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# MONGOLIAN ECONOMY

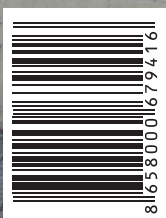
JANUARY, 2015 №01 (103)

Mongolianeconomy.mn

MONGOLIAN STOCK  
EXCHANGE  
25  
1991-2016 YEAR



## The MSE: Impetus for Development





**THE MONGOLIAN STOCK EXCHANGE INTRODUCED A MOBILE APP TO DISSEMINATE DAY-TO-DAY STOCK MARKET INFORMATION**

This application contains MSE member securities firms’ contact info, management information, phone numbers and address and also provides an opportunity to view the history of shareholding companies’ stock movements through graphs and charts. In the future it will also be possible to trade stocks right on your smartphone by using this app



[www.mse.mn](http://www.mse.mn)

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## GREETINGS

To all stock market institutions, experts, investors, issuers and everyone in attendance, happy 25th anniversary of the establishment of the Mongolian Stock Exchange and capital market in Mongolia.

In 1991, the government of Mongolia established the MSE as part of its post-socialism efforts to privatise state properties and to develop the securities market, and in 1995, the secondary market was launched.

During this period, the value of Mongolia's financial market climbed to MNT 21.5 trillion, as the government instituted a policy to rapidly develop a stock market, legal environment and infrastructure in line with international standards.

In 2014, the government decided that the Ministry of Finance would become a shareholder of the MSE, and one year later the MSE reached its highest ever level of activity, with MNT 546 billion worth of trades conducted in 2015.

I firmly believe that the capital market, especially the Mongolian Stock Exchange, will have pivotal role in the development and growth of the Mongolian economy and financial market.

I wish nothing but the best to all of you.



MINISTER OF FINANCE  
B.BOLOR

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Further on, they will encourage their families, relatives and friend to use that product, and the company's sales and profits will increase as a result, *page 6*



**T.Gandulam: Derivatives Will Be Introduced to Mongolia**

In other words, we were able to set the foundation of the works necessary to meeting international accounting standards and to boost confidence in such organisations, *page 27*



**Stand Up for Gatsuurt**

If this can be implemented, the citizens of Mongolia will be able to draw legitimate benefit from Noyon Mountain. And all those playing politics in the name Noyon Mountain, sit down, *page 30*

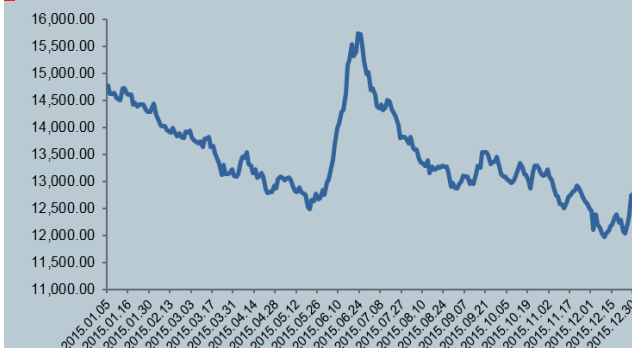


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**Top 20 index**



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THE BUSINESS AND ECONOMICS MAGAZINE PUBLISHED EVERY FORTNIGHT IN BOTH ENGLISH AND MONGOLIAN

# Mongolian Economy

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## Interview

# M.Bolor: Potential to Raise Funds Cheaply through the Mongolian Stock Exchange

*We sat down with M.Bolor, CEO of the Mongolian Stock Exchange. The beginning of this year marks the 25th anniversary of the establishment of the MSE. We talked with him about the capital market's most significant achievements and the future of its development.*

**The Mongolian Stock Exchange was buzzing with news in recent months. Two major IPOs were held. How about we begin our interview with this topic?**

First off, I would like to congratulate the companies listed on the exchange, securities firms, underwriters, investors and partners that made invaluable contributions to the development of the capital market, as this year marks the 25th anniversary of the founding of the MSE. We have you, all your effort and contributions, to thank for the achievements of the stock exchange. Also, generations of management and employees contributed greatly.

The capital market did not develop in just a day. The MSE, which was established on January 18, 1991, gained a lot of valuable experience and has had its ups and downs since then. But now we must work towards building a brighter future. During the previous month period, the IPOs held by MIK Holding and Mongol Post brought increased confidence in the Mongolian capital market and demonstrated that there are high expectations. As such, we're working to further bolster the market and produce more products in the future.

**MIK Holding JSC raised MNT 37 billion in just a month. Shortly thereafter, 34 percent of Mongol Post's shares were offered to the public. We see that it's pos-**



**sible to raise capital on the domestic market. What would you like to say regarding this?**

These two IPOs are just the beginning. MIK Holding JSC raised MNT 37 billion through the MSE, becoming the most successful IPO in the history of our institution. Moreover, even though Mongol Post set out to raise MNT 6.3 billion, they actually raised double that amount, MNT 12.6 billion, due to unanticipated demand. In other words, it shows that there's the potential to raise funds cheaply through the capital market. It shows that the stock market is blossoming and has room to develop further. We also see that domestic investors are interested in actively investing, despite the difficult economic situation.

**The entities placing orders for smaller amounts of shares were given priority when Mongol Post's shares were offered. Why weren't such arrangements implemented before?**

It was the first time a state-owned enter-

prise held an IPO on the Mongolian Stock Exchange. In carrying out the initial trading, a rule was instituted where a certain number was set and people or entities placing orders for shares lower than that set amount would see their orders cleared immediately. More specifically, Mongol Post cleared the orders to buy 10,000 or fewer shares before the larger orders. Some even ordered one single share. Shares were distributed to the public openly and accessibly. The remaining shares were sold proportionately to the investors that ordered more than 10,000 shares.

You asked why such arrangements weren't implemented before. There are varying reasons for holding an IPO. The government instituted a policy to equally distribute the shares of the Mongol Post SOE to citizens and investors. For example, the unit price of the shares offered to the public was set at MNT 185. If a private company wants to do an IPO, they can set their own starting price. Companies may also wish to raise capital by attracting a small number of ▶

► large investors. The stock exchange, securities firms and underwriters are working to provide a variety of opportunities and create flexible financial instruments for investors and companies wanting to raise funds.

**-During the privatisation of Mongol Post, Prime Minister Ch.Saikhanbileg said it's just the beginning and that over a dozen SOEs are waiting. What other companies are going to be privatised through the stock exchange in the future?**

As for state-owned enterprises, IPOs are planned for power plants and two mines. If the privatisation of an SOE takes place outside of the stock exchange, ownership gets concentrated in the hands of a few. Privatisation of state property via the stock exchange has many advantages: creating shareholding companies that comply with international standards, boosting confidence in the capital market, making the privatisation process transparent, reflection of real value and increasing the value. It also provides an opportunity for citizens to invest and reap returns. The finances and corporate governance of a company also stand to improve.

Not only SOEs, but also many private companies are interested in expanding their businesses by becoming a shareholding company. There are many advantages to incorporating a private company and attracting funds from the capital market, such as raising money from cheap sources and having regular customers. The more shareholders they have, the fairer, more reliable and consistent customers they get. A person who purchased a share will think of buying and using the company's products. Further on, they will encourage their families, relatives and friend to use that product, and the company's sales and profits will increase as a result.

**-Currently, are there any private companies that have come to you to do an IPO?**

Yes. There are about 10 companies that have contacted and received advice from us. In addition, companies are expressing their interests to securities firms. However, we can't just work with any companies seeking to become a public company and announce an IPO. There are very specific criteria. If a company was established yesterday and wants to become a public company, investors wouldn't want to invest and raising capital would be impossible. Investors are only interested only in organisations that have a proven track record, have a corporate culture and have conducted profitable, meaningful projects. Investors would suffer losses if risky companies come onto the stock ex-

change. The stock exchange will make decisions after taking into consideration several aspects, such as the overall economy, risks, governance and market capitalisation. We must protect the investors' interests. It's also necessary for the companies that submit offers and documentation. However, we won't let them go by just saying your company isn't going to work for us; we advise them to take care of aspects where they fall short and come to a solution together.

The stock market stands out because it's open and transparent and allows investors to participate and exit as they wish. Therefore, investors buy securities depending on market conditions and leave when they profit sufficiently. Today, entering the construction business and then leaving for the mining business or another sector after a week is unheard of. Only with stock market is such a thing possible.

In recent years, the mindset of entrepreneurs has changed drastically. They are starting to understand that doing business collectively on the stock market will give better results and successes by than doing everything alone. People gained and lost during these past 25 years, but they have also gained enough business experience. Hence, the future of the stock market is very bright.

**-One of the main problems of the Mongolian financial market is interest rates on loans. Is there a way to lower interest rates?**

To date, the majority of the Mongolian financial market has been operating according closed market principles. A closed market stands on the relationship between only two subjects. The idea that one gives and the other receives means one of the two will always have an advantage over the other. For instance, the possibility to lower interest rates is limited when one is bowing to request a loan and the other is towering over him for giving the loan. However, if this relationship goes through the open market or stock exchange, all the players can participate in any trading on equal terms, so interest rates will move to the middle. This means the situation where one bows and the other stands tall will be eliminated, since everyone will be on equal standing. In addition, it's possible to increase the sources of funding by circulating money as many times as possible by improving the liquidity of the stock market. In this situation, issue of interest rates will be discussed on a different plane. As such, it is of utmost importance to make the stock market even more active.

**-The stock exchange has become a self-governing organisation. Does this provide an impetus for the development of the capital market?**

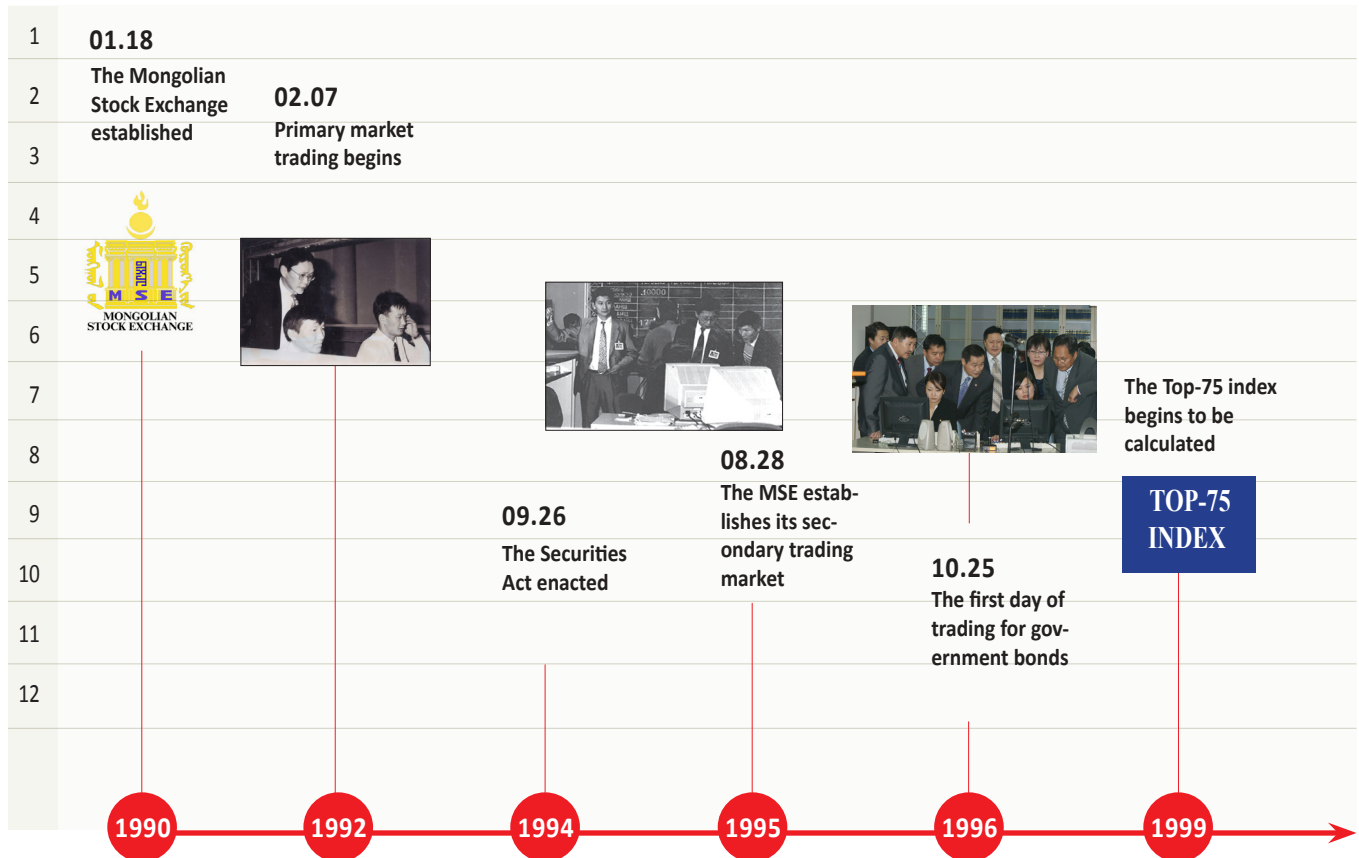
The Financial Regulatory Committee decided to make the MSE a self-governing body because they deemed the move beneficial to the economy. They showed that they are confident in us. Self-governing means having the right to monitor members and participants in accordance with the law and establishing the norms of the securities market. In other words, the stock exchange is taking some of the rights and responsibilities of the FRC on itself. Following this, certain rights and responsibilities are changing. New rules took effect starting January 1, 2016. Previously, the FRC made the decision on whether to accept a proposal to issue securities and double checked it by bringing it to the stock exchange. There's even a case of a request to issue securities being held up for half a year. Doing one job twice is lost time. The new registration procedure sorts out all of these and has been changed to be faster, more effective, accessible, fitting and without overlap. Aside from registration, there are regulations on monitoring, trading, membership and information. In the past, there were a lot of rules, but now those are being boiled down to five key policies.

**-Some are interested in playing the stock market, instead of receiving interest from a savings account. However, information is less than insufficient. Is there any chance of seriously improving the state of availability of information?**

It's true that the stock market lacks products and falls short when it comes to getting information out there. The new securities market law includes much-needed provisions, so opportunities on the stock exchange are becoming more open. We're focusing on adding products and delivering information to customers.

The MSE is making significant changes to its website. In the past, the stock exchange just talked about what their operations are about. We're updating our approach and developing a database for what can be done on the stock market. We're mostly aiming to develop infographics in order to make it easier for people to understand. It will have separate categories such as how to trade as a capital raiser or investor. We believe that it will be convenient for individuals to make their choice. ■

## Timeline



**1991.01.18**

### The Mongolian Stock Exchange established

In line with the historical period of Mongolia's transition from a centrally planned economy to a market economy, the Mongolian Stock Exchange (MSE) was established to begin the process of privatisation of state assets and develop a securities market in accordance the provisional government's resolution No.22 on January 18, 1991.

**1992.02.07**

### Primary market trading begins

475 state-owned enterprises were privatized and changed to shareholding companies, and a total of 96.1 million shares worth MNT 8.2 billion was distributed to the citizens as investment vouchers through the MSE.

