



LAW OF MONGOLIA ON AGRICULTURAL COMMODITY EXCHANGE

INTERNATIONAL COOPERATION DEPARTMENT

JUNE 2021



LAW OF MONGOLIA ON AGRICULTURAL COMMODITY EXCHANGE

2 June 2011

Ulaanbaatar city

CHAPTER ONE. GENERAL PROVISIONS

Article 1. Purpose of the law

- 1.1. The purpose of this law is to regulate relations arising in connection with the establishment of the Agricultural Commodity Exchange; its organization and legal basis, and the supply, storage, transportation and exchange of agricultural commodities.

Article 2. Legislation on agricultural commodity exchange

- 2.1. Legislation on the agricultural commodity exchange is regulated by the *Constitution of Mongolia, Civil Code, Law on State and Local Property, Company Law, Securities Market Law*, this law, and other laws enacted in conformity with these laws.
- 2.2. If an international treaty to which Mongolia is a party provides otherwise than this law, the provisions of the international treaty shall prevail.

Article 3. Definitions

- 3.1. The following terms used in this law shall have the following meanings:
 - 3.1.1. '*Agricultural commodity exchange*' (hereinafter referred to as '*exchange*') means a company that organizes exchange trading; exchange of agricultural commodities in accordance with established procedures in a designated place or through an electronic network and exchange specified in Article 7 of this Law;
 - 3.1.2. '*Agricultural goods and raw materials to be traded on the exchange*' (hereinafter referred to as '*goods and raw materials*') are goods and raw materials included in the list of goods to be traded on the Exchange, have certificates of origin, quality and veterinary and laboratory examinations, and meet the exchange contract standards for goods and raw materials;
(This section was amended according to the law dated November 15, 2018).
 - 3.1.3. '*Exchange trader*' means a cooperative or exchange broker comprising agricultural producers registered on the exchange for the purpose of trading goods and raw materials and licensed to participate in exchange trading;
 - 3.1.4. '*Exchange market participant*' means a legal entity engaged in preparation, production, determination of quality and quantity, storage, transportation, brokerage, exchange trading, settlement, certification of origin and export, of goods and raw materials;
 - 3.1.5. '*Exchange brokerage activity*' means the activity of trading goods and raw materials on the Exchange, on a contractual basis;
 - 3.1.6. '*Exchange trading*' means the sale and purchase of goods and raw materials on the basis of an agreement to be concluded between participants of the exchange trading;
 - 3.1.7. '*Exchange deposit*' means money deposited by a exchange broker in his/her account with an organization specified in 6.1 of this law as a guarantee to fulfill his/her contractual payment obligations;

Translated by the International Cooperation Department,
with to June 2021

3.1.8. 'Seat right' means the right to regularly participate in exchange trading.

CHAPTER TWO. EXCHANGE AND ITS ACTIVITIES

Article 4. Exchange

- 4.1. One specialized exchange for agricultural commodity exchange shall operate in the territory of Mongolia.
- 4.2. The Exchange shall follow the basic principles of independence, openness, transparency and independence in organizing exchange trading.
- 4.3. The Exchange shall have designated premises and a centralized database and shall ensure the reliability of the software and network for organizing exchange trading.
- 4.4. Participants of the local exchange trading may participate in the exchange trading directly through the electronic network.
- 4.5. The member of the Government in charge of agriculture and trade shall approve the list of goods and raw materials to be traded on the Exchange and the procedure for coding the goods and raw materials.
- 4.6. Goods and raw materials included in the list specified in 4.5 of this law shall be traded on the exchange for export.
- 4.7. The member of the Government in charge of agriculture and trade shall approve the procedure for awarding bonuses to the following citizens and legal entities based on the guarantee that they purchase of goods and raw materials by participating in the exchange trading:
 - 4.7.1. a member of a cooperative (hereinafter referred to as 'cooperative') consisting of agricultural producers;
 - 4.7.2. agricultural producer.
- 4.8. It is prohibited to use the name of the exchange in trading over-the-counter goods and raw materials.
- 4.9. The Financial Regulatory Commission shall approve the terms and conditions of the license to participate in the exchange trading and the procedure for supervising the activities of the Exchange.
- 4.10. If the goods and raw materials included in the list specified in 4.5 and 5.1.7 of this law are to be purchased with budget funds, they shall be transferred through the exchange.
- 4.11. The Exchange is prohibited from participating in exchange trading on its own behalf and on behalf of other participants.

