



## **LAW OF MONGOLIA**

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State Palace  
City of Ulaanbaatar

### **ON INVESTMENT FUND**

#### **CHAPTER ONE**

#### **GENERAL PROVISIONS**

##### **Article 1. Purpose of Law**

1.1. The purpose of this Law is to regulate matters regarding establishment of an investment fund, undertaking fund operations, protecting investor's interests, and regulation and supervision of the fund operations by an authorized state organization.

##### **Article 2. Legislation on Investment Fund**

2.1. Legislation on investment fund shall consist of Constitution of Mongolia, Civil Code, Law on Securities Market, this Law and other legislative acts [of Mongolia] adopted in conformity with thereof.

2.2. If an international treaty to which Mongolia is a party is inconsistent with this Law, the provisions of an international treaty shall prevail.

##### **Article 3. Scope of Applicability of the Law on Investment Fund**

3.1. This Law shall regulate matters related to granting special permits for [establishment of] an investment fund, undertaking management of fund assets, taking into custody and registering fund assets, distribution of information to investors and relations related to operations by the securities market's regulated legal entities which will provide services to an investment fund.

3.2. Funds regulated by specific [separate] laws and matters related to undertaking investment activities using the assets of those funds shall not be regulated by this Law.

3.3. This Law shall not regulate matters related to undertaking investment activities of the banks, non-bank financial institutions, insurance companies and professional insurance participants and regulated legal entities, other than set out in Articles 24.1.12, 24.1.13 of the Law on Securities Market by themselves, which use their own equity capital.

3.4. The matters related to undertaking investment activities by the banks using deposits accrued from the public shall be regulated by the Law on Banks.<sup>1</sup>

#### **Article 4. Definitions of Terms in this Law**

4.1. The following terms used in this Law shall have meanings ascribed to them as follows:

4.1.1. “Investment fund” means [a legal entity] specified in Article 4.1.32 of the Law on Securities Market;

4.1.2. “Mutual investment fund” means an investment fund which is entitled to raise funds through offering to the public its unit rights pursuant to Article 4.1.21 of the Law on Securities Market;

4.1.3. “Private investment fund” means an investment fund which is entitled to raise funds by offering its unit rights only to, and entering into contractual engagement with, legal entities defined in Article 4.1.19 of the Law on Securities Market;

4.1.4. “Investment fund’s net assets” means assets of an investment fund minus its liabilities recorded in the financial statement;

4.1.5. “Investment fund’s costs” means costs of services, such as investment trust management, custodian, brokerage or accounting delivered [by others] to an investment fund,;

4.1.6. “Investment instruments” means financial instruments which are permitted for investment by an investment fund in accordance with the fund’s investment policy and which are defined as such by the Financial Regulatory Commission (hereinafter as ‘Commission’) in compliance with requirements specified in the Law on Securities Market and in this Law;

4.1.7. “Unit right” means bearer security which certifies ownership right of the investor to the assets invested in the investment fund;

4.1.8. “Initial offering of unit rights to the public” means initial offering of unit rights by an investment fund to the public [with the purpose of raising funds];

4.1.9. “Unit rights’ prospectus” means a set of documents prepared by the founders of the investment fund for the purpose of offering of unit rights to the public in line

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<sup>1</sup> Law on Banks – published in #7 of the “State gazettes” in 2010.

with the fund's investment policy and in accordance with rules defined by this Law;

- 4.1.10. "Investment fund member" means an individual or a legal entity who holds ownership title to unit rights in an investment fund;
- 4.1.11. "Investment management company" means a legal entity specified in Article 4.1.33 of the Law on Securities Market;
- 4.1.12. "Custodian" means a regulated legal entity of the securities market which holds a special permit to undertake custodian activity and which provides an investment fund asset custody services by way of separating the fund's assets from those of the investment management company, conducting settlement, clearing and asset registration services pursuant to the law and the agreement on asset custody services.
- 4.1.13. "Fit and proper person" means a legal entity which meets requirements specified in Article 68 of the Law on Securities Market;
- 4.1.14. "Related person" means a person specified in Article 4.1.30 of the Law on Securities Market.

## **CHAPTER TWO**

### **TYPES, FORMS, MANAGEMENT AND PRINCIPLES OF INVESTMENT FUND**

#### **Article 5. Investment Fund**

5.1. An investment fund shall be a legal entity which undertakes professional investment activity specified in Article 4.1.18 of the Law on Securities Market.

5.2. Mutual investment fund's operations shall be considered as regulated activity specified in the Law on Securities Market.

5.3. Private investment fund's operations shall not be considered as regulated activity specified in the Law on Securities Market.

#### **Article 6. Types and Forms of Investment Fund**

6.1. Investment fund shall have the following forms:

6.2.1. Mutual investment fund;

6.2.2. Private investment fund.

6.2. Investment fund shall have the following types:

6.2.1. Open-ended or closed-ended mutual funds specified in Article 38.5 of the Law on Securities Market;

6.2.2. Closed-ended private investment funds specified in Article 38.5.2 of the Law on Securities Market.

6.3. Types and forms of investment funds shall be defined by its charter.

6.4. Investment funds may specialize in investing in certain investment instruments which specialization shall be specified in the fund's investment policy.

### **Article 7. Legal Status of an Investment Fund as a Legal Entity**

7.1. An investment fund shall be a special purpose company with the status of a legal entity.

7.2. An investment fund shall be independent from its member-legal entity which holds unit rights in the fund, irrespective of the percentage and quantity [size] of the unit rights held by such member-legal entity, and shall exercise liability stated no rights, obligations or liability as stated in the Company Law arising from the relationship between controlled [subsidiary], daughter and parent companies.

### **Article 8. Investing into Investment Fund**

8.1. Individuals and legal entities may invest into an investment fund.

8.2. An investment into an investment fund may be made in the following forms:

8.2.1. in a mutual investment fund only by monetary assets;

8.2.2. in a private investment fund by other financial instruments, in addition to monetary assets, if those instruments are authorized by the charter of that investment fund.

8.3. Specific [eligibility] criteria may be defined by the charter of the investment fund for the financial instruments specified in Article 8.2.2 of this Law.

8.4. Assets to be invested into an investment fund shall be free of any deficiencies of the ownership rights and shall be free of any liens, pledges and other security.

8.5. An investment fund member shall be liable for the obligations of the investment fund to third parties to the extent of its investment in that fund only.

8.6. An investment fund shall not be liable for the obligations of its members and service providing legal entities to third parties.

### **Article 9. Management of Investment Fund**

9.1. The governing body of an investment fund shall be the meeting of its members holding the unit rights and the powers of the meeting of the investment fund members shall be defined by the charter of the fund approved in compliance with the Company Law.

9.2. The Commission shall approve the common regulations on conducting the meeting of the investment fund members, information delivery to the fund members and external voting methods of an investment fund.

9.3. A mutual investment fund shall have the board of directors whose number shall be defined by the charter of the fund. A private investment fund may [choose to] have no board of directors.

9.4. The powers of the board of directors of an investment fund [who has such board] shall be defined by the charter of the fund approved in compliance with the Company Law.

9.5. Unless otherwise stated in the charter of a private investment fund with no board of directors, the powers of the board of directors shall be exercised by the meeting of the fund members or by a person authorized by that meeting.

9.6. In case of an investment fund with no board of directors, the powers of the audit committee shall be exercised by the members of the fund, whereas in case of an investment fund with the board of directors the powers of the audit committee shall be exercised by the board of directors.

9.7. The powers of the executive body with regard to undertaking day-to-day operations of the investment fund shall be defined by the agreement on of asset management.

9.8. In servicing an investment fund, the investment management company and the custodian shall have the duty to be independent, to avoid conflict of interest and to serve interests of the fund members only.

#### **Article 10.Operation Term of Investment Fund**

10.1. Operation term of an investment fund shall be up to 10 (ten) years.

10.2. An operation term specified in Article 10.1 of this Law can be reduced by the charter of the investment fund.

#### **Article 11.Business Residence Address of Investment Fund**

11.1. Business residence address of an investment fund shall be the address of its asset management company which has founded the fund.

11.2. If more than one asset management company have founded the investment fund, the business residence address of that fund shall be the address of the asset management company which provides the lead service to the fund, or the address defined as such by the meeting of the fund member.

#### **Article 12.Income of the Investment Fund**

12.1. An investment fund may [choose] not to pay dividends from its income during its operation term in which case the fund's net assets shall be distributed in accordance with the sequence and rules specified in Article 38 of this Law.

