

**Mongolia**

**Mongolia**  
**Project for Capacity Building of**  
**Capital Market in Mongolia**

**Final Report**

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# **1. Project Overview**

## **1.1 Country**

Mongolia

## **1.2 Title of the Project**

Project for Capacity Building of Capital Market in Mongolia

## **1.3 Duration of the Project**

Total: 2 years and 9 months (November 2014 – July 2017)

- First year: November 2014 – August 2015
- Second year: September 2015 – August 2016
- Third year: September 2016 – July 2017

## **1.4 Background**

The Mongolian economy enjoyed double digit growth during 2011 to 2013 owing to the capital flows into the development projects particularly in the mining sector, as well as the hike of international prices of coal and copper. Given such situation, the Mongolian government strived for macroeconomic stability through fiscal discipline under the Fiscal Stability Law (2013), and worked on reducing the fiscal deficit and government debts with the help from international donors. Financing of debts are diversifying since, for instance, the Development Bank of Mongolia (DBM) financed through USD denominated bonds in November 2012, and the Mongolian government financed through issuing Samurai bonds in the following year.

One of the major concerns on Mongolian economy is its heavy dependence on mining sector and its surrounding industry, which calls for more diversified industrial structure through vitalizing small and medium scale businesses. Majority of their financing, however, has been through the banking sector, but the stagnant interest rate at high range resulted in unfavorable financing channel in the recent years. Capital market on the other hand has not provided enough financing opportunities despite its twenty-six years history since its establishment.

There are several reasons that the direct finance has not been utilized much as expected in Mongolia. First, while former state-owned enterprises (SOEs) that are listed in the process of shifting to the market economy account for more than 90% of the listed companies have not gained credibility due to insufficient information disclosures, blue chip companies are not listed, the stock trading is very limited. In addition, there is no institutional investors in the market and investor base is still narrow, foreign investors are not attracted to the listed companies with financials that do not meet the international standard and corporate governance practiced

insufficient. In order to guide the economy to a stable growth path, provided that the financial system is stable, it will be essential to improve the capital market which could facilitate the companies' financing needs with wider range of financing options and could accommodate foreign investors.

On the other hand, the level of regulation and supervision is still insufficient. Financial Regulatory Commission (FRC), a government agency supervising the non-bank sector including capital markets (i.e. security brokers, insurance companies and non-bank lending entities), is still a young organization established in 2006. It still needs significant human capital and organizational developments and institutional design. Especially under a new amended Securities Law enacted in January 2014, FRC is eager to prepare regulatory rules and strengthening the implementation framework. Bringing back the market confidence by enhancing the FRC's regulatory capacity as well as vitalizing the capital market through increasing numbers of IPOs and realizing dual-listing is expected.

Amid these challenges, Mongolian government requested the Japanese government a support towards developing the capital market. Given the request, JICA conducted a preparatory data collection survey project in May 2014. Based on the result of the survey, both countries signed the Record of Discussions (R/D) on 13 June 2014 to start the Project for Capacity Building of Capital Market in Mongolia (the Project).

### **1.5 Overall goal and project purpose (from Record of Discussions (R/D))**

Based on the above mentioned R/D, the overall goal of the Project is to “improve the environment of the Mongolian capital market for vitalization of IPOs and realization of dual-listings through enhancement of the market credibility.”

The purpose of the Project is that the counterparts in Mongolia such as the Financial Regulatory Commission (FRC), Mongolian Stock Exchange (MSE), and other self-regulated organization could enhance their market credibility through developing capacity for regulation and monitoring as well as improving understandings of the market participants.

### **1.6 Implementing agencies**

- Counterpart (C/P): Financial Regulatory Commission (FRC)
- Relevant organizations: Mongolian Stock Exchange (MSE), Mongolian Association of Securities Dealers (MASD)

## **2. Project Outcome**

### **2.1 Results of the Project**

The activities and results of each output of the Project starting November 2014 are summarized as follows.

#### **2.1.1 Policy Committee**

Policy Committee is an advisory, deliberative, or administrative body of people formally constituted and meeting regularly in order to support policy realization. For FRC, it is a tool to draw up needs, complaints and supports on certain issues, thus enhance policy effectiveness and transparency. The important precondition is that FRC should ensure of its legitimate institutionalization, relevant structuring of organization, etc. so that the participating academics, company and industry people can expect credentials, some rewards, alongside with information and network.

Considering of Japan's Financial Services Agency (FSA) experience to effectively run its 'Financial System Council', Project took an approach to explain about the Council while supporting its localized application to FRC. It is noteworthy that the Council has solid institutionalization as it is founded based on FSA Establishment Act and as it is hosted on a request from the Prime Minister, the Minister of Finance, etc. Moreover, the Council has relevant operation in terms of agenda & scheduling alongside with member appointment, etc.

In April 2015, Project submitted 'Report on the Current Status of Mongolian Capital Market', proposing empowerment of Policy Committee, which was already established in September 2014 as a single committee, through upgrading measures such as legitimate institutionalization and preparation of rules, agenda, scheduling and particularly member appointment utilizing market practitioners and foreign experts. Furthermore, FSA Financial System Council has subcommittee system for more detailed agendas including some of the recent issues such as Fin-tech and Stewardship-Code; however Project recommended that the FRC should consider these issues in a later time, judging from limited professional resources in Mongolia as of today.

In response to the information from Project, perhaps in consideration of subcommittee system, in April and May 2015, FRC introduced some individual Policy Committees for the capital market, insurance, microfinance, etc. by issuing the FRC Chairman Order instead of amending the FRC law. Individual Policy Committees, with own rules, agenda, scheduling stipulated, somehow worked on deliberations on draft bills and draft amended bills, before passing them onto relevant institutions. FRC served as chair and secretariats for the single Policy Committee founded in September 2014 as well as individual Policy Committees started

in April and May 2015, while Project attended the capital market committee as an observer from time to time. However, since April 2016 Policy Committee has been suspended, while fundamental issues remain unaddressed, such as insufficient authority, influence, budget due to absence of legitimate institutionalization.

Amid these challenges, FRC is internally discussing to resume the Policy Committee, absorbing subcommittee system to form a single committee. Project believes such movement is beneficial for FRC while continuously emphasizing that some of the recommendations prescribed in the Concept Paper that Project submitted in January 2017, particularly member appointment utilizing more market practitioners, and foreign experts would make the committee more effective and productive.

### **2.1.2 Risk-based Supervision**

As an aftermath of 2007-08 global financial crisis (or else known as the Lehman shock), risk-based supervision against securities companies have become a common practice globally. Instead of supervising all targets equally with the same measurement, risk-based supervision is a method that focuses more on those companies who have greater influences in the stability of financial system. In short, securities companies with bigger proprietary trading and/or conducting various sophisticated derivative trading tend to be on the target list. Hence, regulators will spend larger efforts and times to supervise bigger securities companies than relatively smaller or medium scaled companies.

In Mongolia, while the central bank (BOM) already introduced risk-based method in supervising banks, FRC also decided to introduce a risk-based supervision to supervise the non-banking industry. Project firstly promoted the understanding towards basic framework of risk-based supervision. In April 2015, two-day training courses were provided onsite inviting instructors (including actual inspectors) from Financial Services Agency (FSA) of Japan. Another series of trainings were done in Tokyo in October 2015 inviting 14 members from the FRC and intensive sessions on specific supervisory and inspection methods were taught by the FSA. Later, an inspection manual was modified incorporating risk-based methods in the FRC especially by those who joined the trainings and the actual operations started since 2017.

Project also emphasized the fact that the inspection operations practiced in Japan cannot be straightly applied to Mongolia since there is a great difference amongst the size of the securities companies and their nature of businesses between both countries. For instance, while securities companies in Mongolia are much smaller in terms of size with mostly only brokerage businesses and do not hold much proprietary trade, the FSA's method of capital adequacy ratio which includes the risks arising from proprietary trade may not be adequate. During the additional trainings in the study trip to Tokyo with 14 members in May 2017, FSA provided



another series of lectures on what the FRC should focus on when conducting a risk-based supervision against securities companies.

### **2.1.3 Self-Regulatory Organization (SRO)**

In 2015, FRC approved both Mongolian Stock Exchange (MSE) and Mongolian Association of Securities Dealers (MASD) to be the first self-regulatory organization (SRO) in Mongolia. Nearly two years have passed since then, however both MSE and MASD are still paving their ways to become a responsible SRO in the Mongolian capital market.

During the Project, based on the individual supporting requests from FRC, MSE, and MASD, Project shared knowledge on basic prerequisites and benefits of becoming an SRO through series of lectures and discussions to improve their understandings, and provided recommendations to issues with high priority. As part of the support to MSE, consultants prepared a concept paper in December 2016 which provides several suggestions on what needs to be considered for MSE to become an exchange type SRO. Amongst the two main different operations for an exchange type SRO which is listing and trading, consultants proposed a modification of the current listing rules with specific delisting criteria. In addition towards the support to MASD, consultants promoted the understandings of the significance of code of conducts and compliances to be shared amongst all members of the associations (mainly securities companies), and later consultants provided a support in drafting a textbook as part of the enhancement of the securities professional licensing scheme (further details are referred in 2.1.5).

On the other hand, FRC staffs also need further understandings towards how to instruct the SROs at the same time cooperate with the SROs to enhance the regulatory framework of the capital market, to transfer to a self-regulated body effectively and efficiently. In order to materialize the SRO exercises amongst them, Project proposed a tri-party (FRC, MSE, and MASD) meeting and conducted in total of three times during the Project. Simultaneously, consultants proposed that some of the FRC duties could be handed over to the SROs. For instance, (1) currently both FRC and MSE review the application from the potential listed companies but this is somewhat redundant operations, so ideally, similar to what is practiced in other countries, MSE will be in charge of all the reviewing processes and FRC will just approve MSE's decision after checking whether the application documents are filed properly, (2) regarding the securities professional licensing scheme, currently FRC manage nearly everything from licensing to conducting exams except for the preparation course before the exam in charge by the MASD, but this securities professional licensing scheme could be conducted thoroughly by the MASD including the licensing operations and FRC will monitor whether the operations by the MASD are conducted properly without any fraudulent activities.

Simultaneously, Project proposed to continuously hold such tri-party meetings not only benefiting concerned parties to discuss further which other market regulations and supervisory duties could be shared or handed over to SROs, but also could benefit other market participants for them to productively design a roadmap on developing Mongolian capital market and necessary schemes that are associated with changes in the legal framework, regulations as well as launching of new financial instruments and services.

#### **2.1.4 Initial Public Offering (IPO) / Dual-listing**

On IPO and dual-listing, three seminars were held in Ulaanbaatar as mentioned in the next section, with a view to sharing knowledge, motivation and ownership among market participants, regulators and potential issuers, besides the pilot IPO and dual-listing projects, for which total eight applications were received from four SOEs and four private sector companies.

Although four SOEs (two power plant companies and two mining companies) were put on the bidding process and their underwriters were mandated, the whole process has been suspended since early 2016 due to some reasons inside the Mongolian government as well as the worsening market conditions.

Out of four private sector pilot candidates (food processing company, building material manufacturer, pharmaceutical manufacturer/distributor and financial group company), two companies (food processing and finance) aiming at dual-listing, ended up in suspending the plan, due to the strict listing rules for the targeted boards (TSE Section II and Mothers) and lower-than-expected liquidity for the alternative market (Tokyo Pro Market). Of other two companies aiming at domestic IPO, building material manufacturer postponed the IPO plan itself due again to the market condition, which left the pharmaceutical manufacturer/distributor company as the last pilot candidate. This company was actually the only one benefitting from this pilot exercise throughout the project period.

JICA Project provided a wide-ranging consultation to this company, including strategic planning for the capital policy, group restructuring, corporate valuation, domestic marketing, approach to foreign investors, etc. Also the consultation covered the coordination with the regulator on modifying the existing procedures (e.g. restriction on pre-IPO marketing window), reflecting the request from the pilot company, with a view to encouraging the integrated effort by public and private sectors. While the preparation was complete by 90%, it turned out at the last minute that the existing loan form EBRD had to be cleared before going public, and the current phase of the project is being finished with this issue as the final bottleneck for IPO.

After all, no company out of eight candidates has realized IPO or dual-listing, while two companies outside this exercise have gone public through MSE during the project period. In

other words, they can be regarded as ‘indirect’ beneficiaries of JICA’s assistance for the whole market to facilitate the conducive environment for IPO and dual-listing.

### **2.1.5 Improving financial literacy**

In Mongolia, the financial knowledge amongst the general public is yet under development. Given the current situation, since January 2016, the Mongolian government launched a national framework “National Strategy on Financial Knowledge of the Public” initiated by the central bank (BOM), Mongolian Bankers Association (MBA), and FRC in order to improve the financial literacy of the public targeting all generation. With the support from the World Bank, the working framework as well as specific educational program is determined and one of the early achievements are comic books targeting the young generation at schools, and construction of an informative website for improving the financial literacy. More educational programs as well as learning materials targeting adults are expected to be prepared under this national program. Project has been providing advices on the actual contents for the website such as the market information and basic knowledge on the capital markets that the FRC is in charge.

Securities companies’ role is very important to improve financial literacy in the capital market fields. Therefore, Project supported the “Investor Week” event initiated by the MASD in October 2016, which was one of the first industry-led national level events in Mongolia in building investor confidence and widening the investor base, by sharing the Japanese experiences. We believe that the event had a positive impact on drawing attention to the public through media as many important VIPs from various industries including the prime minister of Mongolia attended the event. While Project recommended continuing such exercises, MASD is planning to host similar event every year in the coming future.

Meanwhile, improving financial literacy amongst the professionals working for the financial institutions is also a concern in Mongolia. Licensed professionals usually have responsibilities in providing investor education as their daily duties while engaging with their customers in other countries, however due to limited numbers of professionals in the industry with limited financial instruments, securities companies do not have capacity to afford such programs, investor education even by the licensed securities professionals is yet insufficient in Mongolia. Moreover, after careful assessment, the quality and the relevance of the exam as well as the preparation course for the securities professional licensing had rooms for improvements and the textbook never existed in the first place, hence Project decided to assist drafting of the textbook as part of the exercises. In accordance with a strong request from MASD and Dr. Davaasuren, the chairperson of FRC, the textbook not only benefits the market participants but also be utilized in the academic world such as universities and graduate schools since such reference materials regarding capital markets is said to be scarce in local language.

Based on the other countries experiences and business practices, the textbook contains the basic knowledge on securities market from legal and regulatory perspective as well as the actual securities businesses that would be beneficial to those who will be practicing as a professional as well as those who are trying to better understand about the securities market in Mongolia. Since the textbook provides knowledge reflecting the current situation of the securities market in Mongolia, continuation of updating and modification of the textbook is expected by the Mongolian counterparts in the future in line with the changes in the legal, regulatory framework and business practices so that it could be utilized over many years to come not only amongst the market participants but also amongst the general public.

## 2.2 Project outcome

Outcome of the Project can be referred either in the form of reports or in the form of monitoring sheet and project design matrix (PDM). Main reports are “Inception Report” which we drafted in the initial stage of the Project, and “Report on current status of Mongolian capital market” provides actual findings and issues by each focal output. In addition, we prepared two conceptual papers on policy meetings and on SROs as an outcome for first and third output respectively. Furthermore, the capital market textbook in the Mongolian language of two hundred eighty pages prepared as part of an exercise under the fifth output was the largest outcome we drafted during the Project. Detailed plans for each of the five outputs are compiled in the monitoring sheet and PDM (see Annex 2 for more details).

During the project, we conducted a study trip to Japan in total of three times targeting financial regulators and market participants. Every time we set a focal issue and prepared carefully designed curriculum and scheduled visits to relevant organizations as well as lectures by various experts in Japan accordingly.

In addition, we provided three IPO / dual-listing seminars, three trainings onsite in Mongolia targeting state-owned enterprises (SOEs), regulators, and securities companies. Moreover, we provided various presentations as well as lectures on issues that the counterparts’ requested during the Project expecting such knowledge sharing and experiences could benefit and improve understandings of the subjects amongst the participants.

Event	Counts	Focal issues	Participants
Training in Japan	3 times	<ul style="list-style-type: none"> <li>■ First (Oct.2015): Regulating securities companies</li> <li>■ Second (Apr.2016): self-regulation and</li> </ul>	<ul style="list-style-type: none"> <li>■ First: 14</li> <li>■ Second: 10</li> <li>■ Third: 14</li> </ul>

		listing rules and requirements ■ Third (May2017): securities business and regulations	
IPO/ dual-listing seminar	3 times	■ First (Jun.2015): IPO, privatization ■ Second (Mar.2016): dual-listing, IPO in offshore markets ■ Third (May2017): Innovative financing	80~120 per each seminars
Investor Week	Once	How to activate equity trading: Lessons from Japanese experience (Oct.2016)	around 150
Training in Mongolia	3 times	■ First (Mar.2015):targeting SOEs ■ Second (Apr.2015): targeting regulators ■ Third (May2016): targeting securities companies	30~60 per each trainings
Lectures and other events	Multiple times	Finance, accountings, IPO, crowd funding, policy committee, listing rules and requirements, SRO, investor education, financial literacy, etc.	15~50 per each lectures and events

Including those lecture materials and presentation materials prepared and delivered during the above events are very useful for Mongolian beneficiaries and are expected to be utilized in various occasions in the future even after the Project (list of all products and materials can be referred in Annex 1).

### 2.3 History of PDM modification

The project design matrix (PDM) has been modified and improved during the Project based on series of consultation and discussion with the Mongolian counterparts (updated PDM can be referred in Annex 2). The final version of the PDM is much different from the initial version when the Project started with detailed indices and reinforced in a more realistic way. In order to design the PDM in line with the capital market development perspective, we included more numeric figures such as total assets in the capital market out of the total assets in the financial sector, total market capitalization and total trading values at MSE, IPO and dual-listing application numbers. In addition, we also set some numerical targets to be improved based on the ranking and indices from the “Global Competitive Report” issued by the World Economic Forum.

## 2.4 Others

### 2.4.1 Joint Coordination Committee (JCC)

During the course of the Project, there were total of seven meetings of the Joint Coordination Committee (JCC). The agenda and the summary of the meetings were posted up on the counterparts' website together with photos. In addition, the participants from both Mongolian and Japanese sides were interviewed by the local media after the third and fifth meetings to be broadcasted and reported.

Meetings	Date	Participants	Venue
First	2 April 2015	■ Mongolian delegates: 11 ■ Japanese delegates: 11	FRC
Second	25 Nov. 2015	■ Mongolian delegates: 11 ■ Japanese delegates: 8	FRC
Third	15 Mar. 2016	■ Mongolian delegates: 11 ■ Japanese delegates: 10	FRC
Fourth	21 Jun. 2016	■ Mongolian delegates: 11 ■ Japanese delegates: 10	FRC
Fifth	25 Oct. 2016	■ Mongolian delegates: 12 ■ Japanese delegates: 9	FRC
Sixth	14 Apr. 2017	■ Mongolian delegates: 13 ■ Japanese delegates: 11	FRC
Seventh*	23 Jun. 2017	■ Mongolian delegates: 10 Japanese delegates: 10	FRC

(\*) The seventh meeting was conducted as a "Technical Meeting"

### 2.4.2 Public relation activities

In order to share various information as well as to utilize as a communication tool among the stakeholders, JICA Project has opened and operated the Facebook group dedicated for this Project, which has been attended by the government officials, market participants, actual/potential issuers in the capital market, investors, etc. (As of 25 July 2017, 678 members are registered.)

This group page has been utilized for a variety of purposes such as posting announcements of the relevant events, ex-post reports of such events, feedbacks from the participants of these events, links from the relevant organizations (e.g. FRC, MSE, MASD, etc.) and other useful market information, and functioned as an information hub for the Project. This kind of tool is

expected to be further utilized in the next phase of this Project, while it shall ultimately be handed over to the local stakeholders as a neutral communication platform.



Figure: Facebook group page of the Project

In addition, we were interviewed by multiple media companies when we hosted the IPO / dual-listing seminars for total three times. Through these media broadcast, websites, newspapers, we were able to announce our activities and share some of the highlights of the Project achievements to the local public.

### 3. Evaluation summary

#### 3.1 Results of review based on DAC evaluation criteria

The Joint Terminal Evaluation Team conducted a comprehensive review on the Project achievements in April 2017. According to the evaluation report, the evaluation towards the overall goal was “mostly achieved” acknowledging that the project purpose is met by the “credibility of capital market is enhanced through improvement of supervision and regulation capacity of target groups and improvement of the understanding by participants of capital market in Mongolia”. Further details on the evaluation results based on the five criteria are as follows.

Criteria	Evaluation results		
Relevance	High	The Project’s direction meets the policies of Mongolian government, needs from the financial regulatory agencies, and Japanese technical support policy.	
Effectiveness	Relatively High	The actual IPO / dual-listing did not realize during the Project however the paths and preparation towards the goal are met.	
Efficiency	High	Appropriate inputs and activities in terms of quality, quantity, and timing were made leading towards successful achievements of the outputs.	
Impact	Relatively High	The knowledge and experience gained through the Project contribute to gain credibility of the Mongolian capital market.	
Sustainability	Moderate	Higher expectation in both organizational and financial aspects.	
	Policy aspects	Relatively High	Policy supports remains an important factor towards the enhancement of the capital market.
	Organizational aspects	Moderate	Some issues are recommended to be overcome by counterpart’s efforts in the future through enhancement of the organization. Especially at times when the executives and persons in charge are replaced, quick but careful handing over to the next successors is continuously needed.
	Technical	Moderate	Capacity of the counterparts of the Project was enhanced



	aspects		through a series of trainings, workshops and study tour during the Project. Continuation of knowledge sharing and internal training are expected amongst the counterparts.
	Financial aspects	Moderate	Under current economic condition and government deficit, the FRC's budget may remain at a lower level. While allocating budget to new type of activities seems difficult, budget allocated for sustaining the Project's achievements could also be unknown.

(source) "The Joint Terminal Evaluation Report", JICA Evaluation team, April 2017

In addition, the assessment results for each five outputs were "achieved" for two outputs and "mostly achieved" for three outputs. The summary description of the evaluations as well as the assessment result for each output is as follows.

No.	Outputs / Evaluation summary	Assessment result
1.	Policy committee	Achieved
	⇒Policy Committee is established for revitalization of the capital market, insurance, and microfinance. Currently, the revitalization is in progress.	
2.	Risk-based supervision	Achieved
	⇒FRC started supervision on securities companies applying risk-based supervision approach.	
3.	SRO concept	Mostly achieved
	⇒Concept paper of SRO is developed.	
4.	IPO / Dual-listing	Mostly achieved
	⇒Provided advisory to potential companies with high possibility for IPO who are ready to be listed whenever the timing is appropriate.	
5.	Financial literacy	Mostly achieved
	⇒Financial literacy of the general public is improved.	

(source) "The Joint Terminal Evaluation Report", JICA Evaluation team, April 2017

### 3.2 Key factors affecting implementation and outcomes

In accordance with the above mentioned review from the "The Joint Terminal Evaluation Report", there were mainly four key factors that had positive effects on the implementation of the Project goals and outcomes: (1) a strong will to study capital market related subjects

amongst the counterparts, (2) a favorable relationship between the capital market experts and the counterparts, (3) practical trainings in both Japan and Mongolia, (4) high priority in improving credibility of the Mongolian capital market.

