Sir Paul Judge, Member of City of London. Mr. Enkhbold emphasized that Mongolia has been active to become an effective participant of global economic integration and provide better investment and regulatory environment for investors. Also, he has mentioned that Parliament of Mongolia always endorses the policy to support the core sectors of economy through establishing financial centre based on our democracy, free-floating exchange regime, natural resources and geopolitical location and broadening our financial market.

Sir Judge mentioned that Mongolia is sandwiched between two powerful countries and role model for democracy, that it is the times when LSE and MSE are working to 24 hours cooperation. Also, he said that Mongolia is abundant in natural resources, while London is the world center for the mining information and operations. And there is potential for Mongolia to become regional financial center. Sir Paul Judge has been received by two Members of the Parliament Bathuu G and Bold L.

Mr. Bold L, said he had previously studied the possibilities of establishing regional financial center and by doing so will tremendously contribute not only to our but also to the regional economy. Also, Sir Judge met with Mr. Jigjid, Minister for Mining, and Mr. Zorig, Minister for Energy and exchanged the views on long term prospects of the sectors and possibilities to attract foreign investment in these two sectors.

GOING PUBLIC

-Words of the professionals-

Most companies in our country resolve their financial issues with bank loans. On the contrary, going public offers cheap capital for long-term. Professionals say that by going public companies can broaden their activities, implement new projects, increase jobs, produce value added products, distribute domestic savings, and increase capital inflow from foreign countries that will support economic growth in the end.

B.CHINGUUNJAV: RAISING CAPITAL IS NOT AN ISSUE

Director, Strategy and market development Department, MSE



Securities market is the classical market with over 500 years of history. The main advantage is that citizen can choose in what company he/she wishes to invest and for how long, and benefits from this investment. There is a big difference of being a listed company and an unlisted company. Firstly, it is transparency. Transparency creates trust. It shows who they

are. They prove that they can do business by going public. By disclosing their financial statements to the public they show whether they are leader of the business. Let's take a bakery for instance. One bakery can go public to raise capital and to increase its production and get ahead from other competitors. If I am a shareholder of that company, from many choices of bread in the supermarket, I will try to choose bread from that company. I will convince friends that particular bread is the best. There is a potential for growth because of this kind of mindset. Five tugriks will be earned as a dividend for buying this bread. Businesses will develop if this mechanism is in place. It is important to understand if you're public company that earned investors trust, raising capital is not an issue.

SH. TUMENBAYAR: HEAD, FRC COMPANIES ARE INTERESTED IN IPO AND DUAL-LISTING

Head of Financial Products Registration Division



Financial Regulatory Commission together with Japan International Cooperation Agency and Mongolian Chamber of Commerce and Industry organized the conference on IPO and Dual-listing environment. Top 100 companies of Mongolia, securities companies, governmental and other related agencies, professional associations, international organizations, and investors participated in this conference and many interesting

presentations were made on current IPO and dual-listing legal environment, and its benefits. For instance, capital markets overview, financing issues of the companies, and benefits of IPO and dual listing, and information on listed companies in MSE and national companies listed overseas.

JICA consultant, the co-organizer of the conference, provided the information on their experience how Japan privatized its State owned enterprises and on Tokyo Stock Exchange.

Representatives of the companies were positive about the regulatory agency for their policy to support capital market, implementing project, and for providing a legal environment to raise the capital domestically instead in foreign countries.

At the end of the conference, Mrs. Naranturya said that "The government has put importance in privatizing strategically important mining companies through the MSE. However, the implementation has been delayed due to lack of coordination and absence of alignment between the relevant agencies. Thus, FRC is taking the initiative and doing the coordination. In order to learn from developed countries' experience and get their assistance FRC, together with JICA, is implementing the "Capital Market Capacity Building Project". I believe that this event could disseminate the understanding on benefits of going public, methods on how to raise long term capital and overall knowledge of capital markets."

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IPO STEPS TO IPO

The first sale of stock by a private company to the public. IPOs are often issued by smaller, younger companies seeking the capital to expand, but can also be done by large privately owned companies looking to become publicly traded.

ADVANTAGES:

1. Raising long term capital;
2. Expand the operation, add value;
3. To sell off own shares;
4. Additional financing;
5. Exchanging debt for equity;
6. Transparency;
7. Constant issuing of financial statements.

DISADVANTAGES:

1. Costly;
2. Constant disclosure of financial statements to shareholders;
3. Additional law and regulations;
4. Complicated structure of the management.

OPTIMAL TIMING FOR IPO:

1. During good conditions of the securities market and when macro indicators of the economy are increasing;
2. During the good conditions of the particular sector of the company operates;
3. When companies do IPO a lot with high frequency.

POTENTIAL CHALLENGES DURING IPO PROCESS:

1. High requirements from the regulator and exchange;
1. Mistakes and false information in the prospectus;
1. Not drawing investors attention;

STEPS OF IPO:

Any company doing IPO goes through several steps. This is to protect the investors who invested in their shares.

FIRST STEP

According to the Company Act and Charter of the Company, decision for IPO has to be decided by the Shareholders Meeting.

SECOND STEP

IPO issuing company chooses the underwriter and makes a contract. According to this contract, underwriter prepares the prospectus, gets the registration at the Financial Regulatory Commission and Mongolian Stock Exchange, buys all or part of the issues stocks and sells stocks to investors.

Prospectus must contain the following information that's needed for the investor to make investment decision:

- * About the issuer;
- * Management and structure;
- * Operations;
- * Asset, debts, financial condition;
- * Current and future business plans;

* Regulation on selling stocks;

* Independent review/conclusion.

The issuing company gets registered at the relevant board at MSE and underwriter makes the research which board is suitable for the issuer.

MSE registers stocks on I, II or III boards and each of them have different requirements. The issuing company gets registered either on II or on III. Registration procedure and requirements are set by the Registration Regulation of MSE.

THIRD STEP

Prospectus and other relevant documents are sent to FRC and MSE to get registered and it can be done simultaneously.

Fourth Step

Road show can be started after the prospectus gets registered by FRC and it has to be done within 6 months after the registration date.

FIFTH STEP

The issuing company has to send the report on initial trade to FRC within 3 days after stocks being sold out. These IPO steps might vary in time and it depends on the market condition, underwriter's experience, issuing company's management, knowledge of the market, information and investors' knowledge and many more.

FRC makes the decision whether to register or not within 20 working days after receiving the prospectus and other relevant documents.

AFTER IPO

After going public, the company has to increase shareholders' value and direct all its operations for this purpose. In order to do this, company must:

- Spend the funds appropriately for its initial purpose;
- Disclose financial and operational statements to shareholders and public on the timely manner;
- Implement the good governance;



Holder of the license of the strategically important mining deposit must issue minimum 10 per cent of its shares on MSE according to the Article 5.6 of the Law on Mining.

On 6th of February, 2007, Parliament of Mongolia passed the resolution on strategic mining deposits. According to this resolution 15 mining deposits were classified as of strategically beneficial. Currently, 23 companies hold exploring and exploitation license based on these mining deposits and 14 companies have started their operations.