**1994.09.26**

### The Securities Act enacted

The first Securities Act was enacted in 1994, followed by the establishment of the Securities Committee, and the MSE's temporary rules were newly adopted. Thus, the status of the MSE was changed to a non-profit engaged in securities trading and related services.

**1995.08.28**

### The MSE establishes its secondary trading market

Trading on the secondary market began: 29 brokerages operating via financing by the MSE were privatized and re-organised as a separate legal entity authorised to conduct brokerage and dealer services.

**1996.10.25**

### The first day of trading for government bonds

The government issued bonds for the first time to finance a budget deficit in 1996. In 2011, trading of government bonds were carried out in 14 rounds, and a total

of 2.4 million bonds worth MNT 236.7 billion were traded, including bonds worth MNT 65 billion to finance the "4,000 civil servants long-term housing loan" programme. Bonds worth MNT 171.7 billion to finance the programme to support wool, cashmere and SMEs were also sold.

**1999**

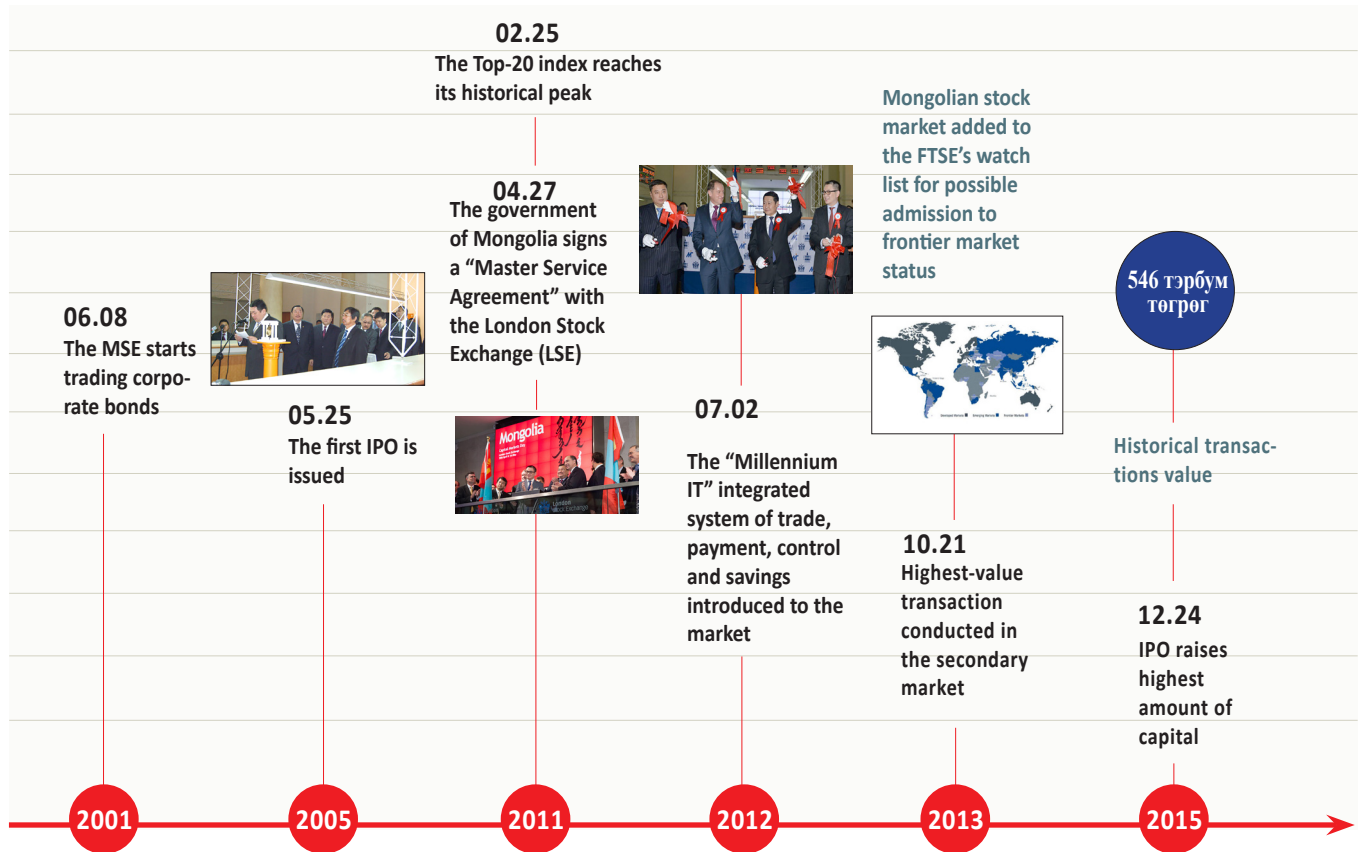
### The Top-75 index begins to be calculated

The Top-75 index began to be calculated based on the economic indicators of the first 75 companies listed on the MSE by tracking market capitalisation and average transactions per day.

**2001.06.08**

### The MSE starts trading corporate bonds

Barilga Corporation, a construction company, became the first to issue corporate bonds through the MSE. The company has changed its company type to trade 210,000 units of corporate bonds named "New Century-210."



**2005.05.25**

**The first IPO is issued**

"Mongol Shiltgeen" issued 10 million shares for the first time. They offered one million shares of stock to the public and registered with the Mongolian Stock Exchange to become a shareholding company.

**2011.02.25**

**The Top-20 index reaches its historical peak**

The Top 20 index reached a record 32,954.97 points, the highest in history over the last 25 years.

**2011.04.27**

**The government of Mongolia signs a "Master Service Agreement" with the London Stock Exchange (LSE)**

Within the scope of the government objective to reform the domestic capital market and develop it in accordance with international standards, the MSE, State

Property Committee and London Stock Exchange Group signed a "Master Service Agreement" to establish strategic and management partnership and commence reforms in the domestic capital market.

**2012.07.02**

**The "Millennium IT" integrated system of trade, payment, control and savings introduced to the market**

To implement the objective to update the stock market's software, the "Millennium IT" integrated system of trade, payment, control and savings was introduced on this day.

**2013**

**Mongolian stock market added to the FTSE's watch list for possible admission to frontier market status**

International capital stock index calculation and research leader, the UK's FTSE group signed a "Cooperation agreement in the direction of financial index processing"

with the MSE. Mongolia's stock market was added to FTSE's watch list for possible admission to frontier market status.

**2013.10.21**

**Highest-value transaction conducted in the secondary market**

Mongolian Stock Exchange experienced APU's transaction worth of MNT 47.5 billion, which was the largest block ever traded on the MSE in terms of value.

**2015.12.24**

**IPO raises highest amount of capital**

MIK Holding JSC offered 3.1 million shares to the public and raised 37.3 billion on the capital market.

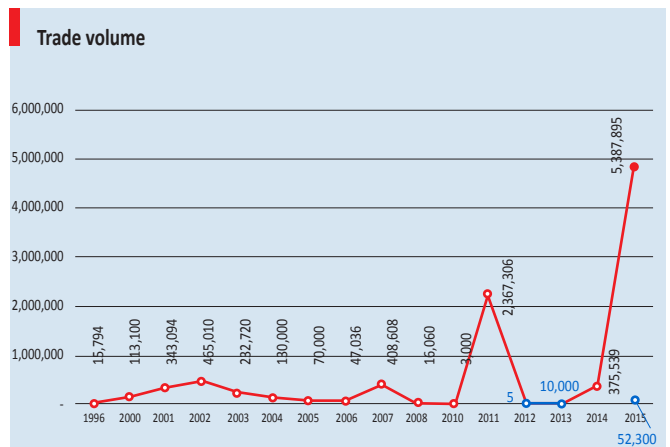
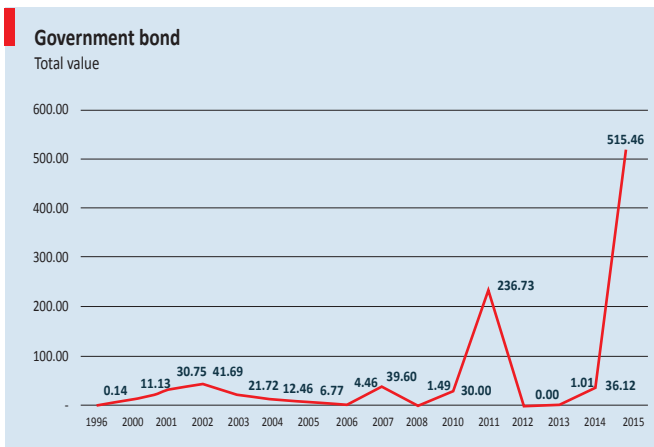
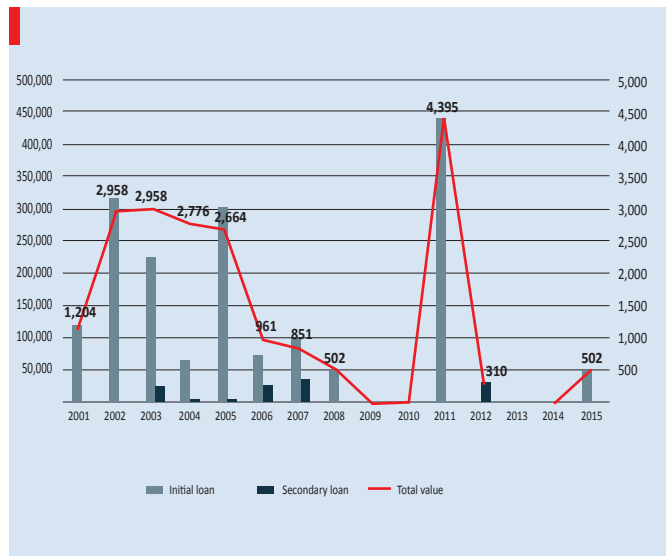
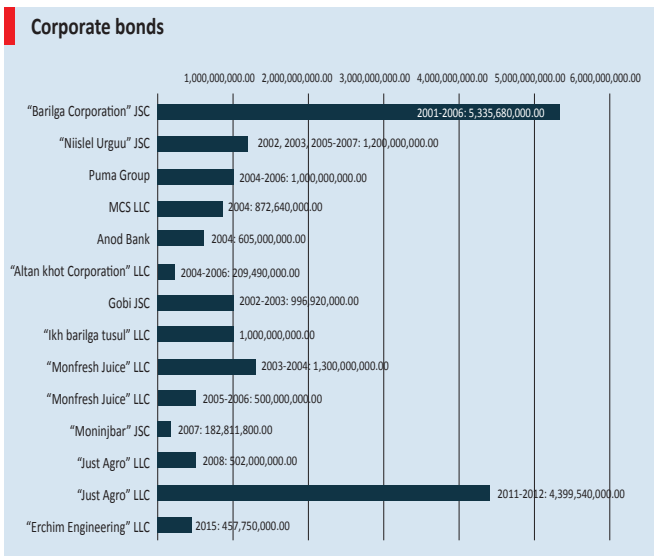
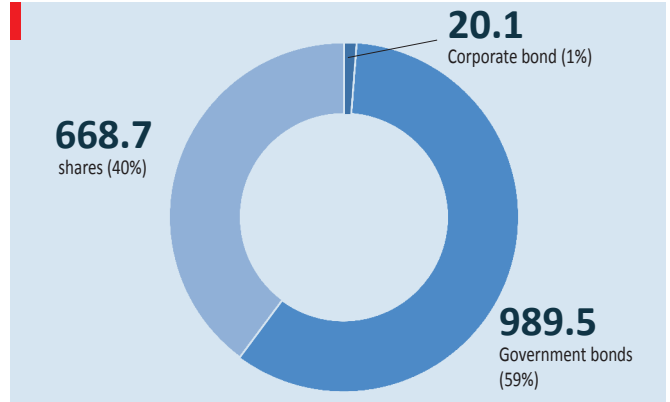
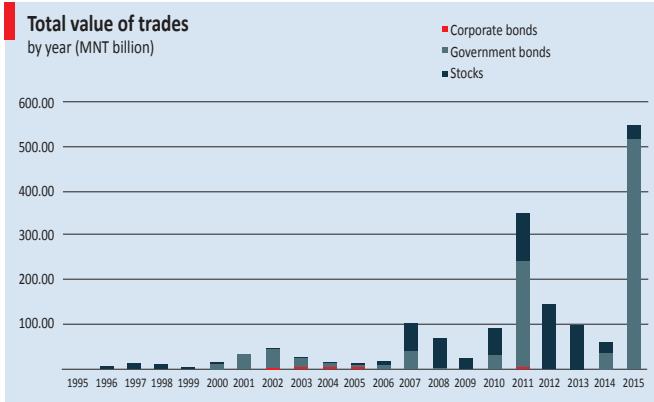
**2015**

**Historical transactions value**

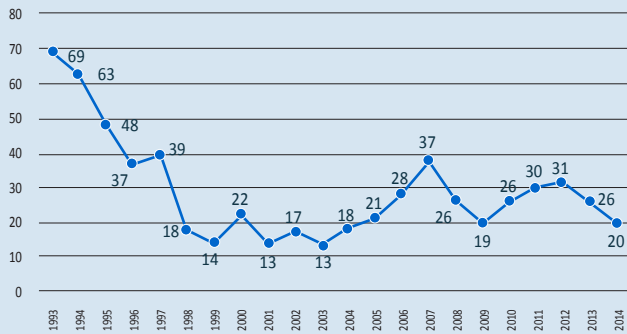
A record MNT 546.4 billion in transactions were conducted. ■

By the numbers

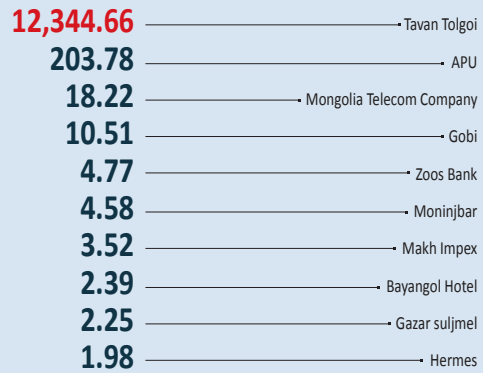
# The Mongolian Stock Exchange after 25 Years



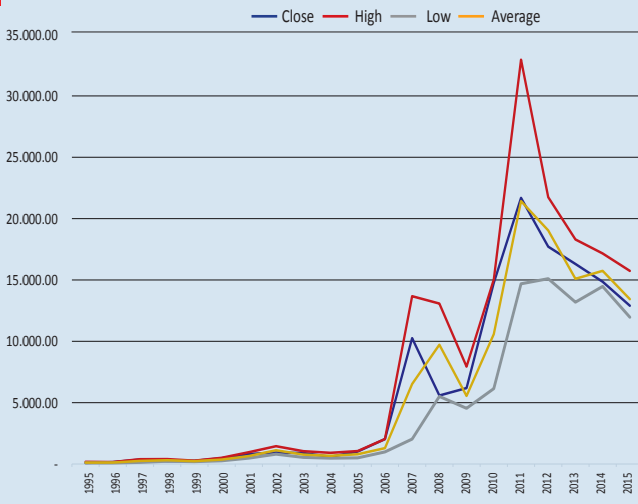
Shareholding companies that paid dividends