As can be seen, a close relationship between the experts and the counterparts in sharing the common goals of enhancing the Mongolian capital market turned out to be effective in bringing about successfully conducting various activities during the Project. In addition, various attempts when providing series of lectures, seminars and trainings in both Mongolia and Japan such as (1) improve counterparts' understandings of the capital market by carefully explaining the basic concepts and sharing knowledge, (2) relate other countries' experiences and lessons to Mongolian context while providing recommendations and advisories, (3) introduce appropriate experts with different background and expertise depending on the subjects counterparts' requested, have not only led to institutional enhancement of the Mongolian side but also provided capacity development amongst the individuals contributing further to achieve the Project goals.

### **3.3 Evaluation on the results of the Project Risk Management**

There were several risks we expected to encounter while conducting the Project as follows. Apparently, most of these risks were external risks in which we had no control. However, we have constructed an appropriate risk management framework and took careful actions during the course of the Project.

- Possible change in the political regime as well as organizational and management change in counterparts.
- Vulnerability in internal information sharing mechanism within the counterparts.
- Weak communication and working capabilities amongst the counterparts.

### **3.4 Lessons learnt**

As seen above, while there had been positive factors in achieving Project outcomes, there were also several challenges encountered during the projects. These lessons may be typical Mongolian issues that could be shared in other similar Projects conducted in Mongolia.

First, the counterparts of the Project in charge frequently changed especially at the time when the chairperson of the FRC changed. While we understood fully that such changes may arise naturally in Mongolia, it did have some effects in conducting the Project time to time since there needed few months for the successors to catch up and understand about the Project. The lesson here is to encourage a fixed person(s) in charge of the project at all times or else, provide

some period to have the successor work with the predecessor together to inherit whatever he / she should know about the Project to minimize misunderstandings and prevent any misinformation due to the replacement. In relevance to this, we ended up explaining the same requests and recommendations due to lack of information sharing amongst the counterparts. As a lesson, we expect a stronger information sharing scheme within the counterparts.

Secondly, our reports, lecture materials, presentation and other materials that seem valuable sources were not much shared amongst the counterparts. Therefore, we highly recommend counterparts to keep these materials not only by themselves individually but rather as an institution. For instance, printed materials could be filed in a binder, and digital files could be saved in a common server / computer so that anyone could access them at any time whenever needed.

If these lessons are implemented and challenges are improved, we believe that the outcome of the Project could be much productive and effective after all.

## **4. Overall goal achievement**

### **4.1 Prospects to achieve overall goal**

The overall goal of the Project is to “improve the environment of the Mongolian capital market for vitalization of IPOs and realization of dual-listings through enhancement of the market credibility.” Throughout the Project, we acknowledge a growing sense of awareness amongst the market participants that the listing environment is improving and the market is becoming favorable for potential companies to be listed in the future. Given the changing atmosphere, most likely IPOs will be realized including those we have been providing advisories as soon as the economy recovers and the preparation is ready. On the other hand, for those companies who have high potential to list dually, they may realize both listing at MSE as well as at offshore market if they could practice international financial accounting standards having one of the big 4 global accounting firms to be the auditor, and comply with corporate governance and disclosure of information at the international level. The credibility and vitality of the Mongolian capital market is expected to improve once the IPOs and dual-listings are realized.

Hence, even though there are prerequisites such as “depending on the economic conditions” and “willingness of companies to be dually listed”, the overall goal is most likely be achieved in three years down the line from the project conclusion.

### **4.2 Plan of operation and implementation structure of the Mongolian side to achieve overall goal**

In order to achieve the overall goal, we shall recommend the Mongolian counterparts to prepare a concrete action plan as well as an enforced implementation team.

- ✓ IPO: The Mongolian government should actively promote the IPO of the state-owned enterprises (SOEs).
- ✓ Deal-listings: For those SOEs that may be attractive to foreign investors should apply and practice an international financial accounting standard with top priority and possibly have one of the big 4 global accounting firms to be the audit company.

### **4.3 Recommendations for the Mongolian side**

On top of what we recommended above in achieving the overall goals, we shall recommend the following particularly focusing on the five targeted outputs.

- 1) FRC's policy committee to be held in a frequent manner.
- 2) Tri-party (FRC, MSE, MASD) meetings to be held in a frequent manner to discuss about the SRO matters and how to cooperate amongst each other to further develop the capital market. If in case policy committee recommended in 1) cannot be realized, this Tri-party meeting could be utilized as an alternative.
- 3) A new securities professional licensing scheme utilizing the newly published textbook as well as the enforcement of the administrative framework and human resource development including the training of trainers.
- 4) An enhanced framework to realize adequate and faster decision making procedure at the time of receiving IPO applications as well as relevant activities to realize dual-listings of the SOEs.
- 5) Implementation of more efficient operations based on the modified manual on risk-based supervision.

## 5. References

### ANNEX 1: List of Products (Reports, lectures, and presentation materials)

#### **【 Reports】**

Sr.	No.	Date	Title	Document	In charge
1	1	2014/11/28	Inception report	Word	consultants
2	2	2015/2/24	Work plan	Word	consultants
3	3	2015/4/4	Report on the current status of Mongolian capital market	Word	consultants
4	4	2015/7/30	Monitoring sheet (ver.1)	Word/Excel	consultants
5	5	2016/2/25	Monitoring sheet (ver.2)	Word/Excel	consultants
6	6	2016/8/20	Monitoring sheet (ver.3)	Word/Excel	consultants
7	7	2016/10/25	Work plan (third year)	Word	consultants
8	8	2016/12/15	Concept paper on Self Regulatory Organization (SRO)	Presentation	consultants
9	9	2017/1/30	Concept paper on Policy Committee	Word	consultants
10	10	2017/1/31	Monitoring sheet (ver.4)	Word/Excel	consultants
11	11	2017/4/14	Monitoring sheet (ver.5)	Word/Excel	consultants
12	12	2018/1/5	Securities professional textbook (Mongolian version)	Word	consultants
13	13	2018/1/5	Monitoring sheet (ver.6)	Word/Excel	consultants
14	14	2018/1/5	Project completion report	Word	consultants

#### **【 Training in UB (SOEs): 31 March 2015】**

Sr.	No.	Date	Title	Document	In charge
15	1	2015/3/31	Project Overview	Presentation	consultants
16	2		Consulting approach for initial public offering (IPO) & dual listing	Presentation	consultants

#### **【 Training in UB (Regulatory authority): 27 April - 1 May 2015】**

Sr.	No.	Date	Title	Document	In charge
17	1	2015/4/27	Organizational structure of Financial Services Agency (FSA) and framework of regulation and supervision for securities sector in Japan	Presentation	FSA
18	2		Supervision of securities firms in Japan	Presentation	FSA
19	3		Off-site monitoring	Presentation	FSA
20	4	2015/4/28	An overview of securities inspection	Presentation	FSA/SESC
21	5		Risk evaluation and key indicators in inspection process	Presentation	FSA
22	6	2015/4/29	The role of securities firms and the implications	Presentation	consultants
23	7		Investor's roles	Presentation	consultants
24	8		Stock markets in Asia	Presentation	consultants
25	9	2015/4/30	Corporate finance basics	Presentation	consultants
26	10		Financial analysis basics	Presentation	consultants
27	11		Financials for securities companies	Presentation	consultants
28	12	2015/5/1	Case study - BSec's annual financial summary	Presentation	consultants

#### **【 Training in UB (Securities companies): 20&23 May 2016】**

Sr.	No.	Date	Title	Document	In charge
29	1	2016/5/20	Introduction to the project for capacity building of capital market in Mongolia	Presentation	consultants
30	2		IPO & Dual-listing (1): Scheduling	Presentation	consultants
31	3		IPO & Dual-listing (2): Documentation	Presentation	consultants
32	4	2016/5/23	IPO & Dual-listing (3): Capital policy	Presentation	consultants
33	5		Business promotion - How to approach potential clients	Presentation	consultants
34	6		Investor education	Presentation	consultants
35	7		Business ethics for securities companies	Presentation	consultants

**【IPO&DL Seminar No.1 (23 June 2015)】**

Sr. No.	Date	Title	Document	In charge
36	2015/6/23	Project for capacity building of capital market in Mongolia	Presentation	consultants
37		Costs and benefits of initial public offering (IPO)	Presentation	consultants
38		Dual listing: Benefits and introduction of asian major stock exchanges	Presentation	Daiwa CM HK
39		Privatizing state-owned corporations (SOCs) - Lessons from Japanese experiences	Presentation	consultants
40		Mongolian Stock Exchange (MSE) listing requirements	Presentation	MSE
41		Opportunities for Mongolian companies to IPO in Japan	Presentation	JPX
42		Partnering with private sector and regulatory effects on Mongolian assets listed in international stock exchanges	Presentation	ADB

**【IPO&DL Seminar No.2 (18 March 2016)】**

Sr. No.	Date	Title	Document	In charge
43	2016/3/18	Updates on Mongolian capital markets and the JICA technical assistance project	Presentation	consultants
44		Innovative thinking in Investor Relations and Corporate Governance	Presentation	Mr. Tatsuya Imade
45		Optimizing capital markets through innovations - Lessons from the past & on-going initiatives in foreign markets	Presentation	Prof. Seiji Adachi

**【IPO&DL Seminar No.3 (12 May 2017)】**

Sr. No.	Date	Title	Document	In charge
46	2017/5/12	Progress of JICA's Technical Assistance Project	Presentation	consultants
47		Redesigning Mongolian capital market: Rationale and technical issues	Presentation	consultants
48		Opportunities for Mongolian companies to raise capital in Japan	Presentation	JPX

**【Investor Week Seminar (27 October 2016)】**

Sr. No.	Date	Title	Document	In charge
48	2016/10/27	How to activate equity trading - Lessons from Japanese experiences	Presentation	Prof. Seiji Adachi

**【Training in Tokyo No.1 (October 2015)】**

Sr. No.	Date	Title	Document	In charge
47	2015/10/1	Overview of Japan Exchange Group (JPX) and recent developments in Japanese capital market	Presentation	JPX
48		Listing examination	Presentation	JPX
49		Listed company regulation & supervision - Maintaining & enhancing the quality of financial products	Presentation	JPX
50		Corporate governance and disclosure	Presentation	JPX
51	2015/10/2	A brief explanation of market surveillance at Japan Exchange Regulation	Presentation	JPX
52		Inspection on trading participants	Presentation	JPX
53	2015/10/5	Self regulatory function of Japan Securities Dealers Association (JSDA)	Presentation	JSDA
54		JSDA rules for initial public offerings (IPOs)	Presentation	JSDA
55		The role of an underwriter in an IPO	Presentation	consultants
56	2015/10/6	Investor relations	Presentation	Daiwa Securities
57		Listing standards and underwriters	Presentation	consultants
58	2015/10/7	Audit and internal control report system under the Financial Instruments and Exchange Act	Presentation	FSA
59		Supervision of large securities firms in Japan	Presentation	FSA
60	2015/10/8	An overview of the Securities and Exchange Surveillance Commission (SESC)	Presentation	FSA/SESC
61		The inspection policy and inspection program	Presentation	FSA/SESC
62		Financial analysis	Presentation	FSA/SESC

**【Training in Tokyo No.2 (April 2016)】**

Sr.	No.	Date	Title	Document	In charge
63	1	2016/4/11	Listing requirements in Asia	Presentation	consultants
64	2		Stock exchange in Asia	Presentation	consultants
65	3	2016/4/12	Japan Exchange Group and recent developemnts in Japanese securities markets	Presentation	JPX
66	4		International cooperation of Japan Exchange Group	Presentation	JPX
67	5		Disclosure and corporate governance	Presentation	JPX
68	6	2016/4/13	Listed company regulation & supervision - Maintaining and enhancing the quality of financial products	Presentation	JPX
69	7		Inspection on trading participants	Presentation	JPX
70	8		A brief explanation of market surveillance at Japan Exchange Regulation	Presentation	JPX
71	9		Listed companies' disclosure for investors	Presentation	consultants
72	10		Accounting scandals and false reports	Presentation	consultants
73	11	2016/4/14	Self regulatory function of Japan Securities Dealers Association (JSDA)	Presentation	JSDA
74	12		Outline of qualification examinations, etc., implemented by JSDA	Presentation	JSDA
75	13		Case studies: Discoveries by recent member firm inspecdtions	Presentation	JSDA
76	14		Disciplinary actions of JSDA	Presentation	JSDA
77	15	2016/4/15	Supervision of authorized financial instruments firms association	Presentation	FSA
78	16		Supervision systems of financial instruments markets	Presentation	FSA
79	17		Cooperation with self regulatory organizations (SROs)	Presentation	FSA/SESC
80	18		Capital market development in Myanmar	Presentation	consultants

**【Training in Tokyo No.3 (May 2017)】**

Sr.	No.	Date	Title	Document	In charge
81	1	2017/5/18	Eligibility for dual listing	Presentation	consultants
82	2		What we need for bond market	Presentation	Daiwa Securities
83	3		Introduction to Japan Commodity Clearing House (JCCH)	Presentation	JCCH
84	4		Introduction to Tokyo Commodity Exchange (TOCOM) Group	Presentation	TOCOM
85	5	2017/5/19	Overview of Japan Exchange Group	Presentation	JPX
86	6		Listed company regulation & supervision - Maintaining and enhancing the quality of financial products	Presentation	JPX
87	7		Overview of Tokyot Stock Exchange (TSE) equity market	Presentation	JPX
88	8		Overview of Japan Securities Clearing Corporation (JSCC)	Presentation	JSCC
89	9	2017/5/22	Self regulatory rules of JSDA	Presentation	JSDA
90	10		JSDA rules for IPOs	Presentation	JSDA
91	11	2017/5/23	Outline of the regulations on securities companies in Japan	Presentation	FSA/SESC
92	12		A summary of Japanese government bond (JGB) debt management	Presentation	Ministry of Finance



**[ Other lecture materials and presentations ]**

Sr.	No.	Date	Title	Document	In charge
93	1	2015/3/25	Introduction of the Project for capacity development	Presentation	consultants
94	2	2015/4/30	Lecture on Finance 101	Presentation	consultants
95	3	2015/5/19	Lecture on Self Regulatory Organization (SRO) at Financial Regulatory Commission (FRC)	Presentation	consultants
96	4	2015/5/21	Lecture on Self Regulatory Organization (SRO) at Mongolian Stock Exchange (MSE)	Presentation	consultants
97	5	2015/6/9	Lecture on improving financial literacy	Presentation	consultants
98	6	2015/6/30	Listing rules	Presentation	consultants
99	7	2015/9/8	Introduction of the Project for capacity development	Presentation	consultants
100	8	2015/11/23	Requirements for listing and disclosure	Presentation	consultants
101	9	2016/1/15	Financial Market - New investment environment: Challenges for potential issuers and intermediaries	Presentation	consultants
102	10	2016/5/31	Identifying Appropriate Group Structure (for MONOS)	Presentation	consultants
103	11	2016/6/2	Japanese experience on financial literacy	Presentation	consultants
104	12	2016/6/28	Lecture on investor education	Presentation	consultants
105	13	2016/7/7	Introduction to listing management	Presentation	consultants
106	14	2016/9/21	Lecture for FRC Management Team (1)	Presentation	consultants
107	15	2016/11/1	Policy Committee	Presentation	consultants
108	16	2016/11/9	Lecture for FRC Management Team (2)	Presentation	consultants
109	17	2016/11/14	Lecture for FRC Management Team (3)	Presentation	consultants
110	18	2017/2/1	Securities professional textbook and exam (1) - Assessment and proposal	Presentation	consultants
111	19	2017/2/20	Privatization and IPO (1)	Presentation	consultants
112	20	2017/2/23	Privatization and IPO (2)	Presentation	consultants
113	21	2017/4/17	Lecture on crowd funding	Presentation	consultants
114	22	2017/4/19	Securities professional textbook and exam (2) - Draft proposal and current progress	Presentation	consultants

## ANNEX 2: PDM (Overall)

Project Monitoring & Revision Project Design Matrix					
<b>Project Title: Capacity Building of Capital Market in Mongolia</b> <b>Implementing Agency: Daiwa Institute of Research Ltd., Japan Economic Research Institute</b> <b>Target Group: Financial Regulatory Commission, Mongolian Stock Exchange etc.</b> <b>Period of Project: Nov 2014-Jan 2018</b> <b>Project Site: Ulaanbaatar, Mongolia</b>					<b>Version 5</b> <b>Dated 5 January 2018</b>
Narrative Summary	Objective Verifiable Indicators	Means of Verification	Important Assumption	Achievement	Remarks
Overall Goal					a)Market cap b)GDP a)/b) MNT tn MNTtn
The listing environment of capital market for vitaliza public offering (IPO) & du improved through enhance credibility	1 <b>MNT 2.2tn</b> for the total market capitalization <b>MNT 5tn</b>	MSE for total market cap and National Statistical Mongolia for GDP	i) Market capitalization only (excl. that for gov) ii) the market cap target MNT2.2tn will be a record ii) market cap will be impacted by the status of economy	MSE's market cap continuing falling from its peak in largely to the economic market cap/GDP ratio a 5.5% in 2015, then recovers 9.4% in 2017 due to share rises.	2014 1.4tn 22.2 2015 1.3tn 23.1 2017 2.4tn 26.0 2020E 2.2tn 35.0t
	2 <b>0.1 percentage</b> increase (the total assets in the market sector)/(the total the financial sector) ratio <b>0.3%</b>	FRC for the total assets capital market sector and assets in the financial sector	Aggregate securities companies total assets do not include investment banking assets		2 Securities Fin Sector Share MNT MNT 2015 68bn 21.6tn 0.3% 2017E 70bn 22.5tn 0.3% 2020E 100bn n.a. 0.4%
	3 Trading value of the cap increases from <b>60 to MNT 150bn</b>	MSE for trading value of market	i) Trading value for equ will be a record high, iii) The velocity (annual value/market cap) of 7% historical high, iv) Trading activities impacted by the status of economy	High interest rates and economic downcycle have dampened trading activities	3 2014 MNT24bn (1.5% velocity) 2015 MNT30bn (2% velocity) 2017 MNT76bn (3% velocity) 2020E MNT150bn (7% velocity)  <b>Note: Its historical high MNT145bn in 2012</b>
	4 Applications for IPO and listing increase <b>from one to two</b> per year	FRC and MSE for applications	Combined number of dual listing applications ii) new listings without offering also to be included	There was two new listings 2016 and Sep 2017, respectively pilot IPO has been posted	4 2013 none 2014 one IPO 2015 one IPO 2017 one IPO 2020E two IPOs
	5 (Ref. <b>0.3</b> point increase) "availability of financial value by the latest World Forum's "Global Competitiveness Report"	Global Competitiveness (The Global Competitive 8th pillar: Financial Market Development)	Achieve 4.07 pts	No change	5 2014-15 3.76 pts 2015-16 3.76 pts
	6 (Ref. <b>0.7</b> point increase) "affordability of financial value by the latest World Forum's "Global Competitiveness Report"	Global Competitiveness (The Global Competitive 8th pillar: Financial Market Development)	Achieve 3.84 pts	No change	6 2014-15 3.51 pts 2015-16 3.51 pts 2016-17 3.13pts
	7 (Ref. <b>0.26</b> point increase) "financing through local market" value by the latest Economic Forum's "Global Competitiveness Report"	Global Competitiveness (The Global Competitive 8th pillar: Financial Market Development)	Achieve 3.33 pts	Improved by 0.29 pts since 2014	7 2014-15 52.748 pts 2015-16 2.77 pts 2016-17 3.07pts

<p><b>Project Purpose</b></p> <p>The credibility of capital market is enhanced through improvement of supervision and regulation capacity of target groups and improvement of the understanding by participants of capital market in Mongolia</p>	<p>1 The capacity of target groups in supervising and regulating is strengthened</p> <p>2 Increase in positive response on the credibility of capital market from symposium participants to <b>50% of total</b></p> <p>3 <b>0.37</b> point increase in "regulation of security exchanges" value by the <b>latest World Economic Forum's "Global Competitiveness Report"</b></p>	<p>1 Means of verification will be decided after the review of capital market i) Survey by Facebook, ii) Securities representative license exam, iii) No of seminar/workshop participants iv) Developments in the guidelines</p> <p>2 Questionnaire survey at symposium series</p> <p>3 Global Competitiveness Report (The Global Competitiveness Index, 8th pillar: Financial Market Development)</p>	<p>1 Stability of the macro economy and politics is maintained, sustaining attractiveness of the Mongolian capital market for the private sector</p> <p>2 Mongolian Government develops and implements a series of policies for capital market development</p> <p>3 Achieve 3.31 points</p>	<p>1 Not evaluated yet</p> <p>2 Number of respondents is not sufficient, but it appears so far so good</p> <p>3 Improved by 0.15 pts since 2014-15</p>	<p>1 i) Planning a survey to staff being involved in the project at least for one year by Jul17, ii) Encouraging FRC staff to pass the securities representative license exam</p> <p>2 Conducted a survey twice by Facebook for Sep16-Jun17</p> <p>3 2014-15 2.72 pts 2015-16 2.87 pts 2016-17 2.94 pts</p>
<p><b>Outputs</b></p> <p>1 Policy Committee is established for revitalization of the capital market, insurance, and microfinance</p> <p>2 FRC's capacity for regulation and supervision of capital market (risk-based approach) is enhanced</p> <p>Candidate areas for support: i) Brokers and dealers; ii) Other participants on the capital market; iii) MSE and MSCH&amp;CD</p>	<p>1-1 Concept paper for establishing policy committee is prepared</p> <p>1-2 Committee meeting minutes that include advisory input by the Project (and its experts) are compiled</p> <p>2-1 Recommendation paper that directs FRC's risk-based supervision is prepared</p> <p>2-2 Post-training record of all the training programs indicate C/P increased understanding on how to handle administration of the target topics</p>	<p>1-1 Concept paper</p> <p>1-2 Committee meeting minutes</p> <p>2-1 Recommendation paper</p> <p>2-2 Pre-post record (narrative and/or numerical ranking, etc.) on each training program</p>	<p>1-1 Policies that pertain regulation and supervision of capital market do not radically change</p> <p>1-2 The capital market related laws and regulations are in place</p> <p>2-1 Transfers of C/P and training participants do not occur</p> <p>2-2 Training activities in Mongolia's capital market progress in a stable manner</p>	<p>1-1 Based on the recommendation provided in the past, a concept paper was delivered to FRC in Nov 2016.</p> <p>1-2 Meeting minutes were written in the past.</p> <p>2-1 i) A five-day training course in UB for supervision in Apr15, ii) a seven-day training course in Japan for risk-based supervision of securities companies in Oct15, iii) a training course in Japan for SRO in Apr16</p> <p>2-2 FRC developed the guidelines for risk-based supervision of securities companies in Dec16</p>	<p>1-1 Policy Committee is under reorganization as of Jan17.</p> <p>1-2 Expecting meeting minutes to be prepared again by FRC when Policy Committee resumes</p> <p>2-1 14 FRC staff participated in the training course in Japan, received a lecture material from FSA for risk-based supervision</p> <p>2-2 A report to be prepared, with comments by FSA</p>