#### **Article 13.Principles of Operations of Investment Fund**

13.1. The following principles shall be observed in operations of an investment fund:

13.1.1. operations of the investment fund shall further the rights and interests of the investors, accurate information on operations of the investment fund shall be delivered to investors;

13.1.2. decisions on investing assets of the investment fund shall be based on justified calculation and research;

13.1.3. restrictions and limits on investment shall be pre-defined in the investment policy and shall be strictly complied with, appropriate risk management and risk prevention tools and methods shall be kept in place;

13.1.4. assets of the investment fund shall be kept separately from the assets of the [legal person] who manages those assets, assets of the fund shall not be applied toward discharging the obligations of the service providers to third parties;

13.1.5. the investment fund shall be subject to specific regulation in terms of its status as a legal entity, [organizational] structure and tax regime;

13.1.6. conflict of interests amongst unit right holders of the fund, regulated legal entities who provide services to the fund and their employees shall be subject to regulation;

13.1.7. [an investment fund] shall not overaccumulate risks and shall exercise prudent liquidity management;

13.1.8. investment fund members shall be liable for investment risks of operations of the fund to the extent of their investments in that fund.

## **CHAPTER THREE**

### **ESTABLISHMENT OF INVESTMENT FUND**

#### **Article 14. Establishment of Investment Fund**

14.1. An investment fund can only be established by a legal entity which holds the special permit to undertake investment management operations.

14.2. In case where two or more legal entities which each hold special permits to undertake investment management operations agree to jointly establish an investment fund, they shall enter into an agreement [among themselves] which shall define their respective roles, rights, obligations, liability and financing.

14.3. A legal entity which holds the special permit to undertake investment management operations may establish two or more investment funds, subject to its fulfillment of the criteria and requirements defined by the Commission.

14.4. In case of establishing two or more investment funds, the investment management company shall carry out establishment of each investment fund [separately] upon registering the incorporation documents of each fund with the Commission.

14.5. The Commission shall approve the regulation on registration [of the incorporation documents] specified in Article 14.4 of this Law.

14.6. Except as specified in Article 14.4 of this Law, establishment of an investment fund, disclosure of information, raising funds from others shall be prohibited.

14.7. An application for the registration specified in Article 14.4 of this Law shall include the following information:

14.7.1. type and form of the investment fund to be established;

14.7.2. amount of funds to be raised for the investment fund;

14.7.3. amount of investment to be made by the founder(s) [to the fund], statement of its financial capacity;

14.7.4. information on the personnel who shall carry out the establishment of the investment fund, statement of their fulfillment of fit and proper requirement;

14.7.5. timeline plan for completing establishment of the investment fund;

14.7.6. other required information defined by the Commission.

14.8. The Commission shall approve the regulation on establishment and supervision of the mutual investment fund.

14.9. Upon registration of the mutual investment fund in accordance with Article 14.4 of this Law, incorporation [establishment] of the fund shall be conducted in the following order:

14.9.1. registration of the mutual investment fund with the state registration of legal entities;

14.9.2. preparation of the prospectus of unit rights of the mutual investment fund and registration thereof with the Commission;

14.9.3. public disclosure of the prospectus [public offering] of the unit rights of the mutual investment fund and raising of funds;

14.9.4. obtaining the special permit for undertaking operations of the mutual investment fund and commencing the fund's operations.

14.10. In case of the mutual investment fund, it shall be considered as established upon completion of all actions specified in Article 14.9 of this Law and [subsequent] registration of the special permit for undertaking operations of the mutual investment fund with the state registration of legal entities.

14.11. The Commission shall approve the regulation on public disclosure of the prospectus of the unit rights of the mutual investment fund and on raising funds in compliance with this Law.

14.12. In case of the private investment fund, it shall be considered as established upon holding the founders' meeting and [subsequent] registration with the state registration of legal entities. Articles 14.9-14.11 of this Law shall not apply to [the establishment and registration of] the private investment fund. Private investment fund shall not be entitled to raise funds from the public through public offering.

14.13. Authority of the state registration of legal entities shall register an investment fund upon fulfillment of the following conditions:

14.13.1. [the fund] has been registered with the Commission in accordance with Article 14.4 of this Law;

14.13.2. the founders' meeting has been held, the decision on establishment of the investment fund has been made and the charter of the fund has been approved;

14.13.3. the founder has entered with the investment fund into an agreement on providing investment management services;

14.13.4. the investment fund has entered with the custodian into an agreement on asset custody;

14.13.5. other conditions specified by law and regulations defined by the Commission.

14.14. The right to undertake investment activity of an investment fund shall be considered as issued only from the day of [the Commission's] granting of the special permit for undertaking operations of the investment fund and [for avoidance of any doubt] registration of the investment fund with the state registration of legal entities in accordance with Article 14.9.1 of this Law shall not serve as a ground for undertaking investment activity.

14.15. Founder(s) shall, on behalf of the investment fund, organize all activities with regard to the registration [of the fund] with the state registration of legal entities.

#### **Article 15. Name of Investment Fund**

15.1. The name of the mutual investment fund shall consist from its name and detailed identity of "mutual investment fund" or its abbreviation of "mutual IF" and the name of the private investment fund shall consist from its name and detailed identity of "private investment fund" or its abbreviation of "private IF".

15.2. The use of detailed or abbreviated identity of an investment fund by persons other than specified in Article 15.1 of this Law shall be prohibited .

#### **Article 16. Charter of Investment Fund**



16.1. In addition to matters specified in Article 16 of the Company Law, the following matters shall be included in the charter of an investment fund:

16.1.1. the purpose of the investment fund shall be investment activity only;

16.1.2. the type and form of the investment fund;

16.1.3. the name and address of the investment management company;

16.1.4. the powers of the governing body (the meeting of the members) of the investment fund and rules of exercising these powers;

16.1.5. the name, state registration and address of the legal entity which shall provide custodian services [to the investment fund];

16.1.6. the operation term of the investment fund;

16.1.7. the amount of funds to be raised by the investment fund, size of contribution of individual investors in the fund;

16.1.8. if it is allowed to invest by way of a financial instrument in the private investment fund, then the principles and methods of the valuation of such financial instrument;

16.1.9. the rules on liquidation and liquidation procedure if the fund has completed distribution of the assets to investors upon expiry of the operation term of the fund.

#### **Article 17. Investment Policy [of Investment Fund]**

17.1. The following matters shall be included in the investment policy of the fund:

17.1.1. the purpose of investment activity, direction, analysis and calculation for profitable investment of the fund's assets;

17.1.2. the list of investment instruments eligible for investing and any restrictions [on investment];

17.1.3. the risk assessment and risk management methods and instruments in relation with investment involving each investment instrument mentioned in Article 17.1.2 of this Law;

17.1.4. the requirements toward the structure of assets of the investment fund;

17.1.5. policy of distribution of the investment fund's revenues to the members [of the fund].

#### **Article 18. Requirements for Assets of Investment Fund**

18.1. The minimum size of the assets to be raised by a mutual investment fund shall be defined by the Commission.

18.2. [The requirement in] Article 18.1 of this Law shall not apply to the private investment fund.

**Article 19. Raising Funds by the Mutual Investment Fund from the Public, the Special Permit for undertaking Operations of Investment Fund**

19.1. A mutual investment fund shall conduct fundraising activities based on the prospectus of unit rights of the fund.

19.2. An investment management company which has founded the mutual investment fund may provide asset management services to the same fund in which case prior to the registration [of the fund] with the state registration of legal entities it [the investment management company] shall put in separate account its assets designated for investing in the fund.

19.3. In case of the mutual investment fund the Commission shall approve the regulation on the prospectus of the fund's unit rights and on the public offering and sale of the unit rights.

19.4. Sale of the unit rights of the mutual investment fund on an initial market can be conducted through listing with the securities trade organization.

19.5. Public offering of the prospectus of unit rights of the mutual investment fund shall last for to 6 months since the registration of the prospectus by the Commission and in case of the failure to raise the funds stated in the charter of the fund, the process of establishment of the fund shall be discontinued and the special permit to undertake operations of the investment fund shall not be granted.

19.6. If the situation in Article 19.5 of this Law has occurred, the founder shall inform the Commission and within 15 working days since the decision to discontinue the process of establishment of the fund has been made by the Commission, the founder shall return all and any investments made to the fund by investors [members], deregister the fund from the state registration of legal entities and shall administer the liquidation of the fund.

19.7. If the assets stated in the charter of the mutual investment fund have been completely placed in the separate account and if it is determined [by the Commission] that grounds to refuse granting the special permit to undertake operations of an investment fund, the Commission shall grant the special permit within 14 days since its receipt of the application.

19.8. Until granting the special permit for undertaking operations of the mutual investment fund, the right of disposal of the assets placed in the investment fund's account or payments made for the purchase of the fund's unit rights shall not originate for the investment fund and for the investment management company.

19.9. Investment fund activity shall commence from the day of granting by the Commission the special permit to undertake operations of a mutual investment fund and from the same day the asset management powers shall be considered as issued to the investment management company.

19.10. Validity term of the special permit granted for the mutual investment fund shall be equal to the term of operations of the mutual investment fund indicated in the fund's charter.