Out of 23 companies mentioned above, 8 companies are more than 51%, 1 company is 34% owned by the state. Since the government has not decided its share in three uranium deposits in Dornod province and Gatsurt gold mine, these mines are not included in the state owned enterprises ("SOEs").

FRC has included an action to re-evaluation of the above mentioned company's assets and privatizing them through MSE has been included in the "Measures to overcome the economic difficulties" passed by decree No.41 by the Parliament of Mongolia.

LOCAL EXCHANGE:

- 4 Out of 9 SOEs are listed on MSE. These listed companies are Baganuur, Shivee Ovoo, Tavan Tolgoi and Darkhan Steel LCs and 25%, 10%, 49% and 100% are owned by the state respectively.
- If the government makes decision, Darkhan Steel and Erdenes MGL are fully potential to issue 10% of its stocks on MSE.
- 14.06% of stock of Erdenes Tavan Tolgoi is registered to owned by the citizens of Mongolia;
- Listing stocks of Erdenet and Monrosvetmet is to be decided separately since they are joint venture with Russia.

FOREIGN EXCHANGE:

Parent company of Oyu Tolgoi LLC is listed on NYSE and parent company of Energy Resource LLC is Mongolian Mining Corporation is listed on Hong Kong

CAPITAL MARKET AND THE DEPOSITS OF STRATEGIC IMPORTANCE

Exchange. Thus, the stocks of these companies can be traded on MSE by issuing depository receipts, and by cross-listing. Legal environment is in place and custodian banks are already started their operations.

CLOSED COMPANIES:

Other holders of the license of strategically important mining deposits should be encouraged to fulfill their obligations under the law to list their stock on the exchange by tax and economic incentives rather than administrative enforcement.

Within this framework following actions has been taken:

1. Develop the standards of valuation of mineral resources deposits and adopt them;
2. Re-register companies' assets;
3. Re-evaluate the assets of the companies;
4. To include companies' assets in their financial statement;
5. List closed companies as I, II or III grade on MSE according to their governance, transparency, disclosure of financial statements, market value and share owned by the state.
6. Offer 10% of fully SOEs (III grade) to the public;
7. To increase public share to 25% to classify it as I grade stock.

RESULT TO BE ACHIEVED:

If the Decree No.41 by the Parliament of Mongolia and Article 5.6 of the Law on Mining "Holder of the license of the strategically important mining deposit shall issue minimum 10 per cent of its shares on MSE" gets implemented, securities markets' indicators such as market capitalization, liquidity and trade volume will increase. Also, this will create basic conditions to attract foreign investment by offering financial products meeting their needs which will lead to the possibilities to raise capital internationally and domestically to finance long term projects. Naturally, this will lower bank lending rate, allocate deposits and capital in more efficient investments.

INFORMATION ON STRATEGICALLY IMPORTANT MINING DEPOSITS:

| # | Name of the deposit | Location | State | Private | Exploiting (yrs) | Holder of license | Listing |
|----|--|----------------------------|----------|-----------------------|------------------|--------------------------------------|---------------------|
| 1 | Asgat, silver | Nogoonuur, Bayan-Ulgii | 51 | 49 | Not yet | "Mongolrostsevmet LLC | None |
| 2 | Burenkhaan, Phosphorus | Alag-Erdene | 0 | 100 | Not yet | "Toprounhentso LLC | None |
| | | Burentogtoh | 0 | 100 | Not yet | "Sutaihentso" LLC | None |
| 3 | Tsagaan Suvarga, copper, molibdenum | Mandah, Dornogobi | 0 | 100 | 2 | "Erdenes tsagaan suvarga" LLC | None |
| 4 | Tumurtei, iron ore | Khuder, Selenge | 100 | 0 | 3 | "DTU" SOJSC | MSE |
| 5 | Tumurtein Ovoo, zinc ore | Sukhbaatar, Sukhbaatar | 0 | 50:50 | 10 | "Tsairtminerals" LLC | None |
| 6 | Baganuur, coal mine | Baganuur, Ulaanbaatar | 75 | 25 | 36 | Baganuur JSC | MSE |
| 7 | Shivee-Ovoo coal mine | Sumber | 90 | 10 | 24 | Shivee Ovoo JSC | MSE |
| | | Sumber | 100 | 0 | Not yet | Erdenes MGL SOC | None |
| 8 | Nariin Sukhait, coal mine | Gurvantes, Khuren tolgoi | 0 | 100 | 10 | Chinhua MAK LLC | None |
| | | Gurvan Tes, Nariin Sukhait | 0 | 100 | 10 | MAK LLC | None |
| | | Gurvan tes Ovoot tolgoi | 0 | 100 | 6 | Southgobi sands LLC | TSX, HKE |
| | | Gurvan tes, Khuren shand | 0 | 100 | 1 | Usukh Zoos LLC | Southgobi Resources |
| 9 | Tavantolgoi Coal mine | Tsogttsetsii | 51 local | 49 | 48 | Tavantolgoi JSC | MSE |
| | | Tsogttsetsii, Ujgaa jgudag | 0 | 100 | 6 | Energy Resource LLC | HKE, MMC |
| | | Tsogttsetsii | 100 | 0 | 4 | Erdenes Tavantolgoi JSC | None |
| | | Tsankh west and east side | 100 | 0 | 2 | Erdenes Tavantolgoi JSC | None |
| 10 | Oyu Tolgoi, copper and gold mine | Khanbogd, Umnugobi | 34 | 66 | 2 | Oyutolgoi LLC | TSX, NYSE, TRQ |
| 11 | Erdenetiin Ovoo, copper and molibdenium mine | Bayan-Undur, Orkhon | 51 | 49 | 36 | Erdenet Mining Corporation | None |
| 12 | Boroo, gold mine | Bayangol, Selenge | 0 | 100 | finished | Boroogold LLC | TSX, Centerra |
| 13 | Gurvan bulag, uranium mine | Dashbalbar, Dornod | - | - | Not yet | Emeelt Mines /sold to CNNC of China/ | None |
| 14 | Dornod uranium mine | Dashbalbar, Dornod | - | 58 Canada + 21 Russia | Not yet | Central Asian Uran LLC | None |
| 15 | Mardai, uranium mine | Dashbalbar, Dornod | - | - | Not yet | Adamas Mining LLC | None |
| 16 | Gatsuurt gold mine | Mandal, Selenge | - | - | Not yet | Boroogold LLC | TSX. Centerra |

T.TSOGTBAYAR: FILLED THE GAP OF SELF-REGULATION ORGANIZATION IN THE SECURITIES MARKET OF MONGOLIA



Mongolian Securities Dealers Association's all-member meeting held on April 3, 2015 approving its self-regulatory status. Following the decision, the Financial Regulatory Commission registered the association to be the self-regulatory organization on 16 June 2015. Thus, the country's first securities market self-regulatory organization is approved turning a new page in the history of the stock market of Mongolia. The MSDA's Chairman of the Supervisory Council T.Tsogtbayar was interviewed.