3 Concept paper of SRO is developed	3-1 Working team is established, and its decision regarding MSE's transition is determined	3-1 Record of discussion	3-1 None	3-1 The tri-party meeting by FRC, MSE and MASD started in Dec15, the second meeting in Jul16	3-1 None
	3-2 Post-training record of all the training programs indicate C/P increased understanding on how to handle administration of the target topics	3-2 Pre-post record (narrative and/or numerical ranking, etc.) on each training program	3-2 None	3-2 i) A five-day training course for SRO in Japan, ii) a follow-up small workshop at MSE, Jul16	3-2 A report to be prepared, based on evaluation sheets at the training course
	3-3 Concept paper that discusses potentials for transition of MSE (MSCH&CD, MASD) into SRO is prepared	3-3 Concept paper	3-3 MSCH&CD (now MSC, MCSD) will not become an SRO	3-3 After several presentations for MSE and MASD since May15, a concept paper was finalized and submitted to FRC in Dec16	3-3 The concept paper was referred when MSE made a draft SRO concept paper for itself in Jan17
4 IPO and dual listing by high potential Mongolian companies are conducted	4-1 Advisory records on developing new regulation of IPO and dual listing are compiled	4-1 Memos recording advisory input made by the Project	4-1 None	4-1 i) Workshop for MASD in May16, ii) providing frequent advisory with MONOS as the pilot IPO project	4-1 Intensively with MONOS, slightly with SUU, Standard Capital and Megawood
	4-2 Post-training record of all the training programs indicate participants increased understanding IPO an financial sector due diligence	4-2 Pre-post record (narrative and/or numerical ranking, etc.) on each training program	4-2 None	4-2 Number of respondents is not sufficient, but it appears so far so good	4-2 An evaluation sheet was distributed
	4-3 Symposium series (3 times) are organized	4-3 Symposium proceedings	4-3 None	4-3 i) Workshop for SOCs Mar15, ii) #1 IPO/DL seminar Jun15, iii) #2 IPO/DL seminar Mar16	4-3 #3 IPO/DL seminar was held in May17
	4-4 Participants are drawn from securities-related supplier, issuers and investors	4-4 Symposium participants list	4-4 None	4-4 Keeping seminar/workshop attendees lists	4-4 None
	4-5 In the survey results of each symposium, a response, "the relevance of the topics met the expectation as well as needs of the capital market," is obtained on average from 50% of the participants	4-5 Questionnaire survey at symposium series	4-5 None	4-5 Number of respondents is not sufficient, but it appears so far so good	4-5 An evaluation sheet was distributed at a seminar
	4-6 IPO and dual listing are conducted: IPO for 2 private companies: dual listing for 1 private company	4-6 JCC at the end of the project	4-6 None	4-6 Three new listings by Jan18, although all of them were not supported by the project	4-6 1) MIK Holding (IPO), Dec 2015 2) Mongol Post (new listing), Jan 2016 3) I tools (IPO), Sep 2017
5 Financial literacy of general public is improved	5-1 Open Awareness Seminar Program contents and schedule are developed	5-1 Seminar program	5-1 Investor Week to be organized by MASD	5-1 Investor Week, including a one-day forum, held in Oct16	5-1 Organized by MASD, cooperated with the Team
	5-2 Seminars are conducted as planned under 5.1	5-2 Seminar proceedings	5-2 None	5-2 Speech at Development of Financial Market National Forum, Jan 2016	5-2 None
	5-3 Japanese experiences on public awareness raising initiatives are studied	5-3 Memos summarizing Japanese cases	5-3	5-3 An ex-JPX expert made a presentation at the Investor Week's forum in Oct16	5-3
	5-4 Financial literacy program(s) is/are prepared based on study conducted under 5-3	5-4 Program guide and/or materials (depending on the product type)	5-4 Collaborate in launching a FRC/BOM website for financial literacy	5-4 i) Lecture at FRC in May15, ii) workshop for MASD in May16, iii) lecture at Banking & Finance Academy in Jun16	5-4 The textbook for the capital markets was written and 500 copies were distributed.

**ANNEX 3: Monitoring sheet (copy)**

**TO CR of JICA MONGOLIA OFFICE**

**PROJECT MONITORING SHEET**

**Project Title: Project for Capacity Building of Capital Market in Mongolia**

**Version of the Sheet: Ver.4 (Term: September 2016 – July 2017)**

**Name: Ryota Sugishita**

**Title: Project Manager**

**Submission Date: 5 Jan 2018**

**I. Summary**

**1 Progress**

**1-1 Progress of Inputs**

During the first half of the third project year (September 2016 to January 2017), the Project successfully conducted.

**1-2 Progress of Activities**

- 1) **Policy Committee.** Under the new management team led by Dr Davaasuren, FRC has been working on the new Policy Committee, which is expected to be operational soon. Project advised how the committee should be held by a lecture on 1 November 2016, based mainly on Japan's experiences.
- 2) **Risk-based supervision.** FRC updated its guidelines for on-site and off-site supervision of securities companies, based on a risk-based concept on 28 December 2016. Project believes that the new guidelines will work well and continues advising implementation.
- 3) **IPO/dual-listing.** Project continued supporting a candidate of the pilot IPO. The IPO deal, however, was postponed by several months as a result of discussions between the company and its underwriter. Project thinks that the decision was realistic, given the current economic conditions. In addition, Project was requested by SPC to provide supports for privatization. Project agreed for the purpose of increasing number of IPO, and plans to provide a lecture to SPC officials on 16 February 2017.

- 4) **SRO.** Project submitted a concept paper on the SRO to FRC on 15 December 2016. The concept paper was shared with MSE, and MSE drafted its SRO concept paper in January 2017. Project continues supporting MSE for its SRO activities, aiming at revising its listing requirements as well as making rules of listing management (including delisting). For MASD, Project continued discussion on improving the current securities representative license scheme, together with a new official textbook. In December 2016, Project did assessment on the contents of the exam. The 280-page textbook for the capital markets was launched in December 2017.
- 5) **Investor education.** Project cooperated with MASD to hold a forum on 26 October 2016 during its first Investor Week.

### **1-3 Achievement of Output**

- 1) **Policy Committee.** A concept paper was delivered by Project to FRC on 1 November 2016. Project was requested to change the format and put as many references as possible so that FRC officials can refer anytime. Modification of the concept paper is underway.
- 2) **Risk-based supervision.** Project provided a series of lectures to FRC officials for their better understanding of capital markets about the capital market roadmap and basics for financial analysis, on 9 November 2016 and 18 January 2017, respectively.
- 3) **IPO/dual-listing.** Project provided consulting for the targeted IPO candidate at least once a month since the third project year started, except for December 2016. The menu of the consulting includes Japan's IPO cases and advantage of syndicated underwriting.
- 4) **SRO.** Project submitted the SRO concept paper to FRC. The capital market textbook was handed to FRC by JICA on 19 December 2017.
- 5) **Investor education.** Prof Adachi, an ex-JPX expert, was invited as a guest speaker to the forum during the Investor Week in October 2016, introducing Japan's experiences in enhancing retail investors' awareness.

### **1-4 Achievement of the Project Purpose**

No major updates.

### **1-5 Changes of Risks and Actions for Mitigation**

Not applicable.

### **1-6 Progress of Actions undertaken by JICA**

In line with Team's expectations.

### **1-7 Progress of Actions undertaken by Gov. of Mongolia**

In line with Team's expectations.

### **1-8 Progress of Environmental and Social Considerations (if applicable)**

Not applicable.

### **1-9 Progress of Considerations on Gender/Peace Building/Poverty Reduction (if applicable)**

Not applicable.

### **1-10 Other remarkable/considerable issues related/affect to the project (such as other JICA's projects, activities of counterparts, other donors, private sectors, NGOs etc.)**

Not applicable.

## **2 Delay of Work Schedule and/or Problems (if any)**

### **2-1 Detail**

The pilot IPO had been expected to be made in March 2017, but the targeted company and its underwriter decided to postpone for several months.

### **2-2 Cause**

It makes economically sense to postpone the IPO, given the current economic conditions. If the underwriter manages to list its shares, the IPO price may be much below the targeted company's expectation. If the underwriter sets the IPO price as the company hopes, the share prices may be in the doldrums for many years immediately after the IPO, which gives adverse impact to the investors. The right timing should be considered for any IPO case.

### **2-3 Action to be taken**

Nothing but wait for the better timing.

**2-4 Roles of Responsible Persons/Organization (JICA, Gov. of Mongolia)**

Not applicable.

**3 Modification of the Project Implementation Plan**

**3-1 PO**

Not applicable.

**3-2 Other modifications on detailed implementation plan**

Not applicable.

**4 Preparation of Gov. of Mongolia toward after completion of the Project**

Not applicable.

**II. Project Monitoring Sheet I & II**      *as Attached*



**Project Monitoring Sheet II (Revision of Plan of Operation)**

**Version 5**  
**Dated 5 January 2018**

**Project Title: Project for Capacity Building of Capital Market in Mongolia**

Inputs		Plan	2014				2015				2016				2017				Remarks	Monitoring	
			Actual	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III		IV	Issue
<b>Expert</b>																					
Ryota Sugishita		Plan																		Nothing.	Not applicable.
Takayuki Urade		Actual																	Nothing.	Not applicable.	
Mitsutaka Ozaki/Shinji Ohno/Masayoshi Tatewaki		Plan																Ohno replaced Ozaki in Aug15, Tatewaki replaced Ohno in Jun16	Policy Committee's activities have been halted	The new Policy Committee is expected to become operational soon.	
Hiroyuki Kaneko/Daisuke Tashiro		Actual																MSE and MASD are still not confident in themselves as an SRO.	Encouraged MSE and MASD to have close communication.		
Akifumi Nakanishi		Plan																Schedule was modified due to Team's priority of tasks.	Nothing.	Not applicable.	
Masateru Igata		Actual																Stayed in UB for Jul/Aug16 for preparation of Investor Week	Nothing.	Not applicable.	
<b>Training in Japan</b>																					
Training course on risk-based supervision/SRO		Plan																Training course in Tokyo was held for 1-9 Oct 2015, 11-15 Apr 2016 and 17-24 May 2017.	FRC staff do not want to join a training course with MSE and MASD.	Provide a separate course only partially.	
		Actual																			
<b>In-country/Third country Training</b>																					
Training course on risk-based supervision/SRO/IPO		Plan																Training course in UB was being rescheduled.	Japanese experts cannot be dispatched often.	Looking for available experts.	
		Actual																			
<b>Activities</b>																		Responsible Organization			
Sub-Activities																		Japan	FRC		
<b>Output 1: Policy Committee</b>																					
1.1 Report on the current status of capital market in Mongolia		Plan																	The report submitted in Mar15 appears to be of help to FRC's long-term strategy plan, which is being prepared.	Not applicable.	
		Actual																Policy Committee was already formed when the project started	Policy Committee had been established before the Team started technical cooperation.	A report on Policy Committee was included in the Current Status report, Mar15.	
1.2 Concept paper on Policy Committee		Plan																			
		Actual																			
<b>Output 2: Capacity building for FRC staff</b>																					
2.1 Training course in UB for risk-based supervision		Plan																	Held in Apr15.	The second, third course have not been held so far. The Consultant Team has provided more lecturers instead.	
		Actual																	Held in Oct15. Knowledge shared appears to be reflected in FRC's regulations and guidelines.	Unfortunately, one of the 14 attendees already left FRC.	
2.2 Training course in Tokyo for risk-based supervision		Plan																			
		Actual																			
<b>Output 3: SRO</b>																					
3.1 Report on the demarcation of FRC and SROs		Plan																Still in discussion	Not prepared as a report, but the Team has provided a concept material of the demarcation with FRC.	FRC already decided to transfer its listing approval function to MSE. Further knowledge sharing with MSE and MASD is necessary.	
		Actual																			
3.2 Training course in UB/Tokyo for SRO		Plan																A five-day training course in Tokyo was held for 11-15 Apr.	Held in Apr16. The Team believes that MSE realized the fact that its listing requirements need to be modified.	The Team continues providing follow-up support to MSE under the new management.	
		Actual																			
<b>Output 4: IPO and dual-listing</b>																					
4.1 Report on the IPO/Dual-listing		Plan																Combined with the Output1	Not separately prepared, but included in the Report of the Current Status.	Not applicable.	
		Actual																			
4.2 Seminar on IPO/Dual-listing		Plan																This IPO seminar to be held in Mar17.	Held in Jun15 and Mar16.	Not applicable.	
		Actual																			
<b>Output 5: Investor education</b>																					
5.1 Seminar for investor education		Plan																To be discussed if it is necessary		MASD hosted Investor Week in Oct16.	
		Actual																			
5.2 Capital market textbook		Plan																Published in Dec17.			
		Actual																			

Duration / Phasing		Plan																			
		Actual																			
Monitoring Plan		Plan	2014				2015				2016				2017				Remarks	Issue	Solution
		Actual	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV			
<b>Monitoring</b>																					
Joint Coordinating Committee	Plan																			Nothing.	Not applicable.
Set-up the detailed plan of operation	Actual																			Nothing.	Not applicable.
Submission of Monitoring Sheet	Plan																		The last PDM was approved at the JCC meeting in Oct16.	Nothing.	Not applicable.
Monitoring Mission from Japan	Actual																				
Joint Monitoring	Plan																				
Post Monitoring	Actual																				
<b>Reports/Documents</b>																					
Project Completion Report	Plan																			Nothing.	Not applicable.
	Actual																				
<b>Public Relations</b>																					
JICA website	Plan																			Nothing.	Not applicable.
Team Facebook account	Actual																		The Team opened an account at Facebook.	Nothing.	Not applicable.
Speech at a seminar	Plan																		The Team delivered a speech at several seminars incl. Invest Mongolia and Development of Fin Mkt National Forum.	Nothing.	Not applicable.
Media interviews in UB	Actual																			Nothing.	Not applicable.

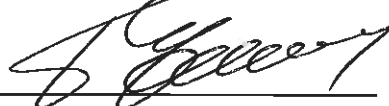
**ANNEX 4: Record of Discussions (copy)**

**RECORD OF DISCUSSIONS**  
**ON**  
**PROJECT FOR CAPACITY BUILDING OF CAPITAL MARKET**  
**IN**  
**MONGOLIA**  
**AGREED UPON BETWEEN**  
**FINANCIAL REGULATORY COMMISSION OF MONGOLIA**  
**AND**  
**JAPAN INTERNATIONAL COOPERATION AGENCY**

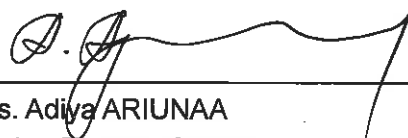
Ulaanbaatar, June 13, 2014



Mr. Toshinobu KATO  
Chief Representative  
JICA Mongolia Office  
Japan International Cooperation Agency  
Japan



Mr. Dashdondov BAYARSAIKHAN,  
Chairman,  
Financial Regulatory Commission of  
Mongolia



Ms. Adiya ARIUNAA  
Acting Director General  
Department of Economic Cooperation,  
Loan and Aid Policy  
Ministry of Economic Development  
Mongolia



Based on the minutes of meetings on the Detailed Planning Survey on the "Project for Capacity Building of Capital Market in Mongolia" (hereinafter referred to as "the Project") signed on May 23, 2014 between the Financial Regulatory Commission of Mongolia (hereinafter referred to as "FRC") and the Japan International Cooperation Agency (hereinafter referred to as "JICA"), JICA held a series of discussions with FRC and relevant organizations to develop a detailed plan of the Project.

Both parties agreed the details of the Project and the main points discussed as described in the Appendix 1 and the Appendix 2 respectively.

Both parties also agreed that FRC, the counterpart to JICA, will be responsible for the implementation of the Project in cooperation with JICA, coordinate with other relevant organizations and ensure that the self-reliant operation of the Project is sustained during and after the implementation period in order to contribute toward social and economic development of Mongolia.

The Project will be implemented within the framework of the Agreement on Technical Cooperation signed on December 5, 2003 (hereinafter referred to as "the Agreement") the Note Verbales exchanged on June 4, 2014 between the Government of Japan (hereinafter referred to as "GOJ") and the Government of Mongolia (hereinafter referred to as "GOM").

The effectiveness of the record of discussions is subject to the exchange of the Note Verbales.

Appendix 1: Project Description

Appendix 2: Main Points Discussed

Appendix 3: Minutes of Meetings on the Detailed Planning Survey

7

2.0



## PROJECT DESCRIPTION

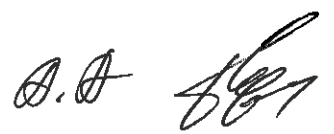
Both parties confirmed that there is no change in the Project Description agreed on in the minutes of meetings on the concerning Preparatory Survey on the Project signed on 23th, May (Appendix 3), except for the few wording on the Project Purpose.

### I. BACKGROUND

Growth of Mongolian economy has been accelerating in recent years (17.5% in 2011 and 12.3% in 2012) on the back of capital flows into the development project in the mining sector, as well as the international market conditions for coal and copper. At the same time, the Government of Mongolia ("GOM") is striving for macroeconomic stability through fiscal discipline under the Fiscal Stability Law (2013), which requires fiscal deficit and official government debt to remain less than 2% negative and 40% of GDP, respectively. They are also trying, with a view to meeting the growing demand for infrastructure, to diversify their financing toward government bonds in addition to the traditional donor financing, of which the first lot was issued in November 2012.

One of the major concerns on Mongolian economy is its heavy dependence on abundant mineral resources, which calls for more diversified industrial structure through vitalizing small and medium scale businesses. Since majority of their financing, however, has been through the banking sector, and the capital markets have not provided enough financing opportunities to these businesses. In Mongolia, more than 90% of the listed companies had been reorganized from state owned enterprises ("SOEs") listed in the process of shifting to the market-oriented economy, but the market liquidity is still very low, due to the lack of financial disclosure, issues on corporate governance and compliances, and insufficient investor base. The capital market itself is still at an early stage of development, where it needs appropriate regulation and supervision, which needs to be addressed as the financing needs through IPO grow in line with the economic expansion. To guide the economy along a stable growth path, it will be substantially important to provide wider range of financing options through facilitating the financial and capital markets which shall be open not only to the domestic but also to the foreign investors.

Financial Regulatory Commission ("FRC"), a government entity established in 2006 and a counterpart organization of the Project, supervises the non-bank sector including capital markets (i.e. security brokers, insurance companies and non-bank lending entities such as microfinance institutions ("MFIs")), and is still a young organization. It is in tremendous need for human capital/organizational developments and institutional design. FRC is in need for preparing regulatory rules and strengthening the implementation framework, for which the request for



support has been made to JICA.

To address those challenges relating to Mongolian capital market, FRC and JICA agreed to start the Technical Cooperation Project.

## **II. OUTLINE OF THE PROJECT**

Details of the Project are described in the Logical Framework (Project Design Matrix: PDM) (Annex I) and the tentative Plan of Operation (Annex III).

### **1. Title of the Project**

Project for Capacity Building of Capital Market in Mongolia

### **2. Overall Goal**

The listing environment of Mongolian capital market for vitalization of initial public offering (IPO) & dual listing is improved through enhancement of its credibility.

### **3. Project Purpose**

The credibility of capital market is enhanced through improvement of supervision and regulation capacity of target groups and improvement of the understandings by participants of capital market in Mongolia.

### **4. Outputs**

- (1) Policy Committee is established for vitalization of the capital market, insurance industry, and microfinance.
- (2) FRC's capacity for regulation and supervision of capital market (risk based approach) is enhanced.
- (3) Concept Paper of SRO is developed.
- (4) IPO and Dual Listing by high potential Mongolian companies are conducted.
- (5) Financial Literacy of general public is improved.

### **5. Activities**

The details are provided in Annex I (Tentative Project Design Matrix: PDM), Annex III (Tentative Plan of Operations (PO)).

### **6. Input**

- (1) Input by JICA
  - (a) Dispatch of Experts  
[Long-term and/or Short-term Experts from Japan/third countries]
    - Chief Adviser
    - Direct Finance (Regulation and Supervision)
    - Direct Finance (Securities Market)
    - Training Coordination
    - Coordinator

[Local Experts]

- If necessary.

(b) Training

- Local Trainings/workshops
- Trainings in Japan
- Trainings in third countries (If necessary)

(c) Machinery and Equipment

- Listed in the Annex V

(2) Input by FRC

(a) Human Resources

- Project Director: Chairman of FRC
- Deputy Project Director: Managing Director General of FRC
- Project Manager: Head of the Capital Market Intermediaries Division
- Counterparts from: Securities Market's Department.

(b) Office space and other facilities necessary for the implementation of the Project

(c) Local cost for Project operation (such as office utilities, communication cost, per-diem for Mongolian side personnel)

(d) Other (as required)

FRC will take necessary measures to provide at its own expense:

- (a) Services of FRC's counterpart personnel and administrative personnel as referred to in II-7;
- (b) Suitable office space with necessary equipment;
- (c) Information as well as support in obtaining medical service;
- (d) Credentials or identification cards;
- (e) Available data (including maps and photographs) and information related to the Project;
- (f) Running expenses necessary for the implementation of the Project; and
- (g) Necessary facilities to the JICA experts for the remittance as well as utilization of the funds introduced into Mongolia from Japan in connection with the implementation of the Project

## 7. Implementation Structure

The Project organization chart is given in the Annex IV. The roles and assignments of relevant organizations are as follows:

(1) FRC

(a) Project Director:

Chairman of FRC will be responsible for overall administration and implementation of the Project.

(b) Deputy Project Director:

Managing Director General of FRC will be responsible for overall administration and implementation of the Project as an assistant to Project



Director.

(c) Project Manager:

Head of the Capital Market Intermediaries Division will be responsible for the managerial and technical matters of the Project.

(d) Other counterpart officials:

They shall be nominated and informed to JICA side before the Project starts.

(2) Others

(a) Representative from the Economic Cooperation, Loan and Aid Policy Department of MED

(b) Representative from Mongolian Stock Exchange

(3) JICA Experts

The JICA experts will give necessary technical guidance, advice and recommendations to FRC on any matters pertaining to the implementation of the Project.

(4) Joint Coordinating Committee

Joint Coordinating Committee (hereinafter referred to as "JCC") will be established in order to facilitate inter-organizational coordination. JCC will be held at least twice a year and whenever deems it necessary. JCC will approve an annual work plan, review overall progress, conduct evaluation of the Project, and exchange opinions on major issues that arise during the implementation of the Project. A list of proposed members of JCC is shown in the Annex IV.

8. Project Site(s) and Beneficiaries

(1) Project Site:

Ulaanbaatar, Mongolia

(2) Beneficiaries

Financial Regulatory Commission of Mongolia (FRC), Mongolia Stock Exchange (MSE), and capital market participants

9. Duration

Three (3) years from July 2014 to June 2017

10. Environmental and Social Considerations

FRC agreed to abide by 'JICA Guidelines for Environmental and Social Considerations' in order to ensure that appropriate considerations will be made for the environmental and social impacts of the Project.

**III. UNDERTAKINGS OF FRC**

1. FRC will take necessary measures to:

(1) ensure that the technologies and knowledge acquired by the Mongolia

nationals as a result of Japanese technical cooperation contributes to the economic and social development of Mongolia, and that the knowledge and experience acquired by the personnel of Mongolia from technical training as well as the equipment provided by JICA will be utilized effectively in the implementation of the Project; and

- (2) grant privileges, exemptions and benefits to the JICA experts referred to in II-6 (1) above and their families, which are no less favorable than those granted to experts and members of the missions and their families of third countries or international organizations performing similar missions in Mongolia.