19.11. In addition to the information specified in Articles 10.5.1-10.5.4, 10.5.7-10.5.10, 10.5.13 and 10.5.14 of the Law on Securities Market, the following information shall be included in the prospectus of unit rights of the mutual investment fund:

19.11.1. investment fund's charter;

19.11.2. investment policy;

19.11.3. operation term of the investment fund;

19.11.4. information on the investment management company which is founding the investment fund, a copy of the agreement of investment management service entered into between the investment fund and the investment management company and estimate service fees and bonuses;

19.11.5. information on the legal entity which shall provide custodian service, a copy of the agreement on asset custody and amount and calculation of the service fees;

19.11.6. other costs and expenses related to operations of the investment fund;

19.11.7. other information defined by the Commission.

19.12. The Commission shall approve a regulation on delivery of information to the mutual investment fund members and on requirements for the fund's financial statements.

19.13. Based upon the following grounds the Commission shall revoke the special permit to undertake operations of a mutual investment fund:

19.13.1. the mutual investment fund has failed, or has become incapable of fulfilling, the conditions and requirements imposed on operations of the mutual investment fund;

19.13.2. continuing operations of the mutual investment fund may conflict with the rights and interests of the investors;

19.13.3. the volume of the sell-back orders of the unit rights to the mutual fund has reached two-thirds or more of the total issued unit rights;

19.13.4. the rights and obligations of the investment management company or the custodian have not been assigned to another authorized legal entity within three months since suspension or revocation of the special permit [of the investment management company or the custodian];

19.13.5. the rights and obligations of the investment management company or the custodian have not been assigned to another authorized legal entity within three months since issuance of the decision to liquidate [the investment management company or the custodian];

19.13.6. other grounds specified in the law.

## **Article 20. Fundraising by Private Investment Fund**

20.1. A private investment fund shall raise funds based upon an investment agreement without conducting a public offering of the prospectus of the fund's unit rights.

### **Article 21. Powers of Investment Fund**

21.1. A mutual investment fund shall have the following powers:

21.1.1. to raise funds by way of unit rights and to undertake operations of purchase and sale of the investment instruments by using the raised funds;

21.1.2. to manage the investment fund assets in compliance with the rights and interests of the investment fund members;

21.1.3. pursuant to the regulations approved by the Commission and the prospectus of the mutual fund's unit rights to enter into contracts in order to exercise rights specified in Articles 21.1.1 and 21.1.2 of this Law.

21.2. An investment fund shall be prohibited from undertaking the following operations:

21.2.1. undertaking other operations which are not defined in Article 21.1 of this Law and in the fund's investment policy;

21.2.2. undertaking obligations to third parties for operations not related with the operations specified in Article 21.1 of this Law;

21.2.3. borrowing from others in excess of the limits determined by the law and by the Commission;

21.2.4. undertaking savings/depositary operations;

21.2.5. employing employees through labor or other contracts for the investment fund;

21.2.6. defrauding, cheating, or misleading others;

21.2.7. undertaking any activities with the features of the money laundering crime;

21.2.8. entering into contracts or agreements with the conflict of interests in violation of the laws or the fund's charter;

21.2.9. amend or annul the charter, investment policy and prospectus of the unit rights of the investment fund without the Commission's approval.

### **Article 22. Registration of Investment Fund Members**

22.1. Registration of the investment fund members shall be conducted by the investment management company based on the specific registration of the fund's unit rights.

22.2. Specific registration of the fund's unit rights shall be conducted by the custodian who provides [custodian] services to the fund.

22.3. Registration of the investment fund members shall include information on surname and name of the individual who holds unit rights and, if holder is a legal entity, registration shall include the name and registration number of the entity as well as the quantity of unit rights held by it.

22.4. If a holder of unit rights has nominated a nominal owner [of its unit rights], the name of that nominal owner shall also be included in the membership registration.

22.5. The Commission shall approve the regulation on conducting registration of unit rights of the investment fund.

### **Article 23. Unit Rights of Investment Fund**

23.1. A unit right of an investment fund shall certify the ownership [of the holder] thereof] from among the fund's assets, rights of the holder of the unit rights to demand from the investment management company to conduct the asset management of the investment fund in a professional manner and in accordance with the fund's charter and the investment policy, to have one voting right at the meeting of the investment fund members per single unit right held by it and the right to receive assets equivalent to its unit rights under its possession in case of the liquidation of the fund.

23.2. A unit right of an investment fund shall evidence ownership rights to participate in the ownership of the fund assets, but it shall not certify the right to own a particular asset from among the fund's assets.

23.3. Each unit right of an investment fund shall certify an equal size of assets.

23.4. Issuance of derivatives based upon unit rights of an investment fund shall be prohibited.

## **CHAPTER FOUR**

### **INVESTMENT FUND OPERATIONS**

#### **Article 24. Investment Activity of Investment Fund**

24.1. A mutual investment fund shall be prohibited from investing in instruments which are not the publicly traded financial instruments listed in Articles 26.1.1-26.1.3, 26.1.5 and 26.1.8 of this Law.

24.2. A private investment fund may invest in instruments specified in Article 26.1 of this Law.

24.3. Based on the grounds specified in Articles 26.2 and 26.3 of this Law, instruments eligible for investment by an investment fund and specified in Articles 24.1 and 24.2 of this Law may be restricted.

24.4. Unless it is stated otherwise in the charter of an investment fund and in the agreement on asset management, an investment decision shall be made by the investment management company.

24.5. Based on the agreement on asset management, an investment management company shall exercise proxy power on behalf of the investment fund.

24.6. Within its asset management activity for the investment fund, an investment management company shall have a right to act as a plaintiff or a defendant in court on behalf of the fund.

24.7. In case of entering into an agreement for disposing of [managing] the assets of an investment fund, an investment management company shall enter into such agreement under its own name and notify [a third party] that it has the power to exercise trust management over the asset(s).

24.8. An investment management company shall have the duty to submit necessary information and reports within time and in accordance with the regulation approved by the Commission.

#### **Article 25.[Internal] Regulations on Undertaking Investment Operations**

25.1. An investment fund shall approve and implement the following set of [internal] regulations pursuant to the requirements defined by the Commission:

25.1.1. a regulation on internal supervision of an investment fund;

25.1.2. depending on the type of an investment fund, a regulation on placing purchase or sell-back orders of the investment fund's unit rights;

25.1.3. a regulation , including time period, for recording revenue of an investment fund as assets of the fund;

25.1.4. depending on the type of an investment fund, regulation, including time period, on payment for the unit rights sold back to the fund;

25.1.5. a regulation on defining a sell or purchase price of unit rights based on the value of investment fund's net assets;

25.1.6. a regulation, including time period, on registration of the holders of unit rights of the investment fund;

25.1.7. a regulation on defining types of costs and cost ceiling of an investment fund;

25.1.8. a regulation on delivery of information to an investment fund member, types and forms of information to be distributed;

25.1.9. a regulation and conditions of distributing revenue of the investment fund to investment fund members;

25.1.10. a regulation on management risk in an investment fund;

25.1.11. a regulation on borrowing using assets of a private investment fund as a pledge;

25.1.12. other regulations defined by this Law.

25.2. In addition to the agreement on asset management, an investment fund shall have an [internal] regulation on asset management and, depending the type of the fund, it [the regulation] shall include the following conditions:

25.2.1. a holder of the fund's unit rights may sell back its units rights to the fund at any time during the working day and may demand from the investment management company to terminate the agreement on asset management or to purchase back some of its unit rights;

25.2.2. a holder of the fund's unit rights may sell back its units rights within the time period specified in the [internal] regulation on asset management and may demand from the investment management company to terminate the agreement on asset management or to purchase back some of its unit rights;

25.2.3. a holder of the fund's unit rights may not demand termination of the agreement on asset management prior to expiry of that agreement, except as otherwise specified by this Law.

25.3. In addition to the matters specified in Article 25.2 of this Law, the [internal] regulation on asset management [of an investment fund] shall include the following matters:

25.3.1. name of the investment fund;

25.3.2. type and form of the investment fund;

25.3.3. name of the investment management company;

25.3.4. name of the custodian;

25.3.5. name of the person which shall conduct registration of the fund members;

25.3.6. name of the audit organization;

25.3.7. purpose and direction of investment fund's investment activity;

25.3.8. minimum amount of assets of the mutual investment fund;

25.3.9. time period for closing [establishing] the mutual investment fund;

25.3.10. conditions and term of the agreement on asset management.

25.4. Depending on the type of the investment fund, the [internal] regulation on asset management shall be in compliance with the template regulation approved by the Commission.

25.5. An investment management company shall deliver to the Commission any amendments made to the [internal] regulation specified in Article 25.4 of this Law and shall inform the fund members within 5 working days and such amendments shall become valid upon registration thereof with the Commission.

25.6. Upon such registration of the [internal] regulation on asset management with the Commission, the investment management company shall be entitled to disclose to the public its offer of an agreement to provide asset management services.