Article 5. Functions of the exchange

- 5.1. The Exchange shall perform the following general functions:
 - 5.1.1. organize exchange trading;
 - 5.1.2. grant seats to permanent members of the Exchange;
 - 5.1.3. issue permits to non-permanent members of the exchange to participate in the exchange trading;
 - 5.1.4. in case of export of goods and raw materials listed in Paragraph 4.5 of this Law, to submit a certificate of trade on the Exchange to the authorized body to certify the origin of export goods specified in the *Law on Chamber of Commerce and Industry*;
 - 5.1.5. train, specialize and accredit participants of the exchange trading;
 - 5.1.6. provide necessary information to the exchange trading participants;
 - 5.1.7. approve the list of goods and raw materials to be traded on the exchange other than those listed in Paragraph 4.5 of this law;
 - 5.1.8. inspect and certify the quantity and quality of goods and raw materials at the request of an exchange trading participant;
 - 5.1.9. monitor and stop any attempt to artificially increase or decrease prices during the exchange trading;
 - 5.1.10. set the minimum amount of goods and raw materials to be traded in one transaction;

- 5.1.11. issue accreditation to warehouses, transportation organizations and laboratories that meet the standard requirements.
- 5.2. The Exchange shall discuss, approve and enforce the following regulations governing the common activities of the Exchange's trading market participants by the Exchange's Regulatory Board specified in Paragraph 8.1 of this Law:
 - 5.2.1. preparation of goods and raw materials, labeling, storage and transportation;
 - 5.2.2. registration of goods and raw materials;
 - 5.2.3. receive goods and raw materials in the warehouse;
 - 5.2.4. set and enforce standards of exchange trading agreements;
 - 5.2.5. organize exchange trading;
 - 5.2.6. monitoring to exchange trading price;
 - 5.2.7. make exchange trading settlements;
 - 5.2.8. create and use the database specified in 4.3 of this law;
 - 5.2.9. regulate the activities of participants' exchange trading;
 - 5.2.10. issue accreditation to warehouses, transportation organizations and laboratories specified in 5.1.11 of this law;
 - 5.2.11. guarantee the origin and quality of goods and raw materials traded on the Exchange;
 - 5.2.12. determine the amount of the exchange advance;
 - 5.2.13. place an exchange advance in the guarantee fund and ensure the performance of obligations;
 - 5.2.14. others.

Article 6. Exchange payments and deposits

- 6.1. The Exchange shall have a special unit (hereinafter referred to as '*settlement center*') to define the payment obligations of the exchange contract, perform settlements, register and store the contract on a contractual basis by a bank or securities settlement organization, or perform this obligation.
- 6.2. The settlement center specified in 6.1 of this Law shall have the following rights and responsibilities in addition to those specified in Articles 42, 44 and 45 of the *Securities Market Law*:

(This paragraph was amended according to law dated 24 May, 2013)

- 6.2.1. determine the amount of damage caused by the parties' failure to fulfill their contractual obligations in full or partially;
- 6.2.2. execute contractual payment obligations;
- 6.2.3. regulate settlement risk in order to fulfill the obligations specified in 6.2.2 of this law;
- 6.2.4. others.

Article 7. Types and forms of exchange trading

- 7.1. The following types of contracts are traded on the exchange in a designated building or in the form of an auction using an electronic network:
 - 7.1.1. direct trading contract (spot);
 - 7.1.2. term contract (forward);
 - 7.1.3. single-model contract (futures);
 - 7.1.4. sale and purchase contract in the future (option).
- 7.2. A contract for the direct or physical supply of goods or raw materials at a set price is called a '*direct trade contract*'.
- 7.3. A '*term contract*' is a contract for the future supply and payment of goods and raw materials for a specified period of time, on agreed terms, and in kind.
- 7.4. A '*single-model contract*' is a contract with standard terms for the future supply of goods and raw materials for a specified period of time and at an agreed price.
- 7.5. The contract specified in Paragraph 269.1 of the *Civil Code* is called '*future sale and purchase agreement*'.

Article 8. Exchange Regulatory Board

- 8.1. The Exchange shall have a part-time Exchange Regulatory Board (hereinafter referred to as the '*Regulatory Board*') to monitor the activities of exchange market participants and coordinate their activities.
- 8.2. The Regulatory Board shall have 13 members, six of whom shall be representatives of the state administrative body in charge of securities, agriculture, trade, roads, transportation, customs, standardization and technical regulation. Seven members shall be representatives of non-governmental organizations representing the participants of the exchange trading market.
- (This paragraph was amended according to the law dated 21 December, 2017.)
- 8.3. The members of the Regulatory Board shall be appointed and dismissed by the Government upon nomination by the state central administrative body in charge of agriculture and trade.
- 8.4. The Chairman of the Regulatory Board shall be a representative of the public administration and shall be elected from among the members of the Regulatory Board by a majority vote of the members for a term of three years.
- 8.5. The Regulatory Board has the following responsibilities:
- 8.5.1. to provide guidance for the enforcement of this law;
 - 8.5.2. to supervise and harmonize activities of participants involved in the trading market;
 - 8.5.3. to release recommendation and a summary of exchange activities;
- 8.6. The Government of Mongolia shall adopt the regulation and procedure of the Regulatory Board.
- 8.7. The Regulatory Board shall submit the report to the Government of Mongolia.
- ~~8.8. The Regulatory Board shall have a secretary's office.~~
- (This paragraph was revoked according to the law dated 10 November 2015.)