2.FRC will take necessary measures to:

- (1) provide security-related information as well as measures to ensure the safety of the JICA experts;
- (2) permit the JICA experts to enter, leave and sojourn in Mongolia for the duration of their assignments therein and exempt them from foreign registration requirements and consular fees;
- (3) exempt the JICA experts from taxes and any other charges on the equipment, machinery and other material necessary for the implementation of the Project;
- (4) exempt the JICA experts from income tax and charges of any kind imposed on or in connection with any emoluments or allowances paid to them and/or remitted to them from abroad for their services in connection with the implementation of the Project; and
- (5) meet taxes and any other charges on the equipment, machinery and other material, referred to in II-6 above, necessary for the implementation of the Project.

3.FRC will bear claims, if any arises, against the JICA experts resulting from, occurring in the course of, or otherwise connected with, the discharge of their duties in the implementation of the Project, except when such claims arise from gross negligence or willful misconduct on the part of the JICA experts.

#### **IV. MONITORING AND EVALUATION**

JICA and the FRC will jointly and regularly monitor the progress of the Project through the Monitoring Sheets based on the Project Design Matrix (PDM) and Plan of Operation (PO). The Monitoring Sheets shall be reviewed every six (6) months.

Also, Project Completion Report shall be drawn up one (1) month before the termination of the Project.

JICA will conduct the following evaluations and surveys to mainly verify sustainability and impact of the Project and draw lessons. The FRC is required to provide necessary support for them.

1. Ex-post evaluation three (3) years after the project completion, in principle



2. Follow-up surveys on necessity basis

**V. PROMOTION OF PUBLIC SUPPORT**

For the purpose of promoting support for the Project, FRC will take appropriate measures to make the Project widely known to the people of Mongolia.

**VI. MUTUAL CONSULTATION**

JICA and FRC will consult each other whenever any major issues arise in the course of Project implementation.

**VII. AMENDMENTS**

The record of discussions may be amended by the minutes of meetings between JICA and FRC.

The minutes of meetings will be signed by authorized persons of each side who may be different from the signers of the record of discussions.

Annex

- I. Tentative Project Design Matrix (PDM)
- II. Tentative Explanatory Note of the Project M&E Framework
- III. Tentative Plan of Operations (PO)
- IV. Tentative Implementation Structure of the Project
- V. List of Required Equipment

## Project Design Matrix (tentative)

## Annex I

**Project Title:** Project for Capacity Building of Capital Market in Mongolia

**Implementing Agency:** Financial Regulatory Commission of Mongolia (FRC)

**Target Group:** Financial Regulatory Commission of Mongolia (FRC), Mongolia Stock Exchange (MSE)

**Period of Project:** July, 2014 - June, 2017

**Project Site:** Ulaanbaatar, Mongolia    **Model Site:** TBD (if any)

**Version 0**

**Dated: June 13, 2014**

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumption	Achievement	Remarks
<p><b>Overall Goal</b></p> <p>The listing environment of Mongolian capital market for vitalization of initial public offering (IPO) &amp; dual listing is improved through enhancement of its credibility.</p>	<p>1. Ⓢpoint increase in (the total market capitalization)/(GDP) ratio from Ⓢ.(*)</p> <p>2. Ⓢpoint increase in (the total assets in the capital market sector)/(the total assets in the financial sector) ratio from Ⓢ.(*)</p> <p>3. Trading value of the capital market increases from Ⓢ to Ⓢ.(*)</p> <p>4. Applications for IPO and Dual Listing increase from Ⓢ to Ⓢ.(*)</p> <p>(*) These references depends on macroeconomic situations. Overall goal should be judged taking account of macroeconomic situations.</p> <p>5. (Reference)Ⓢpoint increase in "availability of financial services" value by the latest World Economic Forum's "Global Competitiveness Report"</p> <p>6. (Reference)Ⓢpoint increase in "affordability of financial services" value by the latest World Economic Forum's "Global Competitiveness Report"</p> <p>7. (Reference)Ⓢ point increase in "financing through local equity market" value by the latest World Economic Forum's "Global Competitiveness Report"</p>	<p>1. MSE for total market capitalization and National Statistical Office of Mongolia for GDP</p> <p>2. FRC for the total assets in the capital market sector and the total assets in the financial sector</p> <p>3. MSE for trading value of the capital market</p> <p>4. FRC and MSE for applications</p> <p>5. Global Competitiveness Report (The Global Competitiveness Index, 8th pillar: Financial Market Development)</p> <p>6. Global Competitiveness Report (The Global Competitiveness Index, 8th pillar: Financial Market Development)</p> <p>7. Global Competitiveness Report (The Global Competitiveness Index, 8th pillar: Financial Market Development)</p>			<p>1. 10% as of 2013 (provided by FRC)</p> <p>2. About 4% (2012)</p> <p>3. 145 MNT billion (2012) (*securities only)</p> <p>4. To be specified</p> <p>5. 3.6 (2013-14 value) (Report p 281)</p> <p>6. 3.6 (2013-14 value)</p> <p>7. 2.4 (2013-14 value)</p>

<p><b>Project Purpose</b></p> <p>The credibility of capital market is enhanced through improvement of supervision and regulation capacity of target groups and improvement of the understandings by participants of capital market in Mongolia.</p>	<p>1. The capacity of the target groups in supervising and regulating is strengthened. (**) (**) Detail indicators will be decided after the review of capital market (activity 1-1)</p> <p>2. ④% increase in positive response on the credibility of capital market from symposium participants.</p> <p>3. ④point increase in "regulation of security exchanges" value by the latest World Economic Forum's "Global Competitiveness Report"</p>	<p>1. Means of verification will be decided after the review of capital market (activity 1-1)</p> <p>2. Questionnaire survey at symposium series</p> <p>3. Global Competitiveness Report (The Global Competitiveness Index, 8th pillar: Financial Market Development)</p>	<p>1. Stability of the macro economy and politics is maintained, sustaining attractiveness of the Mongolian capital market for the private sector.</p> <p>2. Mongolian Government develops and implements a series of policies for capital market development.</p>		<p>2. 2.7 (value) in 2013-2014 Report</p>
<p><b>Outputs</b></p> <p>1. Policy Committee is established for vitalization of the capital market, insurance industry, and microfinance.</p> <p>2. FRC's capacity for regulation and supervision of capital market (risk based approach) is enhanced.</p> <p>Candidate areas for support: (i) Brokers and dealers, (ii) Other participants on the capital market, (iii) MSE and MSCH&amp;CD</p> <p>3. Concept Paper of SRO is developed.</p> <p>(*)Concept Paper of SRO shows that what type of supervision and monitoring authority will be transferred to MSE (MSCH&amp;CD, MASD) from FRC</p>	<p>1-1. Concept paper for establishing policy committee is prepared.</p> <p>1-2. Committee meeting minutes that include advisory input by the Project (and its experts) are compiled.</p> <p>2-1. Recommendation paper that directs FRC's risk based supervision is prepared.</p> <p>2-2. Post-training record of all the training programs indicate C/P increased understanding on how to handle administration of the target topics.</p> <p>3-1. Working team is established, and its decision regarding MSE's transition is determined.</p> <p>3-2. Post-training record of all the training programs indicate participants increased understanding on how to handle administration of the target topics.</p> <p>3-3. Concept Paper that discusses potential for transition of MSE (MSCH&amp;CD, MASD) into SRO is prepared.</p>	<p>1-1. Concept paper</p> <p>1-2. Committee meeting minutes</p> <p>2-1. Recommendation paper</p> <p>2-2. Pre-post record (narrative and/or numerical ranking, etc.) on each training program</p> <p>3-1. Record of discussion</p> <p>3-2. Pre-post record (narrative and/or numerical ranking, etc.) on each training program</p> <p>3-3. Concept Paper</p>	<p>1. Policies that pertain to regulation and supervision of capital market do not radically change.</p> <p>2. The capital market related laws and regulations are in place.</p> <p>3. Transfers of C/P and training participants do not occur frequently.</p> <p>4. Trading activities in Mongolia's capital market progress in a stable manner.</p>		

<p>4. IPO and Dual Listing by high potential Mongolian companies are conducted.</p>	<p>4-1. Advisory records on developing new regulation of IPO and dual listing are compiled.</p> <p>4-2. Post-training record of all the training programs indicate participants increased understanding IPO and financial sector due diligence.</p> <p>4-3. Symposium series (2 times) are organized.</p> <p>4-4. Participants are drawn from securities-related suppliers, issuers, and investors.</p> <p>4-5. In the survey results of each symposium, a response, "the relevance of the topics met the expectation as well as needs of the capital market" is obtained on average from 70% of the participants.</p> <p>4-6. IPO and Dual Listing are conducted. IPO : 2 private companies Dual Listing : 1 private company</p>	<p>4-1. Memos recording advisory input made by the Project</p> <p>4-2. Pre-post record (narrative and/or numerical ranking, etc.) on each training program</p> <p>4-3. Symposium proceedings</p> <p>4-4. Symposium participants list</p> <p>4-5. Questionnaire survey at symposium series</p> <p>4-6. JCC at the end of the project</p>
<p>5. Financial Literacy of general public is improved.</p>	<p>5-1. Open Awareness Seminar Program contents and schedule are developed.</p> <p>5-2. Seminars are conducted as planned under 5-1.</p> <p>5-3. Japanese experiences on public awareness raising initiatives are studied.</p> <p>5-4. Financial literacy program(s) is/are prepared based on study conducted under 5-3.</p>	<p>5-1. Seminar Program</p> <p>5-2. Seminar proceedings</p> <p>5-3. Memos summarizing Japanese cases</p> <p>5-4. Program guide and/or materials (depending on the product type)</p>

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Activities	Inputs		Pre-Conditions
	The Japanese Side	The Mongolia Side	
<p>1-1. In view of preparation of support policy, review the current state of Mongolia's capital markets (laws regarding securities, investment, ABS, and investment funds respectively).</p> <p>1-2. Organize meetings with capital market participants (securities-related suppliers, issuers, investors) to exchange views on Mongolia's capital market regulation and supervision.</p> <p>1-3. Develop concept paper for establishing policy committee.</p> <p>1-4. [by FRC] Establish policy committee based on the concept paper.</p> <p>1-5. Advise and support the activity of the policy committee by introducing Japanese experience</p> <p>2-1. Review existing guidelines on risk based supervision, and develop recommendation paper for amending them to fit the Mongolian situation(s)</p> <p>2-2. Develop capacity development training programs (to be conducted in Mongolia and Japan) on areas of particular needs within risk based regulatory and supervisory field.</p> <p>2-3. Conduct in-country training (i.e. in Mongolia) as per developed under 2-2, for FRC staff and related participants.</p> <p>2-4. Conduct on the job training in Japan as per developed under 2-2, for FRC staff and related participants.</p> <p>3-1. Convene a working team (consisting of members from FRC, MSE, and other) for transition to SRO and discuss whether the transition is appropriate or not.</p> <p>3-2. In consultation with the working team, the project review regulation and supervision demarcation in Mongolia.</p>	<p>1. Japanese Experts (1) Chief Adviser (2) Direct Finance (Regulation and Supervision) (3) Direct Finance (Securities Market) (4) Training Coordination (5) Coordinator</p> <p>2. Local Experts (as required)</p> <p>3. Equipment (as required)</p> <p>4. Training In-Country Training Training in Japan Third-Country Training (as required)</p>	<p>1. Human Resources (1) Project Director (2) Project Manager (3) Counterpart Personnel (C/P)</p> <p>2. Office space and other facilities necessary for the implementation of the Project</p> <p>3. Local cost for Project operation (such as office utilities, communication cost, per-diem for Mongolian side personnel)</p> <p>4. Other (as required)</p>	<p>The FRC secures counterpart budget and staffing required for the project.</p>

3-3. Develop training programs for capacity development (to be conducted in Mongolia and Japan).  
 Theme: "Regulation and supervision demarcation between FSA and SROs in Japanese capital market"

3-4. Conduct training (in Mongolia, and/or Japan) as has been determined under 3-3 for FRC, MSE, MSCH&CD and MASD staff as well as for related participants.

3-5. Prepare a recommendation Concept Paper of SRO.

4-1. Review existing guidelines on IPO, and advise on customizing them to fit the Mongolian situation

4-2. Assist to review new regulation of IPO and dual listing

4-3. Develop Promotion Seminar Program of IPO and dual listing to Mongolian potential issuers

4-4. Conduct seminar series on a regular basis as per Promotion Seminar Program developed under 4-3.

4-5. Develop training programs related IPO and dual listing for FRC and MSE staff (to be conducted in Mongolia or in Japan)

4-6. Conduct training (in Mongolia, and/or Japan) as has been determined after 4-5 for FRC and MSE staff as well as for related participants

5-1. Develop open Awareness Raising Seminar Program on financial literacy to general public

5-2. Conduct seminar series on a regular basis as per Awareness Raising Program developed under 5-1.

5-3. Introduce Awareness raising activities in Japan to FRC

5-4. FRC (and others jointly) plan(s) and conduct(s) some activities based on the introduction 5-3.



<Issues and countermeasures>

*N*

*DD*

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# Explanatory Note of the Project M&E Framework (tentative)

Version 0

Annex II

Dated: June 13, 2014

	Narrative Summary	Objectively Verifiable Indicator	Baseline when the Project starts	Current Situation (at the time of monitoring)	Target level to be achieved
<b>Overall Goal</b>	The listing environment of Mongolian capital market for vitalization of initial public offering (IPO) & dual listing is improved through enhancement of its credibility.	1. (the total market capitalization)/(GDP) ratio	10% as of 2013 (provided by FRC)	----	1. ②point increase in (the total market capitalization)/(GDP) ratio
		2. (the total assets in the capital market sector)/(the total assets in the financial sector) ratio	About 4% (2012)		2. ②point increase in (the total assets in the capital market sector)/(the total assets in the financial sector) ratio from ②.(*)
		3. Trading value of the capital market	145 MNT billion (2012) (*securities only)		3. ②point increase in trading value of the capital market from ②.(*)
		4. Applications for IPO and Dual Listing	To be specified		4. ②point increase in applications for IPO and Dual Listing from ②.(*)  (* These references depends on macroeconomic situations. Overall goal should be judged taking account of macroeconomic situations.
		5. "Availability of financial services" value by the latest World Economic Forum's "Global Competitiveness Report"	3.6 (2013-14 value) [Global Competitiveness Report (The Global Competitiveness Index, 8th pillar: Financial Market Development) Report p 281]	----	5. ②point increase in "availability of financial services" value by the latest World Economic Forum's "Global Competitiveness Report"
		6. "Affordability of financial services" value by the latest World Economic Forum's "Global Competitiveness Report"	3.6 (2013-14 value) [Global Competitiveness Report (The Global Competitiveness Index, 8th pillar: Financial Market Development) Report p 281]	----	6. ②point increase in "affordability of financial services" value by the latest World Economic Forum's "Global Competitiveness Report"
		7. "Financing through local equity market" value by the latest World Economic Forum's "Global Competitiveness Report"	2.4 (2013-14 value) [Global Competitiveness Report (The Global Competitiveness Index, 8th pillar: Financial Market Development) Report p 281]	----	7. ② point increase in "financing through local equity market" value by the latest World Economic Forum's "Global Competitiveness Report"
	The credibility of capital market is enhanced through improvement of supervision and regulation capacity of target groups and	1. The capacity of the target groups in supervising and regulating	To be specified after the review of capital market (activity 1-1)	----	1. The capacity of the target groups in supervising and regulating is strengthened. (**) (**) Detail indicators will be decided after the review of capital market (activity 1-1)

	Narrative Summary	Objectively Verifiable Indicator	Baseline when the Project starts	Current Situation (at the time of monitoring)	Target level to be achieved
<b>Project Purpose</b>	improvement of the understandings by participants of capital market in Mongolia.	2. Response on the reliability of capital market from symposium participants.	No previous record exists, unless past events covered the same theme and collected feedback.	----	2. ②% increase in positive response on the reliability of capital market from symposium participants over the course of the Project.
		3. "Regulation of security exchanges" value by the latest World Economic Forum's "Global Competitiveness Report"	2.7 (value) in 2013-2014 Report [Global Competitiveness Report (The Global Competitiveness Index, 8th pillar: Financial Market Development) Report p 281]	----	3. ②point increase in "regulation of security exchanges" value by the latest World Economic Forum's "Global Competitiveness Report"
<b>Output 1</b>	Policy Committee is established for vitalization of the capital market, insurance industry, and microfinance.	1-1. Concept paper for establishing policy committee is prepared.	Candidate list of the committee members sketched. However, a grand picture of what the Committee should be/does is not in place.	----	1-1. Concept paper prepared.
		1-2. Committee meeting minutes that include advisory input by the Project are compiled.	No such record exists, as Committee has been dormant, neither Japanese input is yet provided.	----	1-2. Policy Committee is functioning.
<b>Output 2</b>	FRC's capacity for regulation and supervision of capital market (risk based approach) is enhanced.	2-1. Develop training programs for capacity development (to be conducted in Mongolia, Japan, or in the third countries).	FRC is not confident on how to mainstream transferring to risk based supervision.	----	2-1. FRC understands what needs to be changed for mainstreaming risk based supervision.
		2-2. Post-training record of all the training programs indicate C/P increased understanding on how to handle administration of the target topics.	To be specified in accordance with the target training areas identified.	----	2-2. Post-training record of all the training programs indicate C/P increased understanding on how to handle administration of the target topics.
<b>Output 3</b>	Concept Paper of SRO is developed.	3-1. Working Team is established, and its decision regarding MSE's transition is <u>determined</u> .	Platform for guiding MSE to become SRO is not available.	----	3-1. Platform for guiding MSE to become SRO is installed.
		3-2. Post-training record of all the training programs	To be specified in accordance with the target training areas identified.	----	3-2. Post-training record of all the training programs indicate C/P increased understanding on how to handle administration of the target topics.
		3-3. Concept Paper that discusses potential for transition of MSE (MSCH&CD, MASD) into SRO is <u>prepared</u> .	No clear milestones for MSE to become SRO is available.	----	3-3. Clear milestones for MSE to become SRO are laid out.
		4-1. Advisory records on developing new regulation of IPO and dual listing are compiled.	No sufficient record that discusses past achievement by FRC in cultivating IPO and dual listing market is available.		4-1. Advisory records on developing new regulation of IPO and dual listing are available.

	Narrative Summary	Objectively Verifiable Indicator	Baseline when the Project starts	Current Situation (at the time of monitoring)	Target level to be achieved
<b>Output 4</b>	IPO and Dual Listing by high potential Mongolian companies are conducted.	4-2. Post-training record of all the training programs indicate participants increased understanding IPO and financial sector due diligence.	To be specified in accordance with the target topics identified.		4-2. Post-training record of all the training programs indicate the participants increased understanding on the target topics.
		4-3. Symposium series are organized on a regular basis (at least twice per year)	Symposium on IPO and dual listing are not yet organized	----	4-3. Symposium series are organized no less than every half year.
		4-4. Participants are drawn from securities-related suppliers, issuers, and investors.	Symposium (incl. Open Day) are organized but lack effective targeting	----	4-4. Participants are drawn from securities-related suppliers, issuers, and investors.
		4-5. In the survey results of each symposium, a response, "the relevance of the topics met the expectation as well as needs of the capital market" is obtained on average from 60% of the participants.	Such record does not exist, as targeted symposium on IPO and dual listing are not yet organized.	-----	4-5. In the survey results of each symposium, a response, "the relevance of the topics met the expectation as well as needs of the capital market" is obtained on average from 60% of the participants.
		4-6. The number of IPO and Dual Listing	IPO is conducted, but Dual Listing is not. IPO : (2012: 1, 2013: 0, 2014(early): 1) Dual Listing : 0	----	4-6. IPO and Dual Listing are conducted. IPO : 2 private companies Dual Listing : 1 private company
		<b>Output 5</b>	Financial Literacy of general public is improved.	5-1. Open Awareness Seminar Program contents and schedule are developed.	Public targeted events on IPO and Dual Listing have not been planned.
5-2. Seminars are conducted as planned under 5-1.	Seminars with the planned themes are newly introduced to Mongolian audiences.			----	5-2. Mongolian public is exposed to IPO and Dual Listing as Key Capital Market features.
5-3. Japanese experiences on public awareness raising initiatives are studied.	Exposure to Japanese public awareness initiatives on IPO and Dual Listing have not been introduced to parties concerned.			----	5-3. Japanese IPO and Dual Listing experiences most relevant for Mongolia are collected.
5-4. Financial advocacy program(s) is/are prepared based on study conducted under 5-3.	Such public awareness programs on IPO and Dual Listing have not been presented in Mongolia.			----	5-4. Public are introduced to IPO and Dual Listing as their potential choice for investment.