25.7. The Commission shall make its decision on whether to register the [internal] regulation on asset management of an investment fund or amendments thereto with 30 days since its receipt of application and grounds for refusal shall be stated [by the Commission] in its decision if it has decided to refuse.

25.8. The Commission shall be entitled to investigate [examine] documents attached to the application for registration.

25.9. The Commission shall inform an investment management company within 3 days of decision making of the decisions to register or to refuse specified in Article 25.7 of this Law.

25.10. The Commission shall refuse to register the regulation on asset management or amendments thereto in the following cases:

25.10.1. documents submitted are not compliant with this Law or regulations approved by the Commission or are incomplete;

25.10.2. information which may be misleading is included in the submitted documents;

25.10.3. the investment management company or custodian do not have the special permit, the service provider does not fulfill conditions and requirements defined by the Commission.

25.11. An applicant may submit a complaint with the Commission's Supervisory Committee with regards to the Commission's decision to refuse the registration per Article 25.7 of this Law.

## **Article 26. Assets of Investment Fund**

26.1. The following investment instruments are permitted as assets of an investment fund:

26.1.1. Government debt instruments;

26.1.2. debt instruments issued by the Governor of a province (aimag) or the capital city;

26.1.3. shares of an open joint stock company;

26.1.4. shares of a closed joint stock company or a limited liability company;



26.1.5. company debt instruments, which are traded freely in the regulated market;

26.1.6. company debt instruments which are not traded freely in the regulated market;

26.1.7. securities issued by a foreign Government;

26.1.8. asset-backed securities issued in accordance with the Law on Asset Backed Securities<sup>2</sup>;

26.1.9. derivatives;

26.1.10. foreign and local currencies;

26.1.11. gold and other tradable mining commodities;

26.1.12. immovable property and possession rights of immovable property.

26.2. The Commission shall approve common requirements and prudential ratio criteria applicable to the assets of an investment fund.

26.3. Requirements and prudential ratios of a particular investment fund shall be specified in the investment policy of that fund in compliance with the common requirements and prudential ratios approved by the Commission.

26.4. An investment policy of a fund may define criteria which are stricter compared to common requirements [by the Commission] mentioned in Article 26.3 of this Law.

26.5. In case of reduction in the value of investment fund's net assets by 40 or more percent for 10 consecutive days compared to the first day of the fund's operations, an investment management company shall have the duty to hold the meeting of investment fund members within 15 working days and shall ensure making a decision(s) on the following matters:

26.5.1. whether to liquidate the investment fund and to distribute its assets for investors; or

26.5.2. to continue the fund's operations and to accept risks.

26.6. A mutual investment fund shall be prohibited from investing in an instrument which has conditions to benefit from a short sale or which constitutes a speculative operation.

## **Article 27. Asset Separation of Investment Fund**

27.1. An investment management company shall deposit investment fund's assets in an account separate from its own assets and accounting for the fund's assets shall be separate.

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<sup>2</sup> Law on Asset Backed Securities – published in “State gazettes”, edition 20, 2010.

27.2. Cash and investment instruments which constitute assets of an investment fund shall be deposited in a separate account with a custodian opened in the name of the investment fund.

27.3. In case of insolvency or bankruptcy of an investment management company, assets of a mutual investment fund shall not be included in the assets to be used for repayment of the investment management company's liability.

#### **Article 28. Payment of Fees for Service provided to Investment Fund and Performance Bonus**

28.1. Service fees of an investment management company and a custodian shall be paid from investment fund's assets and the total amount of the annual fees shall not exceed 3 percent of an average balance of the annual asset value of the investment fund.

28.2. A regulation on defining an average balance of the annual asset value shall be approved by the Commission.

28.3. In case of a private investment fund, depending on the performance of asset management activity, the performance bonus for the investment management company may be included in the agreement on asset management and the bonus amount shall not exceed 30 percent of the total annual gains of the investment fund as a result of the investment activity in that particular year.

28.4. Payments for services provided by an investment management company and a custodian during the establishment process of a mutual investment fund may be compensated [to the investment management company and the custodian] upon obtaining the special permit from the Commission.

#### **Article 29. Requirements and Restrictions on Marketing Activities**

29.1. The following matters shall be included in marketing material of an investment fund:

29.1.1. reminder that investment activity is risky;

29.1.2. reminder that an investor shall bear investment risk;

29.1.3. types, level and size of investment risk.

29.2. Unless authorized or agreed to by the Commission, the following advertisements shall be prohibited in relation to an investment fund:

29.2.1. producing, or causing others to produce, advertisement offering to become an investment fund member or making advertisement which shall likely have an impact on becoming a member;

29.2.2. persuading to become an investment fund member or providing recommendations which shall likely have an impact on becoming a member.

## CHAPTER FIVE

### LIQUIDATION OF INVESTMENT FUND

#### **Article 30. Liquidation of an Investment Fund**

30.1. An investment fund shall be liquidated in the following cases:

30.1.1. the operation term of an investment fund has expired;

30.1.2. the liquidation decision has been made at the meeting of investment fund members prior to expiry of its operation term;

30.1.3. pursuant to this Law, the investment management company has convened the meeting of investment fund members meeting and the fund members have decided to liquidate the fund;

30.1.4. an extraordinary situation defined by this Law has occurred and a court decision to liquidate the fund has become effective;

30.1.5. the investment fund has bankrupted;

30.1.6. other [grounds] specified in law.

30.2. A decision to liquidate an investment fund shall be made:

30.2.1. by the meeting of investment fund members, based on the grounds specified in Articles 30.1.1-30.1.3 of this Law;

30.2.2. by court, based on the grounds specified in Articles 30.1.4, 30.1.5 of this Law and on the request made by the Commission or other authorized body;

30.2.3. by other authorized body specified in the law.

30.3. Registration of the investment fund or its prospectus of unit rights, or granting the special permit to an investment fund to undertake operations of an investment fund, or granting the special permit to regulated entities of the securities market to provide services to an investment fund shall not be considered as a guarantee of a state organization for the fund's operations and the state shall not be liable for any loss, or damage caused to the investment fund member or to third parties due to the investment fund's or service provider's operations.

#### **Article 31. Expiry of Operation Term of Investment Fund**

31.1. Upon expiry of the operation term stated in the investment fund's charter, an investment management company shall terminate operations of the investment fund and shall commence liquidation process of the fund.

31.2. Prior to the expiry [of the operation term of the fund] an investment management company, in accordance with the fund's charter and the investment policy and a pre-determined plan, may begin to dispose of investment instruments, depending on the liquidity thereof, held by the investment fund and convert them into cash; and cash assets shall be prohibited from using for investing in other instruments.

31.3. Detailed regulation on liquidation of a mutual investment fund shall be approved by the Commission.

31.4. Liquidation plan of an investment fund shall be approved by the meeting of investment fund members and an investment management company shall deliver a copy of the [liquidation] plan to the Commission.

### **Article 32. Liquidation of Investment Fund on a voluntary basis prior to expiry of its operation term**

32.1. Decision to liquidate an investment fund on a voluntary basis prior to expiry of its operation term shall be made by overwhelming majority of the fund members at their members' meeting.

32.2. The liquidation plan shall be approved by the meeting of investment fund members together with the decision specified in the Article 32.1 of this Law.

32.3. In case of a mutual investment fund, the unit rights' trade shall be terminated by the date of approval of the liquidation decision specified in the Article 32.1 of this Law and investment management company shall inform that decision to the public in two days since its approval.

32.4. In case of a private investment fund, an investment management company shall have the duty to deliver a copy of the decision specified in the Article 32.1. of this Law to the fund members within five days since its approval.

### **Article 33. Compulsory Meeting of Investment Fund Members convened by an Investment Management Company**

33.1. An investment management company shall have the duty to convene the meeting of investment fund members in the following cases:

33.1.1. circumstances specified in Article 26.5 of this Law have occurred;

33.1.2. due to liquidation or insolvency of the investment management company it has become necessary to transfer asset management services to a new investment management company;

33.1.3. due to liquidation or insolvency of the custodian it has become necessary to transfer asset custody services to a new custodian;

33.1.4. due to liabilities of the investment fund to third parties, the value net assets of the investment fund may decrease below the limits mentioned in Article 26.5 of this Law.

33.2. At the meeting of investment fund members held in accordance with Article 33.1 of this Law, the following matters shall be discussed:

33.2.1. whether to liquidate the investment fund, if the fund members have decided not to liquidate [the fund], then the members shall have no objection to bearing potential risk;

33.2.2. selection of a [new] investment management company, assignment of contractual rights to manage the assets;

33.2.3. selection of a [new] custodian, assignment of contractual right of asset custody.