-Please introduce your organization?

-The non-governmental organization, Mongolian Securities Dealers Association (MSDA) was established on July 8, 1995 with the initiatives from securities brokers and dealers companies in order to provide sustainable participation and services of companies, professionals and individuals on the bases of their unified interests, views. In the past, in accordance with its charter, the Mongolian Securities Dealers Association has organized its all member gathering eight times throughout the cities such as Ulaanbaatar, Darkhan, Erdenet and Dalanzadgad holding extensive discussions on our annual reports, Association's charter, internal regulations, code of conducts, member remuneration, membership fee amounts. Currently, there are more than 50 member companies including 1,200 professionals and more than 760 shareholders have joined. Under the Securities Market Law, we're operating as a self-regulatory organization for the past half year.

-What are the future plans as a securities market self-regulator organization?

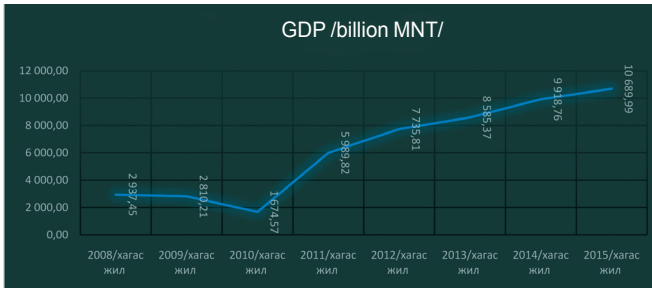
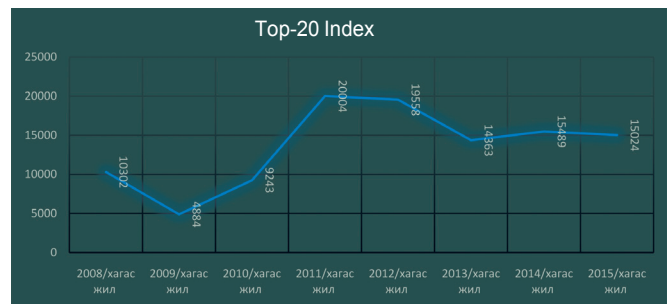
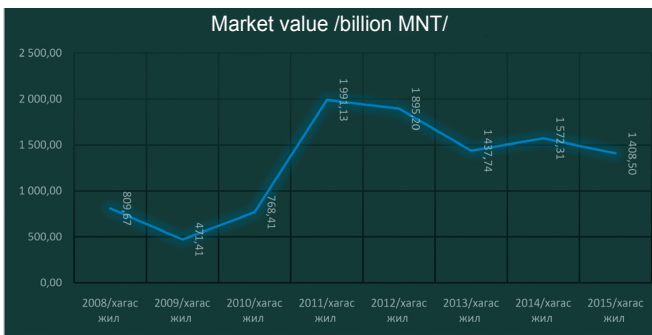
-Dated May 24, 2013 on the session of the Parliament of Mongolia, approved the Law on Securities Market Act amendment adopting self-regulatory organization's legislative framework and its regulatory rights. The state regulatory body, the Financial Regulatory Commission issued the corresponding regulatory documents for detailed correspondence: "Regulation of registration procedures of the self-regulatory body" and "Guidelines of the organizational chart and internal regulation of the self-regulatory body and self-regulatory organizations in the securities market".

According to the international higher standards, we're facing to elaborate on the market conduct and professional code of ethics, financial responsibilities and increasing the roles self-regulatory bodies in order to prevent securities market high-risks. In addition, the advantages of being self-regulatory to implement with the participation of our own members are to stop the supervision overlaps, avoid vacant space and better qualified regulation. This is a complete understanding of the importance by the Financial Regulatory Commission and to be supported further. As we become a self-regulatory organization, our collective responsibility has risen to perform at a higher securities market self-regulation standard and to establish common standards of the legal affairs. Therefore, we began to monitor un-regulated activities, grant licenses, postulate the ethical norms and standards, and evaluate and review professional organizations and their functions. In other words, the self-regulatory organization's priority is to strengthen the organization's financial and human resources to improve and enhance their skills.

-What's international experience on self-regulatory organizations in the securities market?

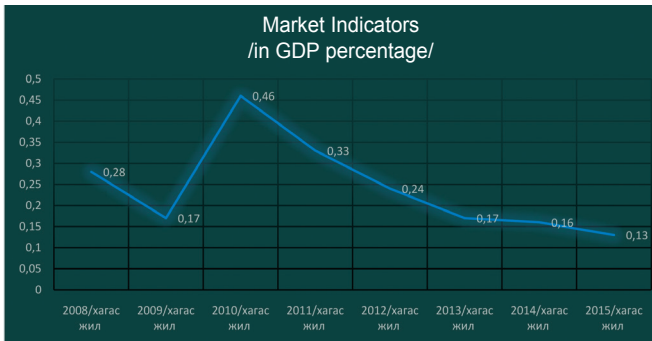
-Our securities market legislation has improved in comparison to the previously issued legal regulations that the current possibility of a self-regulatory organization is one of the examples of highly developed securities market in compliance with the international standards. Securities trade organizing, professional participation coordination and supervision are the two main areas where the regulatory organization operates in the highly developed countries. Therefore, the stock market will play its main role in trading of the securities markets whereas the association will play its role in standardizing, communication in public adherence of the regulatory actions.

2015 MAIN INDICATORS OF THE SECURITIES MARKET

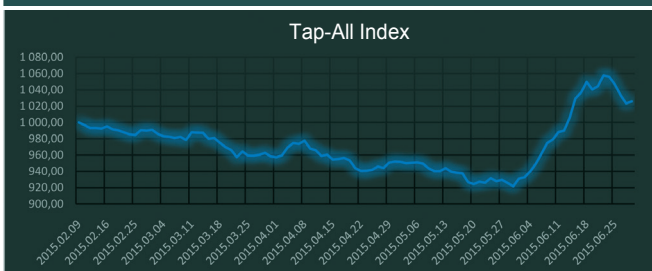
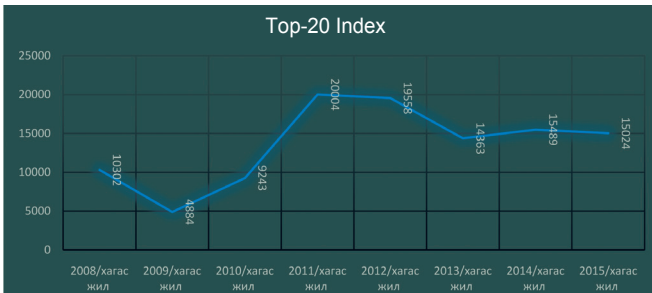
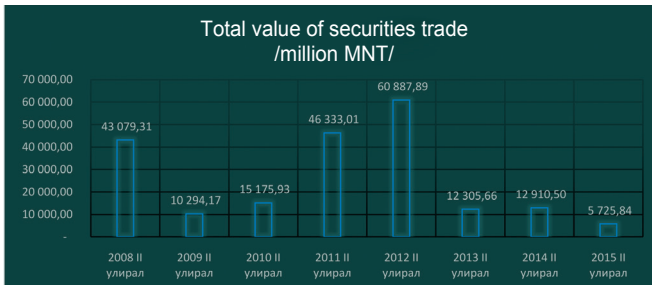


Among the listed companies at the Mongolia Stock Exchange JSC (MSE), the best performance companies are best known as the Top-20 index of 20 companies. Top 20 the company's shares, along with their decrease in cases due to its supply demand index. The MSE began to issue the "MSE ALL" index of all listed public companies since 9th February, 2015.