Tentative Plan of Operation

Version PDM 0 Annex III  
Dated: June 13, 2014

Project Title: Project for Capacity Building of Capital Market in Mongolia

Inputs	Year	2014				2015				2016				2017				Remarks	Monitoring	
		I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV		Issue	Solution
		Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual			
<b>Expert</b>																				
Chief Adviser	Plan																			
Actual	Actual																			
Direct Finance (Regulation and Supervision)	Plan																			
Actual	Actual																			
Direct Finance (Securities Market)	Plan																			
Actual	Actual																			
Training Coordination	Plan																			
Actual	Actual																			
Coordinator	Plan																			
Actual	Actual																			
<b>Equipment</b>																				
Provide equipment	Plan																			
Actual	Actual																			
<b>Training In Japan</b>																				
Implementation of risk based supervision (tentative)	Plan																			
Actual	Actual																			
<b>In-country/Third country Training</b>																				
Implementation of risk based supervision	Plan																			
Actual	Actual																			
Stock Market supervision and monitoring	Plan																			
Actual	Actual																			
IPO and financial sector due diligence (for supervisor)	Plan																			
Actual	Actual																			

Activities	Sub-Activities	Year	2014				2015				2016				2017				Responsible Organization		Achievements	Issue & Countermeasures
			I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	Japan	Mongolia		
			Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual				
<b>Output 1: Policy Committee is established for vitalization of the capital market, insurance industry, and microfinance.</b>																						
	1-1. In view of preparation of support policy, review the current state of Mongolia's capital markets (laws regarding securities, investment, ABS, and investment funds respectively).																		Consultants, FSA			
	Actual																					
	1-2. Organize meetings with capital market participants (securities-related suppliers, issuers, investors) to exchange views on Mongolia's capital market regulation and supervision.																		(Consultants)	FRC		
	Actual																					
	1-3. Develop concept paper for establishing policy committee.																		Consultants, FSA			
	Actual																					

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# Project Implementation Structure

Mongolian Side

JICA Side

Annex IV

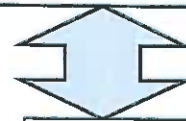
## Joint Coordinating Committee (JCC)

**Project Director:** Chairman of FRC  
**Deputy Project Director:** Managing Director General of FRC  
**Project Manager:** Head of the Capital Market Intermediaries Division  
**Members:**  
Representatives from the following division of FRC:  
- Capital Market Policy Planning Division  
- Capital Market Intermediaries Division  
- Securities Issuers Division  
- Capital Market New Financial Products and Services Division  
Representative from the Economic Cooperation, Loan and Aid Policy Department of MED  
Representative from Mongolian Stock Exchange

**Secretariat:** Foreign Relations and Cooperation Division, Administration Department

Industrial Development and Public Policy Department, Japan International Cooperation Agency

JICA Mongolia Office



## Project Team

**Counterparts from :** Securities Market's Department  
**Project Manager:** Head of the Capital Market Intermediaries Division  
**Team members:**  
Foreign Relations and Cooperation Division  
Capital Market Intermediaries Division  
Capital Market Policy Planning Division

Day-to-day consultation



JICA Experts  
(1) Chief Advisor  
(2) Other experts

## LIST OF REQUIRED EQUIPMENT (requested by FRC)

No	Name of equipment	Number	Minimum of Specification	Accessories	Explanation
1	Server computer	2	<ul style="list-style-type: none"> <li>• Processor/CPU- Intel Xeon, 2.4GHz</li> <li>• Memory/RAM- 16GB</li> <li>• HDD: 4TB</li> </ul>	<ul style="list-style-type: none"> <li>○ Microsoft office 2010 pro</li> <li>○ Antivirus</li> </ul>	Need to operate policy committee
2	Laptop computer	1	<ul style="list-style-type: none"> <li>• Operating system: Windows 8</li> <li>• Processor: Core i7, 2.5GHz or more</li> <li>• RAM/Memory: 6GB</li> <li>• HDD: 500GB or more</li> </ul>	<ul style="list-style-type: none"> <li>○ Microsoft office 2010 pro</li> <li>○ Antivirus</li> </ul>	Need to read lecture for organizing training
3	Voice recorder	1	<ul style="list-style-type: none"> <li>• MP3</li> <li>• 2GB</li> <li>• Recoding time: 240 time</li> </ul>	<ul style="list-style-type: none"> <li>○ Headphone</li> </ul>	Need for project team conferences
4	Projector	1	<ul style="list-style-type: none"> <li>• Resolution: WXGA (1280 x 800)</li> <li>• Image contrast ratio: 2000:1</li> </ul>		Need to read lecture for organizing training
5	Color printer	1	<ul style="list-style-type: none"> <li>• Paper size: A3, A4</li> </ul>		Need to read lecture for organizing training
6	Portable external hard drive	1	<ul style="list-style-type: none"> <li>• Connector: USB 2.0, USB 3.0</li> <li>• 1TB/1000GB</li> </ul>		Need to read lecture, keep project documents for organizing training
7	Chalkboard	1	<ul style="list-style-type: none"> <li>• Size: 24H x 36W</li> </ul>	<ul style="list-style-type: none"> <li>○ Marker</li> </ul>	Need to read lecture for organizing training

FINANCIAL REGULATORY COMMISSION

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## MAIN POINTS DISCUSSED

### **1. Establishment of Policy Committee and a working team for SROs (Self-Regulatory Organizations)**

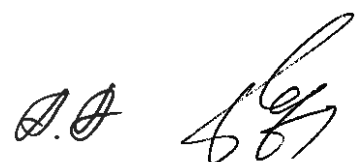
- JICA project will support FRC to establish Policy Committee through lectures on Japanese experiences and development of a concept paper. FRC will establish the Committee and coordinate with stakeholders on Committee member formation.
- FRC will establish the Working Team and coordinate with stakeholders on Working Team member formation.

### **2. Regulations and guidelines**

- JICA project will assist to review regulations and guidelines. FRC (and/or other SROs) will prepare draft regulations and guidelines, and JICA project will provide comments on these documents. The specific scope of support for regulations and guidelines will be determined after the project starts.

### **3. Mongolian Stock Exchange (MSE)**

- FRC will coordinate with MSE so that MSE representative(s) will be included in the JCC, since MSE will be deeply involved in the JICA project, especially in Output 3, Output 4, and Output 5.



**ANNEX 5: Minutes of Meetings (copy)**

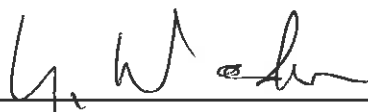
MINUTES OF MEETINGS BETWEEN  
JAPAN INTERNATIONAL COOPERATION AGENCY  
AND  
FINANCIAL REGULATORY COMMISSION OF MONGOLIA  
ON  
THE JAPANESE TECHNICAL COOPERATION  
FOR  
PROJECT FOR CAPACITY BUILDING OF CAPITAL MARKET IN MONGOLIA

The Detailed Planning Survey Team (hereinafter referred to as "the Team") of the "Project for Capacity Building of Capital Market in Mongolia" (hereinafter referred to as "the Project") organized by the Japan International Cooperation Agency (hereinafter referred to as "JICA") and headed by Mr. Yoshio WADA, visited Mongolia from May 7 to May 24, 2014.

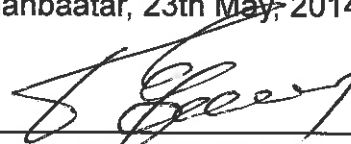
The Team had a series of meetings with the Securities Department (hereinafter referred to as "Securities Dept.") of the Financial Regulatory Commission of Mongolia (hereinafter referred to as "FRC") and authorities concerned of the Government of Mongolia for the purpose of working out the details of the Project including the desirable measures to be taken by both sides for the successful implementation of the Project.

As a result of the discussions, both sides reached a common understanding for matters referred to in the documents attached hereto.

Ulaanbaatar, 23th May, 2014



Mr. Yoshio WADA  
Executive Advisor to the Director  
General  
Industrial Development and Public  
Policy Department,  
Japan International Cooperation  
Agency



Mr. Dashdondov BAYARSAIKHAN,  
Chairman  
Financial Regulatory Commission of  
Mongolia



Ms. Adiya ARIUNAA  
Acting Director General  
Department of Economic  
Cooperation, Loan and Aid Policy,  
Ministry of Economic Development  
Mongolia

## I. BACKGROUND OF THE PROJECT

Growth of Mongolian economy has been accelerating in recent years (17.5% in 2011 and 12.3% in 2012) on the back of capital flows into the development project in the mining sector, as well as the international market conditions for coal and copper. At the same time, the Government of Mongolia ("GOM") is striving for macroeconomic stability through fiscal discipline under the Fiscal Stability Law (2013), which requires fiscal deficit and official government debt to stay less than 2% and 40% of GDP, respectively. They are also trying, with a view to meeting the growing demand for infrastructure, to diversify their financing toward government bonds in addition to the traditional donor financing, the first lot of which was issued in November 2012.

One of the major concerns on Mongolian economy is its heavy dependence on abundant mineral resources, which calls for more diversified industrial structure through vitalizing small and medium scale businesses. Majority of their financing, however, has been through the banking sector, and the capital markets have not provided enough financing opportunities to these businesses. In Mongolia, more than 90% of the listed companies are the former state owned enterprises ("SOEs") listed in the process of shifting to the market economy, but the market liquidity is still very low, due to the lack of enough disclosure, problems of corporate governance and compliances, insufficient investor base. The capital market itself is still immature, with insufficient level of regulation and supervision, which needs to be addressed as the financing needs through IPO grow in line with the economic expansion. To guide the economy to a stable growth path, it will be substantially important to provide wider range of financing options through facilitating the financial and capital markets which are open not only to the domestic but also to the foreign investors.

Financial Regulatory Commission ("FRC"), a government entity and a counterpart organization of this project, supervising the non-bank sector including capital markets (i.e. security brokers, insurance companies and non-bank lending entities such as microfinance institutions ("MFIs")), is still a young organization established in 2006. It is in tremendous need for human capital/organizational developments and institutional design. Especially they are desperate for preparing the regulatory rules and strengthening the

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implementation framework, for which the request for a support has been made to JICA.

To address those challenges relating to Mongolian capital market, FRC and JICA agreed to the start of the Technical Cooperation Project, following the approval of the Government of Japan.

## II. THE PROJECT FRAMEWORK

Both sides discussed and adopted the summary of the Project as follows:

### 1. Project Title

Project for Capacity Building of Capital Market in Mongolia

### 2. Project Duration

Three (3) years from July 2014 to June 2017

### 3. Overall Goal

The listing environment of Mongolian capital market (for initial public offering (IPO) & dual listing) is improved due to its strengthened credibility.

### 4. Project Purpose

The capacity of the target groups in supervising and regulating capital market in Mongolia is strengthened.

### 5. Outputs

- (1) Policy Committee for revitalization of the capital market, insurances, and microfinance is established.
- (2) FRC's administrative capacity in regulating and supervising capital market (risk based approach) is enhanced.
- (3) Concept Paper of SRO is developed.
- (4) IPO and Dual Listing by high potential Mongolian companies are conducted.

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(5) Financial Literacy of general public is improved.

## 6. The Project Activities, Process and Implementation Structure

The details are provided in Annex I (Project Concept), Annex II (Tentative Project Design Matrix: PDM), Annex IV (Tentative Plan of Operations (PO)), and Annex V (Tentative Implementation Structure of the Project).

Key principles of the Project activities are: (i) JICA and its experts shall pursue to foster a sense of ownership in FRC's Securities Dept. and other relevant organizations on the Mongolian side, and not substitute the responsibility to be fulfilled by them; and (ii) The development process should belong to them.

## 7. Monitoring and evaluation (M&E) of the Project

The Team evaluated the Project based on the five evaluation criteria; (1) Relevance, (2) Effectiveness, (3) Efficiency, (4) Impact and (5) Sustainability. As a result of the survey and a series of discussions with the Mongolian side, the Team concluded that Project is appropriate to be implemented.

In addition, the Explanatory Note of the Project M&E Framework is agreed as Annex III. This note should be modified as appropriate to ensure its workability during the Project period.

## III. COORDINATION STRUCTURE OF THE PROJECT

### 1. Joint Coordinating Committee (JCC)

To ensure smooth collaboration among relevant organizations of the Mongolian side and the JICA experts, to monitor the progresses, achievements, bottlenecks and lessons learnt of the Project, and to take next actions, JCC meeting shall be held timely. JCC shall be composed of representatives of the Mongolian concerned parties, JICA experts, JICA Mongolia Office and other relevant organizations.

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#### **IV. LOGISTICAL ARRANGEMENTS**

##### **1. Work space for JICA expert(s)**

Securities Dept. agreed to provide the JICA experts with an adequate office space with enough furnishing, telephone lines and access to Internet that would be necessary in order to carry out the Project.

##### **2. Counterpart budget**

According to the government's procedures, Securities Dept. will ensure sufficient allocation of counterpart budget required for the implementation of the Project activities. Remuneration and travel allowances (e.g. per-diem, accommodation and transport in site visits) are not provided to the counterpart personnel by JICA since it is not appropriate to subsidize such expenses to counterpart personnel from the viewpoint of sustainability of the outputs and outcomes from the Project.

#### **V. COORDINATION WITH OTHER DONORS AND DEVELOPMENT FINANCIAL INSTITUTIONS**

The Project will be implemented paying due attention to coordination with other donors. Securities Dept. shall take the lead donor coordination among the active donors in the financial sector. To this end, Securities Dept. shall share necessary information, practices and experiences relating to donor activities sufficiently among the relevant donors active in this area timely. If necessary, Securities Dept. shall organize meetings for that purposes. Those concerned parties can be invited to JCC meeting as observers.

#### **VI. SIGNING OF THE RECORD OF DISCUSSIONS AND THE MINUTES OF MEETING**

Both sides prepared the draft R/D as attached in Annex VII. The R/D would be signed between JICA and the authorities concerned of Mongolia as soon as possible.



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Annex

- I. Project Concept
- II. Tentative Project Design Matrix (PDM)
- III. Tentative Explanatory Note of the Project M&E Framework
- IV. Tentative Plan of Operations (PO)
- V. Tentative Implementation Structure of the Project
- VI. List of Required Equipment
- VII. Draft Record of Discussions (Draft R/D)

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# Project Concept

May 7 – May 24, 2014

JICA Team

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## Financial/Capital Markets (CM) overview (1)

- The needs for a **diversified financial sector**
  - The financial sector in Mongolia is basically **dominated by the banking sector**
  - The nonbank financial sector constitutes **only 4 percent** of the total assets in the financial sector
  - Mongolia needs to develop non-mineral, domestic-demand-oriented industries **to diversify the industrial structure.**
  - However, fund sources are **insufficient in terms of long-term/large-scale financing,** and there is a need for a diversified financial sector.

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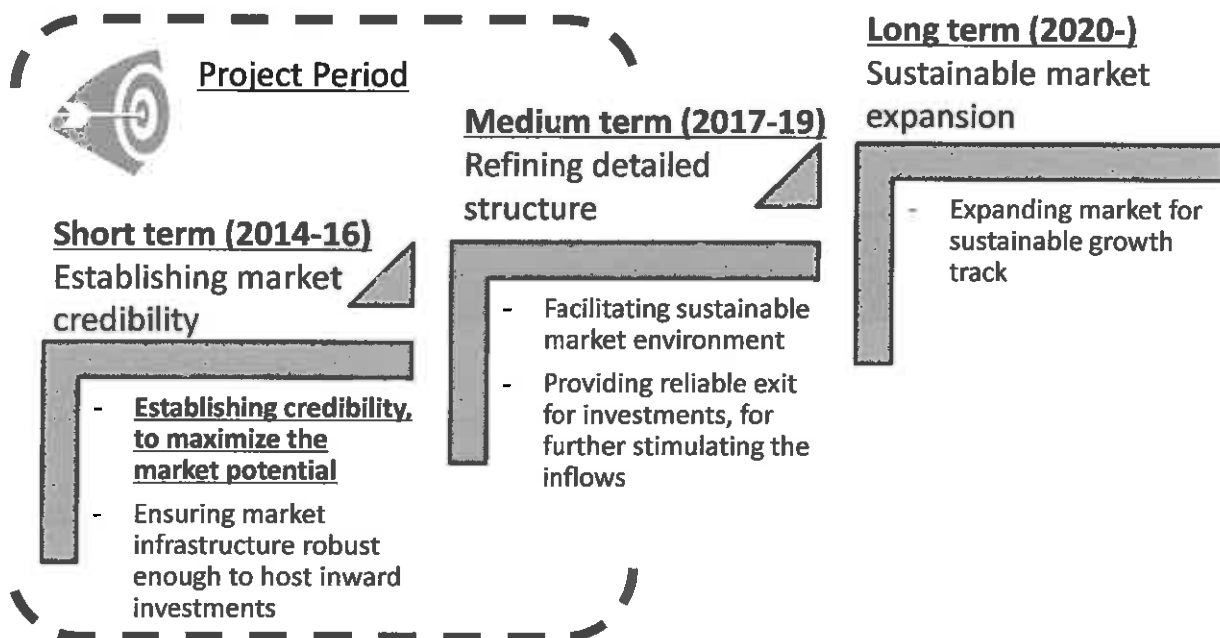
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# Financial/Capital Markets (CM) overview (2)

- Undeveloped capital market
  - The capital market is undeveloped, and the bond markets remain quite small, too.
  - Instruments available for long-term investment remain limited.
  - The growth of both the retail and institutional investor bases (e.g. pension funds) stay lagged.
- So many challenges for the capital market development
  - Effective and efficient Regulations and Supervision
  - Solid and reliable Capital Market Infrastructure
  - Active and well functioning Securities Industry
  - More aggressive private Issuers
  - Broad (both retail and institutional) and active Investors

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## A road map for the CM development



=> FRC should take initiative for the development step by step

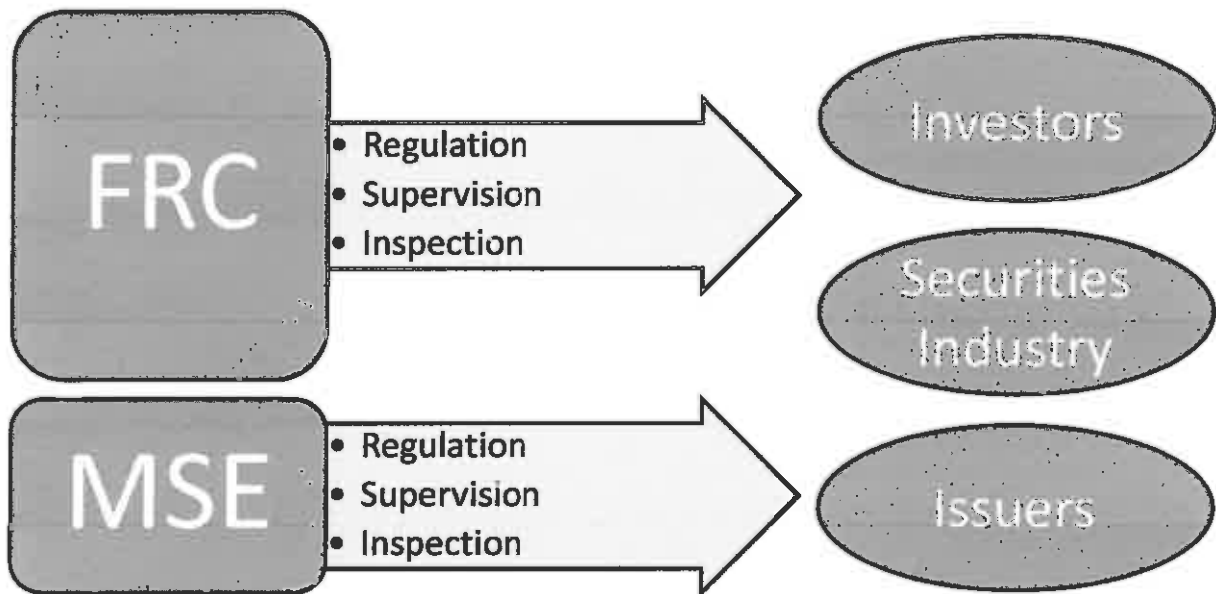
(\*)FRC: Financial Regulatory Commission

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# How to establish market credibility



**=> FRC and MSE are main authorities to establish the credibility. Capacity building of these is pressing.**

(\*)MSE: Mongolian Stock Exchange

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## Many issues on both authorities

### Issues for FRC

- **Strengthening policy making function in FRC**
- **Implementation of new regulation & supervision under the New Securities Market Law(SML)**
- **Heavily concentrated administration regulation & supervision in FRC**

### Issues for MSE

- **Transforming to Self-Regulatory Organization (SRO)**
- **Advocate for IPO and Dual Listing under the New SML**

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# Main challenges addressed by the JICA Project

Main Challenges (Outputs)	Main targets in the Project
1. Establishment of <b>Policy Committee</b> for revitalization of the capital market	FRC
2. Development of <b>Risk Based Supervision</b>	FRC
3. Development of <b>SRO Concept Paper</b> (and support SRO's function)	FRC, MSE (MSCH&CD, MASD, etc.)
4. <b>IPO and Dual Listing</b> of Mongolian potential companies	FRC and MSE
5. <b>Financial Literacy</b> Enhancement Program for general public	FRC and MSE

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## Experts (preliminary)

Financial Services Agency(FSA) & Japan Exchange Group(JPX)	
Short-term Experts from FSA & JPX	<ul style="list-style-type: none"> <li>- Lectures in Mongolia</li> <li>- Consultation</li> </ul>
Consultants	
Chief advisor	<ul style="list-style-type: none"> <li>- Team building</li> <li>- Communication with relevant agencies</li> </ul>
Direct finance	<ul style="list-style-type: none"> <li>- Selecting topics of training</li> <li>- Consultation</li> </ul>
Training	<ul style="list-style-type: none"> <li>- Organize training</li> </ul>
Project Coordinator	<ul style="list-style-type: none"> <li>- Coordination of the project</li> </ul>

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# Training for authorities

Output	Theme	Term	Place	Main Targets	Lecturers
<b>[Lecture based trainings]</b>					
2	Implementation of risk based supervision(*)	1-2 weeks	Mongolia	FRC	FSA
3	Regulation and supervision demarcation between FSA and SROs in Japanese capital market	1-2 weeks	Mongolia	FRC, MSE, MSCH&CD, MASD,	FSA, and/or JPX
4	TBD (select theme after the promotion seminar on next slide)	1-2 weeks	Mongolia	FRC and MSE	JPX
<b>[On the Job trainings]</b>					
-	Implementation of risk based supervision (etc.)	1-2 month	Japan	FRC (a few staff)	FSA

(\*) includes the theme "Policy Committee -how to make effective and solid policy for revitalization of the capital market-"

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# Seminar for market participants

Output	Theme	Term	Place	Main Targets	Organizer
3	Supervision and monitoring of Mongolian capital market by SROs	Half or 1 day	Mongolia	Securities companies, issuers, etc.	MSE, FRC, Japanese Consultant team
4	Promotion of IPO and dual listing to Mongolian high potential issuers	Half or 1 day	Mongolia	High Potential issuers, underwriters, etc.	MSE, FRC, JPX, Japanese Consultant team

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# Establishment of Policy Committee (1)

- Current situation
  - A more solid policy framework for revitalization of the capital market is necessary.
  - Policy coordination function of securities, insurance and microfinance in FRC is important, too.
  - Mechanism of policy committee exists just for form, but doesn't function well.
  - Strong policy making system in FRC is needed.