#### **Article 34. Extraordinary Circumstances**

34.1. In case of a mutual investment fund, the following situation shall be considered as extraordinary circumstances:

34.1.1. insolvency proceedings have been commenced against the investment fund or the investment management company or the custodian;

34.1.2. circumstances have arisen that may lead to the liquidation of the investment fund;

34.1.3. a competent authority has decided to reorganize the investment fund based on the grounds specified in this Law.

34.2. The Commission shall immediately take the following measures in the event of extraordinary circumstances specified in Article 34.1 of this Law:

34.2.1. to separate assets of the investment fund from the balance sheet of the investment management company and custodian until such time as all claims by the investors have been satisfied;

34.2.2. if an investment management company is a bank, to appoint, together with the Bank of Mongolia, a receiver, if an investment management company is a regulated person other than a bank, to solely appoint entitled receiver;

34.2.3. in case of a custodian, to appoint a receiver together with the Bank of Mongolia.

34.3. In case of extraordinary circumstances in investment fund's operations, the custodian shall have the following obligations until the appointment of a receiver:

34.3.1. to freeze financial instruments held by the investment fund and to suspend transfers;

34.3.2. to accumulate income related with the investment instrument held by the investment fund and to terminate their spending;

34.3.3. to cancel any payments, service fees or bonuses from the investment fund's assets and to retain cash assets.

34.4.A custodian shall have the duty to hand over to the receiver all original supporting records and documents of the accounts necessary for the verification of all financial instruments held by the investment fund and for protection of the portfolio.

34.5.A receiver shall submit one of the following proposals to the authority which has appointed him or her:

34.5.1. to fulfill investors' claims by disposing of investment instruments or other assets held by the investment fund;

34.5.2. if measures specified in Article 34.5.1 of this Law are considered to be impossible to implement, to transfer the investment portfolio to the asset management;

34.5.3. to take measures designed to improve repayment of the investment fund's receivables.

34.6.A competent authority which has appointed the receiver shall make a decision based on the proposals submitted by the receiver pursuant to Article 34.5 of this Law.

34.7.A receiver shall have a priority right to receive fee from income derived from his/her service and the Commission shall fix fee rates based on the prevalent rates in the banking and financial sector.

34.8. A regulation for undertaking measures specified in this Article shall be jointly approved by the Commission and the Bank of Mongolia.

### **Article 35.A Receiver**

35.1. In relation to extraordinary circumstances specified in Article 34.1 of this Law, a receiver shall be appointed by the Commission (in case of a bank, a receiver shall be jointly appointed together with the Bank of Mongolia).

35.2. If necessary, the Commission may exercise rights and obligations of a receiver.

35.3. A receiver shall have the following rights and obligations:

35.3.1. to take assets in its custody in order to protect the members of the mutual investment fund;

35.3.2. to require changes to the board of directors of a mutual investment fund;

35.3.3. to take measures to improve repayment;

35.3.4. to amend or terminate the agreement on asset management or the agreement on asset custody;

35.3.5. based on the Commission's authorization, to appoint a service provider or enter into service agreements with others;

35.3.6. to make a proposal to liquidate the investment fund;

35.3.7. other activities permitted by the Commission.

35.4. A receiver shall perform its rights and obligations specified in Article 35.3 of this Law under supervision of the Commission.

35.5. A manager or an employee of an investment management company shall take all necessary measures to protect assets [of the fund] and investor's interests, hand over assets of the investment fund, financial statements, documents, official stationery, stamp of the investment fund to the receiver and cooperate with the receiver with all regards.

### **Article 36. Insolvency of Investment Fund**

36.1. If an investment fund has failed to pay its liability exceeding 10 percent or more of its total net assets within 20 working days, an application to commence insolvency proceedings may be submitted to the court.

36.2. Bankruptcy of an investment fund shall be regulated by the Bankruptcy Law of Mongolia<sup>3</sup>.

### **Article 37. Liquidation Procedure of Mutual Investment Fund**

37.1. With regard to the liquidation of a mutual fund, an investment management company shall undertake disposal of assets, closing of payments and clearing and distributing remaining assets to the fund members.

37.2. If the Commission has resolved to revoke the special permits of both the investment management company and the custodian, the Commission may select another company to perform operations of the investment management company and grant powers for carrying out liquidation.

37.3. In case of undertaking investment fund liquidation procedure by an entity selected by the Commission, the total amount of the service cost of asset valuator and auditor shall not exceed more than five percent of the revenues accumulated after disposal of the fund's asset.

37.4. An inspector appointed by the Commission shall conduct supervision over the mutual investment fund liquidation procedure.

37.5. Upon decision to liquidate mutual investment fund is made, fund assets could not be disposed other than selling.

37.6. Within seven days since grounds for liquidation of the mutual investment fund is occurred authorized officials of that fund shall inform the public as well as Commission; and such statement shall include information on period and rule for the claims to be made.

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<sup>3</sup> Law on Bankruptcy – published in “State gazettes”, edition 1, 1998.

37.7. The period and rule on submitting claim in accordance with Article 37.6 of this Law shall be irrelevant for the case when fund is to be liquidated due to failure to raise necessary assets during the establishment of the mutual investment fund.

37.8. Period for receiving claims made by the claimant to the mutual investment fund shall not exceed six months nor shall not be less than 2 months since its confirmation to the public.

37.9. Legal person who is undertaking liquidation of the mutual investment fund shall be obliged to determine all claimant and debtor of the fund and shall be obliged to fulfill all claims and receivables.

37.10. After expired of the period to receive claims from the mutual investment fund, the legal person who undertaking liquidation procedure shall issue financial report on total asset of the fund and accepted payments to be made and deliver it to the Commission; in case of investment management company is undertaking liquidation procedure the financial report shall be reviewed by the custodian.

37.11. Legal person who undertakes liquidation procedure shall be obliged to complete tasks related with the disposal of fund assets and all payments, pursuant with the rules specified in Article 37 of this Law, within 3 months since publication of statement on mutual investment fund liquidation. Different term can be set by the rule on trust management of an investment fund assets.

37.12. If mutual investment fund is to be liquidated due to failure to raise necessary assets or the volume specified in the rule on trust management of the assets is not reached during its establishment procedure, the legal person who conducting liquidation shall dispose assets raised by the fund and shall make payments in accordance with an order specified in Article 38 of this Law within two weeks since the term for fundraising is expired.

37.13. The Commission shall approve requirement for the mutual investment fund liquidation report, rules on issuing and delivering liquidation report to the Commission.

### **Article 38. Distribution of the Liquidated Investment Fund Assets**

38.1. Distribution of the liquidated investment fund assets shall be conducted in following orders:

38.1.1. tax debts and payments payable by that fund ;

38.1.2. fees for the service providers except investment management company or custodian;

38.1.3. liquidation operation cost of the legal person conducting the liquidation or work fee of the legal person who appointed by the Commission and undertook liquidation measures.

38.1.4. service fee payable for the custodian in accordance with an agreement on asset custody;



38.1.5. service fee payable for an investment management company.

38.2. After distribution of the assets in accordance with Article 38.1 of this Law, remaining assets shall be distributed to the fund members proportionally with their invested assets.

## **CHAPTER SIX**

### **INVESTMENT FUND'S ACCOUNTING, AUDIT, ASSET VALUATION AND INFORMATION**

#### **Article 39. Accounting**

39.1. Accounting of an investment fund shall be conducted in accordance with the international accounting standards.

39.2. Accounting of an investment fund shall be undertaken by an investment management company. The investment management company may assign a certified professional accountant(s) for running accounting records, in which case such accountant shall be registered with the Commission and be granted certification in pursuant with the Law on Accounting<sup>4</sup>.

39.3. A regulation on registration of certified professional accountants shall be approved by the Commission.

39.4. In addition to Article 52 of the Law on Securities Market the following shall be complied with in running books of the mutual investment fund:

39.4.1. at a specific time after each daily trade to disclose the fund's daily net assets valuation via the fund's own website as well as to deliver the same information to the Commission;

39.4.2. to disclose clearly valuation methods and registration of the investment fund's net assets via its own website;

39.4.3. to enter into an agreement with the custodian in relation to the implementation of the rights certified by the securities and traded securities and to include calculation and information to be disclosed publicly in detail;

39.4.4. other matters defined by the Commission.

39.5. The Commission or a legal person appointed by the Commission shall have a right to examine documents related with the accounting and to acquire copies without any charge.

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<sup>4</sup> Law on Accounting – published in “State gazettes” edition 4, 2002.

39.6. Employee of the custodian or the auditing company, which provides services to the investment fund, and their related party with the common interests shall be prohibited from being the person responsible for keeping accounting records of the fund.

39.7. The person who provides accounting service to an investment fund shall be prohibited from conducting auditing of the fund during its service or until expiry of five years since its service completion.

#### **Article 40. Audit and Audit Inspections**

40.1 Investment fund and investment management company shall select auditing company which is registered with the Commission and enter into agreement within one month and inform the Commission.