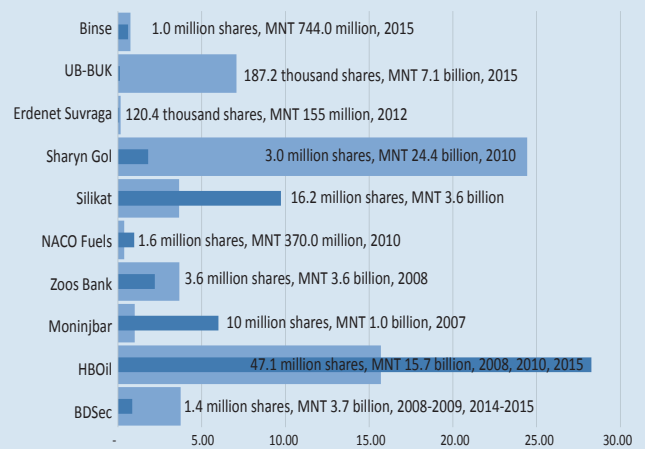
Top traded stocks



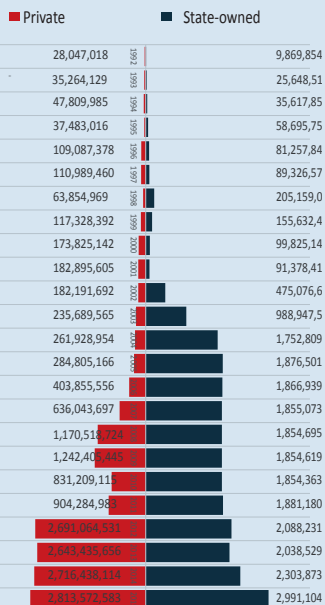
Top 20 index



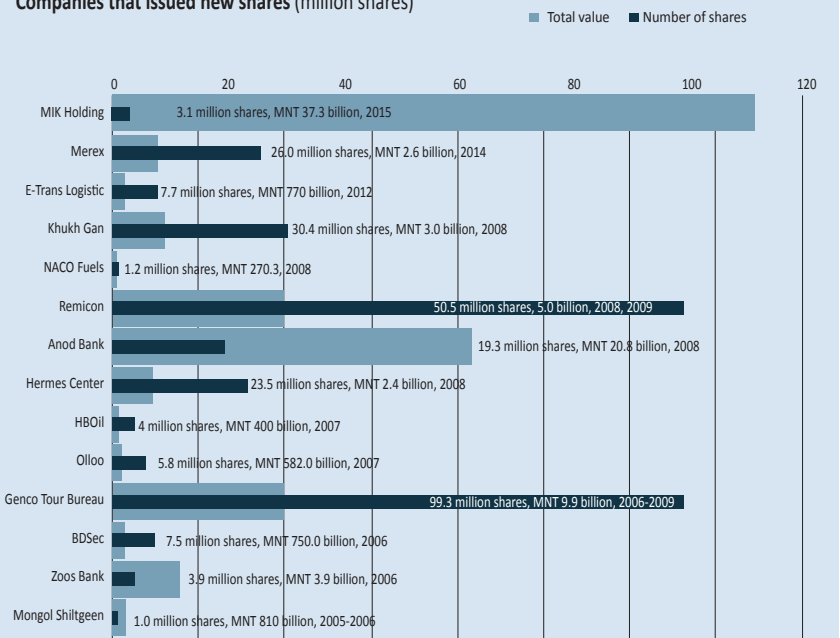
IPOs held

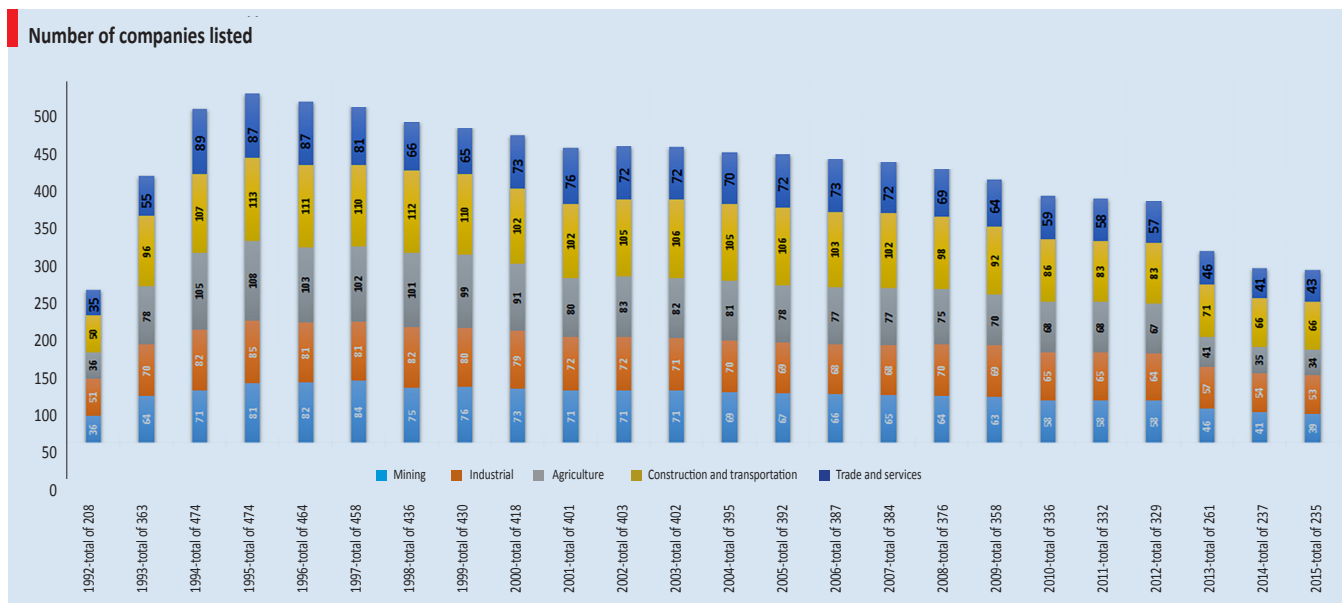


Listed shareholding companies



Companies that issued new shares (million shares)





### Member securities firms

Indicator	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Number of member companies	29	29	29	29	29	30	30	42	42	43	42	34	26	26	24	25	29	41	45	45	76	80	79	62	58
Number of employees	-	-	-	-	-	-	-	-	-	-	184	143	73	86	82	97	150	241	264	272	538	598	563	467	448
Brokers, dealers	-	-	-	-	-	-	-	-	-	-	42	34	26	26	24	24	21	21	24	25	46	46	47	35	32
Brokers, dealers, underwriters	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	5	15	17	13	23	18	17	13	12
Brokers, dealers, consulting	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3	4	4	2	15	9	8	6	4	
Brokers, dealers, underwriter, consulting	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	1	1	5	7	7	7	8	10	

## Records

### Index, Market assessment

Top-20 index historical high:	On 24 June 2015, the index reached 15,711.95 points, the highest figure in its history.
Top-20 index highest growth in one day:	On 5 May 2005, Top-20 index rose by 57.6 percent and reached 791.47 points from 502.15 points.
MSE ALL index historical high	On 23 June 2015, the index reached 1,057.86 points, the highest figure in its history.
The historical high of total market capitalisation:	On 4 January 2016, total market capitalisation reached MNT 1 trillion 507.8 billion.
The company with the highest market capitalisation:	On 6 January 2011, Tavan Tolgoi JSC's market capitalisation was MNT 311.3 billion.

### ҮНЭТ ЦААСНЫ БҮРТГЭЛ

Category	Company name	Symbol	Explanation
Company that distributed the most dividends	Tavan Tolgoi JSC	TTL	12,344,659,155,108.00
Company that distributed dividends for the longest time	Atar-Urguu JSC	ATR	19 years
Held shareholders' meetings for the longest time	Atar-Urguu JSC	ATR	24 years
First company listed on the MSE	Mongol shaazan JSC	MSH	21-Feb-91
Most recently listed company	Mongol Shuudan JSC	MNP	15-Dec-15
Company with most shares	Beren Mining JSC	BRM	1,740,813,320
Company with the highest market capitalisation	APU JSC	APU	289,424,879,200.00
Company with the most shareholders	Genco Tour Bureau JSC	JTB	51,783 shareholders
Company that distributed the highest dividend per share	Tavan Tolgoi JSC	TTL	In 2010, MNT 130,000

Symbol	Company name	2015.12.31	Top 10 companies with the highest stock price	Times increased
SUU	Suu	98,000.00	Suu JSC's stock price was MNT 100 in 2000, rose to MNT 98,000 by 2015.	980.00
ATR	Atar Urguu	65,000.00	Atar Urguu JSC's stock price was MNT 511 on 9 December 1999, rose to MNT 65,000 by 2015.	127.20
BNG	Bayangol Hotel	48,000.00	Bayangol Hotel JSC's stock price was MNT 905 on 10 December 1999, rose to MNT 48,000 by 2015	53.04
SUL	Gazar Suljmel	43,600.00	Gazar Suljmel JSC stock price was MNT 60 on 10 December 1999, rose to MNT 43,000 by 2015.	716.67
BUK	UB-BUK	39,600.00	UB-BUK JSC's stock price was MNT 25 on 13 January 2000, rose to MNT 39,000 by 2015.	1,560.00
TMZ	Tumriin Zavod	30,000.00	Tumriin Zavod JSC's stock price was MNT 3 on 31 January 2000, rose to MNT 30,000 by 2015.	10,000.00
DAH	Darkhan Khuvun	27,000.00	Darkhan Khuvun JSC's stock price was MNT 13 on 21 December 1999, rose to MNT 27,000 by 2015.	2,076.92
TAV	Tav	24,000.00	Tav JSC's stock price was MNT 10 on 14 November 2000, but it rose to MNT 24,000 by 2015.	2,400.00
DZG	Darkhan ZB	20,000.00	Darkhan ZB JSC's stock price was MNT 1,171 on 25 January 2000, rose to MNT 20,000 by 2015.	17.08
GHC	Gan Khiits	18,450.00	Gan Khiits JSC's stock price was MNT 100 on 15 May 2000, rose to MNT 18,450 by 2015.	184.50

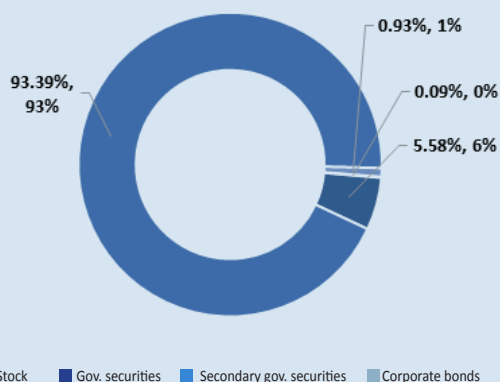
## 2015 Stock Market Review

### Securities trading

As of 31 December 2015, a total of MNT 546.4 billion in trades were made as 35.8 million shares of 125 companies worth MNT 30.5 billion were traded through a total of 252 transactions, and 5.4 million securities worth MNT 510.3 billion were traded through 54 government securities transactions.

As for the composition of the total transaction value, stock trading accounted for 5.58 percent or MNT 30.5 billion, government bonds 93.39 percent or MNT 510.3 billion, corporate bonds 0.09 percent or MNT 0.5 billion and secondary market government securities accounted for 0.93 percent or MNT 5.1 billion respectively.

Compositions of securities trading transactions by value



### Transactions made in 2014 vs. 2015

Trading indicators	2014	2015
Number of traded shares (million)	52.1	41.3
Total value (MNT billion)	60.4	546.4

During the the 2015 reporting period, an average of MNT 2.7 billion in transactions and 163.9 thousand shares were traded per day.

### 30 most actively-traded securities

Company	Shares outstanding	Rank	Company	Market cap.
Tavan Tolgoi	9,284,569	1	The State Department Store	1,574,306,040
E-Trans Logistics	6,882,941	2	Tavan Tolgoi	1,540,167,671
Khukh Gan	4,610,340	3	BDSec	964,936,010
The State Department Store	2,875,251	4	APU	952,920,336
Remicon	2,650,464	5	E-Trans Logistics	698,423,575
Merex	1,919,507	6	Talkh Chikher	524,922,580
Hermes Center	1,636,131	7	Khukh Gan	520,770,723
Khorin Khoerdugaar Baaz	1,318,569	8	Materialimpex	368,238,870
BDSec	546,970	9	Gobi	362,709,570
Genco Tour Bureau	339,628	10	Khorin Khoerdugaar Baaz	270,306,645
APU	266,301	11	Hermes Center	204,402,257
Talkh Chikher	170,744	12	Remicon	196,458,625
Gonir	160,332	13	UB-BUK	191,621,720
Olloo	155,819	14	Suu JSC	173,299,600
HBOil	105,968	15	Merex	170,653,555
Undurkhaan	91,467	16	Darkhan Nekhii	163,200,620
Jinst Uvs	90,476	17	Bayangol Hotel	133,676,150
Mongol Savkhi	72,112	18	Mongol Cereamic	109,326,675
Bayalag Nalaikh	64,388	19	Eurofeu Asia	97,394,900
Binse JSC	61,951	20	Gazar Suljmel	91,239,890
Moninjbar	60,643	21	Sharyn Gol	89,959,677
Mongol Makh Expo	59,252	22	Gutal	86,724,140
Bishreht Industrial	54,611	23	Makhimpex	84,375,541
Uujim Khangai	46,529	24	Gan Kherlen	82,058,830
Gobi	43,631	25	Baganuur	78,635,668
Buteelch Uils	39,212	26	Atar Urguu	74,055,000
Eurofeu Asia	30,415	27	Mongol Savkhi	72,286,974
Baganuur	29,357	28	Dormod Auto Zam	64,732,500
Khuvsgul Khuns	28,732	29	Mogoin Gol	61,561,420
<b>Makhimpex</b>	<b>25,978</b>	<b>30</b>	<b>Mongol Makh Expo</b>	<b>58,279,059</b>
<b>Total</b>	<b>33,722,288</b>			<b>10,061,644,821</b>
<b>Percent of MSE total</b>	<b>99.02</b>			<b>92.44</b>

The thirty most actively-traded securities accounted for 99.02 percent of the total trade volume and 92.44 percent of the value.

Of the 125 stocks which were traded during the reporting period, the share price of 39 companies rose, 69 companies' declined and 17 companies' remained the same compared to the same period of the previous year.