The dividend distribution covers 23 listed companies with the total of 199 854 730 shares in the value of 7 313 698 806.5 MNT including:



| No | Company names | individual stock value | amount of stocks | total value of stock | Registration day | Delivery type |
|--------------|-------------------------------|------------------------|----------------------|------------------------|---------------------------------|---------------|
| 1 | Tachi Co | 82 | 1 189 983.0 | 97 578 606.0 | 2015.03.16 | ҮЦТТХТ |
| 2 | Gobi | 140 | 7 801 125.0 | 1 092 157 500.0 | 2015.02.27 | ХК, ҮЦТТХТ |
| 3 | Moninjar | 5 | 15 869 233.0 | 79 346 165.0 | 2015.03.03 | ХК |
| 4 | Germes Center | 4.07 | 78 543 001.0 | 319 670 014.1 | 2015.02.28 | ХК, ҮЦТТХТ |
| 5 | Binse | 10 | 1 268 320.0 | 12 683 200.0 | 2015.02.26 | - |
| 6 | UB BUK | 66 | 1 128 275.0 | 74 466 150.0 | At the regular registration day | ХК |
| 7 | Arig gal | 42.51 | 3 479 320.0 | 147 905 893.2 | - | - |
| 8 | Erdenet suvarga | 5 | 156 054.0 | 780 270.0 | 2015.03.02 | ҮЦТТХТ |
| 9 | Bayanteeg | 100 | 252 608.0 | 25 260 800.0 | 2015.03.14 | ҮЦТТХТ |
| 10 | Makhimpex | 100 | 3 800 721.0 | 380 072 100.0 | 2015.03.26 | ХК |
| 11 | Talkh Chikher | 120 | 1 023 703.0 | 122 844 360.0 | 2015.03.31 | ХК |
| 12 | Gazar suljmel | 13196.8 | 65 362.0 | 862 569 241.6 | 2015.02.20 | ХК |
| 13 | Mongoliin tsakhilgana kholboo | 6.0637 | 25 870 276.0 | 156 869 592.6 | 2015.04.02 | ҮЦТТХТ |
| 14 | Gan kherlen | 300 | 99 899.0 | 29 969 700.0 | - | - |
| 15 | Tavan tolgoi | 59 | 52 665 200.0 | 3 107 246 800.0 | 2015.03.09 | ҮЦТТХТ, ХК |
| 16 | Tavilga | 408 | 122 754.0 | 50 083 632.0 | 2015.04.02 | ҮЦТТХТ, ХК |
| 17 | Aduunchuluun | 85 | 3 151 304.0 | 267 860 840.0 | 2015.03.27 | ҮЦТТХТ, ХК |
| 18 | Gan khiits | 100 | 242 464.0 | | 2015.03.05 | ҮЦТТХТ, ХК |
| 19 | Khuvsugul altan duulga | 221.89 | 113 286.0 | | 2015.03.23 | - |
| 20 | Achit Alkabi | 30 | 74 127.0 | 2 223 810.0 | 2015.03.10 | - |
| 21 | Tekhnik import | 300 | 1 446 755.0 | 434 026 500.0 | 2015.03.16 | ХК |
| 22 | Material impex | 80 | 1 368 206.0 | | 2015.02.24 | ҮЦТТХТ |
| 23 | Tavilga | 408 | 122 754.0 | 50 083 632.0 | - | - |
| TOTAL | | | 199 854 730.0 | 7 313 698 806.5 | | |



JAPAN INTERNATIONAL COOPERATION AGENCY TO COLLABORATE ON CAPITAL MARKET CAPACITY DEVELOPMENT



“Mongolian capital market capacity building” project launched in July 2015 in collaboration between the Financial Regulatory Commission of Mongolia and the Japan International

Cooperation Agency. The project aims to contribute to the development of Mongolia’s stock market. The Stock Exchange JSC of Mongolia was established 25 years ago yet the market is still not at the expected standard. The market capitalization of the Mongolian Stock Exchange JSC is valued at 1.4 trillion as of May 12, 2014 equaling only 7% of the GDP. The Government of Mongolia is to intensify the capital markets role in economic

development of the country while pursuing the policy of issuing new stocks thought the privatization of the state-owned companies and budget deficits to be funded. Therefore, the general aim of the project is to promote the un-listed companies registered in Mongolia for the enhanced public stock offering and increasing market confidence among the listed companies to be listed on the foreign stock exchange markets through dual-listing though creating an active primary market at the Mongolian Stock Exchange JSC. Five main outcomes are awaited from this project, which are: 1) creating a Policy Committee aimed at revitalizing stock market; 2) capacity development of the FRC directed at capital market regulation and supervision; 3) preparation of regulatory policy documents for self-regulatory organizations; 4) activate IPO offer to become the public listed company and dual-listing on the foreign stock exchanges; 5) increasing awareness and understanding of public financial education.

CUSTODIAN BANK SERVICE TO BRING MORE FOREIGN INVESTMENT

In relation to the development of financial markets in the Mongolia, the custodian bank activities have been introduced. This emerging relationship with the custodian bank is to create and promote registered custodian banks, provide financial information disclosure and ensure the fair and then to develop a system to monitor the results of their activities are of utmost importance. When custodians (investment and commercial banks) invest in the securities market, their activities are secure storage of the investor’s securities and other assets; providing and keeping account information and assets related to securities tax services; securities-related transactions on a contractual basis with clients. It is essential to have secure custodian services for foreign investment in order to increase its presence. The Financial Regulatory Commission of Mongolia and the Bank of Mongolia have jointly issued a custodian regulatory compliance with international standards “A custodian license and operating system” and approved. Moreover, it is now necessary to issue an International Financial Reporting instructions standards /IFRS/ in accordance with the custodian accounting records, preparing financial and operational reports that are complied within the



Securities Market Act and the Investment Fund Act, the Banking Law and the Law on Accounting and other related regulation issued by the Financial Regulatory Commission. Issuing such standard instructions for the custodian banks allow them fair presentation of financial statements and reporting. Currently, the Trade and Development Bank, the Golomt Bank, the Khaan Bank to conduct custodian bank service requests and approved by the Financial Regulatory Commission after license reviewing.