40.2. An auditing and auditing inspection of the investment fund and investment management company shall comply with same requirement specified in Article 53 and 54 of the Security Market Law.

#### **Article 41. Calculation and Valuation of Net Assets of Investment Fund**

41.1. The net assets of the investment fund shall be calculated pursuant with the rules approved by the Commission.

41.2. The rule on valuation of the investment fund net assets shall be approved by the Commission.

41.3. Valuation of the real state and right's valuation included in the portfolio of the investment fund assets shall be conducted by the independent valuator who holds special permits for undertaking asset valuation activity in accordance with the Law on Asset valuation<sup>5</sup>.

41.4. Valuation of the assets investment fund assets shall be conducted in every occasion upon receipt or transfer by any form; and unless the Commission defined its period otherwise, the valuation of the assets included in the investment fund assets shall be conducted not less than ones a year.

41.5. A valuator or a legal person entitled to conduct valuation shall be prohibited from being an employee of the investment management company, custodian, audit company or related party with common interest with them.

#### **Article 42. Investment Fund Information**

42.1. An Article 57 of the Security Market Law shall be complied for the mutual investment fund and investment fund shall be obliged to submit information required by the Commission within specified time by it.

42.2. Based on the types of investment fund, the Commission shall approve rules specifying procedures and list of information to be disclosed publicly and to be submitted to the Commission or any other authority on permanent bases.

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<sup>5</sup> Law on Asset Valuation- published in "State gazettes" edition 8, 2010.

42.3. Private investment funds shall not be obliged to provide information to the public except it is specified by law or by Article 42.2 of this Law.

42.4. Investment management company of the particular investment fund shall be responsible for the accuracy and availability of the information.

42.5. The Commission shall defined rules on collecting information from the legal entity or citizens who provide service to the investment fund or information related with the investment fund operation; and those collected information shall be used only for an official purpose.

## **CHAPTER SEVEN**

### **FOREIGN INVESTMENT FUNDS REGULATION**

#### **Article 43. Overseas Registered Investment Fund Operation**

43.1. In order to conduct investment operations within the territory of Mongolia an investment fund registered in a foreign country or its subsidiaries or affiliated companies shall be registered with the Commission.

43.2. A foreign registered investment fund shall be prohibited from publicly offering and selling its shares and unit rights within the territory of Mongolia.

43.3. A foreign registered investment fund may offer its shares and unit rights [privately] through a closed offer upon authorization of the Commission. The regulation on issuing such authorization and requirements therefor shall be approved by the Commission.

43.4. The Commission shall approve a regulation on foreign registered investment fund's disclosure requirements for the information to be disclosed to the public, submission to the Commission and its types.

## **CHAPTER EIGHT**

### **INVESTMENT MANAGEMENT COMPANY**

#### **Article 44. Investment Management Company**

44.1. The main activity of the investment management company shall be establishment of the investment fund, provision of trust-asset management service to the investment fund upon contractual bases and its representation .

44.2. The legal entity which undertakes investment management activity shall comply with requirements and conditions specified by this Law and the Commission.

44.3. The investment management company that provides services to the mutual investment fund shall have at least two full time investment advisors who are responsible by its function for conducting investment to management.

44.4. The volume and prudential ratio between the investment management company charter capital versus asset of the investment fund under its management shall be defined by the Commission.

44.5. A shareholder holding more than 10% of the total shares of the investment management company, its authorized official and securities investment advisors who shall manage assets of the investment fund shall be a person whom the Commission considers as fit and proper; but shall be prohibited from being any of the following legal persons:

44.5.1. three years have not passed since the special permit has been terminated due to a violated when he or she worked as a governing person for the investment management company, custodian, bank and securities sector;

44.5.2. one year has not passed since he or she was charged with the administrative penalty due to breach while its employment in insurance, finance, bank and securities sector; and

44.5.3 a person who has committed a state or economic crime and is convicted of it.

44.6. A securities investment adviser of the investment management company shall be specialized in investment fund's operations and shall be covered with the professional liability insurance.

44.7 An investment management company may undertake only the following activities simultaneously with activities specified by this Law:

44.7.1. management of investment fund assets;

44.7.2. management of the securities;

44.7.3. management of the private pension fund assets;

44.7.4. management of the reserve capital of insurance company; and

44.7.5 other activities permitted by law.

44.8. An investment management company shall have the following common obligations:

44.8.1. to keep the investment fund assets in custody of the custodian, of which it provides investment management services [to the fund];

44.8.2. to send immediately a copy of all supplementary financial documents related with the movements of investment fund assets to the certified public accountant and custodian upon its issuance or receipt;

44.8.3. to submit specified reports and information to the Commission in a specified form and within defined period;

44.8.4. depending from the types of investment fund, to disclose relevant information to the public and to the fund members;

44.8.5. not to make changes to its charter capital, shareholders, governing person and representatives;

44.8.6. to enter into an auditing contract with the audit company which is registered with the Commission; and

44.8.7. to comply other requirements set by this Law and the Commission.

#### **Article 45. Granting, suspension, restoration and termination of the special permits**

45.1. In addition to the documents specified in Article 27.2 of the Security Market Law, following documents shall be submitted in the request for the special permits on investment management operation:

45.1.1. copy of an applicant entity's charter and information on its legal entity's structure, administration;

45.1.2. feasibility study prepared with the condition to cover at least more than a one year operation of investment management activity;

45.1.3. information on fit and proper requirement fulfillment of the authorized officials such as applicant legal entity's member of the board, internal auditing committee and executive management, in respect of education, professional experience and criminal records;

45.1.4. education, professional experience and criminal records of the investment advisors;

45.1.5. latest financial statement or audited report if other activities were undertaken previously; and

45.1.6. information on shareholders who holds more than five percent of the total issued shares of the applicant legal entity including if shareholder is an individual their education and professional experiences, if legal entity their operation and latest financial report.

45.2. The Commission shall make decision on whether to grant special permits within 30 days upon its receipt of application.

45.3. The Commission may refuse to grant special permits based under following grounds:

45.3.1. shareholder or authorized official of the investment management company considered as not fulfilling the fit and proper requirement;

45.3.2 considered as it appears to be related party with the conductor of activities specified in Articles 24.1.1, 24.1.2, 24.1.5, 24.1.10, 24.1.15 – 24.1.17 of the Law on Securities Market;

45.3.3 the related party of the shareholder or authorized official is considered to be shareholder or authorized official of the conductor of the activities specified in Articles 24.1.1, 24.1.2, 24.1.5, 24.1.10, 24.1.15 – 24.1.17 of the Law on Securities Market;

45.3.4. the applicant legal entity is considered to be a related party that operates other type of activity for profit which may conflict with the investor's rights and interests or running such activities simultaneously; and

45.3.5. other grounds specified in the law.

45.4. If Commission resolved to refuse granting special permits, the Commission shall deliver that resolution to the applicant within five workdays; and refusal grounds and reasons shall be stated in that decision.

45.5. The Commission may suspend special permits on undertaking investment management company operation if it defines grounds specified in Article 45.3 of this Law after granting that special permits.

45.6. The Commission shall clearly specify terms for clearing violence and fulfillment of duties as well as orders in its decision to suspending special permits on undertaking investment management activities.

45.7. The Commission shall restore the special permits if violations are cleared, duties are fulfilled, orders are duly complied within specified period and no other grounds restricting the restoration of the special permits where defined.

45.8. Restoration of the special permits shall serve as a ground for extension of the initially granted validity period of the special permits.

45.9. The failure to clear violation or fulfillment of the duties and orders within specified period in Article 45.6 of this Law, this shall serve as ground to terminate special permit.

45.10. The Commission shall revoke the special permit based on following grounds:

45.10.1. if, an investment management company or its shareholders or governing officials misused investment fund assets for which it provides service, or defalcated its assets or conduct of fraudulent acts are proven;

45.10.2. conduct of acts with conflict of interest by investment management company or by its officials by violating the law and charter of the investment fund are proven;

45.10.3. unit rights of private investment funds are offered publicly;

45.10.4. non-compliance of information disclosure obligations for the Commission, public and investors are violated several times;

45.10.5. the conduct of economic crime by an investment management company's shareholder which holds more than 10 percent of shares or/and its governing official is proven by the court decision.

45.11. Revocation of the special permits of the investment management company by the Commission shall serve as a ground for transfer of investment fund asset's management to other authorized investment management company or if that is impossible to do so, to liquidate that particular fund.

#### **Article 46. Prohibited operations and other activities of investment management company**

46.1. The following activities shall be prohibited for the legal entity which undertakes investment management company operation and its governing officials:

46.1.1. disposal of investment fund assets for proposes not stated in the investment policy document of the investment fund;

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

46.1.3. transfer of investment fund assets to others for free;

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

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

46.1.6. to invest investment fund assets into prohibited items, by violating laws, rules and investment policy or exceed limits defined;

46.1.7. to transfer investment fund's assets into its own ownership without payments, except cases defined in Article 28 of this Law in a form of service payment and bonus;

46.1.8. by non-separation of assets causing a situation which makes it impossible to identify ownership of the investment fund assets form its own assets,;

46.1.9. developing connected party interests by purchasing of the shares of the legal entity which provides services, such as custodian or other services, to the investment fund of which the investment management company provides service.