#### 20 securities which gained value

Securities	Closing prices 2014.12.31	2015.12.31	Price change (MNT)	Percentage change
Standard Property Group	10.00	46.44	36.44	364.40
Technik Import	695.00	1,605.00	910.00	130.94
Gutal	9,500.00	17,500.00	8,000.00	84.21
Ulaansan	1,000.00	1,592.00	592.00	59.20
Takhi Co	11,000.00	16,990.00	5,990.00	54.45
Tushig Uul	300.00	450.00	150.00	50.00
Uujim Khangai	155.00	225.93	70.93	45.76
Global Mongolia Holding	227.27	315.00	87.73	38.60
Mongol Nekhmel	4,100.00	5,400.00	1,300.00	31.71
Buteelch Uils	917.00	1,150.00	233.00	25.41
Ulaanbaatar Carpet	12,400.00	15,100.00	2,700.00	21.77
E-Trans Logistics	99.00	120.00	21.00	21.21
Mon Nab	1,350.00	1,612.00	262.00	19.41
Mon-It Buligaar	8,000.00	9,500.00	1,500.00	18.75
Juulchin Gobi	3,600.00	4,250.00	650.00	18.06
Khusug Trade	1,200.00	1,400.00	200.00	16.67
Mongol Shiltgeen	690.00	800.00	110.00	15.94
Khuvsugul Khuns	591.15	680.00	88.85	15.03
Kharkhorin	1,400.00	1,610.00	210.00	15.00
Euroasia Capital Holding	21.16	24.33	3.17	14.98

#### 20 securities which lost value

Securities	Closing prices 2014.12.31	2015.12.31	Price change (MNT)	Percentage change
Uvs Chatsargana	2,550.00	950.00	-1,600.00	-62.75
Mongol Makh Expo	3,780.00	1,550.00	-2,230.00	-58.99
Ikh Barilga	11,000.00	5,000.00	-6,000.00	-54.55
Agrotechimpex	2,950.00	1,380.00	-7,995.00	-53.22
Materialimpex	14,900.00	7,005.00	-1,570.00	-52.99
Monnoos	4,700.00	2,430.00	-48.96	-48.30
Berkh Uul	3,579.00	1,900.00	-2,270.00	-46.91
Remicon	99.00	54.00	-1,679.00	-45.45
Auto Impex	4,000.00	2,332.00	-1,668.00	-41.70
Mogoin Gol	9,900.00	5,865.00	-4,035.00	-40.76
Mongolia Telecom Company	1,300.00	800.00	-500.00	-38.46
Buunii Khudaldaq JSC	784.50	490.00	-294.50	-37.54
Bayalag Nalaikh	689.00	440.00	-249.00	-36.14
Moninjbar	210.00	135.00	-75.00	-35.71
Bishreft Industrial	2,470.00	1,600.00	-870.00	-35.22
Sharyn Gol	5,900.00	3,852.00	-2,050.00	-34.71
Tavan Tolgoi	4,400.00	2,950.00	-197.14	-32.95
Darkhan flour and nutrition	800.00	550.00	-1,357.00	-31.25
Shivee Ovoo	4,999.00	3,523.00	-250.00	-29.53
Naco Fuel	280.00	200.00	-680.00	-28.57

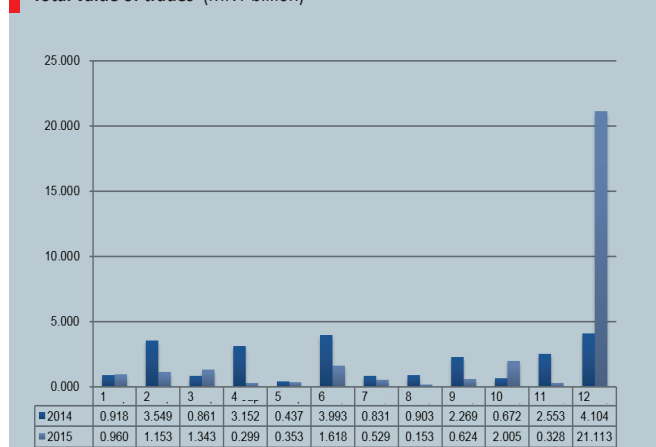
#### Primary market transactions

During the reporting period, Binse JSC's 150.8 thousand shares offered to the public amounted to MNT 112.8 million, BDsec JSC's 189 shares to MNT 405.6 thousand, Erchim Engineering LLC's 50 thousand Erchim bonds to MNT 500 million and MIK Holding JSC's 1.6 million shares to MNT 19.5 billion on the primary market, respectively.

#### Government securities trading

During the reporting period, 54 government bond trading operations were held, and transactions amounted to a total of 5.4 million units worth MNT 510.3 billion for bonds with 12, 28, 52, 156 week terms. A total of 52.3 thousand shares were traded for MNT 5.1 billion worth of transactions on the secondary market for government securities.

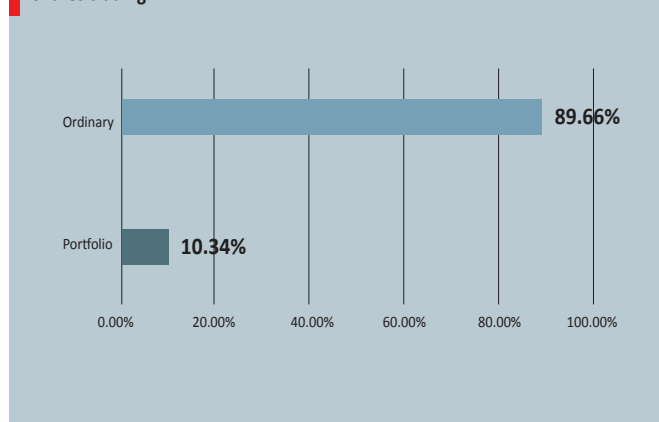
#### Total value of trades (MNT billion)



#### Portfolio trading

During the reporting period, a total of 21.2 million shares worth MNT 3.1 billion were traded as portfolios, accounting for 10.34 percent of total trading value.

#### Shares trading



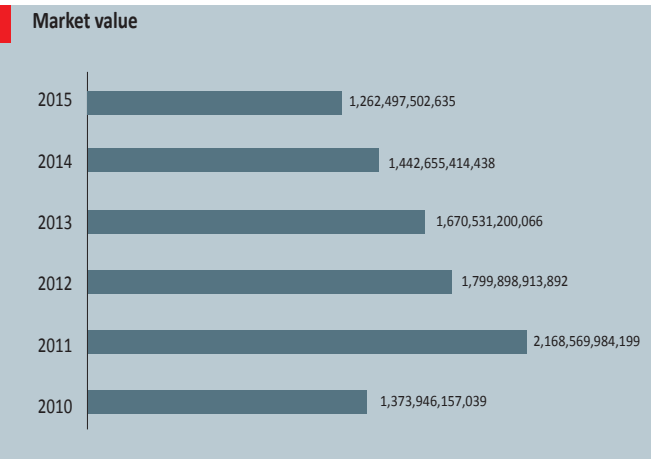
#### Market capitalisation

Compared to the same period of the previous year, total market capitalisation decreased by MNT 180.16 billion, or 12.49 percent, and fell to MNT 1 trillion 262.5 billion.

#### 30 companies with the highest market capitalisation

Name of securities	Market capitalisation (MNT billion)
APU	289.42
Tavan Tolgoi	155.36
Gobi	66.15
UB_BUK	64.46
Baganuur	51.81
Shivee Ovoo	47.28
Sharyn Gol	39.18
Berkh Uul	36.22
Mongol Securities	36.00
Suu JSC	33.71
BDsec	32.96
Gutal	28.33
HBOil	21.89
Mongolia Telecom Company	20.70
Bayangol Hotel	20.31
Takhi-Co	20.22
Darkhan Nekhii	20.17
The State Department Store	19.51
Talkh Chikher	17.79
Atar-Urguu	11.32
Makhimpex	10.79
Silicat	10.43
Hermes Center	9.63
Materialimpex	9.58
Arig Gal	8.18
Mongol Shiltgeen	9.25
Khukh Gan	7.55
Genco Tour Bureau	7.50
Ulaanbaatar Carpet	6.11
Niislel Urguu	5.67
Total	1,116.23
As a percentage of the MSE's total market cap	88.41

The 30 companies with the highest market capitalisation accounted for 88.41 percent of the MSE's total market capitalisation.



### Top-20 index

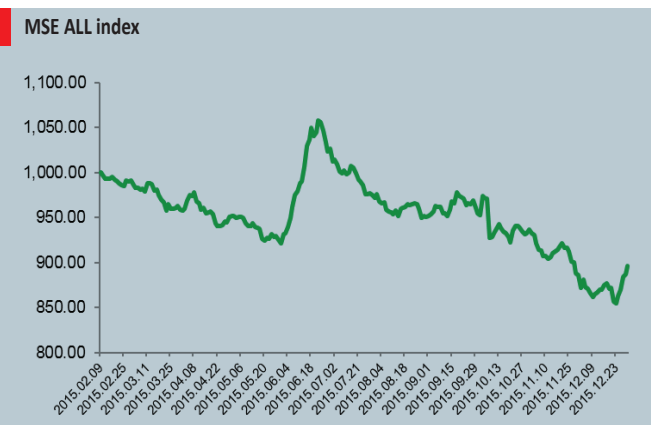
During the reporting period, the highest value of the Top-20 index was 15,737.17 points, and the lowest 11,962.11 points, with the average of the index being 13,434.24 points.

Compared to the same period of the previous year, the Top-20 index decreased by 1956.65 points, or 13.17 percent, ending 2015 at 12,897.59 points.



### MSE ALL index

During the reporting period, the highest value of the MSE ALL index was 1057.89 points, and the lowest 854.84 points, with the average being 953.29 points.



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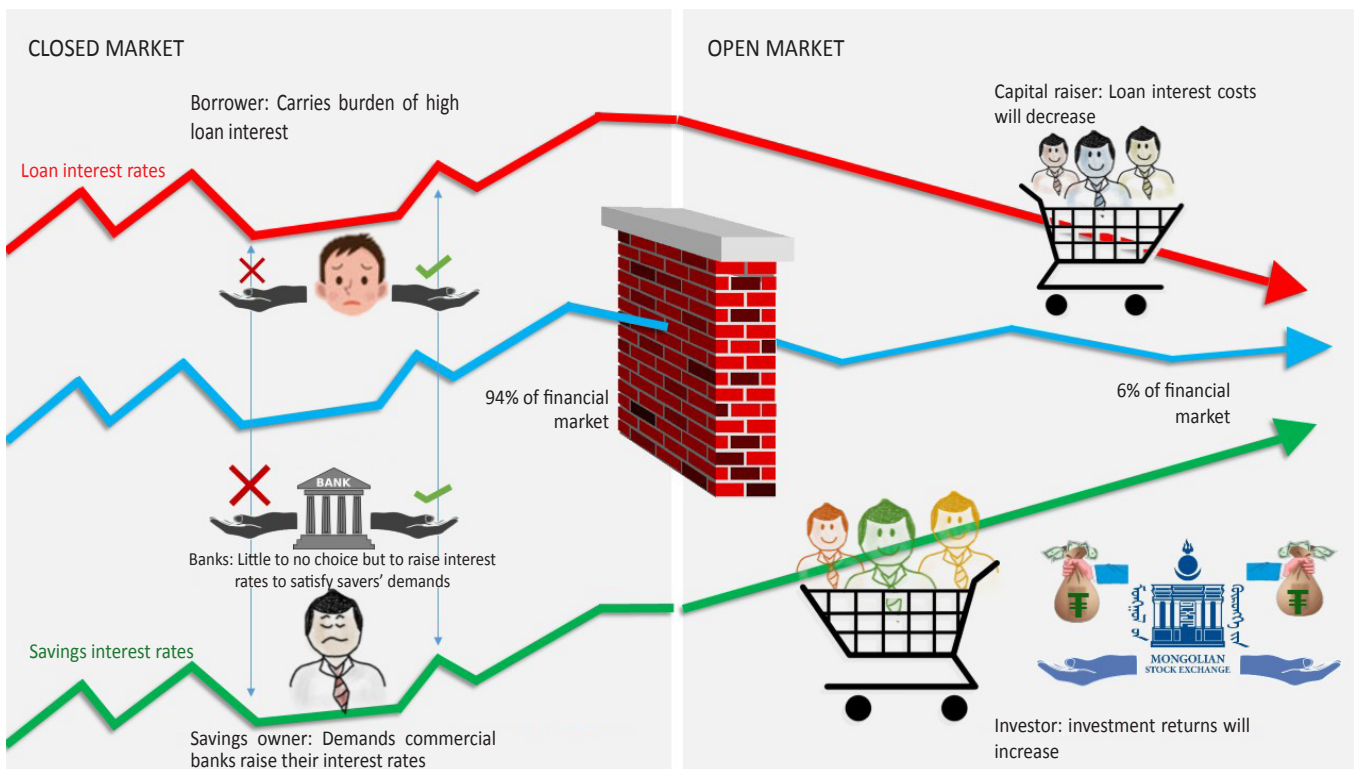
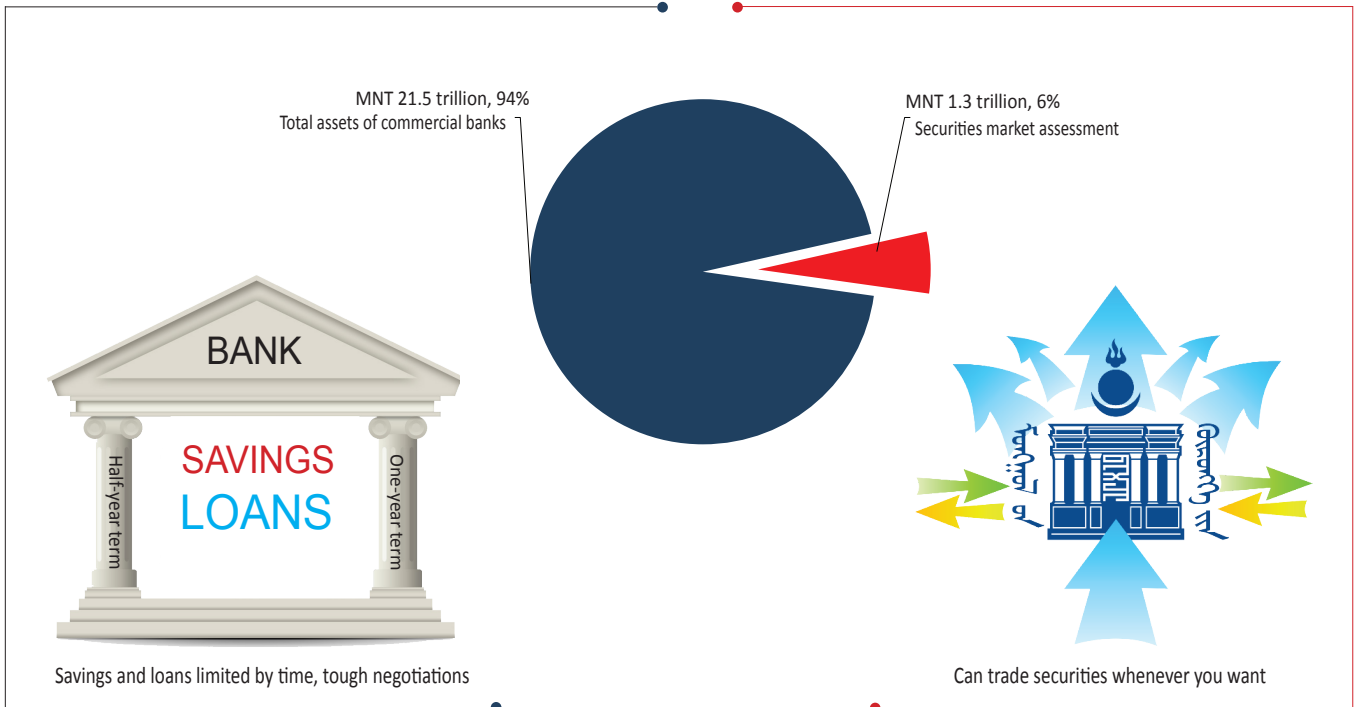
Contact:  
94092904, 88006228,  
70115476, 70115477