THE FINANCIAL REGULATORY COMMISSION, IN COOPERATION WITH BANKING & FINANCE ACADEMY, SHALL INCREASE QUALITY OF HUMAN RESOURCES



The memorandum was signed between the Financial Regulatory Commission and Banking & Finance Academy to increase quality and knowledge of human resources within the financial sector through proper support and education. After the adoption of the law on the securities market, the need for pro-

professionals in the fields of custodian banking, investment fund management has increased significantly.

In addition, banks have started to be involved in the insurance brokerage, custodian bank, broker, trader, and underwriter activities. The initiative to cooperate with Banking & Finance Academy was taken in order to accommodate operations of such complex financial services. According to FRC Director, Z. Narantuya, professional training geared toward personnel of the Mongolia Union of Insurers, Union of Security Traders, the Union of the Non-Banking Institutions are also included within the scope of the memorandum. The Head of the Board of Directors of the Banking & Finance Academy G. Tsolmon said: "Under this memorandum we are going to conduct training in following three directions: commercial banking, customers, and personnel for the financial regulatory commission. This initiative is viewed as a significant push toward updating operations of long term transaction banks and forming new types of businesses within the Mongolia markets.

ALL TRADED COMPANIES' CAPITALS ARE TO BE RE-EVALUATED.



Even though, it is required of traded companies to re-evaluate their capital every three years by valuation institutions authorized by the Financial Regulatory Commission, it was discovered that there are still many traded companies that have not done so. Given

that due to this situation, there are high risks of significant loss at the investor level. To mitigate this risk, during the 17th meeting, the Financial Regulatory Commission issued a resolution that requires all traded companies to have their capital re-evaluated.

There are instances where shareholders suffer losses due to companies being forced to restructure because of incorrect valuation. Hence, it is requested that third quarter capital re-evaluation to be reflected in the year-end Commission report.

INFORMATION ON THE COMMISSIONS PAID TO THE INSURANCE AGENTS IS TO BE MADE PUBLICLY AVAILABLE

In Mongolia, as of end of 2014, there are currently 16 insurance companies operating with 3,418 licensed insurance agents, accumulating up to 51.9 % (MNT 55.7 billion) of the overall insurance earnings. Insurance agents' commissions totaled MNT 10.8 billion for the same period out of which MNT 3.39 billion is attributed to 98 agent that earn MNT 20 million and more each in commissions.

The resolution 198 from 2013 on "the insurers activities regulation" and resolution 411 from 2013 on "the requirements of the activities of professional insurance agent" were amended by the Financial Regulatory Commission in order to support the insurance agents professional duties that account for more the 50% of insurance premiums, improve monitoring, maintain income records of agents, and provide private and state company contract commission reports to the public.

These amendments allow the public be informed on the amount commissions paid to the insurance agents from the deals concluded with the state, private and companies with the foreign investments. Thus, these amendments create the legal foundation for agents is to be paid only for his/her professional services. Finally, the officials underline that these undertakings will bring the insurance field up to a new standard, enabling them to address issues such as "insurance commissions' regulation".



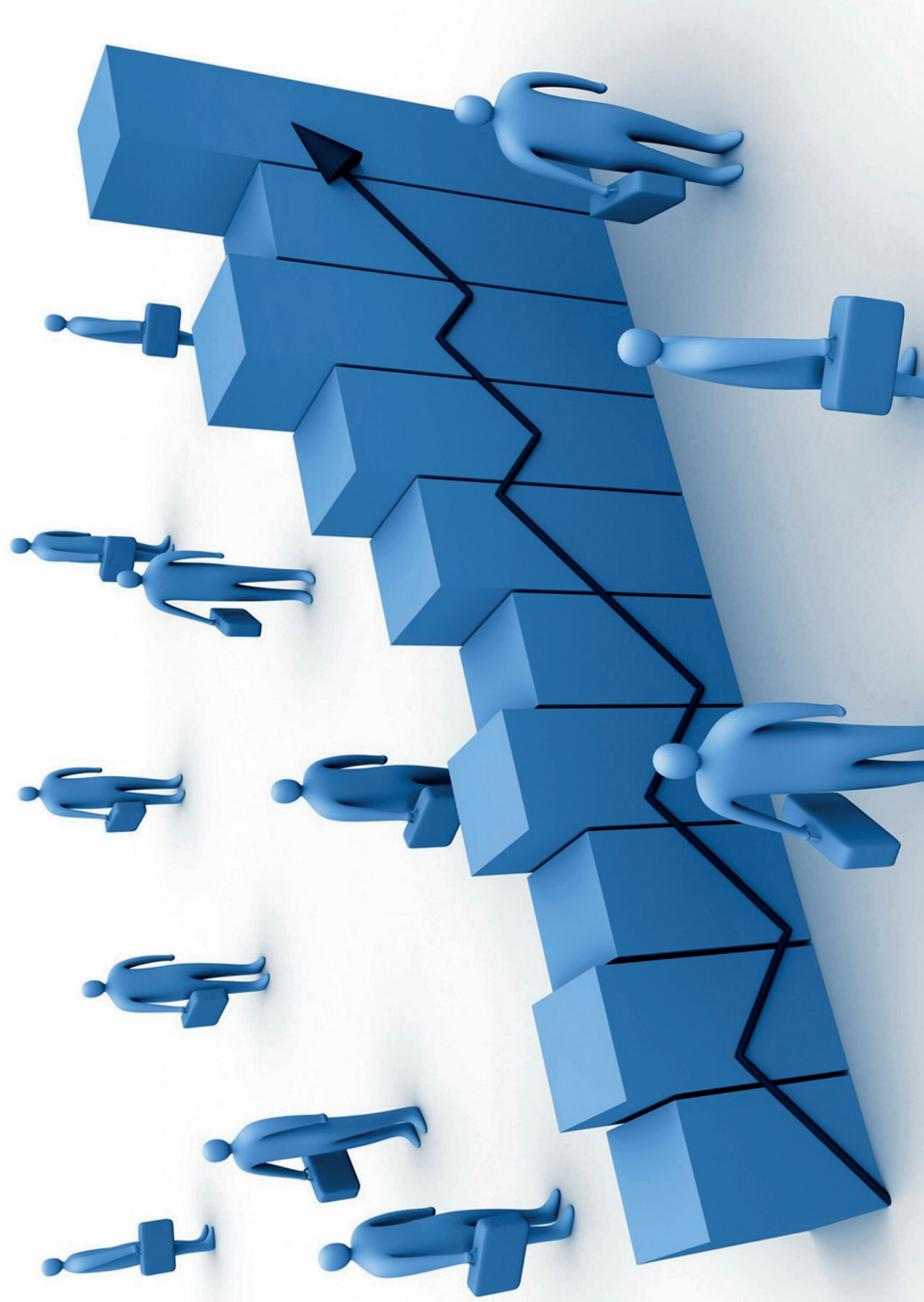
Capital market products in Mongolia:

1. Stocks;
2. Government and Municipal Bonds;
3. Corporate bonds;
4. Asset-backed securities and Mortgage-backed securities;
5. Deposit Certificate;
6. Investment Fund Unit;
7. Derivatives.