# Establishment of Policy Committee (2)

- Rough idea of Policy Committee in FRC
  - Expected Function
    - Policy coordination of securities, insurance and microfinance in FRC
    - Preparation of policy papers about revitalization of the capital market
    - Strengthening data analysis of the financial sector
  - Expected Members
    - TBD (e.g. FRC, MSE, BOM, academia, other representative market participants)
- Needs for JICA support
  - Learning how to make effective and solid policy for revitalization of the capital market
  - Learning from Japanese experiences to develop policy
    - How FSA makes policies for capital market (Financial System Council)



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## Establishment of Policy Committee (3)

- JICA project
  - Support and advise identification of the solution to develop good market policy
  - Develop concept paper for establishing policy committee
  - Assist the activity of the policy committee by introducing Japanese experience



## Development of Risk Based Supervision (1)

- Current situation: Ordinary supervision
  - Check all contents without prioritization
  - Taking time of busy FRC staff (Inefficient)
  - Significant mistake might happen (Ineffective)
- Future: Risk Based Supervision (RBS)
  - Check contents with prioritization
  - Timesaving for FRC (Efficient)
  - Significant mistake might decrease (Effective)
  - Including market surveillance function



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## Development of Risk Based Supervision (2)

Targets of RBS	Degree of Urgency
1. Brokers and dealers	★★★
2. Other capital market participants (*) - Investment funds - Custodian banks - Credit-rating companies (* ) does not exist yet.	★★
3. MSE and MSCH&CD(**) (** ) After privatization	★



## Development of Risk Based Supervision (3)

Needs for RBS	Current Situation and needs	Main Partners
<b>Guideline</b>	<ul style="list-style-type: none"> <li>- The WB consultant have been making guidelines</li> <li>- These should be customized to fit the Mongolian situation</li> </ul>	WB (JICA)
<b>Capacity Building</b>	<ul style="list-style-type: none"> <li>- Doesn't know well implementation of RBS, how to use the guideline</li> <li>- Needs for training core staff, who disseminate the method to FRC</li> <li>- Needs for introduction of the RBS method by Financial Services Agency (FSA), Japan</li> </ul>	JICA
<b>IT System (Database)</b>	<ul style="list-style-type: none"> <li>- FRC collect Excel data for supervision from brokers, dealers, listing companies, etc.</li> <li>- Time consuming to reorganize and combine these Excel data to a database manually.</li> <li>- Needs for integrated database connecting these market participants</li> </ul>	[Advice] JICA  [Development] Out of the project

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# Development of Risk Based Supervision (4)

- Other issues in FRC the JICA project can assist
  - Development of regulations and guidelines for the new Securities Market Law and Investment Fund Law
  - Enhancement of FRC's capacity of enforcement of laws and regulations
  - Provision of new products and services for securities market
  - Development of banks' implementation regime of custodian business and its supervision approach
  - Introduction of ADR
  - Providing securities business association with self-regulatory functions
  - Appropriate implementation of information disclosure by listed companies
  - Financial education and enlightenment activities for the nation
  - Improvement of securities firms' customer service such as procedure for opening accounts



# Development of Risk Based Supervision (5)

- JICA Project
  - Advice on guidelines
    - Make advice for customizing guidelines about risk based supervision to fit the Mongolian situation
  - Training and consultation
    - Topics
      - Implementation of RBS
      - Japanese method of RBS
      - Consultation and advice for customizing the guidelines to fit Mongolian capital market
      - Other topics (to be determined based on FRC's needs)
    - Place and term
      - TBD (Mongolia, 1 - 2 weeks)
    - Experts
      - FSA staff



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# Development of SRO Concept Paper (1)

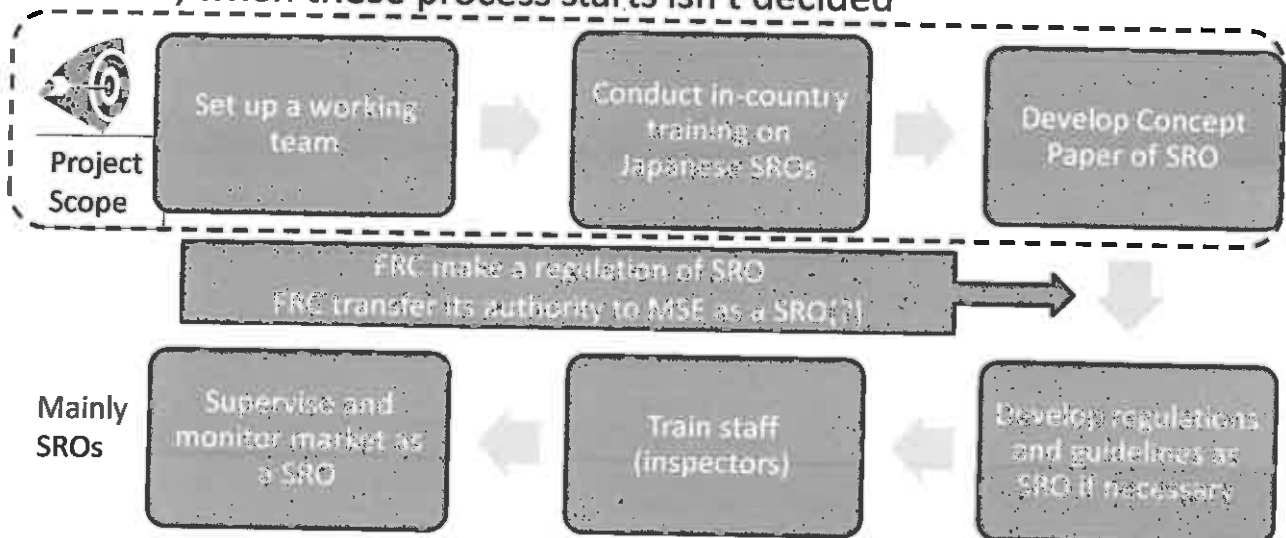
- Current situation
  - FRC and MSE conduct supervision on market participants, but the demarcation is unclear
  - New Securities Market Law allows transformation of MSE to SRO

Type of supervision & monitoring and demarcation	FRC	MSE
(i) Listing examination procedure	X	X
(ii) Listed companies supervision	X	
(iii) Examination & inspection (securities companies)	X	X
(iv) Market surveillance	X	X



# Development of SRO Concept Paper (2)

- FRC may transfer its authority to MSE in future.
- But, when these process starts isn't decided



(\* ) definition of terms is on a next slide.



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# Development of SRO Concept Paper (3)

Words	Explanation
Working Team	<b>Working team</b> discusses "Concept Paper" for transforming MSE (MSCH&CD, MASD) to SRO. It consists of staff of FRC, MSE, (MSCH&CD, MASD) etc.
Concept Paper of SRO	<b>Concept Paper of SRO</b> shows what type of supervision and monitoring authority will be transferred to MSE (MSCH&CD, MASD) from FRC
Regulations and Guidelines	Based on the Concept Paper and the authority transferred, (i) FRC will make <b>regulation of MSE as a SRO.</b> (ii) MSE will make <b>regulations and guidelines as a SRO.</b> (* )FRC might check these regulations and Guidelines.



# Development of SRO Concept Paper (4)

- JICA Project
  - Prepare recommendation paper for the Concept Paper of SRO
  - Assist to review new regulations and guidelines
  - Training and consultation
    - Theme: Regulation and supervision demarcation between FSA and SROs in Japanese capital market
    - Targets: FRC, MSE, MSCH&CD, MASD, etc.
    - Lecturer: FSA and/or JPX
    - Place and term: TBD (Mongolia, 1 - 2 weeks)
  - Seminar for market participants
    - Theme: Supervision and monitoring of Mongolian capital market by SROs
    - Targets: Securities companies, issuers, etc.
    - Place: Ulaanbaatar, Mongolia
    - Term: 1 day (or half day)
    - Organizer: FRC, MSE, JICA consultant team



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## IPO and Dual Listing of Mongolian potential companies (1)

- Current Situation
  - IPO : 17 companies from 2007 to May, 2014  
(2012: 1, 2013: 0, 2014: 1)
  - Dual listing: not yet  
(allowed by New Securities Market Law)
- Future Situation (goal at the end of the project)
  - IPO : 2 private companies
  - Dual Listing : 1 private company



## IPO and Dual Listing of Mongolian potential companies (2)

- Potential Companies for IPO and dual listing
  - IPO
    - Private companies (150 blue chip companies?)
  - Dual Listing
    - Mongolia companies listed on foreign stock exchanges
    - “A board” companies listed on MSE



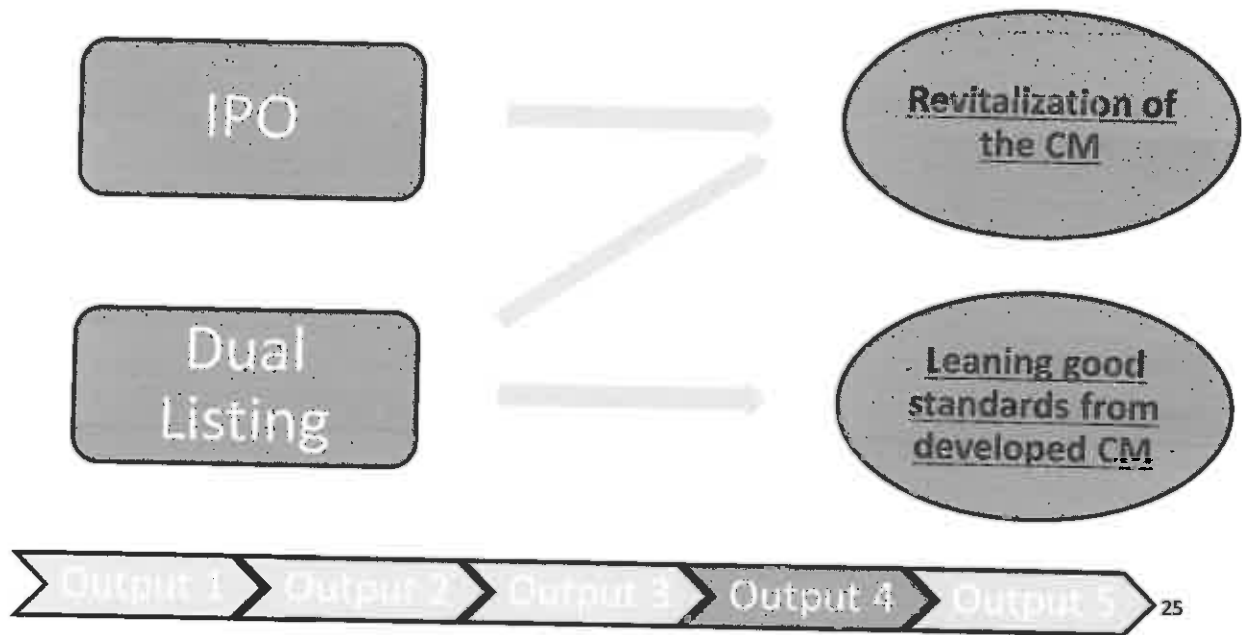
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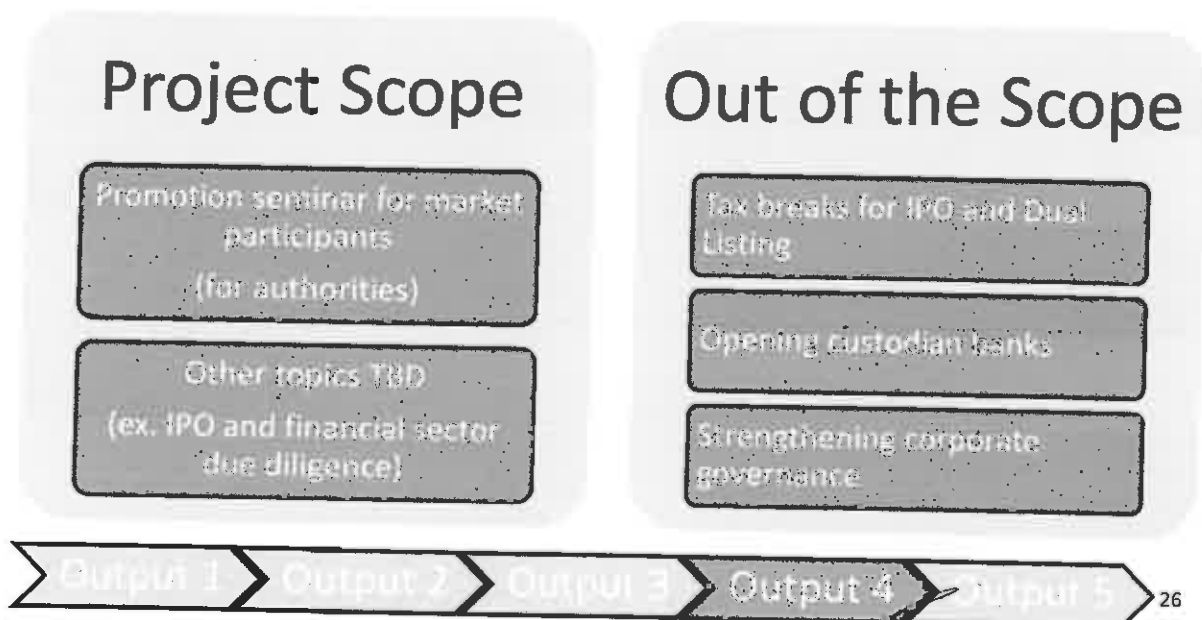
## IPO and Dual Listing of Mongolian potential companies (3)

- Merits for the capital market (CM) in Mongolia



## IPO and Dual Listing of Mongolian potential companies (4)

- How to create the environment for IPO and dual listing?



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# IPO and Dual Listing of Mongolian potential companies (5)

- JICA Project
  - Review the existing regulation of IPO
  - Assist to develop new regulation of IPO and dual listing
  - Training and consultation
    - Theme: TBD (selecting theme, after the promotion seminar)
    - Targets: FRC and MSE staff
    - Lecturer: FSA staff, JPX staff
    - Place and term: TBD(Mongolia and/or Japan, 1 or 2 weeks??)
  - Promotion seminar for market participants
    - Theme: Promotion of IPO and dual listing
    - Targets: Potential issuers, underwriters, etc.
    - Place: Ulaanbaatar, Mongolia
    - Term: 1 day (or half day)
    - Organizer: FRC, MSE, JPX, JICA consultant team



# Financial Literacy Enhancement Program (1)

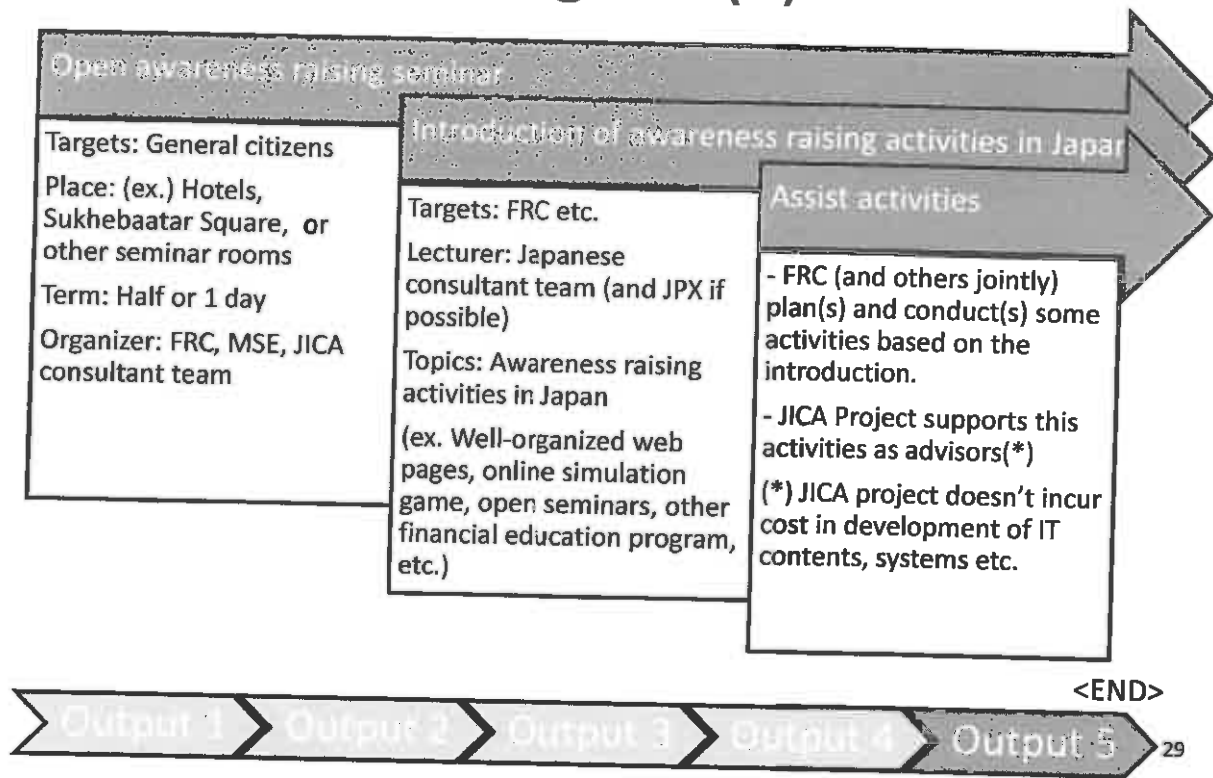
- Current situation
  - Most of Mongolian people have stock accounts because of coupon distribution after privatization of state owned enterprises
  - However, most of them do not know how to manage stocks. These stocks were sold in lower price to educated investors or sleeping in accounts.
  - These situation has not drastically changed.
  - Awareness raising for them contributes to activation of retail investors' deal and protection of their assets.



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# Financial Literacy Enhancement Program (2)



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## Project Design Matrix (tentative)

Annex II

Version 0

Dated 2014, 05, 23

Project Title: Project for Capacity Building of Capital Market in Mongolia

Implementing Agency: Financial Regulatory Commission of Mongolia (FRC)

Target Group: Financial Regulatory Commission of Mongolia (FRC), Mongolia Stock Exchange (MSE)

Period of Project: July, 2014 - June, 2017

Project Site: Ulaanbaatar, Mongolia Model Site: TBD (if any)

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumption	Achievement	Remarks
<b>Overall Goal</b> The listing environment of Mongolian capital market (for initial public offering (IPO) & dual listing) is improved due to its strengthened credibility.	1. ●point increase in (the total market capitalization)/(GDP) ratio  2. (Reference)●point increase in "availability of financial services" value by the latest World Economic Forum's "Global Competitiveness Report"  3. (Reference)●point increase in "affordability of financial services" value by the latest World Economic Forum's "Global Competitiveness Report"  4. (Reference)● point increase in "financing through local equity market" value by the latest World Economic Forum's "Global Competitiveness Report"	1. MSE for total market capitalization and National Statistical Office of Mongolia for GDP  2. Global Competitiveness Report (The Global Competitiveness Index, 8th pillar: Financial Market Development)  3. Global Competitiveness Report (The Global Competitiveness Index, 8th pillar: Financial Market Development)  4. Global Competitiveness Report (The Global Competitiveness Index, 8th pillar: Financial Market Development)			1. 10% as of 2013 (provided by FRC)  2. 3.6 (2013-14 value) (Report p 281)  3. 3.6 (2013-14 value)  4. 2.4 (2013-14 value)
<b>Project Purpose</b> The capacity of the target groups in supervising and regulating capital market in Mongolia is strengthened.	1. ●% increase in positive response on the credibility of capital market from symposium participants.  2. ●point increase in "regulation of security exchanges" value by the latest World Economic Forum's "Global Competitiveness Report"	1. Questionnaire survey at symposium series  2. Global Competitiveness Report (The Global Competitiveness Index, 8th pillar: Financial Market Development)	1. Stability of the macro economy and politics is maintained, sustaining attractiveness of the Mongolian capital market for the private sector.  2. Mongolian Government develops and implements a series of policies for capital market development.		2. 2.7 (value) in 2013-2014 Report
<b>Outputs</b> 1. Policy Committee for revitalization of the capital market, insurance, and microfinance is established.	1-1. Concept paper for establishing policy committee is prepared.  1-2. Committee meeting minutes that include advisory input by the Project (and its experts) are compiled.	1-1. Concept paper  1-2. Committee meeting minutes	1. Policies that pertain to regulation and supervision of capital market do not radically change.		

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<p>2. FRC's administrative capacity in regulating and supervising capital market (risk based approach) is enhanced.</p> <p>Candidate areas for support:                  (i) Brokers and dealers,                  (ii) Other participants on the capital market,                  (iii) MSE and MSCH&amp;CD</p>	<p>2-1. Recommendation paper that directs FRC's risk based supervision is prepared.</p> <p>2-2. Post-training record of all the training programs indicate C/P increased understanding on how to handle administration of the target topics.</p>	<p>2-1. Recommendation paper</p> <p>2-2. Pre-post record (narrative and/or numerical ranking, etc.) on each training program</p>	<p>2. The capital market related laws and regulations are in place.</p> <p>3. Transfers of C/P and training participants do not occur frequently.</p> <p>4. Trading activities in Mongolia's capital market progress in a stable manner.</p>
<p>3. Concept Paper of SRO is developed.</p> <p>(*Concept Paper of SRO shows that what type of supervision and monitoring authority will be transferred to MSE (MSCH&amp;CD, MASD) from FRC</p>	<p>3-1. Working team is established, and its decision regarding MSE's transition is determined.</p> <p>3-2. Post-training record of all the training programs indicate participants increased understanding on how to handle administration of the target topics.</p> <p>3-3. Concept Paper that discusses potential for transition of MSE (MSCH&amp;CD, MASD) into SRO is prepared.</p>	<p>3-1. Record of discussion</p> <p>3-2. Pre-post record (narrative and/or numerical ranking, etc.) on each training program</p> <p>3-3. Concept Paper</p>	
<p>4. IPO and Dual Listing by high potential Mongolian companies are conducted.</p>	<p>4-1. Advisory records on developing new regulation of IPO and dual listing are compiled.</p> <p>4-2. Post-training record of all the training programs indicate participants increased understanding IPO and financial sector due diligence.</p> <p>4-3. Symposium series (● times) are organized.</p> <p>4-4. Participants are drawn from securities-related suppliers, issuers, and investors.</p> <p>4-5. In the survey results of each symposium, a response, "the relevance of the topics met the expectation as well as needs of the capital market" is obtained on average from ●% of the participants.</p> <p>4-6. IPO and Dual Listing are conducted.                  IPO : 2 private companies                  Dual Listing : 1 private company</p>	<p>4-1. Memos recording advisory input made by the Project</p> <p>4-2. Pre-post record (narrative and/or numerical ranking, etc.) on each training program</p> <p>4-3. Symposium proceedings</p> <p>4-4. Symposium participants list</p> <p>4-5. Questionnaire survey at symposium series</p> <p>4-6. JCC at the end of the project</p>	

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<p>5. Financial Literacy of general public is improved.</p>	<p>5-1. Open Awareness Seminar Program contents and schedule are developed.</p> <p>5-2. Seminars are conducted as planned under 5-1.</p> <p>5-3. Japanese experiences on public awareness raising initiatives are studied.</p> <p>4-2. Post-training record of all the training programs indicate participants increased understanding IPO and financial sector due diligence.</p> <p>5-4. Financial literacy program(s) is/are prepared based on study conducted under 5-3.</p>	<p>5-1. Seminar Program</p> <p>5-2. Seminar proceedings</p> <p>5-3. Memos summarizing Japanese cases</p> <p>5-4. Program guide and/or materials (depending on the product type)</p>
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Activities	Inputs		Pre-Conditions
	The Japanese Side	The Mongolia Side	
<p>1-1. In view of preparation of support policy, review the current state of Mongolia's capital markets (laws regarding securities, investment, ABS, and investment funds respectively).</p> <p>1-2. Organize meetings with capital market participants (securities-related suppliers, issuers, investors) to exchange views on Mongolia's capital market regulation and supervision.</p> <p>1-3. Develop concept paper for establishing policy committee.</p> <p>1-4. [by FRC] Establish policy committee based on the concept paper.</p> <p>1-5. Advise and support the activity of the policy committee by introducing Japanese experience</p> <p>2-1. Review existing guidelines on risk based supervision, and develop recommendation paper for amending them to fit the Mongolian situation(s)</p> <p>2-2. Develop capacity development training programs (to be conducted in Mongolia, Japan, and/or the third countries) on areas of particular needs within risk based regulatory and supervisory field.</p> <p>2-3. Conduct in-country training (i.e. in Mongolia) as per developed under 2-2, for FRC staff and related participants.</p> <p>2-4. Conduct on the job training in Japan as per developed under 2-2, for FRC staff and related participants.</p> <p>3-1. Convene a working team (consisting of members from FRC, MSE, and other) for transition to SRO and discuss whether the transition is appropriate or not.</p>	<p>1. Japanese Experts (1) Chief Adviser (2) Direct Finance (Regulation and Supervision) (3) Direct Finance (Securities Market) (4) Training Coordination (5) Coordinator</p> <p>2. Local Experts (as required)</p> <p>3. Equipment (as required)</p>	<p>1. Human Resources (1) Project Director (2) Project Manager (3) Counterpart Personnel (C/P)</p> <p>2. Office space and other facilities necessary for the implementation of the Project</p> <p>3. Local cost for Project operation (such as office utilities, communication cost, per-diem for Mongolian side personnel)</p> <p>4. Other (as required)</p>	<p>The FRC secures counterpart budget and staffing required for the project.</p>

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3-2. In consultation with the working team, the project review regulation and supervision demarcation in Mongolia.