marketing@mongolianeconomy.mn  
info@mongolianeconomy.mn

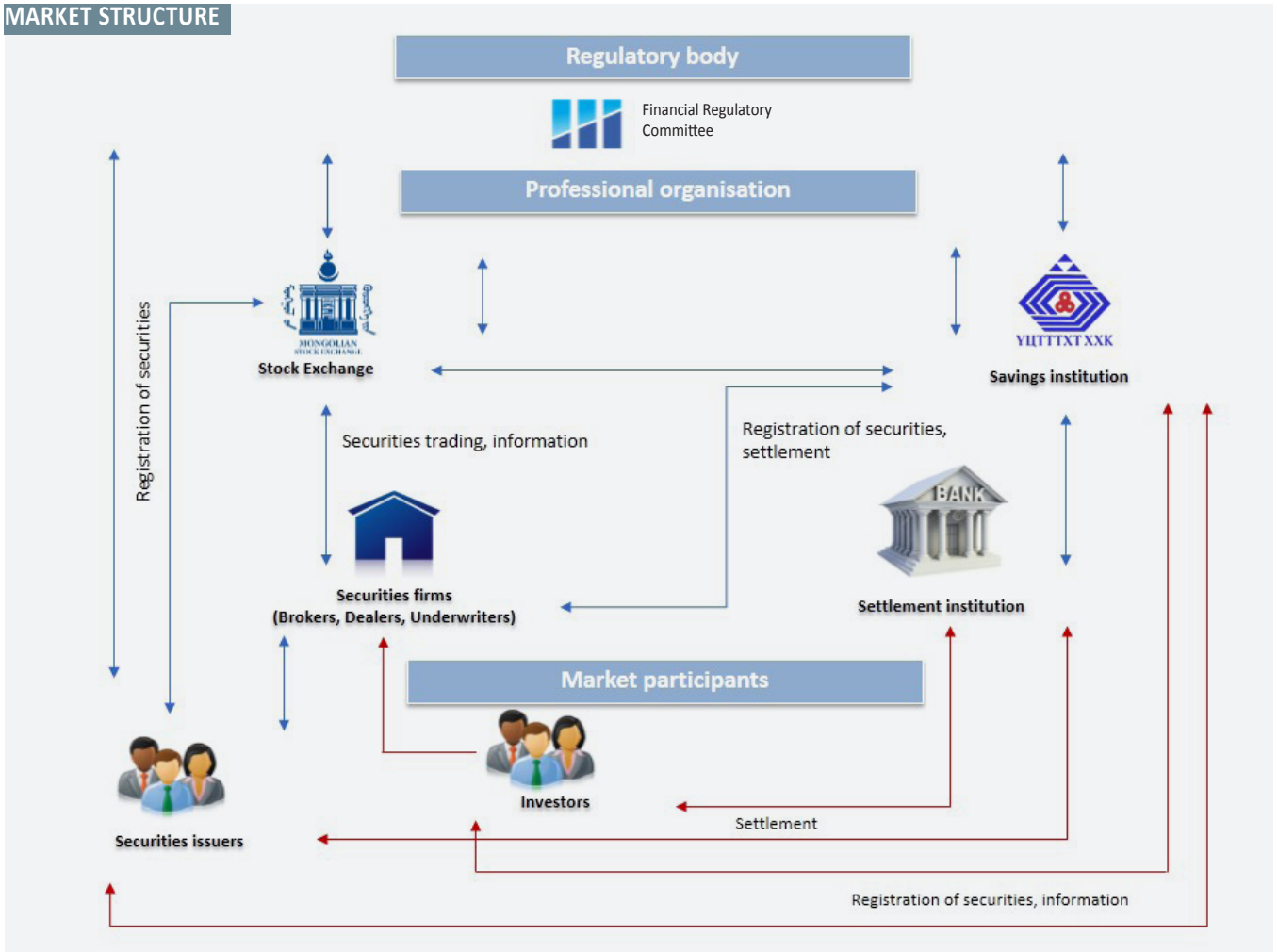


Information for investors

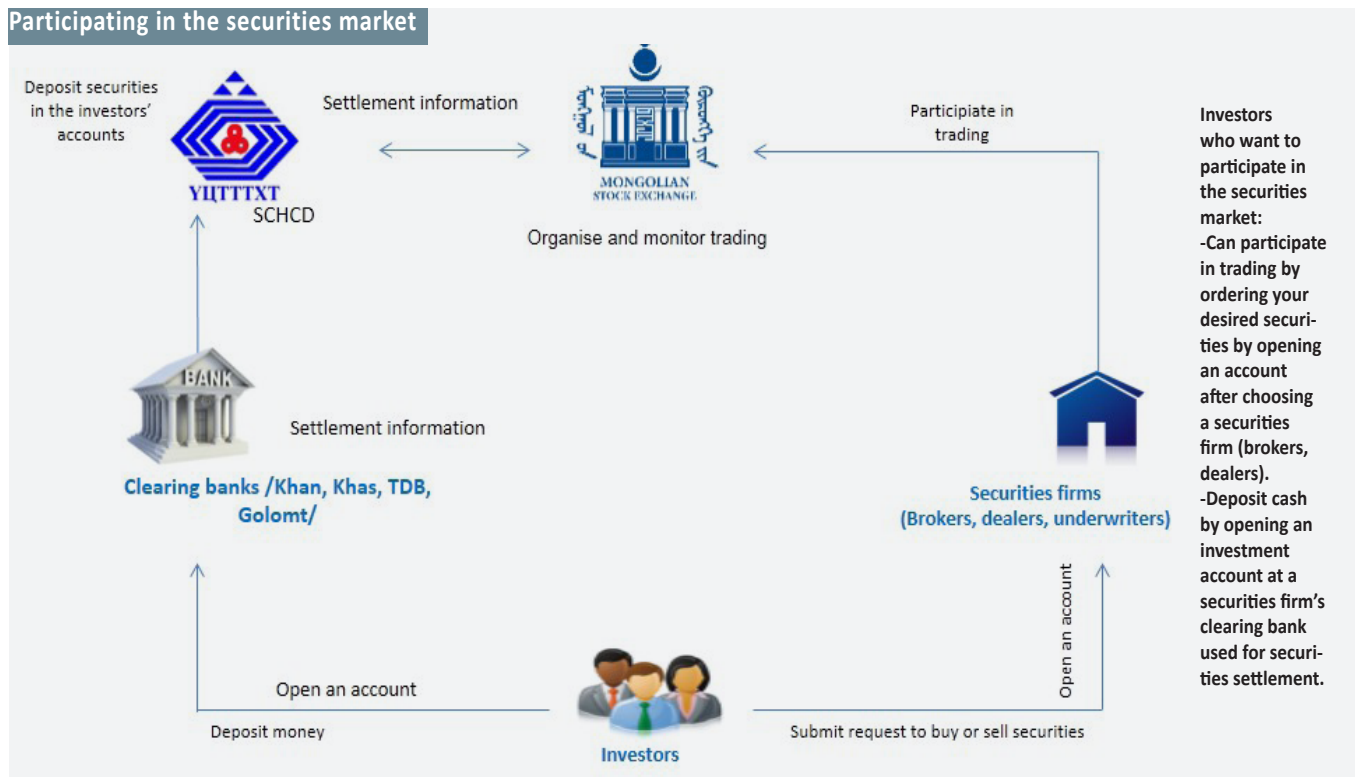
# Financial Education



**MARKET STRUCTURE**

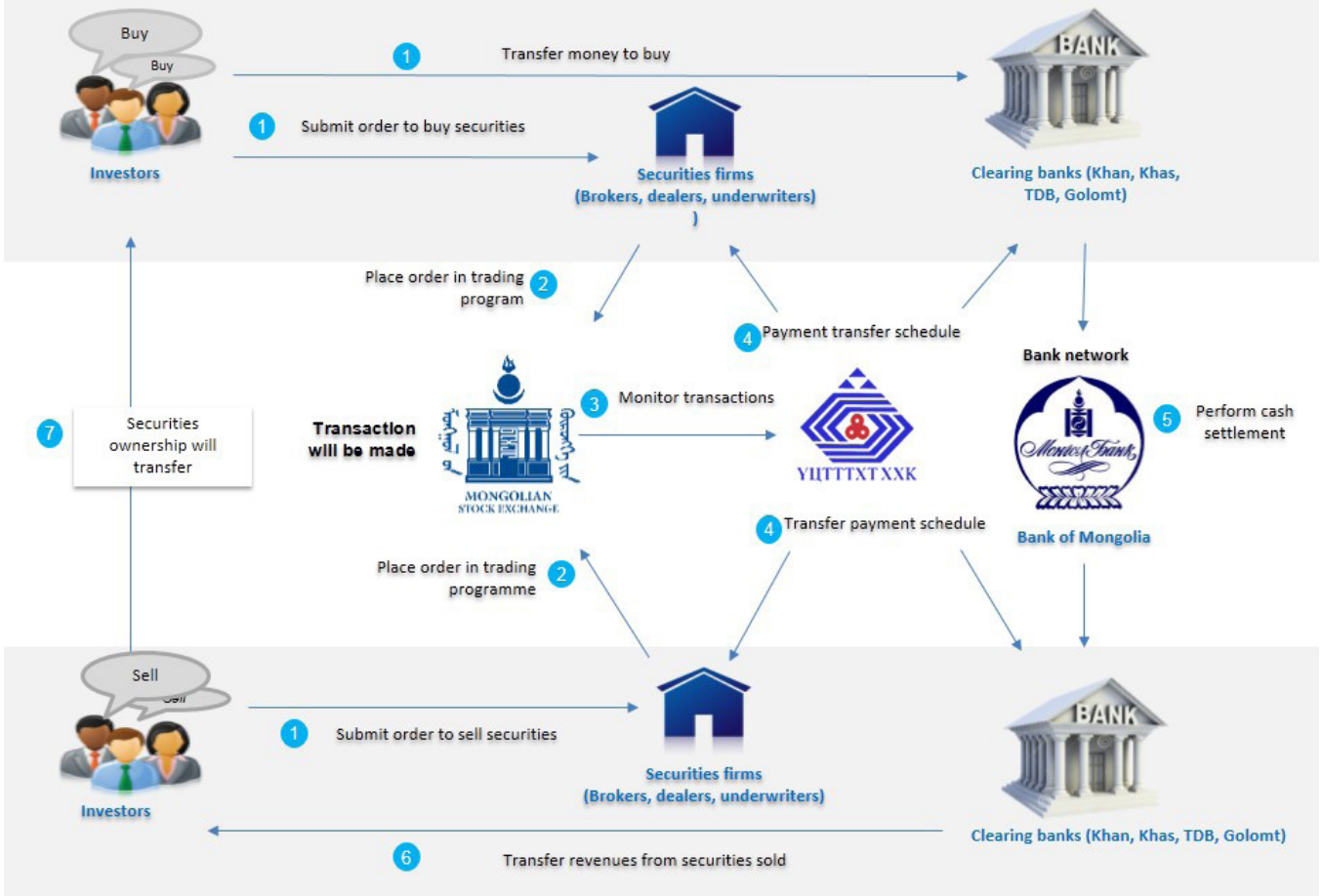


**Participating in the securities market**

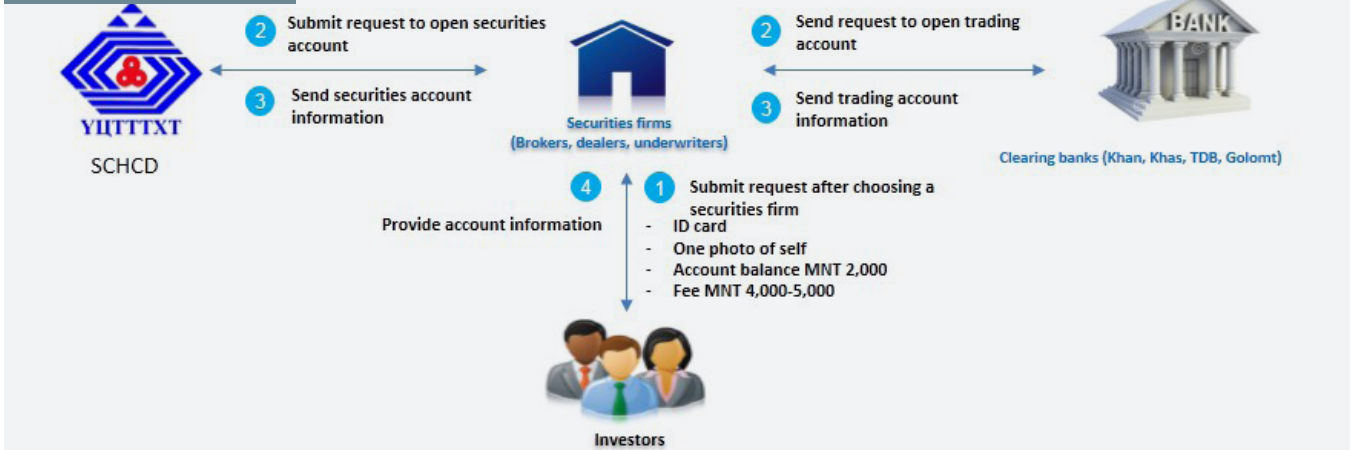


Investors who want to participate in the securities market:  
 -Can participate in trading by ordering your desired securities by opening an account after choosing a securities firm (brokers, dealers).  
 -Deposit cash by opening an investment account at a securities firm's clearing bank used for securities settlement.

How transactions are conducted



How to open an account



Check possession of securities account

- \* Personally confirm that the account has been opened at the Mongolian Securities Clearing House and Central Depository (SCHCD)
- \* Confirm by your registration number on [NET.SCHCD.MN](http://NET.SCHCD.MN)

УНЭТ ЦААСНЫ ТӨЛБӨР ТООЦОО ТӨВЛӨРСӨН ХАДГААМЖИЙН ТӨВ

Нүүр | Регистр | Тусламж

Та регистрын дугаараа оруулна уу. /Регистрийн дугаарыг зөвхөн кирилээр бичиж бстэйг анхаарна уу./

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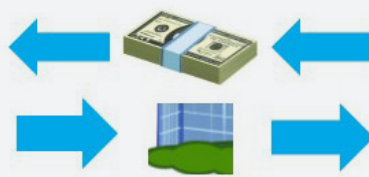
Иргэн Та Монгол Улсын Засгийн Газраас өлгөсөн "Эрдэнэс тавантолгой" ХК -ийн 536 ширхэг хувьцаа эзэмшиж байна. Та Төвлөрсөн хадгалагчийнд дан нээлтэсэн байна. Та дараах Брокер Дилерийн Компанид очиж үйлчлүүлнэ уу.