46.2. In case of breach of contract or improper performance of the obligations by the investment management company, the investment fund shall have an right to terminate the contract and to enter for the service contract with other investment management company.

46.3. In case of termination of an agreement on investment management , the investment management company which provided services shall transfer the following documents to the succeeding investment management company without any payment:

46.3.1. charter of the investment fund, the special permits, certificate and other documents related with the legal entity's status;

46.3.2. documents related with the rights to undertake management of the investment assets and dispose;

46.3.3. agreements and contracts entered by or on behalf of the investment fund;

46.3.4. all original versions of the supporting documents of the investment fund accounting along with the electronic accounting files.

46.4. Unless otherwise stated in the law or/and in the charter of the investment fund, an investment management company shall continue providing services without any disruption until entry into agreement with the succeeding investment management company in accordance with the Article 46.2 of this Law.

46.5. Investment management company which provides asset management service may refuse to exercise its contractual obligations in accordance with the grounds defined in this Law or in the agreement entered with that investment fund.

46.6. Investment management company shall inform to the Board of Directors of the fund and the Commission 60 days prior of its suspension of exercising its obligations under the agreement on asset management by proxy,

46.7. Within five days from suspension to exercise obligations, assets and all documents of the fund shall be transferred to the succeeding investment management company.

46.8. Investment management company shall be restricted in state any clause in the fund establishment documents or/and in the charter of investment fund by which it will be released from its liability of the damages caused to the investment fund by the investment fund management company in a result of valuation of agreements entered with. If it its stated that clause shall be deemed to be invalid.

46.9. Service payments for the investment management company shall be paid in accordance with an Agreement on asset management upon trust.

46.10. Investment management company shall be responsible for the loss and damages caused to others during its provision of asset management services upon trust to the investment fund due to its intentional or unintentional acts and loses caused to the investment fund due to brech of investment policy.

## **Article 47. Asset management**



47.1. Term of an agreement on asset management shall be equal to the term of the investment fund stated in the charter of the fund.

47.2. An investment management company and its employees who manage assets shall be responsible for:

47.2.1. carrying out asset management pursuant to the interests and rights of investors;

47.2.2. running accounting records of the investment fund's assets, portfolio related financial reports, accounting books separately from its own assets in accordance with the regulations defined by the Commission;

47.2.3. disclosing reports and information necessary for investors;

47.2.4. transferring of securities payments in accordance with the regulations;

47.2.5. implementing orders and instructions issued by the Commission for the purpose of protecting investor rights and interests.

47.3. The template agreement on asset management shall be approved by the Commission.

47.4. A copy of the agreement on asset management shall be enclosed to the fund's prospectus of unit rights.

## **CHAPTER NINE**

### **INVESTMENT FUND ASSET CUSTODY<sup>6</sup>**

#### **Article 48. Custodian Activity**

48.1. Registration and custody of the Investment fund assets shall be conducted by the legal entity that holds special permit to conduct custodian service under the asset custody contract entered with the investment fund.

48.2. The Commission may grant the special permit to conduct custodian service to a bank that fulfills the following conditions and requirements:

48.2.1. financial prudential criteria defined by the Commission;

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<sup>6</sup> Note: The terminology "depository" or "хадгалах" can be translated as "depository" or "custody". Thus, the translator used the term 'custody' in order to express the correct content of this Law.

48.2.2. human resource and technical conditions to conduct custodian activity;

48.2.3. executive officers and management members are fit and proper;

48.2.4. no insolvency, termination, suspension proceedings, or debt payment issue over 25 percent of its equity;

48.2.5. regulations defined in the Articles 48.6 and 48.7 of this Law have been reviewed by the Commission.

48.3. A custodian shall be prohibited from providing simultaneous investment management and custodian services to the same investment fund.

48.4. The following individuals shall be prohibited from employment as a management member of the legal entity that undertakes custodian activity:

48.4.1. three years have not passed since termination of the special permit due to breach, of which he or she was employed as an executive manager, which conducts investment fund management, other activities at the regulated securities market, bank and other financial institutions which provide loan or insurance services.

48.4.2. one year has not passed since an administrative sanction was imposed during and the regulated activities at the securities market;

48.4.3. serviced criminal punishments for conduct of economic and criminal cases against the state.

48.5. The Commission shall conduct granting, suspension, recovery or revoking, termination of the special permits in accordance with the common regulations defined by the Law on Securities Market.

48.6. Common regulations for undertaking custodian activities shall be defined by the Commission and a custodian shall register with the Commission its company charter and code of rules related with the provision of custodian services.

48.7. The code of rules specified in the Article 48.6 of this Law shall consist of the following rules:

48.7.1. internal rule on undertaking custodian activity;

48.7.2. forms and guidelines for the initial financial documents of the custodian activity and its reports to be delivered to the customers;

48.7.3. rule on conducting supervision on implementation of with this Law and other legislation, rules and guidelines approved by the Commission by the investment management company due course of registration of fund's assets, defining net asset and unit right's value of the investment fund and disposing investment fund assets, which are under its custody;

48.7.4. internal rule of permanent supervision on fulfillment of requirements imposed for the custodian activity;

48.7.5. rule on prevention and supervision on conducting transactions with conflict of interest.

#### **Article 49. General power and duties of Custodian**

49.1. A custodian shall have a general power to undertake registration of the investment fund's assets and take them into its custody in its capacity of independent third party, to exercise supervision over the assets pursuant with laws, regulations and agreements and to provide relevant information [to clients].

49.2. A custodian shall have the duty to be loyal to the interests of the investment fund members.

49.3. A custodian shall carry out the following functions in relation to the assets of an investment fund:

49.3.1. to take into its custody assets of the investment fund under the asset custody contract of the investment fund and conduct safekeeping;

49.3.2. to receive and archive initial supporting documents related to the investment fund's assets as well as to archive the original copy of the main documents related to the immovable property of an investment fund;

49.3.3. to conduct specific registration of the investment fund's unit rights;

49.3.4. to exercise supervision over compliance of the asset management services by the investment management company with the asset management agreement in its capacity of a third party; to exercise supervision over managing of the investment fund's assets by the investment management company and to execute decisions made by the asset management company to transfer the fund's securities;

49.3.5. to exercise supervision over accuracy of the investment fund's net asset value, volume, book value of the unit rights and number of unit rights sold and bought back;

49.3.6. to provide information specified in the laws, rules, and charter of the investment fund to the members of the investment fund, investment management company and other authorized body;

49.3.7. to provide information to the investment management company necessary for the preparation of information to be delivered for the investment fund members or to the public; and to provide information and report delivery service for the investment fund members on a contractual basis;

49.3.8. to comply with other requirements defined by this Law and other rules approved by the Commission.

49.4. A custodian shall have the duty to inform the Commission within three days if it has detected breach of conduct under this Law, regulations approved by the Commission, the fund's charter and regulations, and investment policy by the investment management company and its officials.

49.5. Unless it is stated otherwise in the asset custody agreement, the custodian shall not have the power to use or to dispose of investment fund's assets; and pursuant to the asset custody agreement, the custodian shall have a right to receive a fee for its custody services. A custodian shall not be obliged to pay interest for the assets taken in its custody.

49.6. A custodian shall register financial instruments and rights certified by such instruments, which are in possession of the investment fund, in the separate accounts.

49.7. A custodian may undertake other regulated activities of the securities' market in which case the custodian activity shall be organized into a separate unit within the custodian's overall organizational structure.

49.8. A custodian may provide services specified in Article 48.1 of this Law for the investment management company which undertakes asset management accumulated in the private pension funds and reserve funds of the insurance companies.

49.9. A custodian may advise others on custodian activities, its structure, provide information on its fee and simultaneously provide accounting and member registration services for the investment fund.

49.10. Only one custodian shall provide custodian service per each investment fund.

#### **Article 50. Agreement on Asset Custody**

50.1. An agreement on asset custody shall include the following matters:

50.1.1. registration of all assets of the investment fund; if the assets are located overseas, methodology on how to include the registration of those assets;

50.1.2. registration of the investment fund's unit rights and ownership of the unit rights in accordance with the laws and the investment fund's charter;

50.1.3. process of transacting the investment fund's assets;

50.1.4. compliance methodology defined by the law and the fund's charter in conducting asset valuation in relation to the investment fund's asset registration;

50.1.5. conducting supervision over the use of the investment fund's revenues in accordance with the proposals defined in the laws and in the fund's charter;

50.1.6. execution of orders without any delay, provided by the fund and investment management company in relation to the investment fund assets, if those orders have no conflict with the laws and fund's charter;

50.1.7. on asset custody service fee and rule on its payment procedure;

50.1.8.others.