3-3. Develop training programs for capacity development (to be conducted in Mongolia, Japan, or in the third countries).

Theme: "Regulation and supervision demarcation between FSA and SROs in Japanese capital market"

3-4. Conduct training (in Mongolia, Japan, or in the third countries) as has been determined under 3-3 for FRC, MSE, MSCH&CD and MASD staff as well as for related participants.

3-5. Prepare a recommendation Concept Paper of SRO.

4-1. Review existing guidelines on IPO, and advise on customizing them to fit the Mongolian situation

4-2. Assist to review new regulation of IPO and dual listing

4-3. Develop Promotion Seminar Program of IPO and dual listing to Mongolian potential issuers

4-4. Conduct seminar series on a regular basis as per Awareness Raising Program developed under 4-3.

4-5. Develop training programs related IPO and dual listing for FRC and MSE staff (to be conducted in Mongolia or in Japan)

4-6. Conduct training (in Mongolia, Japan, or in the third countries) as has been determined after 4-5 for FRC and MSE staff as well as for related participants.

5-1. Develop open Awareness Raising Seminar Program on financial literacy to general public

5-2. Conduct seminar series on a regular basis as per Awareness Raising Program developed under 5-1.

5-3. Introduce Awareness raising activities in Japan to FRC

5-4. FRC (and others jointly) plan(s) and conduct(s) some activities based on the introduction.

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<Issues and countermeasures>

Explanatory Note of the Project M&E Framework (tentative)

Annex III

	Narrative Summary	Objectively Verifiable Indicator	Baseline when the Project starts	Current Situation (at the time of monitoring)	Target level to be achieved
<b>Overall Goal</b>	The listing environment of Mongolian capital market (for initial public offering(IPO) & dual listing) is improved due to its strengthened credibility.	1. (the total market capitalization)/(GDP) ratio	10% as of 2013 (provided by FRC)	---	1. ②point increase in (the total market capitalization)/(GDP) ratio
		2. "Availability of financial services" value by the latest World Economic Forum's "Global Competitiveness Report"	3.6 (2013-14 value) [Global Competitiveness Report (The Global Competitiveness Index, 8th pillar: Financial Market Development) Report p 281]	---	2. ②point increase in "availability of financial services" value by the latest World Economic Forum's "Global Competitiveness Report"
		3. "Affordability of financial services" value by the latest World Economic Forum's "Global Competitiveness Report"	3.6 (2013-14 value) [Global Competitiveness Report (The Global Competitiveness Index, 8th pillar: Financial Market Development) Report p 281]	---	3. ②point increase in "affordability of financial services" value by the latest World Economic Forum's "Global Competitiveness Report"
		4. "Financing through local equity market" value by the latest World Economic Forum's "Global Competitiveness Report"	2.4 (2013-14 value) [Global Competitiveness Report (The Global Competitiveness Index, 8th pillar: Financial Market Development) Report p 281]	---	4. ② point increase in "financing through local equity market" value by the latest World Economic Forum's "Global Competitiveness Report"
<b>Project Purpose</b>	The capacity of the target groups in supervising and regulating capital market in Mongolia is strengthened.	1. Response on the reliability of capital market from symposium participants.	No previous record exists, unless past events covered the same theme and collected feedback.	---	1. ②% increase in positive response on the reliability of capital market from symposium participants over the course of the Project.
		2. "Regulation of security exchanges" value by the latest World Economic Forum's "Global Competitiveness Report"	2.7 (value) in 2013-2014 Report [Global Competitiveness Report (The Global Competitiveness Index, 8th pillar: Financial Market Development)]	---	2. ②point increase in "regulation of security exchanges" value by the latest World Economic Forum's "Global Competitiveness Report"
		3. The number of IPO and Dual Listing	3. IPO is conducted, but Dual Listing is not. IPO : (2012: 1, 2013: 0, 2014(early): 1) Dual Listing : 0	---	3. IPO and Dual Listing are conducted. IPO : 2 private companies Dual Listing : 1 private company
<b>Output 1</b>	Policy Committee for revitalization of the capital market, insurances, and microfinance is established.	1-1. Concept paper for establishing policy committee is prepared.	Candidate list of the committee members sketched. However, a grand picture of what the Committee should be/does is not in place.	---	1-1. Concept paper prepared.
		1-2. Committee meeting minutes that include advisory input by the Project are compiled.	No such record exists, as Committee has been dormant, neither Japanese input is yet provided.	---	1-2. Policy Committee is functioning.
<b>Output 2</b>	FRC's administrative capacity in regulating and supervising capital market (risk based approach) is enhanced.	2-1. Develop training programs for capacity development (to be conducted in Mongolia, Japan, or in the third countries).	FRC is not confident on how to mainstream transferring to risk based supervision.	---	2-1. FRC understands what needs to be changed for mainstreaming risk based supervision.
		2-2. Post-training record of all the training programs indicate C/P increased understanding on how to handle administration of the target topics.	To be specified in accordance with the target training areas identified.	---	2-2. Post-training record of all the training programs indicate C/P increased understanding on how to handle administration of the target topics.
<b>Output 3</b>	Concept paper of SRO is developed.	3-1. Working Team is established, and its decision regarding MSE's transition is determined.	Platform for guiding MSE to become SRO is not available.	---	3-1. Platform for guiding MSE to become SRO is installed.
		3-2. Post-training record of all the training programs	To be specified in accordance with the target training areas identified.	---	3-2. Post-training record of all the training programs indicate C/P increased understanding on how to handle administration of the target topics.
		3-3. Concept Paper that discusses potential for transition of MSE (MSCH&CD, MASD) into SRO is prepared.	No clear milestones for MSE to become SRO is available.	---	3-3. Clear milestones for MSE to become SRO are laid out.
		4-1. Advisory records on developing new regulation of IPO and dual listing are compiled.	No sufficient record that discusses past achievement by FRC in cultivating IPO and dual listing market is available.		4-1. Advisory records on developing new regulation of IPO and dual listing are available.

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	Narrative Summary	Objectively Verifiable Indicator	Baseline when the Project starts	Current Situation (at the time of monitoring)	Target level to be achieved
Output 4	IPO and Dual Listing by high potential Mongolian companies are conducted.	4-2. Post-training record of all the training programs indicate participants increased understanding IPO and financial sector due diligence.	To be specified in accordance with the target topics identified.		4-2. Post-training record of all the training programs indicate the participants increased understanding on the target topics.
		4-3. Symposium series are organized on a regular basis (at least twice per year)	Symposium on IPO and dual listing are not yet organized	----	4-3. Symposium series are organized no less than every half year.
		4-4. Participants are drawn from securities-related suppliers, issuers, and investors.	Symposium (incl. Open Day) are organized but lack effective targeting	---	4-4. Participants are drawn from securities-related suppliers, issuers, and investors.
		4-5. In the survey results of each symposium, a response, "the relevance of the topics met the expectation as well as needs of the capital market"	Such record does not exist, as targeted symposium on IPO and dual listing are not yet organized.	----	4-5. In the survey results of each symposium, a response, "the relevance of the topics met the expectation as well as needs of the capital market" is
		4-6. The number of IPO and Dual Listing	IPO is conducted, but Dual Listing is not. IPC : (2012: 1, 2013: 0, 2014(early): 1) Dual Listing : 0	---	4-6. IPO and Dual Listing are conducted. IPO : 2 private companies Dual Listing : 1 private company

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Tentative Plan of Operation

Version PDM 0 Annex IV

Dated 2014, 05, 23

Project Title: Project for Capacity Building of Capital Market in Mongolia

Inputs	Year	2014				2015				2016				2017				Remarks	Monitoring	
		I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV		Issue	Solution
<b>Expert</b>																				
Chief Adviser	Plan																			
	Actual																			
Direct Finance (Regulation and Supervision)	Plan																			
	Actual																			
Direct Finance (Securities Market)	Plan																			
	Actual																			
Training Coordination	Plan																			
	Actual																			
Coordinator	Plan																			
	Actual																			
<b>Equipment</b>																				
Provide equipment	Plan																			
	Actual																			
	Plan																			
	Actual																			
<b>Training in Japan</b>																				
Implementation of risk based supervision (tentative)	Plan																			
	Actual																			
<b>In-country/Third country Training</b>																				
Implementation of risk based supervision	Plan																			
	Actual																			
Stock Market supervision and monitoring	Plan																			
	Actual																			
IPO and financial sector due diligence (for supervisor)	Plan																			
	Actual																			

Activities	Sub-Activities	Year	2014				2015				2016				2017				Responsible Organization		Achievements	Issue & Countermeasures
			I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	Japan	Mongolia		
<b>Output 1: Policy Committee for revitalization of the capital market, insurance, and microfinance is established.</b>																						
	1-1. In view of preparation of support policy, review the current state of Mongolia's capital markets (laws regarding securities, investment, ABS, and investment funds respectively).	Plan																	FSA, Consultants			
		Actual																				
	1-2. Organize meetings with capital market participants (securities-related suppliers, issuers, investors) to exchange views on Mongolia's capital market regulation and supervision.	Plan																	(Consultants)	FRC		
		Actual																				
	1-3. Develop concept paper for establishing policy committee.	Plan																	FSA, Consultants			
		Actual																				

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4-2. Assist to develop new regulation of IPO and dual listing	Plan	[Gantt chart with blue bars]												FSA, JPX, Consultants			
	Actual	[Gantt chart with blue bars]															
4-3. Develop Promotion Seminar Program of IPO and dual listing to Mongolian potential issuers	Plan	[Gantt chart with blue bars]												JPX, Consultants			
	Actual	[Gantt chart with blue bars]															
4-4. Conduct seminar series on a regular basis as per Awareness Raising Program developed under 4-3.	Plan	[Gantt chart with blue bars, includes 'TBD']												JPX, Consultants			
	Actual	[Gantt chart with blue bars]															
4-5. Develop training programs related IPO and dual listing for FRC and MSE staff (to be conducted in Mongolia or in Japan)	Plan	[Gantt chart with blue bars]												JPX, Consultants			
	Actual	[Gantt chart with blue bars]															
4-6. Conduct training (in Mongolia, Japan, or in the third countries) as has been determined after 4-5 for FRC and MSE staff as well as for related participants.	Plan	[Gantt chart with blue bars, includes 'TBD']												JPX, Consultants			
	Actual	[Gantt chart with blue bars]															

**Output 5: Financial Literacy of general public is improved.**

5-1. Develop open Awareness Raising Seminar Program on financial literacy to general public	Plan	[Gantt chart with blue bars]												Consultants			
	Actual	[Gantt chart with blue bars]															
5-2. Conduct seminar series on a regular basis as per Awareness Raising Program developed under 5-1.	Plan	[Gantt chart with blue bars, includes 'TBD']												JPX, Consultants			
	Actual	[Gantt chart with blue bars]															
5-3. Introduce Awareness raising activities in Japan to FRC	Plan	[Gantt chart with blue bars]												JPX, Consultants			
	Actual	[Gantt chart with blue bars]															
5-4. FRC (and others jointly) plan(s) and conduct(s) some activities based on the introduction.	Plan	[Gantt chart with blue bars]												Consultants			
	Actual	[Gantt chart with blue bars]															

**Duration / Phasing**

Plan	[Gantt chart]														
Actual	[Gantt chart]														

Monitoring Plan	Year	1st Year				2nd Year				3rd Year				4th Year				Remarks	Issue	Solution
		I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV			
<b>Monitoring</b>																				
Joint Coordination Committee	Plan																			
	Actual																			
Set-up the Detailed Plan of Operation	Plan																			
	Actual																			
Submission of Monitoring Sheet	Plan																			
	Actual																			
Monitoring Mission from Japan	Plan																			
	Actual																			
Joint Monitoring	Plan																			
	Actual																			
Post Monitoring	Plan																			
	Actual																			
<b>Reports/Documents</b>																				
Project Completion Report	Plan																			
	Actual																			
<b>Public Relations</b>																				
	Plan																			
	Actual																			

3.2

# Project Implementation Structure

Mongolian Side

JICA Side

Annex V

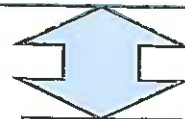
## Joint Coordinating Committee (JCC)

**Project Director:** Chairman of FRC  
**Deputy Project Director:** Managing Director General of FRC  
**Project Manager:** Head of the Capital Market Intermediaries Division  
**Members:**  
Representatives from the following division of FRC:  
- Capital Market Policy Planning Division  
- Capital Market Intermediaries Division  
- Securities Issuers Division  
- Capital Market New Financial Products and Services Division  
Representative from the Economic Cooperation, Loan and Aid Policy Department of MED  
Representative from Mongolian Stock Exchange

**Secretariat:** Foreign Relations and Cooperation Division, Administration Department

Industrial Development and Public Policy Department, Japan International Cooperation Agency

JICA Mongolia Office



## Project Team

**Counterparts from :** Securities Market's Dept.  
**Project Manager:** Head of the Capital Market Intermediaries Division  
**Team members:**  
Foreign Relations and Cooperation Division  
Capital Market Intermediaries Division  
Capital Market Policy Planning Division

Day-to-day consultation



JICA Experts  
(1) Chief Advisor  
(2) Other experts

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## LIST OF REQUIRED EQUIPMENT (requested by FRC)

No	Name of equipment	Number	Minimum of Specification	Accessories	Explanation
1	Server computer	2	<ul style="list-style-type: none"> <li>• Processor/CPU- Intel Xeon, 2.4GHz</li> <li>• Memory/RAM- 16GB</li> <li>• HDD: 4TB</li> </ul>	<ul style="list-style-type: none"> <li>○ Microsoft office 2010 pro</li> <li>○ Antivirus</li> </ul>	Need to operate policy committee
2	Laptop computer	1	<ul style="list-style-type: none"> <li>• Operating system: Windows 8</li> <li>• Processor: Core i7, 2.5GHz or more</li> <li>• RAM/Memory: 6GB</li> <li>• HDD: 500GB or more</li> </ul>	<ul style="list-style-type: none"> <li>○ Microsoft office 2010 pro</li> <li>○ Antivirus</li> </ul>	Need to read lecture for organizing training
3	Voice recorder	1	<ul style="list-style-type: none"> <li>• MP3</li> <li>• 2GB</li> <li>• Recoding time: 240 time</li> </ul>	<ul style="list-style-type: none"> <li>○ Headphone</li> </ul>	Need for project team conferences
4	Projector	1	<ul style="list-style-type: none"> <li>• Resolution: WXGA (1280 x 800)</li> <li>• Image contrast ratio: 2000:1</li> </ul>		Need to read lecture for organizing training
5	Color printer	1	<ul style="list-style-type: none"> <li>• Paper size: A3, A4</li> </ul>		Need to read lecture for organizing training
6	Portable external hard drive	1	<ul style="list-style-type: none"> <li>• Connector: USB 2.0, USB 3.0</li> <li>• 1TB/1000GB</li> </ul>		Need to read lecture, keep project documents for organizing training
7	Chalkboard	1	<ul style="list-style-type: none"> <li>• Size: 24H x 36W</li> </ul>	<ul style="list-style-type: none"> <li>○ Marker</li> </ul>	Need to read lecture for organizing training

FINANCIAL REGULATORY COMMISSION

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**RECORD OF DISCUSSIONS**  
**ON**  
**PROJECT FOR CAPACITY BUILDING OF CAPITAL MARKET**  
**IN**  
**MONGOLIA**  
**AGREED UPON BETWEEN**  
**FINANCIAL REGULATORY COMMISSION OF MONGOLIA**  
**AND**  
**JAPAN INTERNATIONAL COOPERATION AGENCY**

Ulaanbaatar, [date]

---

Mr. Toshinobu KATO  
Chief Representative  
JICA Mongolia Office  
Japan International Cooperation Agency  
Japan

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Mr. Dashdondov BAYARSAIKHAN,  
Chairman,  
Financial Regulatory Commission of  
Mongolia

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Ms. Adiya ARIUNAA  
Acting Director General  
Department of Economic Cooperation,  
Loan and Aid Policy  
Ministry of Economic Development  
Mongolia

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Based on the minutes of meetings on the Detailed Planning Survey on the "Project for Capacity Building of Capital Market in Mongolia" (hereinafter referred to as "the Project") signed on 23, May between Financial Regulatory Commission of Mongolia (hereinafter referred to as "FRC") and the Japan International Cooperation Agency (hereinafter referred to as "JICA"), JICA held a series of discussions with FRC and relevant organizations to develop a detailed plan of the Project.

Both parties agreed the details of the Project and the main points discussed as described in the Appendix 1 and the Appendix 2 respectively.

Both parties also agreed that FRC, the counterpart to JICA, will be responsible for the implementation of the Project in cooperation with JICA, coordinate with other relevant organizations and ensure that the self-reliant operation of the Project is sustained during and after the implementation period in order to contribute toward social and economic development of Mongolia.

The Project will be implemented within the framework of the Agreement on Technical Cooperation signed on December 5, 2003 (hereinafter referred to as "the Agreement") the Note Verbales to be exchanged between the Government of Japan (hereinafter referred to as "GOJ") and the Government of Mongolia (hereinafter referred to as "GOM").

The effectiveness of the record of discussions is subject to the exchange of the Note Verbales.

Appendix 1: Project Description

Appendix 2: Minutes of Meetings on the Detailed Planning Survey

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## PROJECT DESCRIPTION

Both parties confirmed that there is no change in the Project Description agreed on in the minutes of meetings on the concerning Preparatory Survey on the Project signed on 23th, May (Appendix 3).

### I. BACKGROUND

Growth of Mongolian economy has been accelerating in recent years (17.5% in 2011 and 12.3% in 2012) on the back of capital flows into the development project in the mining sector, as well as the international market conditions for coal and copper. At the same time, the Government of Mongolia ("GOM") is striving for macroeconomic stability through fiscal discipline under the Fiscal Stability Law (2013), which requires fiscal deficit and official government debt to stay less than 2% and 40% of GDP, respectively. They are also trying, with a view to meeting the growing demand for infrastructure, to diversify their financing toward government bonds in addition to the traditional donor financing, the first lot of which was issued in November 2012.

One of the major concerns on Mongolian economy is its heavy dependence on abundant mineral resources, which calls for more diversified industrial structure through vitalizing small and medium scale businesses. Majority of their financing, however, has been through the banking sector, and the capital markets have not provided enough financing opportunities to these businesses. In Mongolia, more than 90% of the listed companies are the former state owned enterprises ("SOEs") listed in the process of shifting to the market economy, but the market liquidity is still very low, due to the lack of enough disclosure, problems of corporate governance and compliances, insufficient investor base. The capital market itself is still immature, with insufficient level of regulation and supervision, which needs to be addressed as the financing needs through IPO grow in line with the economic expansion. To guide the economy to a stable growth path, it will be substantially important to provide wider range of financing options through facilitating the financial and capital markets which are open not only to the domestic but also to the foreign investors.

Financial Regulatory Commission ("FRC"), a government entity and a counterpart organization of this project, supervising the non-bank sector including capital markets (i.e. security brokers, insurance companies and non-bank lending entities such as microfinance institutions ("MFIs")), is still a young organization established in 2006. It is in tremendous need for human capital/organizational developments and institutional design. Especially they are desperate for preparing the regulatory rules and strengthening the implementation framework, for which the request for a support has been made to JICA.

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To address those challenges relating to Mongolian capital market, FRC and JICA agreed to the start of the Technical Cooperation Project.

## **II. OUTLINE OF THE PROJECT**

Details of the Project are described in the Logical Framework (Project Design Matrix: PDM) (Annex II) and the tentative Plan of Operation (Annex IV).

### **1. Title of the Project**

Project for Capacity Building of Capital Market in Mongolia

### **2. Overall Goal**

The listing environment of Mongolian capital market (for initial public offering (IPO) & dual listing) is improved due to its strengthened credibility.

### **3. Project Purpose**

The capacity of the target groups in supervising and regulating capital market in Mongolia is strengthened.

### **4. Outputs**

- (1) Policy Committee for revitalization of the capital market, insurance, and microfinance is established.
- (2) FRC's administrative capacity in regulating and supervising capital market (risk based approach) is enhanced.
- (3) Concept Paper of SRO is developed.
- (4) IPO and Dual Listing by high potential Mongolian companies are conducted.
- (5) Financial Literacy of general public is improved.

### **5. Activities**

The details are provided in Annex I (Project Concept), Annex II (Tentative Project Design Matrix: PDM), Annex IV (Tentative Plan of Operations (PO)).

### **6. Input**

#### **(1) Input by JICA**

The JICA experts will give necessary technical guidance, advice and recommendations to FRC and other relevant organizations on any matters pertaining to the implementation of the Project.

#### **(a) Dispatch of Experts**

[Long-term and/or Short-term Experts from Japan/third countries]

- Chief Adviser
- Direct Finance (Regulation and Supervision)
- Direct Finance (Securities Market)
- Training Coordination

Coordinator

[Local Experts]

- If necessary.

(b) Training

- Local Trainings/workshops
- Trainings in Japan
- Trainings in third countries

(c) Machinery and Equipment

- Listed on the Annex VI

(2) Input by FRC

(a) Human Resources

- Project Director: Chairman of FRC
- Deputy Project Director: Managing Director General of FRC
- Project Manager: Head of the Capital Market Intermediaries Division
- Counterparts from: Securities Market's Dept.

(b) Office space and other facilities necessary for the implementation of the Project

(c) Local cost for Project operation (such as office utilities, communication cost, per-diem for Mongolian side personnel)

(d) Other (as required)

7. FRC will take necessary measures to provide at its own expense:

(a) Services of FRC's counterpart personnel and administrative personnel as referred to in II-7;

(b) Suitable office space with necessary equipment;

(c) Information as well as support in obtaining medical service;

(d) Credentials or identification cards;

(e) Available data (including maps and photographs) and information related to the Project;

(f) Running expenses necessary for the implementation of the Project; and

(g) Necessary facilities to the JICA experts for the remittance as well as utilization of the funds introduced into Mongolia from Japan in connection with the implementation of the Project

8. Implementation Structure

The Project organization chart is given in the Annex V. The roles and assignments of relevant organizations are as follows:

(1) FRC

(a) Project Director:

Chairman of FRC will be responsible for overall administration and implementation of the Project.

(b) Deputy Project Director:

Managing Director General of FRC will be responsible for overall administration and implementation of the Project as an assistant to Project



Director.

(c) Project Manager:

Head of the Capital Market Intermediaries Division will be responsible for the managerial and technical matters of the Project.

(d) Other counterpart officials:

They shall be nominated and informed to JICA side before the Project starts.

(2) MED

(a) Representative from the Economic Cooperation, Loan and Aid Policy Department of MED

(3) JICA Experts

The JICA experts will give necessary technical guidance, advice and recommendations to FRC on any matters pertaining to the implementation of the Project.

(4) Joint Coordinating Committee

Joint Coordinating Committee (hereinafter referred to as "JCC") will be established in order to facilitate inter-organizational coordination. JCC will be held at least twice a year and whenever deems it necessary. JCC will approve an annual work plan, review overall progress, conduct evaluation of the Project, and exchange opinions on major issues that arise during the implementation of the Project. A list of proposed members of JCC is shown in the Annex V.