**Би дг сек**  
Хаяг: Улаанбаатар, СБД, Залуучуудын өргөн чөлөө 27/1 Байр /Сансрын тэнгэр рүү өгсдөг хан дагуу, Орчлон дунд сургуулийн харацдаа, мд байрлах 6 дэвжэр барилга/. Утас: 70112845, 313108, 321763

What's a share?

Alpha Company

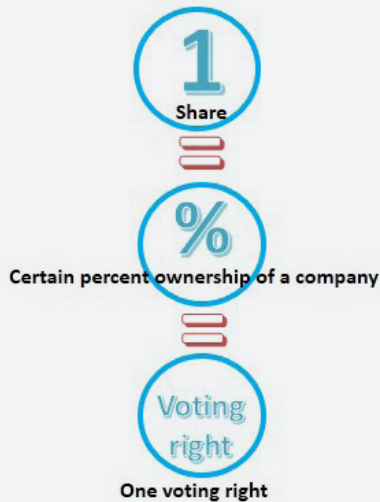
INVESTOR



- By purchasing shares in Alpha Company
- Receive dividends
  - Participate in shareholders meetings and vote
  - Will be eligible to receive a share of the assets sold should the company be dissolved

Alpha Company will expand its operation by offering shares and selling them to investors to attract financing

Becomes a shareholder after buying shares in Alpha Company using his own money.

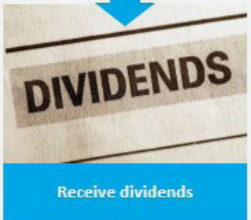


Can reap two types of benefits from his purchased shares



Capital gains

If the share price of Alpha Company rises, the shareholder can 'earn capital gains' by selling his shares at a prices higher than they bought them for.



Receive dividends

If the company is doing good, it may pay dividends to its investors, i.e. shareholders.

What's a dividend?

When a shareholding company distributes its profits to the shareholders, it is called a dividend. Dividends are distributed in two ways: as additional shares and/or as cash.



Dividends



If the company operates profitably, whether to pay dividends or not is decided by its board of directors.

No	Company name	Dividend per share	Number of shares	Total paid dividends
1	Gazar Suljmel JSC	7233.39	65,362	472,788,837
2	Barilga Corporation JSC	5500.00	40,662	223,641,000
3	Tavan Tolgoi JSC	766.00	52,665,200	40,341,543,200
4	Teever Darkhan JSC	400.00	163,349	65,339,600
5	Bayangol JSC	355.00	423,065	150,188,075
6	Gutal JSC	349.00	1,618,684	564,920,716
7	Ulaanbaatar Hotel	330.00	335,297	110,648,010
8	Atar-Urguu JSC	300.00	174,136	52,240,800
9	Gan-Kherlen JSC	300.00	99,899	29,969,700
10	Khurd JSC	253.00	135,266	34,222,298

**Government securities**

Advantages of investing in government securities



Government debt instrument and other securities are considered as the least risky investment.

Least risky



According to the Article 16.1.16 of the Personal Income Tax Law and Article 18.1.1 of the Corporate Income Tax Law, government securities payments and interest shall be exempted from tax.

Tax-exempt



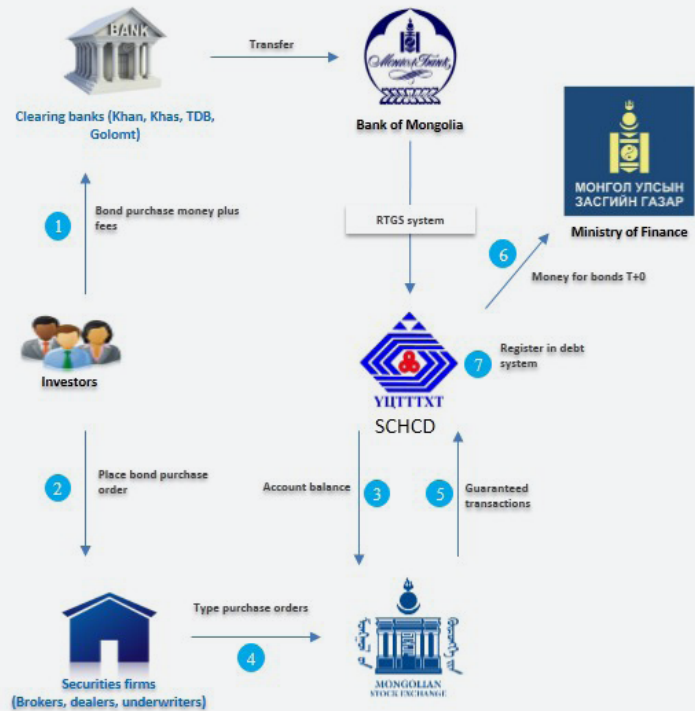
Since interest on and benefits of government securities are set according to the market principles, its returns are consistent with market conditions.

Market conditions

Government securities have high liquidity as it can be sold, donated or pledged as collateral without any penalties before maturation.

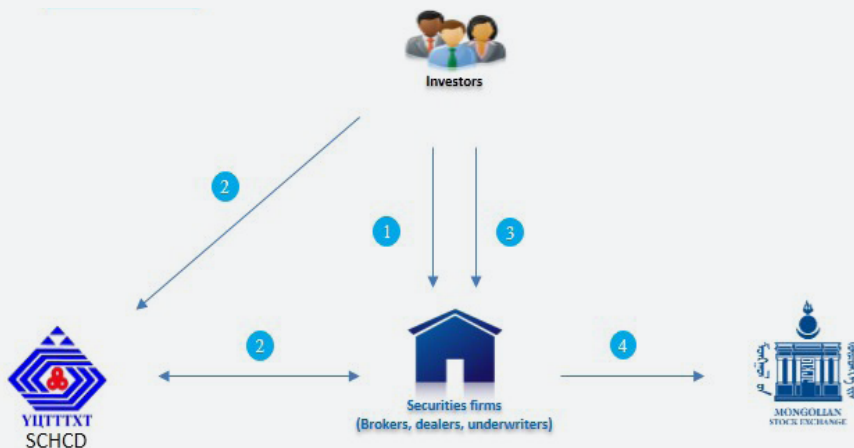
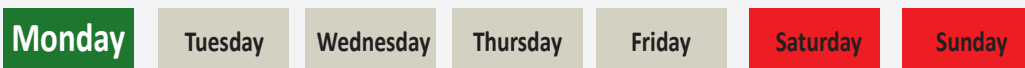
High liquidity

Government bonds are an investment tool dedicated to individuals and entities. Each unit's par value is 100,000.0 and has coupons which pays on fixed dates. Not all bonds have coupons (zero-coupon bonds, i.e. no interest payments), but all bonds pay their par value at maturity).



**Initial government securities**

Retail trading of government securities is held every Monday and treasury bills of 12 weeks (3 months), 28 weeks (6 months) and 52 weeks (1 year) are traded.



1. A securities account must be opened by an individual or an entity by going to brokers and dealers (securities firms).
2. A securities firm shall open a securities account at the central depository on an investor's behalf and notifies them of their account number.
3. Orders are given to the securities firm and purchase agreements are made. The payment must be placed in your own account in the central depository.
4. Securities firms will participate in retail trade of government securities at the Mongolian Stock Exchange.

## Self-governing body

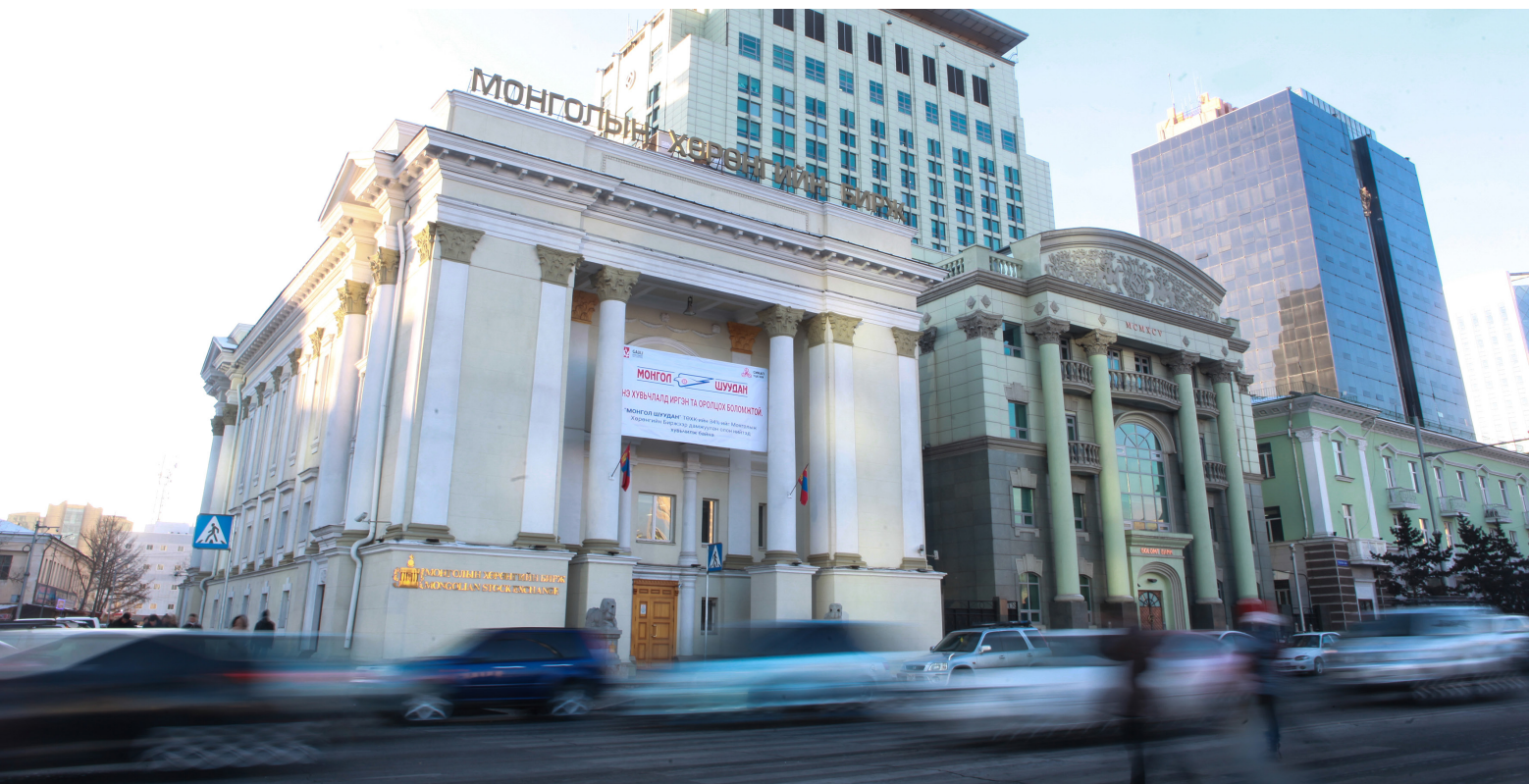
# The MSE as a Self-governing Body Will Bring about a New Market Environment

The MSE became a self-regulating body on October 13, 2015. With this come advantages such better protection of participants' rights, regulatory scheme and system of oversight. It makes it easier for capital raisers in terms of registration and regulation of securities, transparency of issuers, governance monitoring and equal standing for market participants and companies in order to maintain the confidence of the public and investors. As for the investors, it will help to implement proper monitoring to protect the interest of investors, and to disclose relevant information concerning the securities market to investors in a timely manner.

In addition, it provides opportunities to reduce processing period in issuing securities, to raise funds quickly and cheaply by revising the stock exchange's operating procedures (registration, membership and oversight procedures). As for the shareholding companies, changes in category I classification criteria will make for the possibility to enter that classification category and will help increase public awareness of companies' market status.

Over the past 10-year period, a total of 15 companies raised MNT 78.2 billion through the stock market and have secured long-term financing. Mongol Shiltgeen JSC held an IPO to raise MNT 800 million in May 25, 2005. In December 2015, MIK Holding LLC issued additional shares and was able to raise MNT 19.5 billion as a result, which was a huge success. On New Year's Eve, the Mongol Post SOE announced its plan to sell 34 percent of its shares through the stock exchange this year, another great success.

In 2016, the MSE is determined to diversify its range of products and to expand the market. The government will focus more on corporate securities rather than government bonds and will take actions to develop and advance the secondary market. Its objectives are to create an integrated capital market information system; conduct research based on its findings on what investments can be attracted; and create opportunities to connect the Mongolian capital market to foreign markets. Furthermore, the MSE aims to facilitate transactions amounting to MNT 2.0 trillion in 2016. ■



## Regulatory reforms of the Stock Exchange

# Changes to Rules on Membership

### THE PURPOSE OF DEVELOPING A REVISED DRAFT

- As the Mongolian Stock Exchange SOE has become a self-governing body in accordance with the Financial Regulatory Committee's decision: to improve coordination and assign responsibilities, and to eliminate overlap in the oversight activities of the FRC, MSE and the Mongolian Securities Clearing House and Central Depository LLC
- To improve the operations of members, and to employ quality service securities firms in the market

### ONE. GENERAL BACKGROUND

#### Current regulation

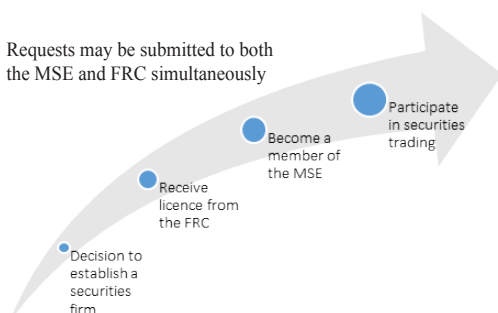
1.3. The MSE and a member's mutual rights and obligations shall be regulated according a "Cooperation Agreement" depicted in Appendix 1 of this regulation.

#### Revised draft regulation

- 1.3. The MSE will operate according to open and non-discrimination principles when receiving membership applications, providing services related to trading, monitoring and enforcing discipline.
- 3.2.1.2. An applicant must sign a membership agreement with the MSE in accordance with the decision of an authorised body.