For more information please visit to

www.frc.gov.mn

Financial Regulatory
Commission of Mongolia
2015.



Securities Market

Today & Tomorrow



**FINANCIAL
REGULATORY
COMMISSION**

**YOU ARE
INVESTOR**
Handbook



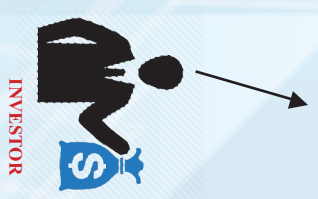


Stock market is

the market where stocks are issued to raise a long-term capital and shares, government and corporate bonds, asset-backed securities and derivatives are traded.

Broker.

Proceeds buy and sell order of the customer and charges fees.



Investors give orders to brokers to sell and purchase shares, and please note that they take currency risk themselves.

Investment Fund

Investment Management Company

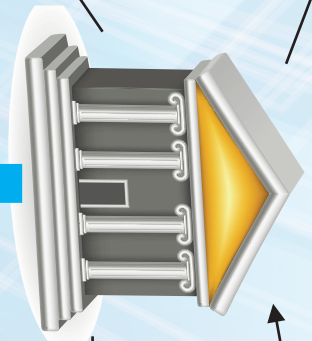
establishes investment fund and manages its capital on high professional level.

Custodian bank

Custodian bank registers local and foreign customers, and opens their nominal account. Also registers and saves Deposit Certificate and investment fund capital.

Advising and/or forcing to buy/sell certain stocks are prohibited.

STOCK EXCHANGE



Securities Clearing House and Central Depository is responsible to register listed shares in MSE and investors shares.

IPO. Initial Public Offering is the activity of issuing stocks in the stock exchange to raise long term capital.

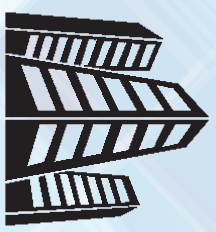
компания (про хийгч)



Underwriter provides professional service to the company issuing IPO.

Why capital market?

1. Raise cheap capital;
2. Enhance Corporate Governance
3. Diversify to expand its activities
4. Benefit from stock price change;
5. Dividends
6. Asset management
7. Increase efficiency of the operations
8. Efficiency control



By issuing IPO will raise necessary capital while creating positive reputation.

1. Better reputation;
2. Better corporate governance;
3. Trust will increase of local and foreign investors.



Mongolian Association of Securities Dealers

/Self regulating body/

Mongolian Securities Dealers Association (MSDA) was organized by the initiation of securities broker, dealer companies for creating a favorable environment for sustainable business services and capital market participants' legitimate interests, common views and policies with a non-governmental organizational status. The first meeting was held on 5 July, 1995 discussing the Association's charter, approving its board members with the official state registration accompanied by the official seal. The vision and aims of establishing securities market services to develop international standards professional organization protect the market participants, legal protection for the interests of customers, training and educating the 46 member organizations.

Since 2007, the MSDA has been developing active international collaboration beginning with the Union of Taiwan Securities Association establishing a cooperation agreement and held securities market training at the Securities Institute of Taiwan in 2008. In 2012, at the "Asia Securities Forum VI" held in Japan, the MSDA successfully presented Mongolia's present situation of participating in the capital market trends and presents the challenges

and establish contacts with representatives of other countries participants and exchanged their knowledge and experience. The MSDA has been successfully evolving along the market development in Mongolia and growth of the securities market trends and operating in compliance with Mongolian state securities market in the conformity with international standards for the development of professional organizations. In 2011, MSDA has received the right to train and educate securities market professionals previously held by the FRC and currently there are over 1200 professionals are trained. In addition, the MSDA holds Corporate Governance and Good Practice trainings for board of directors in cooperation with the National Council.

The Revised Law on Securities Market allowed the MSDA to have a self-regulatory legislative status creating a new step towards the first self-regulatory body on Mongolia's development of the capital market. Thus, a part of the FRC's official responsibility was taken by the self-regulatory organization for the protection of capital market professionals, investors interests and right according to the international standards.





CAPITAL MARKET REGULATION IS TO PROTECT THE INVESTORS

Capital market expert
G.MUNKH-ERDENE

BETTER REGULATION IS THE LESSON LEARNED FROM ECONOMIC CRISIS

In the history of the US the “Great Depression lasted from 1929 until 1933 for four years when the stock market fell from 381.27 units to 41.22 units taking another 27 years to recover. By the year of 1933, the US economy fell from 26.6% compared to the year 1929, the unemployment rate reached 23.6% therefore named as the



АНУ-ын Санхүүгийн
Зохицуулах Хороо

“Great Depression”. After the crisis, there was no confidence at all in the stock market. In such circumstances, building the market trust regarded as utmost. The securities law and the securities exchange law were approved in 1933 and 1934 by the US Congress. And in 1934, the United States established “The Securities and Exchange Commission” result-

ed in the capital market to be regulated by a number of entities. The aims of this Commission were determined to protect their investors, create justice and equality on the capital markets facilitating efficient capital raise activities. The securities market regulatory environment has settled to provide all types of information required to make available for any small and larger investors before and after making investment decisions. The Commission takes a special attention for investor education through the “Investor Assistance Department” providing a toll free telephone line assisting with the tens of thousands of questions, comments, requests and complaints cases every year. However, “The Department of Investor Education” deals with increasing investor education through print publishing and distribution of required information and organizing training seminars, investors meetings. The Commission’s main media channel to the capital market is EDGAR or “Electronic data collection and search” system”. Since 1984, the system began to be used to collect data and in accordance with the law and provides transparent information to make decisions for investors.





THE MARKET REGULATION HARNESSSES UNETHICAL ACTIVITIES

Stock markets are based on trust. Because you invest your money to someone else assuring that the capital is spent wisely for increased value. In this situation, the investors trust is in the moral and ethical activities at the market. At the risks of un-trusted service providers with high potentials of market misconducts should be considered carefully. Therefore, in the financial sector, ethical issues are examined firstly at any international qualification exams with high priority in order to preserve laws and regulations for normal and efficient market conducts for both investors and service providers.

Financial markets, especially the stock market are the most regulated area in the economy and it will have such trends in the near future while the market trust can be fragile once misconduct occurs. This could harm not only an individual market participant but also whole system. Therefore the investors always need to choose high ethical brokerage firms and investment funds served strict morals.

THE REGULATION AT THE MONGOLIAN STOCK EXCHANGE

In recent years, the securities market related laws and regulations have been updated. Among them, the Corporate Law and Securities Market Act renewal, a new law on investment funds are approved, a substantial progress being made in the direction of ensuring market information transparency and the more stringent accountability measure was set at a higher standard. Coordination improved dramatically compared to five years ago for investing in shares and is becoming increasingly favorable. However, education and information delivery for the investors on how to protect under different economically harsh conditions need to be improved. Therefore, mainly lead by brokers, dealers, and underwriter's participation of major companies in the Stock Exchange, the Financial Regulatory Commission, the Securities Clearing House and Central Depository joint legal activities are necessary to promote long-term sustainability of the market environment. And on the other side investors must show strong determination to protect their own interests through reading, studying and implementing in their practice. Thus, market integrity, equality, increased monitoring and accountability system are to function properly and investors and professional organizations to develop and protect the market.