Article 9. Prohibitions for exchange employees

- 9.1. The following activities are prohibited for exchange employees:
- 9.1.1. to participate in the trading;
 - 9.1.2. to establish a broker company for trading;
 - 9.1.3. to use or disclose confidential information of trading of participants involved in trading for the benefit of him/herself,
 - 9.1.4. to conspire with exchange brokers, and conduct unfair trading;
 - 9.1.5. to omit and hide information that may impact the price of agricultural commodity and raw materials, or refuse to provide information in accordance with related regulations;
 - 9.1.6. to take bonuses, money rewards, and other incentives from other entities for the performance of their duties.

CHAPTER THREE. PARTICIPANTS IN THE EXCHANGE TRADING

Article 10. Participants in the trading

- 10.1. Participants shall be classified into permanent and non-permanent participants.
- 10.2. An exchange broker shall be a legal entity dominated by national investment and shall be a permanent member of the exchange.
- 10.3. A cooperative shall be non-permanent participants.
- 10.4. Permanent participants shall obtain a licenses to participate in the trading from the Financial Regulatory Commission if they accomplish requirements set for them in the Chapter 4 of the *Law on Securities Market*, and Sections of 11.2.3, 11.2.6 of this law.
- (This paragraph was amended according to the law dated 24 May 2013)
- 10.5. The following entities are prohibited from participating in the trading:
- 10.5.1. exchange employees;
 - 10.5.2. insurances, aid funds, and their employees;
 - 10.5.3. other entities prohibited to operate, by law and regulations;

- 10.6. Non-permanent participants shall obtain permission to participate in the trading from the Exchange.
- 10.7. Cooperatives shall take primary care, make contracts to supply goods and raw materials in line with standards, and participate in the trading.
- 10.8. Foreign citizens, entities, and stateless persons shall participate in the trading through permanent participants.

Article 11. Rights and responsibilities of participants

11.1. Participants have the following general rights and responsibilities:

- 11.1.1. to conduct transparent and fair trading;
- 11.1.2. to prepare goods and raw materials in line with standards, register in the database of the agricultural department of a soum/district, obtain certificate of veterinary and laboratory examination, and trade;

(This section was amended according to the law dated 19 January 2018)

- 11.1.3. to report the quantity and quality of goods and raw materials to exchanges accurately, and register;
 - 11.1.4. be liable for damage caused to the buyer and compensation due to the violation of Section 11.1.3 of this law;
 - 11.1.5. to use trading information of the Exchange;
 - 11.1.6. other rights and responsibilities set forth in the regulation of the Exchange.
- 11.2. A permanent member of the Exchange shall have the following rights and obligations in addition to those specified in 11.1 of this law:

- 11.2.1. to obtain a seat right;
- 11.2.2. to regularly participate in exchange trading on the basis of concluding an agreement specified in Sub Sections 7.1.1-7.1.4 of this Law;
- 11.2.3. to have an accredited warehouse for receiving, storing, and processing goods and raw materials, or having a contract with an accredited warehouse person;
- 11.2.4. be connected to an exchange trading network;
- 11.2.5. to obtain a license to conduct brokerage activities from an authorized organization;
- 11.2.6. to have collaboration agreement with an approved laboratory or transportation association.

Article 12. Prohibitions of exchange traders

- 12.1. Participants in exchange trading are not permitted to engage in the following activities:
- 12.1.1. to disseminate false, inaccurate or misleading information that may discredit the reputation of those involved in exchange trading and its goods and raw materials, or may cause losses to its competitors;
 - 12.1.2. to set limits on the price level of goods and raw materials to be traded on the Exchange by mutual agreement;
 - 12.1.3. to mislead or deceive others by misrepresenting the method of production, main indicators of consumption characteristics and methods of use of the goods and raw materials of its own and other participants in the exchange trading;
 - 12.1.4. other activities prohibited by law.

CHAPTER FOUR. MONITORING ON EXCHANGE ACTIVITIES

Article 13. Audit

- 13.1. The National Audit Office shall audit and issue an evaluation on the Exchange's financial and operating statements on an annual basis.
- 13.2. The National Audit Office shall present its conclusions specified in Paragraph 13.1 of this law to the Government.

Article 14. Disclosure of exchange reports.

- 14.1. The exchange's financial and operating reports shall be made through mass media.

CHAPTER FIVE. OTHER PROVISIONS

Article 15. Resolution of disputes related to the Exchange's activities.

- 15.1. Disputes arising from the conclusion of an exchange contract, as well as the rights and responsibilities arising from it, shall be reviewed and resolved by the competent authority, and if the parties do not comply with the decision, they may appeal to the court.
- 15.2. Disputes related to the exchange may be settled by arbitration.

Article 16. Liability of violators.

- 16.1 A person or legal entity that violates this law shall be subject to liability specified in the Criminal Code or the Law on Infringement.
(This paragraph was amended according to the law dated 4 December, 2015).

Article 17. Entry into force.

- 17.1. This law shall enter into force on 1 June, 2012.

D. Demberel

Chairman, State Great Khural