### TWO. MEMBER ADMISSION PROCEDURE

Requests may be submitted to both the MSE and FRC simultaneously



#### Revised draft regulations

- Approval and modification - to be decided by the board of directors
- Decision to register a member as a securities firm - Authorised body, CEO
- Authorise securities firm to participate in securities trading on the MSE

### THREE: MEMBERSHIP APPROVAL AND REJECTION

#### Current regulation

Trade and Surveillance division – Oversee compliance and collection of documentation

Executive Council – Discuss conclusions on applicant securities firms and vote on whether to register the firm as a member

Board of Directors – Make decisions on whether to register a firm based on the vote of the Executive Council

Decision period – 20 business days

#### Revised draft regulation

- **Registration department – Oversee compliance and collection of documentation**
- **CEO – Make decisions on whether to enrol a member based on a conclusions made by the unit responsible for membership**
- **Decision period – 15 business days**

#### FOUR: REGULAR DUTIES

##### Current regulation

Regular duties

- Assess corporate governance and submit the stock exchange's governance assessment form every 6 months
- Fulfil the obligations of the membership agreement
- Pay the annual service fee within the specified time in accordance with the applicable regulations and agreements so long as the company is registered

##### Revised draft regulation

Members' duties

- Assess corporate governance and submit the stock exchange's governance assessment form every 6 months
- Fulfil the obligations of the membership agreement
- Pay the annual service fee within the specified time in accordance with the applicable regulations and agreements so long as the company is registered
- Must have an established risk protection fund equal to no less than three percent of its assets
- Issue information about customers' securities accounts as soon as possible, and maintain an internal automated accounting system
- Ensure information transparency

#### FIVE: RESPONSIBILITIES

Measures to take concerning member securities firms

##### Current regulation

CEO –

- Give notices
- Levy fines
- Temporarily suspend trading privileges

Board of Directors –

- Suspend membership
- Annul membership

##### Revised draft regulation

CEO –

- Give notices
- Levy fines
- Temporarily suspend trading privileges
- Suspend membership
- Annul membership

#### SIX: FEES AND CHARGES

SERVICE FEE TYPE	Explanation	Current regulation	Revised draft regulation
Service fee for the membership application process	Non-refundable	500,000	500,000
Membership admission fee	One-time payment	15,000,000	15,000,000
<b>Regular service fees after becoming a member</b>			
Membership fees	Person or entity with one licence	2,500,000	1,500,000
Membership fees	Person or entity with 2 or more licenses	2,500,000	2,000,000
Trading system access fee	One unit of trading system access rights	195,000 /per quarter/	195,000 /per quarter/
Discounts/incentives	Membership fee discount by up to 50 percent	More than 10 percent of the total value of transactions	More than 5 percent of the total value of transactions

#### SEVEN: OUTCOMES

The changes included in the revised draft of membership regulations will: improve the accountability system implemented by the MSE; regulate annual membership services flexibly in accordance

with members' market service type and current financial capacity; and build relations consistent with the interests of members and bolster trading activity. ■

# Changes to Rules on Registration

## Legal regulations

- Article 49.1.2 of the Law on the Securities Market,

## Purpose

- To eliminate the overlap in the operations of the Financial Regulatory Commission and the Mongolian Stock Exchange related to registration of securities and to reassign duties of the two organisations
- To clarify schedule and procedure of registering securities

and making modifications

- To clarify each work to be done, conditions and requirements, and to classify the changes to securities registration, including:
  - Debt/equity or equity/debt swaps
  - Company mergers and de-mergers
  - Issuance of additional shares to employees

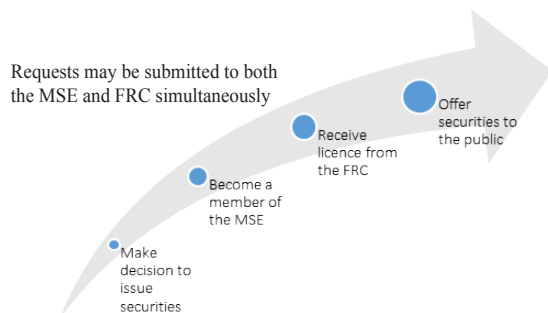
## ONE: GENERAL BACKGROUND

The amendment consists of 10 sections and 27 articles.

- The regulation will: register a securities issuer's initial and additional shares and debt instruments on the securities registry of

the MSE; determine registration categories and criteria; introduce securities to the public; and regulate relations concerning listing and de-listing of securities.

## TWO: PROCESS FOR ISSUING SECURITIES



### Revised draft regulation

- Approval and modification – Decided by the Board of Directors
- Securities issuer - Foreign and domestic securities issuer
- Registration process

## THREE: DECISION ON WHETHER REGISTER SECURITIES

### Current regulation

**Registration department** – Oversee compliance and collection of documentation

**Executive Council** – The members of the Executive Council make proposals on whether to list a security by discussing the registration department's results

**Board of directors** - Make a decision on whether to register a security based on the Executive Council's recommendation

**Decision period** – 20 business days

### Revised draft regulation

**Registration department** - Oversee compliance and collection of documentation

**Registration committee** – The members of the Executive Council make proposals on whether to list a security by discussing the registration department's results

**CEO** – Make decision on whether to list a security based on the registration committee's conclusions and notify the FRC

**Decision period** – 15 business days

## FOUR: REGULAR DUTIES

### Current regulation

#### Regular duties

- Regular duties to fulfil while registered with the MSE

- Guidelines of information disclosure and securities issuers information distributing

### Revised draft regulation

- Satisfy the criteria of the appropriate category of the debt instrument or equity while registered with the MSE
- Have an employee responsible for securities
- Assess the corporate governance and submit the stock exchange's governance assessment form every 6 months
- Fulfil the obligations of the registration agreement
- Ensure information transparency
- Pay the annual service fee within the specified time in accordance with the applicable regulations and agreements so long as the company is registered

## FIVE: REGISTRATION CRITERIA

### Current regulation

Must satisfy the criteria of the particular category upon registration and throughout the registered period

CRITERIA	CATEGORY I	CATEGORY II	CATEGORY III
Profitability	No less than MNT 1 billion	Must have the required working capital	-
Audited financial statements	Last 3 years	Last 2 years	-
Corporate governance	Must adhere	If not adhering, must explain why	-
Offered to the public for trade	No less than 25 percent	No less than 15 percent	-
Years active	No less than 3 years	More than 2 years	Authorised official must have required experience to operate
Underwriter	Mandatory	Mandatory	Mandatory

### Revised draft regulation

Must satisfy the criteria of the particular category upon registration and throughout the registered period

CRITERIA	CATEGORY I	CATEGORY II	CATEGORY III
Profitability	No less than MNT 500 million	Must have the required working capital	-
Audited financial statements	Last 3 years	Last 2 years	-
Corporate governance	Must adhere	If not adhering, must explain why	-
Offered to the public for trade	No less than 25 percent or no less than 5 percent of the total shares trading	No less than 15 percent	-
Years active	No less than 3 years	More than 2 years	Authorised official must have required experience to operate
Underwriter	Mandatory	Mandatory	Mandatory

## SIX: FEES

### Current regulation

Fees	Category I	Category II	Category II
Application service fee	New registration, MNT 2,000,000,	New registration MNT 2,000,000,	New registration
Securities registration fee /0.1 percent of the market price/	Minimum MNT 10 million Maximum MNT 100 million	Minimum MNT 5 million Maximum MNT 50 million	Minimum MNT 1 million Maximum MNT 10 million
Annual service fee	Minimum MNT 1 200 000 Maximum MNT 24 000 000	Minimum MNT 1 200 000 Maximum MNT 24 000 000	MNT 500 000

### Revised draft regulation

Fees	Category I	Category II	Category III
Application service fee	New registration MNT 2,000,000	New registration MNT 2,000,000,	New registration MNT 2,000,000,
Securities registration fee /0.1 percent of the total value of trades on the primary market/	Minimum MNT 10 million Maximum MNT 100 million	Minimum MNT 5 million Maximum MNT 50 million	Minimum MNT 1 million Maximum MNT 10 million
Annual service fee	Minimum MNT 1 200 000 Maximum MNT 24 000 000	Minimum MNT 1 200 000 Maximum MNT 24 000 000	MNT 500 000

## SEVEN: OUTCOMES TO REALISE

- Clarify time-related issues concerning issuance of securities;
- Save costs when a company issues additional securities
- Clarify processes and procedures, and eliminate overlap
- Issue dividends (though regulated by law, have thus far not been

widely used ); issue preferred stock; increase range of products by developing the tools that announce security registration and insert them into circulation when necessary

## EIGHT: ADDITIONAL CHANGES

- Securities issuer will submit request to the MSE first
- Registered securities will be submitted to the FRC
- Registering a security prospectus with the MSE and submitting it to the FRC
- Registration preparation
- Shares and debt instrument will be registered and when necessary, issued step by step

- Calculating a company's value of total transactions as a percentage of the total value of MSE transactions for companies in category I
- Not requiring an underwriter when registering a debt instrument, depending on the scope of the offering and features of the issuer
- Not requiring a security prospectus when issuing additional securities in a closed setting ■

# Changes to Rules on Oversight

## Legal regulations

- Law on the Securities Market provisions 49.1.5, 70.1.6, and 70.1.9

## Reasons

- As a result of the MSE's transition to a self-governing body, it has become necessary to amend certain legal provisions. In this context, the following changes have been made to oversight regulations:
- Some unnecessary parts from the oversight guidelines were removed, and some parts were revised to be more in line with other regulations.
- Within the necessity to reflect rights to organise inspections and sanctions in the regulation, it includes parts to establish a joint working group with the FRC to take measures against offenders that

violate the regulation in a timely manner.

- Remove certain cases of overlap, allocate and clarify functions in accordance with the changes made in the registration and membership bylaws
- To add rules regarding on-site and off-site inspection activities on member securities firms and securities issuers; fully reflect some relations unmentioned in the previous regulation; add some provisions and terminology and change some wording in accordance with the regulations of the FRC
- As the previous regulation includes only violations related to securities trading, potential violations related to securities issuers and member securities firms' activities were added.

## ONE. GENERAL BACKGROUND

### The amendment consists of 5 section and 13 provisions.

- The purpose of the regulation is to regulate relations concerning laws, regulations, implementation of rules, monitoring the perfor-

mance of duties of agreements, appropriate inspections and sanctions regulating securities trading, member securities firms, and securities issuers.

## TWO. AREAS OF INSPECTION AND OVERSIGHT

Monitoring of securities trading	Monitoring of member securities firms
Monitoring of securities issuers	Monitoring based on petitions, complaints, news and other information

In addition, inspection duties in the four areas above are explained in detail. For example: Monitoring of member securities firms to ensure that they are operating in accordance

with the criteria set in the membership regulations; a unit responsible for monitoring financial operations of securities issuers and expenditure of funds raised.

## THREE: ON THE STRUCTURE OF CARRYING OUT INSPECTIONS, AND ITS FUNCTIONS AND RIGHTS

### Monitoring specialist

- Inspection and monitoring activities will be carried out on a daily basis in the 4 areas of inspection

### Unit responsible for inspection and monitoring

- Inspection and monitoring activities will be carried out on a daily basis in the 4 areas of inspection
- Will conduct announced as well as surprise inspections on-site on operations of member securities firms

### Joint working group

- Will consist of the FRC's state inspectors and specialists
- Will conduct announced as well as surprise inspections on-site on operations of securities issuers

## FOUR: THE JOINT WORKING GROUP HAS THE FOLLOWING RIGHTS

- Levy fines and enforce acts upon the revelation of violations found through announced as well as surprise inspections

- Give official orders to correct violations by setting deadlines and ensuring their implementation

## FIVE: TYPES OF VIOLATIONS

- Violations related to securities trading
- Violations related to the operations of member securities firms
- Violations related to the operations of securities issuers

## SIX: OUTCOMES TO REALISE

- Inspection and monitoring of securities issuers and member firms will be comprehensive and accountability systems will be clarified;
- As the inspection and monitoring working group's functions become clear, the overlap of inspection and monitoring on securities issuers will get eliminated and results will improve
- By correcting the ambiguous wording of the previous regulation, disputes arising from issues and avoidance of responsibilities will be minimised
- By bolstering inspection measures, member and listed companies' rules, regulations and execution of contracts will improve;
- Not requiring a security prospectus when issuing additional securities in a closed setting ■

## Interview

# T.Gandulam: Derivatives Will Be Introduced to Mongolia

*We sat down with the Director of Securities Regulation Department of the Financial Regulatory Committee, T.Gandulam, to talk about the capital market's legal environment and the securities market.*

**-The Mongolian Stock Exchange was established 25 years ago. How have legal regulations of the financial market been improved since then?**

The MSE was founded in 1991. Since then, state policies and decisions related to the capital market have been implemented and regulations developed. During the span of 25 years, laws on the securities market have been revised two times. The latest revision took effect starting on January 1, 2014. A revised law on the securities market is ready. Since the first law was developed 25 years ago when the stock exchange was founded, it was necessary to amend it because of globalisation and modern times, and also new regulations, products, new investors and many types of relations had to be regulated. In this regard, adjustments suitable to Mongolia need to be made after studying developing and developed markets in order to create a favourable legal environment consistent with international standards and one capable of attracting foreign and domestic investment. Professional institutions, trade associations, the private sector, intermediaries, brokerages, dealer firms and regulatory institutions cooperated in order to develop the most recent law and get it approved in 2014.

**-Tell us more about the law on the securities market that took effect two years ago?**

-Infrastructure was the most vital issue for the capital market. This law clarified the regulatory framework related to the development of capital market infrastructure. Secondly, it created many new kinds of relations. Issues reflected in the law include dual listing on the MSE and similar foreign stock exchanges, the issue of depository receipts and regulations concerning self-governing bodies. The FRC established two self-governing organisations last year. The



Mongolian Association of Securities Dealers and the MSE have become self-governing organisations.

**-What changes and reforms are made by becoming a self-governing body?**

-The importance of a self-governing organisation is that it sets ethical standards and responsibilities for members in accordance with international standards, conducts inspection activities on the market and places market risk protection mechanisms at the same time. In other words, it turns into a new institution that takes on some of the functions of the state.

The capital market is not just an issue of the FRC. It's a macro issue related to professional market participants such as the government, parliament, the Ministry of Finance, the Bank of Mongolia and private sector, so it's necessary to start off on the right foot in terms of cooperation. In that context, the FRC obtained a resolution by the Economics Standing Committee of parliament last April. The resolution entailed cooperation between the Bank of Mongolia, the Ministry of Finance and the government on the implementation of policy measures to develop the capital market.

**-There's a need for professional and institutional investors. What reforms and regulations are there in this context?**

-Another issue related to legal regulations

is associated with institutional investors. We are faced with issues related to regulating relations of investment funds, investment management companies and custodian banks that provide services to them. The products traded on the stock exchange are important, but preparing buyers is also important. The financial market will develop if buyers and sellers are both there. The market will not develop if there aren't any buyers, even if there are a myriad of products. There is one unique feature for buyers, however. The majority of buyers in developed countries are professional or institutional investors. These investors are big dogs on the market. Therefore, our focus is to create professional investors and foster their maturity. The FRC developed new rules and regulations to be inserted into the laws on Investment Funds and Investment regarding the accounting of custodian banks that provide services to professional investors. In other words, we were able to set the foundation of the works necessary to meeting international accounting standards and to boost confidence in such organisations.

**-As of today, how many organisations have obtained permits to conduct investment fund activities and custodian bank services?**

- As of today, seven investment management companies and two private investment funds have been established. Requests to establish joint investment funds have also come in. Seeing this, the results of the regulatory reforms are noticeable.

**-What steps have been taken to ensure minimal losses, high quality products and reduction of risk?**

-This is a crucial issue. As for policies implemented by our committee, we have done works to improve the quality of products offered and discourage non-performing products. Within this framework, our committee and the MSE have our own respective regulations, known as the securities registration rules. Steps to make sure these regulations meet international standards have been taken. The procedures were revised last year and took effect starting January 1. ▶

► **-What's the main difference between the amended rules and the old ones?**

-New regulations that monitor the quality of products being traded are well-reflected. Products' indicators and the quality of the products must be monitored by the entities themselves. The new regulations also save much more time compared to the old ones. The registration process of a company issuing securities used to take anywhere from 45 days to three months, but now they can give requests to the stock exchange and the FRC at the same time. The stock exchange will relay its conclusions to the committee after reviewing. The FRC then makes a decision based on the conclusions of the stock exchange. As for processing period, it has become 15 business days. This is a significant improvement for companies seeking to raise funds.