THE RURAL AREA DEVELOPMENT IS POSSIBLE THROUGH THE FINANCIAL INCLUSION

Sustainable economic development needs a well-developed financial market which could bring a doubled amount of investment through introducing insurance, micro-finance operations of the capital market participants on to the actual capital market. In particular, local micro, small and medium sized enterprises have variety of legal opportunities to obtain investment from other than banks. This type of service to the community is present in a limited number due to the lack of poor public awareness about the business opportunities. Therefore, first time, the Finance Regulatory Commission organized an event about the FRC regulated bodies such as the stock exchanges, payment and insurance companies, broker-dealers companies and loan guarantee funds promoting and explaining their capital market services and opportunities to the local residents.

The FRC, the Asian Development Bank and the local branches of the Bank of Mongolia collaborated with the Aimag and Soum's local governance organized a forum "The

Financial inclusion and Rural Development" at Otgon, Ulyastai soums, Zavkhan Aimag in June 2015. The proceeding forum took place at Khentii Aimag in September. The Financial Regulatory Commission is set to create favorable conditions for the development of its policies and strategies, directly to the customers and free of bureaucracy promoting the development of regulatory and supervisory approach to business.

During the last zud (extreme dry cold weather condition), Zavkhan Aimag lost over 100 thousand livestock in the extreme cold, though, livestock insurance rate remains inadequate. The natural disaster and high risk of weather conditions are the compulsory requirements of the insurance that can benefit the local economy as well. Unfortunately, Mongolian herders and farmers do not adequately understand the benefits of this service instead, the wrong understanding of the government charging citizens subsidies.

Today, about 70% of the total vehicle in has compulsory insurance. In comparison, livestock insurance

covers only a very small percentage of herders and farmers. It was mentioned that the herders receive larger loss than paying the insurance as a consequence.

Currently a process of connecting the rural herders to the online trading system of the Agricultural Commodity Exchange is underway introducing at Zavkhan and Khentii Aimag.

Thus the rural residents have developed broader understanding about the benefits of livestock and agricultural commodities trading through the exchange, stock trading. Opportunities and possibilities of such commodity trading through the participation including insurance and savings services in the capital market were especially attractive and beneficial understanding to herders. The event held successfully in terms of introducing the increase of revenue, profits resulting in the local development as well as many opportunities for the sustainable development of the economy of the country through the increased access to financial services.



THE REGULATORY SERVICES PREMIUMS REDUCED



The FRC has reduced its regulatory service premiums indicating its support to the regulated bodies and professional market participants

Due to the recent economic slowdown in Mongolia, decreased market economy basic indicators and shrunk business activities, the FRC has a current policy to support the activities of professional participants and regulated bodies to decrease its regulatory service fees, commission rates, stock exchange and clearing house payments. This policy measures under the Financial Regulatory Commission's April 1, 2015, Resolution No. 158 "Regulation revision, the fees and their collection system" is adopted. In addition, the 5th session of the Commission issued a renewal on regulation service premium for the insurance companies dated May 6, 2015.

I. The premium changes of the regulatory services have been altered as such:

1. Previously, the insurer's fees collected at 0.65% from net income stated in the previous year's reports annually without a graded system. The new amendment is now down to 0.5% with the regulatory services minimum fee 3.0 million MNT and the maximum fee amount set at 75 million MNT.

2. Long-term and reinsurance operations fee was decreased from 5.0 million MNT to 3.0 million MNT.

3. The regulatory service premium from damage assessment evaluator was decreased from 0.55 % to 0.45 % of the income.

Such regulations changes have high impact on supporting

the insurance companies, professional participants' activities at local levels, and reduction of the operation expenses of insurance companies. For example, the regulatory service premium was decreased by more than 30% or 200.0 million MNT contributing greatly to the profitability of the insurance companies.

II. Supporting participants in the securities market through the regulatory service premiums:

1. The commission fee on the stock exchange trade was reduced from 0.4% to 0.15%.

2. The commission fee on each stock trade transactions made by the brokers and dealers was 0.04% and currently cancelled until the 31st Dec, 2016.

3. The commission fee on each non-stock trade transactions made by the brokers and dealers was 10% and currently cancelled until the 31st Dec, 2016.

4. The commission levy of 2.0 million MNT on underwriters cancelled until the 31st Dec, 2016.

5. The commission fee of 10% from stock transaction levy incomes during the payment settlement and depository and registration of ownership rights was also cancelled until the 31st Dec, 2016.

6. The commission fee of 10% from each stock trade transaction cancelled until the 31st Dec, 2016.

Thus, the professional securities market participants are fully released from the commission

fees for two years saving 358.0 million MNT on operating expenses.

III. The premium changes of the regulatory services on the micro-finance market participants have been altered as such:

1. When the non-bank financial organization becomes a member of Union of Non-bank Financial Institutions, the Financial Regulatory Commission will charge at the 10% discounted rate.

2. A Mongolian National Union of Savings and Credit Cooperatives member savings and credit cooperative having the total asset of below 300.0 million MNT is released from the annual regulatory service fee.

However if the savings and credit cooperatives total asset exceed 300.0 million MNT and maintain the membership, its regulatory service fee is discounted at the 10% rate.

In addition, to support promote and expand other financial market professional associations, the FRC encourages membership via creating incentives. For example, becoming member of the Mongolian Securities Dealers Alliance, Mongolian Insurers Association, and Mongolian Association for Damage Assessment Evaluators allows the 10% discount on the commission fees.

IV. The premium changes of the regulatory services on other regulated bodies have been altered as such:

1. The fee of name changes of the registered bodies was reduced from 2.0 million MNT to 500.0 thousand MNT.

2. The fee of regulated entities license restoration fee was reduced to 500.0 thousand MNT to 100.0 thousand MNT.

RUNNING BUSINESSES RAISED FROM UNITING INDIVIDUAL SAVINGS AND SHARING THE SUCCESS STORIES



“Savings and people’s participation” within the Asian development Bank’s project “increasing the financial services for the people in need” forum was organized at the “Blue Sky” complex on 27-28th of August. The forum discussed on benefits of the starting of the savings, increasing it, and managing it. Thai and Taiwanese experienced consultants shared their knowledge during this forum. Creating awareness regarding positive attributes of savings has contributed to the public’s financial education.

At the opening of this forum the head of the Financial Regulatory Committee, Z. Narantuya said: “I appreciate the development of the savings unions over the last 10 years. The main purpose of this forum is to exchange this experience with the others and to encourage formation of future such unions. The Financial Regulatory Commission is working towards increasing people’s financial education and providing access to financial markets by advancing micro-financial services. The president of Mongolia, Ts. Elbegdorj, addressed the forum: “Members of savings union determine the problems together, they find resolutions together, they bear the risks together, and learn from their lessons together and earn the profits together. The public trust that savings union gains is not limited to just monetary means. The financial education is an education of learning to trust

each other with finances, lending activity, transaction completeness and cash management. It is very important that every member of the savings unions participate in the decision making process. Through united involvement, they will develop the boroughs they live in. From the other side, with the support from government and local authorities, they will expand union activities.”