50.2. It shall be prohibited to include in the Agreement on Asset Custody any provision toward limiting or releasing the Custodian from its obligations and liability, which are defined in the law and in the fund's charter.

### **Article 51.Termination of Agreement on Asset Custody**

51.1. Agreement on asset custody entered with the investment fund shall terminate in the following occasions:

51.1.1. if it is stated in the agreement, from the day on which parties have mutually agreed;

51.1.2. from the day on which the liquidation procedure has completed, if the investment fund is to be liquidated;

51.1.3. if the special permit on undertaking custodian activity has been terminated, from the day on which such decision has become effective;

51.1.4.in case of liquidation of the custodian, from the day on which such decision has been issued;

51.1.5.from the last day of the agreement term.

51.2. An investment fund and an investment management company which manages the assets of the investment fund shall inform the Commission in case of termination of the agreement on asset custody and other agreements entered with the custodian, and grounds and reasons for such termination shall be stated [to the Commission].

### **Article 52.Supervision over Disposal of Investment Fund Assets**

52.1. The Custodian, which provides asset custody service, shall conduct supervision on performance of the obligations of the investment management company such as whether it performs its duties pursuant to this Law, other legislation, regulations, guidelines approved by the Commission, the investment fund's charter, [internal] regulation on asset management and investment policy.

52.2. If transfer or any other form of disposal of the fund's assets shall be in violation of this Law, other legislation, regulations, guidelines approved by the Commission, the investment fund's charter, investment policy, agreements entered with the investment fund and regulations on conducting fund asset's trust management, the Custodian shall be prohibited from providing approval of or executing such asset transfer.

52.3. If Custodian is in violation of its obligation specified in this Article, the Custodian shall be jointly liable to the members of the investment fund together with the investment management company.

## **CHAPTER TEN**

### **STATE REGULATION OF**

## **INVESTMENT FUND**

### **Article 53.State Central Administrative Body in Charge of Finance and Budget Matters**

53.1. State central administrative body in charge of finance and budget matters shall exercise following authorities in respect with investment fund:

53.1.1. determining state policy on investment fund along with other the central state administrative bodies and the Commission, pursuant with the unified investment and economic policy;

53.1.2. cooperating with the Commission and supporting its activities;

53.1.3.other authorities specified by law.

### **Article 54.State Organization in charge of Regulating Investment Funds**

54.1. The Commission shall be the body that regulates and supervises investment funds.

54.2. Any person connected with the investment fund's operations shall comply with decisions of the Commission issued for the purpose of implementing legislation on investment funds.

### **Article 55.Authority of the Commission**

55.1. The Commission shall have the following authorities with regard to an investment fund:

55.1.1. proposing improvements of the investment legislation and ensuring implementation of the applicable legislation;

55.1.2. adopting and enforcing regulations binding on persons connected with operations of an investment fund for the purpose of ensuring the implementation of the investment fund legislation;

55.1.3. if necessary, taking measures to ensure fairness, efficiency, competitiveness and transparency in investment fund's operations;

55.1.4. determining conditions and requirements for special permits on undertaking investment fund's operations, granting, extending, suspending, reinstating and revoking of special permits;

55.1.5. supervising investment fund's operations, issuing orders and instructions for the remedy of violations discovered during inspections and imposing sanctions;

55.1.6. determining whether candidates for the management of the investment fund are fit and proper, approving them to act as a governing person and taking measures to remove those who are not fit and proper from the management role;

55.1.7. granting permissions for trading of the investment fund's securities in Mongolia, suspending the trade temporarily, suspending transactions related with the securities and canceling registration of securities;

55.1.8. regulating and monitoring the activities of an investment fund;

55.1.9. adopting regulations on merger and acquisition of an investment fund;

55.1.10. other authority as determined by Law.

#### **Article 56. Issuing Orders**

56.1. The Commission shall have the authority to give orders to regulated entities with regard to operations of an investment fund in the following circumstances:

56.1.1 where it has become necessary to protect the interests of investors;

56.1.2 where it has been determined that its [investment fund's] governing persons have not met fit and proper criteria;

56.1.3 where circumstances have arisen which may lead to potential violations of investment fund legislation or binding regulations issued by the Commission;

56.1.4 where information has been released or disclosed to the public that is false, misleading, incorrect, or contradictory; or

56.1.5 in such other circumstances considered by the Commission as necessary to protect the interests of investors.

56.2. Orders issued by the Commission may have content specified in Article 66.2 of the Law on Securities Market.

56.3. Orders specified in Article 56.1 of this Law shall be valid during the period specified by the Commission.

56.4. A person who has been given an order by the Commission shall comply with such order within the prescribed period and shall report its compliance to the Commission in accordance with the applicable procedures.

### **CHAPTER ELEVEN**

#### **MISCELLANEOUS**

#### **Article 57. Sanctions for Violations**

57.1. Unless the violation justified criminal liability, an inspector of the Commission shall impose administrative liability in addition to those specified in the Law on Securities Market, on those who are in breach of the laws and regulations on the investment fund:

57.1.1. if activities to be undertaken by the regulated entities have been carried out without the proper special permit, or registration or approval by the Commission, the income obtained from such activities shall be confiscated and a fine shall be imposed on the offending legal entity in tugrugs of an amount equal to 200 – 250 times the minimum monthly wage<sup>7</sup>, or on a governing person of the offending entity in tugrugs of an amount equal to 100 - 150 times the minimum monthly wage;

57.1.2. if, in violation of the requirements specified in Article 19 of this Law, incomplete, falsified or misleading information has been included in a prospectus and released to the public, false representations made; amendments have been made to a prospectus without the Commission's consent; or in breach of a regulation to register the prospectus with the Commission as specified in this Law, an unregistered prospectus has been disclosed or offered to the public or advertised, or other type of information has been released to the public for the purpose of raising capital a fine shall be imposed on the offending legal entity in tugrugs of an amount equal to 400 - 450 times the minimum monthly wage, on a governing person of the offending entity in tugrugs of an amount equal to 100 - 150 times the minimum monthly wage;

57.1.3. if requirements in this Law with regard to activities of the investment fund and the investment management company have been violated a fine shall be imposed on legal entity in tugrugs of an amount equal to 200 - 250 times the minimum monthly wage, on a governing person of the offending entity in tugrugs of an amount equal to 70 - 150 times the minimum monthly wage;

57.1.4. a fine shall be imposed on a legal entity that has violated Articles 14.6, 21.2, 24.1, 26.6, 31.2, 37.5, 43.2, 48.3, 52.1 and 56.2 of this Law in tugrugs of an amount equal to 200 - 250 times the minimum monthly wage, and on a governing person of the offending entity in tugrugs of an amount equal to 100 - 150 times the minimum monthly wage;

57.1.5. if, information specified Articles 24.7, 37.6, 40 of this Law has not been disclosed or rules on information disclosure has been violated a fine shall be imposed on a legal entity or its related party in tugrugs of an amount equal to 120-150, and on a governing person of the offending entity in tugrugs of an amount equal to 50 - 60 times the minimum monthly wage;

57.1.6. a fine shall be imposed on a legal entity which has violated Articles 15.2, 23.4, 29.2, 48.4 and 50.2 of this Law in tugrugs of an amount equal to 150 - 200 times the minimum monthly wage, and on a governing person of the offending entity in tugrugs of an amount equal to 70 - 100 times the minimum monthly wage;

57.1.7. a fine shall be imposed on a person that has intentionally evaded disclosure of the information specified in Articles 35.4 of this Law in tugrugs of an amount equal to 100 - 130 times the minimum monthly wage, and on a governing person of the offending entity in tugrugs of an amount equal to 70 - 100 times the minimum monthly wage.

57.2. The income of a regulated entity obtained in violation of this Law shall be confiscated and the expenses incurred by the Commission with regard to investigating the violation shall be compensated by the offending person.

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<sup>7</sup> Translation note: currently, the minimum monthly wage is MNT 140,400 (approximately US\$ 95) and will increase to MNT 192,000 (approximately US\$ 130) effective from 1 September 2013.



57.3. Loss or damage caused to others in violation of the securities market legislation and assets illegally acquired shall be compensated pursuant to the Civil Code of Mongolia.

57.4. Imposing an administrative liability on a guilty person shall not release that person from its liability for compensation of the damages or losses caused to investors.

57.5. If the sanctions specified in Article 57.1 of this Law are considered to have been imposed without grounds, a complaint may be lodged in accordance with judicial or administrative procedures.

#### **Article 58 Entry into Force**

58.1. This Law shall come into force on 01 January 2014.

**SPEAKER OF THE STATE  
GREAT KHURAL OF MONGOLIA**

**Z.ENKHBOLD**