Since the stock exchange is now a self-governing body, it can develop rules on its own, set membership criteria, improve monitoring mechanisms and detect illegal actions on the stock market in a timely manner and double check them. On the other hand, it allows for the maintaining of a proper balance between the state and the private sector. In addition, the FRC is cooperating with the exchange to foster maturity and training as a self-governing organisation in accordance with international standards.

The committee signed a memorandum of understanding with the Mongolian Association of Securities Dealers last year and is moving forward with works to cooperate on the market. A three-year action plan has been approved, and each year the plan will be modified. We believe that the rules of the game will become clearer for the players as we work under a unified plan towards one objective.

**-What works are planned by the committee for the sector in 2016?**

-As a regulatory body, we have developed programmes in cooperation with the finance ministry and the Bank of Mongolia for the next ten years rather than just 2016. We developed a programme known as the financial market development policies until 2025. In order to create a programme at the macro level for the ten years, we're working to get approved a programme that includes the opinions of relevant organisations. For example, market-oriented policies are more important for creating a favourable environment that will attract investors than us coming up with products and preparing investors. In developed countries, there's a big difference between a closed company and

a public company. Public companies have more advantages and privileges. The reason is because it's necessary to openly provide their information, for they attract capital from the public, so their governance must be good. As such, there must be a favourable economic environment. One aspect of a favourable economic environment provided by this programme is the possibility to be exempted from taxes on capital gains, interest revenues and corporate income tax. We expect significant changes in the market if it receives approval.

**-What are some of the current trends in the securities and bonds markets?**

-Last year, transactions amounting to MNT 546.4 billion were recorded, the highest in the 25-year history of the stock market. Government bonds by far saw the highest level of activity. MNT 510 billion in government bonds were introduced. In 2011, bonds worth MNT 241 billion came in. During that time, the net value of trades amounted to MNT 350.2 billion. It shows that government bonds can be sold through the stock exchange and that the public can buy these bonds. According to statistics, the economic situation is slumping, but on the contrary, our market is experiencing an increase in transactions. For example, MNT 6.3 trillion in securities settlements and transactions were conducted in 2015. It shows the amount of economic

circulation being facilitated by this market. Citizens can buy bonds and invest in shares to put their money somewhere other than a savings account at a bank. I hope many more high-quality products will be introduced to the market in 2016. The committee is trying to reduce market risks and increase investors' confidence through our policy by insuring if possible or by introducing the insurance sector to the capital market. In this context, a new product, insured Erchim bonds, were issued. We see that there are opportunities to insure new products. It's one way to protect investors from potential risks.

**-What progress we will see regarding custodian banks this year?**

-Khan Bank, Khas Bank and Golomt Bank have received permits to provide custodian banking services that serve specialised investors. We expect services activities to go smoothly this year. This provides an opportunity for foreign investors to enter the market. In addition to securities trading in Mongolia, it provides an opportunity to change securities in Mongolia to depository receipts on foreign stock exchanges. This year, we are planning to introduce derivatives rather than just bonds and traditional securities. Our department is working to create the regulatory framework to register derivatives as financial instruments. ■

## Privatisation of state property

# The importance of the privatisation of State Property via the Stock Exchange

**J.MYAGMARSUREN**  
Chief Marketing Officer of the MSE

**A**lthough there are a variety of state-owned enterprises (SOEs) around the world, a certain trend is beginning to dominate in terms of efficient state management, benefits and promotion of economic development strategies.

## Privatisation of state property in Mongolia

When Mongolia transitioned to a market economy, 475 SOEs were privatised to the citizens through a voucher-based scheme. Although this privatisation offered equal initial terms to citizens, most people lost

the vouchers or sold them for cheap to a few people with experience since ordinary people were not ready, lacking knowledge and information. Hence, most people did not experience any long-term benefit.

The secondary market for securities was successfully launched in 1995. Since 2005, the results of the goal of developing the stock market in the classic sense by offering shares to the public and rapidly establishing public shareholding companies can be seen: a total of 11 companies raised MNT 24.9 billion by issuing new securities, and eight more companies successfully raised MNT 26.5 billion by issuing additional securities.

Currently, there are 21 fully state-owned and 17 partially state-owned companies listed on the Mongolian Stock Exchange. ►

## ► International experiences

Countries around the world long histories of boosting state budget revenues and spurring economic development by privatising state-owned legal entities. One of the biggest waves was when Soviet socialism collapsed in the 90s.

Three main methods are utilised globally to privatise state-owned legal entities: 1) voucher privatisation – distributing shares of ownership to all citizens, usually for free or at a very low price; 2) asset sale privatisation – selling an entire organisation or part of it to strategic investors, usually through an auction or by using a trust (the Treuhand model); 3) share issue privatisation (SIP) – selling shares on the stock market. The decision of which method to employ depends on a country's policies, domestic business environment and size and features of the entity in question.

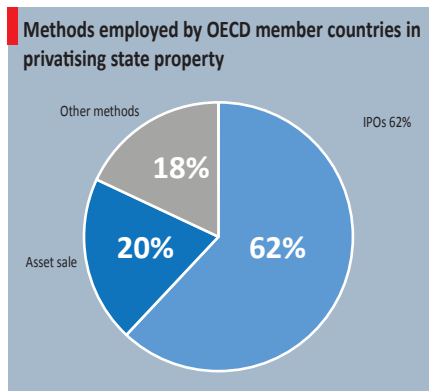
Before the 1990s, countries such as Great Britain, Germany, France, Italy, New Zealand, Mexico, Canada, Australia, Poland, Czech Republic and Hungary implemented large-scale privatisation programmes. The public offering method was more commonly used, with 62 percent of cases employing this method. (Chart 1)

Privatisation of state property in Britain, Germany, Italy and France had more of an objective to promote the development of the domestic stock market. However, countries such as Australia, Mexico and former socialist countries such as Poland, Hungary and the Czech Republic used the asset sale method.

The reason why they chose the asset sale, or tender offer, method is because of influential factors such as low capital levels of companies being privatised, a poor financial and legal framework and the desire to rapidly transition to a market economy.

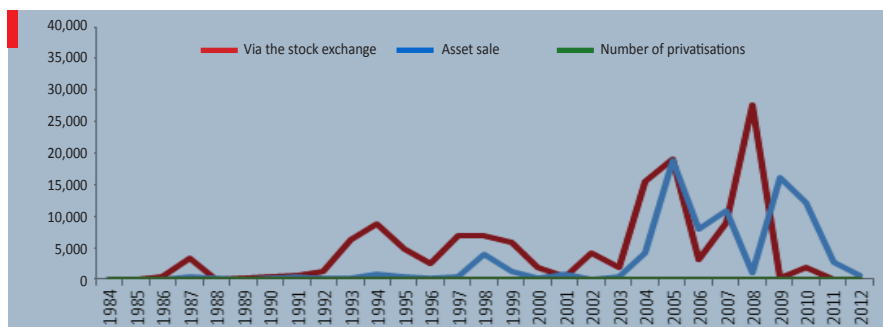
### The French experience

France is a country rich in privatisation experience, especially regarding state property management and political participation. France established a state property management agency in 2004 and has been successfully implementing strategies for state participation strategy in the economy and efficient state property management. Some interesting possibilities can be observed from France's privatisation trends. The state participates as a shareholder to implement proper state property management, and it can be seen from France's total state privatisation revenues from 1994 to 2012 that they have



commonly used the public offering method. (Chart 2)

In particular, they increased the benefits reaped from state properties by using the form of partial privatisation to attract foreign and domestic investment. When employing partial privatisation, 5-10 percent of an entity is offered to the public and can help save costs, cover the next round of partial privatisation costs and raise the share prices. This method is suitable both for full privatisation and for leaving a bit to the state. For example, the French Compagnie des Machines Bull was gradually privatised in pieces in 1995, 1997 and 2005, resulting in eventual full privatisation; Air France was partially privatised in 1999 and 2004, but 15.7 percent of its shares remains under state ownership; Aerospatiale-Matra was privatised in 1988, 1999 and 2001, and the state held on to 0.60 percent of the company. From above examples it can be seen that a state can implement management oversight on a privatised company, even without owning much of its stock.



### Mongolia

The government was assigned the task of organising the works to privatise and restructure legal entities with parliamentary resolution No. 70 of 2015, "Guidelines for the privatisation and reorganisation of state property in 2015-2016." In order to implement the resolution, the government

also approved the "list of state-owned and partially state-owned legal entities to be privatised and restructured in 2015-2016." The main objective of this endeavour is to make a certain contribution to creating an economic system based on the private sector. Furthermore, an additional aim is to promote the development of the stock market, to use the revenues from privatisation on improving the tech capital of companies and other entities in order to establish the foundation for sustainable economic development.

Within the framework of this undertaking, it was decided that the Mongol Post SOE's total number of shares would be 99,586,363 in accordance with the State Property Committee's resolution No. 594 of 2015, and 34 percent of the total shares were offered to the public on the MSE, and shares equivalent to MNT 6.3 billion were sold on the primary market.

Privatisation offered to the public through the MSE is important for the following reasons:

First, the stock market is the most fair, open and transparent market. Companies listed on the MSE submit financial and operational reports and organise shareholders' meetings. They also implement corporate governance procedures and operate according to bylaws.

Second, each citizen gets the opportunity to participate in the privatisation of SOEs, as the system of distribution of securities is organised favourably for smaller investors in the primary market.

Third, every shareholder can participate in the oversight of state-owned public companies.

Fourth, since the SOEs would be valued realistically and this information offered to the public, the true value of that company's shares would be reflected.

Fifth, more secondary market transactions would significantly contribute to the MSE's daily trading volume and to the development of the derivatives market. ■

## Mining

# Stand Up for Gatsuurt



BY TS.BUYAN

The issue of determining the state share of the Gatsuurt deposit has been discussed for three years by parliament. It has been a year since it was registered as a mineral deposit of strategic importance, and progress here has been as sluggish as with other strategically important projects.

What is a strategically important deposit, and what are their roles in the economy of Mongolia? As defined by law, deposits that can have impact on national security, economic and social development or are able to account for more than five percent of GDP fit into this category. Everyone is aware of the contributions of Erdenet and Oyu Tolgoi (OT) to economic and social development. However, there is one task these deposits have never fulfilled to this day. Article 5.6 of the Law on Mineral Resources clearly states "The party that holds a mining licence for a mineral deposit of strategic importance must trade at least 10 percent of its shares on the Mongolian Stock Exchange."

To date, after the enactment of this law, no one has mentioned the implementation of the above-mentioned provision. Yet, everyone is pressing for the development of the stock market and criticises the fact it has been slow to develop. It's same thing for the Gatsuurt gold deposit. The government submitted this issue to parliament three times, but MPs have only raised issues such as the state share percentage and mineral royalty rates, while there has not been a whisper about trading the shares on the stock exchange.

On October 23 of last year, the issue to determine the state share of the deposit was submitted to parliament for consider-

ation. On the 24th of last month, parliament reached the conclusion that the draft law "should be discussed" by MPs, which marks the third time they came to such a decision. This time, it was agreed that the state would own 34 percent of the Gatsuurt deposit, at least initially, and that mineral royalties may be set at three percent with zero percent state ownership down the road. In February of last year, the state share was submitted to be 20 percent, but the decision was postponed due to constant opposition from social movements and demonstrations. Although the state's share was set at 34 percent in June of last year, parliament did not accept investors' stipulation that the mineral royalties fee be set at 1.7 percent. Thus, they have re-entered negotiations with the investors and in the newly submitted draft are the results of these negotiations.

According to the the Mineral Resources Council of Mongolia, the deposit has 17.1 million tonnes of iron ore and 50 tonnes of gold reserves. However, there is also an estimate that the deposit has 27.6 million tonnes of iron ore and 75.9 tonnes of gold reserves, and some say there might be even more. Gold content in the ore is relatively high, and with well-developed infrastructure, that serves as an advantage. Efficiency calculations on the deposit's contribution the economy changed with each submitted draft. The latest estimate expects that cash flows into Mongolia will be about USD 339.8-490.7 million (58-70 percent of the total) depending on the market price of gold. Each year, five tonnes of gold will be extracted and commissioned to the Bank of Mongolia, MNT 200 million will be generated in tax revenue and more than 1,000 jobs will be created.

In the end, this translates to USD 60 million more than the initial version. This amount is approximately half a year's worth of child benefit money. But what has changed in Noyon Mountain while parliament was squabbling? Illegal gold miners known as "ninjas" have gathered in large numbers and have been digging day and night. About 1,800 people from Khuvsgul, Arkhangai, Darkhan-Uul, Tuv and Selenge provinces are engaged in illegal mining at the deposit. Although there are security personnel at the site, but they simply lack the capacity to deal with the scope of this issue. These "ninjas" do not care for security and have even started to assault during the night armed with wood and stones. They say there are normally about 300-500 "ninjas" illegally mining, 24 hours a day.

Noyon Mountain has become a crime field as alcoholism and ruffianism are commonplace, and cases of stabbings over who digs where have been repeatedly occurring. Crime in Mandal soum has increased by 20 percent compared to the same period of the previous year. Among those illegal gold miners, several ex-convicts started to threaten the others in the name of splitting digging sites.

All these issues were directly caused by the indecision regarding whether to utilise the Gatsuurt deposit or not. Twenty years ago, Gatsuurt LLC started extracting from its open pit and ended operations in 2002. It is clear that there is not so much gold left to make these 1,800 people rich, as the company was primarily reprocessing the wastes in its last years. The newly discovered 50 tonnes of reserves are located deep below solid rock.

One strong reason to stop the Gatsuurt project is the historical significance of Noyon Mountain. The Sujigtei pass, where it is said that gold reserves were found, is one of the three passes with a lot of Hunnu archaeological finds. However, those findings are 2.8-5 kilometres away from the deposit. In addition, the land has been dug 20 years ago when the deposit was first utilised. Centerra Gold will be responsible for the restoration work as the company is assuming responsibility of the mining. Also, the draft resolution regarding "the issue of assuming some areas under special state protection" received majority approval at a cabinet meeting and will be submitted to parliament. Its objective is to preserve the natural and environmental balance of areas surrounding Noyon Mountain and to protect the historical significance, the land and its flora and fauna.

It seems this third draft resolution complies with requirements set by the members of parliament. In this time of economic deadlock, resolving issues surrounding the investments of mega projects will be accompanied by positive changes. Hence, let's stand up in support of moving forward with the Gatsuurt deposit. However, under one condition: to ensure that the licensee trades 10 percent of its shares on the Mongolian Stock Exchange and implements the forgotten provisions adopted 10 years ago. If this can be implemented, the citizens of Mongolia will be able to draw legitimate benefit from Noyon Mountain. And all those playing politics in the name Noyon Mountain, sit down. ■



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