The union members finance their small businesses through joint savings. N. Oyunchimeg, the department head of the Financial Regulatory Commission said: “Five years ago, in 2010, the President of Mongolia, Ts. Elbegdorj issued a decree on reinforcing the development with people’s participation which served as a basis of formation of savings unions.” In order to support the micro-finance sector, Asia Development Bank implemented USD 2.5 million donation project funded by the Japanese Government. Consequently, several initiatives have taken place in order to promote small and medium sized businesses as well as increase the supply of required plant and equipment. As a result, public savings gain in quality by increasing purchase power and incur income in form of interest through cash lending. Encouraging such cash circulation, thus, increases public interest in going into the savings and credit cooperative and non-banking financial institutions.

One example is citizen of Bayanchandmansoum of Tuvaimag, Mrs. Chluuntsetseg. She formed a union with 8 members with a monthly deposit of MNT 30,000. If during the first year they used to spend the accumulated savings for their day-to-day needs, now they began to finance small and medium businesses and earn profit from them. On the other hand, citizen of Hentii province, B. Saruulmaa’s union has members without any stable income and have substandard quality of life. Hence, they use the savings to support members with their day-to-day needs and deal with other financial issues.

The 2010 the Asia Development bank research revealed that 70% of Mongolians are barely earning enough income to meet their monthly needs. However, the same survey, held in 2015, showed that half of those surveyed are in need of savings. Hence, the questions rose regarding how to convert the income that is barely covering their needs into savings. In essence, economic concept of “saving money today so it can be spent tomorrow” is the key position where we lack understanding on.

“Savings and Public Participation” Declaration made by the forum

The savings unions' activities to support and unite people with their aspiration for better life is appreciated and supported by president of Mongolia, Government, and Financial Regulatory Commission of Mongolia.

President's 215th decree, made in 2010, appreciates and supports Mongolian public's ambition to make a change in lives and living conditions within the country.

A forum co-organized with the Urbanization Center by the Financial Regulatory Commission was geared toward improving the public knowledge over and access to financial services and expanding the framework of micro-financial services.

There are nine Savings Unions throughout Ulaanbaatar and provinces. They include some 214 teams which are made up of 6,414 households with total of 9,412 members. The activities involved over 12,000 people and their initiatives. Some 165 proposals with the purpose of improving residential facilities, 42 recreational areas and playgrounds, 35 street lights, 18 sewage platforms, 7 saving teams, 12 pedestrian roads and 279 types of community services were implemented to reach and serve more than 30,000 people.

This declaration is a form of invitation for all of you to join in the formation of joint savings in every province in hopes to lead our country to the better future. Let us change the old mentality and form a united participation.

- * Increase public access to service available*
- * Expand the boundaries and increase the savings*
- * Let us form joint savings*
- * Let us root for progress together*

**The participants of the “Savings and people’s participation” forum
Ulaanbaatar 2015**



World Council
of Credit Unions



Дэлхийн хадгаламж,
зээлийн хоршоодын
зөвлөл

2014 Statistics



Serving 217 000 000 individuals

8.2%

\$1.5
\$1.2

\$181
\$1.8

The Principles

The principles of international saving and credit cooperatives are based on working together with transparency, trust, equality and assisting each other. The individual country's experience and developmental path are different but the all pervading principles are to broaden each citizen, supporting and developing the community for better society.



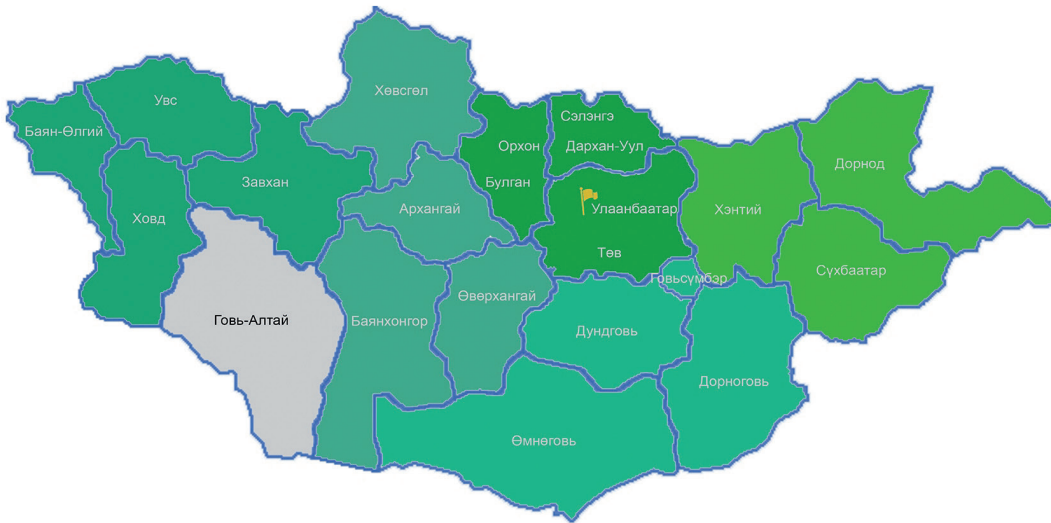
MOCCU

Mongolian National Association of Savings and Credit Cooperatives

2014 Statistics



Mongolian National Association of Savings and Credit Cooperatives



● Savings and credit cooperatives reported statistics, provinces and cities

● Other



Serving 30 698 individuals

1.5% Proportion of the working age population,

₮65.1 BILLION savings and individual investors joined (MNT)
₮61.5 BILLION Credit balance (MNT)

₮9.2 BILLION COOPERATIVES PROPERTY (MNT)
₮80.5 BILLION TOTAL ASSETS (MNT)

- Open and voluntarily membership
- Social responsibility
- Cooperation between cooperatives
- Non-discrimination
- Members access
- Democratic and cooperative management and monitoring
- Financial sustainability
- Permanent education and training



People helping People

International Credit Union (ICU) Day® has been celebrated on the third Thursday of October since 1948. The day is recognized to reflect upon the credit union movement's history and to promote its achievements. It is a day to honor those who have dedicated their lives to the movement, recognize the hard work of those working in the credit union industry and show members our appreciation.

The ultimate goal is to raise awareness about the great work that credit unions are doing around the world and give members the opportunity to get more involved. Credit unions and associations throughout the world celebrate the day with fundraisers, open houses, contests, picnics and parades.

World Council of Credit Unions has provided its members with ICU Day materials for over 30 years, but it no longer distributes posters. Official ICU Day posters and logos are available below for download and print. The U.S. [Credit Union National Association](http://www.cuna.org) (CUNA) also offers a variety of promotional resources to help credit unions prepare for and celebrate ICU Day.