9. Project Site(s) and Beneficiaries

(1) Project Site:

Ulaanbaatar, Mongolia

(2) Beneficiaries

Financial Regulatory Commission of Mongolia (FRC), Mongolia Stock Exchange (MSE), and capital market participants

10. Duration

Three (3) years from July 2014 to June 2017

11. Environmental and Social Considerations

(1) FRC agreed to abide by 'JICA Guidelines for Environmental and Social Considerations' in order to ensure that appropriate considerations will be made for the environmental and social impacts of the Project.

**III. UNDERTAKINGS OF FRC**

1. FRC will take necessary measures to:

(1) ensure that the technologies and knowledge acquired by the Mongolia nationals as a result of Japanese technical cooperation contributes to the economic and social development of Mongolia, and that the knowledge

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and experience acquired by the personnel of Mongolia from technical training as well as the equipment provided by JICA will be utilized effectively in the implementation of the Project; and

- (2) grant privileges, exemptions and benefits to the JICA experts referred to in II-6 (1) above and their families, which are no less favorable than those granted to experts and members of the missions and their families of third countries or international organizations performing similar missions in Mongolia.

2.FRC will take necessary measures to:

- (1) provide security-related information as well as measures to ensure the safety of the JICA experts;
- (2) permit the JICA experts to enter, leave and sojourn in Mongolia for the duration of their assignments therein and exempt them from foreign registration requirements and consular fees;
- (3) exempt the JICA experts from taxes and any other charges on the equipment, machinery and other material necessary for the implementation of the Project;
- (4) exempt the JICA experts from income tax and charges of any kind imposed on or in connection with any emoluments or allowances paid to them and/or remitted to them from abroad for their services in connection with the implementation of the Project; and
- (5) meet taxes and any other charges on the equipment, machinery and other material, referred to in II-7 above, necessary for the implementation of the Project.

3.FRC will bear claims, if any arises, against the JICA experts resulting from, occurring in the course of, or otherwise connected with, the discharge of their duties in the implementation of the Project, except when such claims arise from gross negligence or willful misconduct on the part of the JICA experts.

#### **IV. MONITORING AND EVALUATION**

JICA and the FRC will jointly and regularly monitor the progress of the Project through the Monitoring Sheets based on the Project Design Matrix (PDM) and Plan of Operation (PO). The Monitoring Sheets shall be reviewed every six (6) months.

Also, Project Completion Report shall be drawn up one (1) month before the termination of the Project.

JICA will conduct the following evaluations and surveys to mainly verify sustainability and impact of the Project and draw lessons. The FRC is required to provide necessary support for them.

1. Ex-post evaluation three (3) years after the project completion, in principle
2. Follow-up surveys on necessity basis

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## **V. PROMOTION OF PUBLIC SUPPORT**

For the purpose of promoting support for the Project, FRC will take appropriate measures to make the Project widely known to the people of Mongolia.

## **VI. MUTUAL CONSULTATION**

JICA and FRC will consult each other whenever any major issues arise in the course of Project implementation.

## **VII. AMENDMENTS**

The record of discussions may be amended by the minutes of meetings between JICA and FRC.

The minutes of meetings will be signed by authorized persons of each side who may be different from the signers of the record of discussions.

### Annex

- I. Project Concept
- II. Tentative Project Design Matrix (PDM)
- III. Tentative Explanatory Note of the Project M&E Framework
- IV. Tentative Plan of Operations (PO)
- V. Tentative Implementation Structure of the Project
- VI. List of Required Equipment

## MAIN POINTS DISCUSSED

### 1. Establishment of Policy Committee and a working team for SROs

- JICA project will support FRC to establish Policy Committee through lectures on Japanese experiences and development of a concept paper. FRC will establish the Committee and coordinate with stakeholders on Committee member formation.
- FRC will establish the Working Team and coordinate with stakeholders on Working Team member formation.

### 2. Regulations and guidelines

- JICA project will assist to review regulations and guidelines. FRC (and/or other SROs) will prepare draft regulations and guidelines, and JICA project will provide comments on these documents. The specific scope of support for regulations and guidelines will be determined after the project starts.

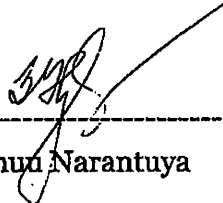
### 3. Mongolian Stock Exchange (MSE)

- FRC will coordinate with MSE so that MSE representative(s) will be included in the JCC, since MSE will be deeply involved in the JICA project, especially in Output 3, Output 4, and Output 5.

**ANNEX 6: Minutes of Joint Coordinating Committee (copy)**

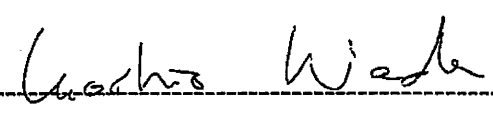
MINUTES OF JOINT COORDINATING COMMITTEE  
ON  
THE PROJECT FOR CAPACITY BUILDING OF  
CAPITAL MARKET IN MONGOLIA  
AGREED UPON BETWEEN  
FINANCIAL REGULATORY COMMISSION OF MONGOLIA  
AND  
JAPAN INTERNATIONAL COOPERATION AGENCY

Ulaanbaatar, 2<sup>nd</sup> April, 2015



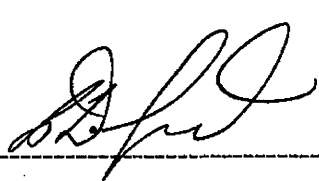
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Ms. Zagdkhun Narantuya  
Chair  
Chief Representative, JICA Mongolia Office  
Financial Regulatory Commission  
Mongolia



---

Mr. Yoshio Wada  
Executive Advisor to the Director General,  
Industrial Development and Public Policy  
Department  
Japan International Cooperation Agency  
Japan



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Mr. Batsengee Dorjsembed  
Director General, Development Financing  
And Debt Management Department  
Ministry of Finance  
Mongolia

This is to record the results of the first JCC meeting held on 2 April 2015.

The proceedings went on chaired by Ms Zagdkhuu Narantuya as according to the agenda (Appendix 1).

Key discussion points were as follows:

1. **Change of JCC members.** Some members from FRC are newly appointed due to reorganization of its structure. In addition, MED was replaced by MOF.
  
2. **Approval of the Work Plan.** The Work Plan for the Project was shared and approved. Members agreed on a plan to hold the first training course in Ulaanbaatar in April. The course will focus on risk-based supervision for capital market intermediaries. FSA will dispatch its experts for the course.
  
3. **Submission of the Draft Report on the Current Status of Mongolian Capital Market.** JICA Consultants prepared a draft report on the Mongolian capital market for FRC to better identify the needs for technical cooperation by JICA. JCC members received a copy of the report. The JICA Consultants will finalize it based on the comments by JCC members.

**Attached documents:**

- Appendix 1: Agenda
- Appendix 2: Change of JCC members
- Appendix 3a: Work Plan – English
- Appendix 3b: Work Plan - Mongolian
- Appendix 4: Tentative plan for training course on risk-based supervision
- Appendix 5: Report on the Current Status of Mongolian Capital Market
- Appendix 6: List of Attendees

## Appendix 1

### Project for Capacity Building of Capital Market in Mongolia

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

## Joint Coordinating Committee

2 April 2015, FRC, Ulaanbaatar

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### Agenda

#### Opening Remarks

- 11:30 - 11:35 Ms Zagdkhuu Narantuya, Chair, Financial Regulatory Commission  
11:35 – 11:40 Mr Yoshio Wada, Executive Advisor to the Director General,  
Industrial Development and Public Policy Department, JICA

#### Discussion

- 11:40 - 12:55 Agenda 1: *“Change of JCC members”*  
*by JICA Consultant Team*
- Agenda 2: *“Approval of the Work Plan and tentative plan  
for training course on risk-based supervision”*  
*by JICA Consultant Team*
- Agenda 3: *“Submission of the Report on the Current Status of  
Mongolian Capital Market”*  
*by JICA Consultant Team*
- Agenda 4: *“Reporting on capacity building program at AFPAC, FSA”*  
*by FRC*

#### Closing Remarks

- 12:55 - 13:00 Ms Zagdkhuu Narantuya, Chair, Financial Regulatory Commission



## Change of Joint Coordinating Committee Members

**New: Government of Mongolia**

- 1) Chair, FRC, as Project Director
- 2) Managing Director General, FRC, as Deputy Project Director
- 3) Head of Capital Market Development Department, FRC, as Project Manager
- 4) Head of Capital Market Development Division, FRC
- 5) Head of Risk Management and Policy Regulation Department, FRC
- 6) Head of Securities Department, FRC
- 7) Head of Securities Supervision Division, FRC
- 8) Officer of Foreign Relations and Cooperation Division, Administration Department, FRC, as Secretariat
- 9) Representative from Mongolian Stock Exchange
- 10) Representative from Ministry of Finance

**Government of Japan**

- 1) Industrial Development and Public Policy Department, JICA
- 2) JICA Mongolia Office

**Old: Government of Mongolia:**

- 1) Chair, FRC, as Project Director
- 2) Managing Director General, FRC, as Deputy Project Director
- 3) Head of the Capital Market Intermediaries Division, FRC, as Project Manager
- 4) Representative from Capital Market Policy Planning Division, FRC
- 5) Representative from Capital Market Intermediaries Division, FRC
- 6) Representative from Securities Issuers Division, FRC
- 7) Representative from Capital Market New Financial Products and Services Division, FRC
- 8) Representative from Economic Cooperation, Loan and Aid Policy Department, MED
- 9) Representative from Mongolian Stock Exchange
- 10) Foreign Relations and Cooperation Division, Administration Department, FRC, as Secretariat

**Government of Japan**

- 1) Industrial Development and Public Policy Department, JICA
- 2) JICA Mongolia Office

# **Project for Capacity Building of Capital Market in Mongolia: Work Plan**

**April 2015**

**Daiwa Institute of Research  
Japan Economic Research Institute**



## Contents

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## 1. Introduction

Project for Capacity Building of Capital Market in Mongolia (Project) has been planned between Financial Regulatory Commission (FRC) and Japan International Cooperation Agency (JICA) in the past years, and officially started in July 2014, after conducting a research study on the Mongolian capital markets in 2013-14. The project is designed in three periods, November 2014-July 2015, August 2015-July 2016 and August 2016-June 2017.

The Project is expected to contribute to development of Mongolia's capital markets. Despite the fact that Mongolian Stock Exchange (MSE) has 25 years of history, the market is still underdeveloped. MSE's market capitalization was MNT 1.4 trillion (tn) at the end of December 2014, which is equivalent to only 7% of Mongolia's GDP. Trading activities is very thin, with MNT 24 billion (bn) for 2014, down 75% from MNT 98bn for 2013.

Quite a few reasons have been pointed out why MSE is inactive. MSE lacks blue chips. Floating rates for most of MSE stocks are too low at a single digit. Financial reports do not contain sufficient information. Disclosure is not favorable for investors. General public is not familiar with the stock market.

The Mongolian government strives to vitalize the capital markets. The capital market is a significant platform for economic development, providing corporates with an alternative source of financing and giving opportunity for nationals to become wealthy. In addition, the government wishes to utilize MSE for privatization of state-owned enterprises to finance its budget deficit.

FRC and JICA have shared a view that active primary market at MSE will be one of the keys to success in developing Mongolia's capital markets and that improving market confidence by capacity building of FRC and relevant stakeholders will be necessary to accomplish this goal. The Project started from November 2014 by JICA Consultant team, supported by Financial Services Agency (FSA), Japan Exchange Group (JPX) and JICA, with Mongolian counterpart of FRC and MSE. The project will end in July 2017.

Description of the Project is summarized as below.

Project description	
Duration	Nov14 to Jul17 (1 <sup>st</sup> Project Year: Nov14-Jul15, 2 <sup>nd</sup> PY: Aug15-Jul16, 3 <sup>rd</sup> PY: Aug16-Jul17)
Overall goal	Developing active primary market at MSE by increasing IPO for unlisted Mongolian companies with sound fundamentals, as well as promoting dual-listing, as a result of improving market confidence.
Project purpose	Capacity building for stakeholders in regulation and supervision of the Mongolian capital market.
Mongolian counterpart	FRC, MSE
Japanese counterpart	JICA, FSA, JPX, Consultants

## 2. What to do

Overall goal of the Project is to develop active primary market at MSE by increasing IPO for unlisted Mongolian companies with sound fundamentals, as well as promoting dual-listing for those listed in overseas stock exchanges, as a result of improving market confidence. There are five expected outcomes from the Project, namely, 1) effective Policy Committee for vitalization of the capital markets, 2) **improving FRC's capacity** for regulation and supervision of capital markets, 3) writing a concept paper of SRO, 4) increasing IPO and promoting dual-listing, as well as 5) enhancing financial literacy of general public.

## **2.1. Effective Policy Committee for vitalization of the capital markets**

Policy Committee was established under FRC and by January 2015 a meeting that consists of 13 committee members has been held four times, including its kickoff meeting in September 2014. In the case of Japan, Policy Committee is held quite often under FSA, and **Policy Committee plays an important role in FSA's policy making.** The JICA Consultant team (the team) is **planning to support FRC's Policy Committee mainly by writing a report as well as a concept paper.**

### **2.1.1. Report on the Current Status of Mongolia's Capital Markets**

The team will write a report on the current status of capital markets in Mongolia, incorporating our key findings during our past visits to Ulaanbaatar in December 2014 and January 2015, and submit the report to the Mongolian government in 1Q15. This report is supposed to be a reference report for making training programs.

### **2.1.2. Concept paper on Policy Committee**

The team will write a concept paper on Policy Committee, in collaboration with FRC, and plan to submit to the Mongolian government by July 2015. The concept paper will be based **on Japan's experiences**, including how standing members are appointed, what has been discussed, frequency of meetings and the process of policy implementation by committee's recommendations. The team believes that the concept paper will be helpful for sharing knowledge with FRC how to leverage the committee or practical policy implementation. The team **will ask an advice from FSA's policy committee if necessary.** After submitting the concept paper, the team will further collaborate with FRC in effective management of the committee.

## **2.2. Improving FRC's capacity for regulation and supervision of capital markets**

The team understands that re-organization of FRC is on-going as of 27 February 2015. The team presumes that there is no substantial change in the organization structure. There are roughly 40 staff in Securities Department, and Capital Market Intermediaries Division under the Department has 7 staff, compared to 62 securities brokers/dealers. Given that supervision by FRC to securities companies is mostly for it if securities companies comply with relevant laws, rules and regulations, plan to provide capacity building for financial monitoring of securities companies, based on risk-based supervision.

In addition, FRC needs technical cooperation in the following items:

- a) Rules and guidelines under Securities Market Law and Investment Fund Law
- b) Law enforcement
- c) New financial products
- d) Supervision of custodian banks
- e) Implementing alternative dispute resolution
- f) Improving disclosure for listed companies
- g) Better quality of client services by securities companies

The team will also consider supports for the above-mentioned requests. Priorities need to be discussed further with FRC.

### **2.2.1. Designing a training program for risk-based supervision**

The team will develop a training program first **for FRC's Capital Market Intermediaries Division** about risk-based supervision. The training program for the project period is expected to be for five days in Ulaanbaatar, with lectures **by FSA's experts and** the team, for FRC staff to learn about a risk-based approach. The team expects for the program to cover also basic financial analysis of securities companies, how to retrieve financial and operation data regularly from securities companies. Training programs on the above-mentioned seven issues will be also considered, after discussing with FRC.

### **2.3. Writing a concept paper on self-regulatory organization**

Stock exchanges, as well as securities industry associations in the international markets play a role as a self-regulatory organization, or SRO, in recent years. MSE is also supposed to act as an SRO, according to Securities Market Law. The team, together with Mongolian stakeholders including MSE and Mongolian Association of Securities Dealers, will provide a concept paper on SRO to support MSE and MASD for implementing an effective and efficient self-regulatory framework.

#### **2.3.1. Setting up a working group**

The team recommends forming a working group to discuss how to enhance self-regulating capacity for MSE and MASD. The team expects members of the working group to consist of MSE, MASD, FRC, Ministry of Finance, and MSCH&CD. Establishment of the SRO working group will be discussed during our next visit to Ulaanbaatar in March 2015.

#### **2.3.2. Designing a training program for SRO**

The team will develop a training program for SRO activities for MSE, MASD and FRC. The training program is expected to be designed for each stakeholder. The program for MSE is likely to focus on regulation of listing and trading. The team assumes that the program for MASD will mainly cover regulations on securities representatives. The team also expects to hold a training course both in Ulaanbaatar and Tokyo. Although schedule for the training program will be determined sometime later, the team presumes that a training course will be tentatively scheduled in 2Q-3Q15 (Tokyo), 4Q15 (UB) and 1Q17 (Tokyo).

#### **2.3.3. Writing a concept paper on SRO**

The team, MSE and MASD will write a concept paper on SRO, with help from JPX experts, after discussing the best-fit self-regulatory framework for Mongolia. The team with MASE and MASD plan to submit the concept paper to the Mongolian government by July 2016. JPX established an independent SRO called JPX Regulation in 2007 (originally called TSE Regulation), and the team believes that its process of forming JPX Regulation will be helpful for MSE's activities as an SRO.

#### **2.3.4. Holding a seminar on SRO**

The team also plans to co-host a seminar on SRO with MSE and MASD in Ulaanbaatar, tentatively in 2Q17, inviting securities companies and listed companies. Targeted attendees are securities companies, listed companies, FRC, MOF and MSCH&CD.

### **2.4. Increasing IPO and promoting dual-listing of Mongolian companies**

The team will provide technical cooperation with MSE, FRC, underwriters and other relevant stakeholders for better market conditions to increase IPO and promote dual-listing at MSE.

#### **2.4.1. List-up potential MSE-listing companies**

The team, in collaboration with the counterpart institutions and other stakeholders, will identify IPO candidates and overseas-listed companies with Mongolian assets, as well as their needs for listing at MSE or other exchanges.

#### **2.4.2. Designing a training program for MSE and FRC staff**

The team will hold a training program on knowledge sharing of IPO/dual-listing for MSE and FRC. The team expects a training course in Ulaanbaatar and/or Tokyo. Schedule of the training courses will be determined by discussions with our counterpart.

#### **2.4.3 Holding a seminar on IPO/dual-listing**

The team plans to co-host a seminar with MSE on promoting IPO and dual-listing in Ulaanbaatar once a year. Targeted attendees are underwriters, securities brokers and

potential listing companies. Schedule of the seminar will be determined by discussion with our counterpart. The team currently assumes that a seminar on IPO/dual-listing will be held in 2Q15, 2Q16 and 2Q17.

#### 2.4.4. Additional assistance

The team shall also assist underwriters and other relevant stakeholders on a non-sensitive basis, by sharing knowledge and information about potential listing companies and investors.

#### 2.5. Enhancing financial literacy for general public

The team believes that investor education will be also an important issue for an active stock market. The team plans to communicate with relevant organizations, including MSE, FRC, Universities and industry associations in preparation for our potential activities in enhancing financial literacy of general public. The team will start investor education activities only when further discussions are made between FRC and JICA.

Expected outputs	Main tasks	Major stakeholders	
1) Effective Policy Committee for vitalization of the capital markets	✓ Reviewing the current status of Mongolia's capital markets	Consultants FSA	FRC
	✓ Writing a concept paper on the Policy Committee		
2) Improving FRC's capacity for regulation and supervision of capital markets	✓ Writing proposals on capacity building for FRC's regulation and supervision with a risk-based approach	Consultants FSA	FRC
	✓ Conducting training programs		
3) Development of SRO concept paper	✓ Writing a concept paper for MSE to become an SRO	Consultants JPX FSA	MSE MASD FRC MOF MSCH&CD Securities companies Listed companies
	✓ Conducting training programs		
4) Increasing IPOs and promoting dual-listing of Mongolian companies	✓ Writing a report for reviewing the current status of, and relevant regulations for IPOs and dual-listing	Consultants JPX	MSE FRC Securities companies Potential listing companies Investors
	✓ Holding seminars for IPO and dual-listing		
5) Enhancing financial literacy for general public	✓ Promoting an awareness raising program including seminars for individual investors and other PR activities (if necessary)	Consultants JPX FSA	Securities companies Investors MSE FRC

Main tasks and expected outputs for the five issues described above may be changed, if FRC and JICA reach an agreement. Additional requests by FRC may not be restated in the Work Plan, if they are regarded as part of the above-mentioned five issues.

### 3. Action plan

The JICA Consultant team plans to visit Ulaanbaatar four to six times a year to provide technical cooperation in the Project. Although our schedule will be subject to change, depending on our counterpart's availability, our rough schedule is as indicated below.



	2014	2015				2016				2017			
	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	
Report for the current status of regulation and supervision	✓	✓	✓										
Training course in UB	Regulation and supervision		✓				✓				✓		
	SRO				✓								
	IPO/dual listing								✓				
Training course in Tokyo	SRO			✓						✓			
	IPO/dual listing						✓			✓			
Seminar in UB	SRO										✓		
	IPO/dual listing			✓		✓			✓				
	Financial literacy			✓			✓				✓		

For 4Q14 and 1Q15, basically the team interviews our counterpart and other stakeholders to specify priorities in issues relating to the five expected outcomes. Based on the report on the **Current Status of Mongolia's Capital Markets**, the team will design training programs accordingly.

### 3.1. Training courses

The team is planning a training course for regulation and supervision once a year in Ulaanbaatar, but those for SRO and IPO/dual-listing will be opened in Ulaanbaatar and/or Tokyo, in our current assumption. A course in Ulaanbaatar is for one week, the one in Tokyo is for two weeks. The final training course, which the team expects to hold in 1Q17 in Tokyo, covers two topics (SRO and IPO/dual-listing) in two weeks. Lecturers will be experts from FSA, JPX and the team.

### 3.2. Seminars

The team also plans to hold a seminar in Ulaanbaatar several times on SRO and IPO/dual-listing, in addition promotion of financial literacy if necessary. Seminars are designed for a half-day or one day. Main speakers will be FSA, JPX, the team as well as other relevant stakeholders from Mongolia.

### 3.3. Reports, concept papers and other outputs

The team is supposed to submit reports, concept papers and other outputs by the end of the project year.

In July 2015, the team will submit the following outputs:

- 1) Work Plan
- 2) **Report on the Current Status of Mongolia's Capital Markets**
- 3) Report on Role of FRC and SRO
- 4) Report on IPO and dual-listing
- 5) Concept paper for Policy Committee
- 6) Training program for regulation and supervision
- 7) Monitoring Sheet
- 8) Issues to be tackled

In July 2016, the team will submit the following outputs:

- 1) Work Plan
- 2) Concept paper for SRO
- 3) Training program for IPO and dual-listing
- 4) Monitoring Sheet
- 5) Issues to be tackled

In July 2017, the team will submit the following outputs:

- 1) Work Plan
- 2) Monitoring Sheet
- 3) Final report
- 4) Issues to be tackled

### 3.4. Joint Coordinating Committee

In addition, the team will hold a joint coordinating committee (JCC) semi-annually. Our first JCC is expected to be held for the week of 30 March 2015 in Ulaanbaatar. According to the Record of Discussions, official JCC members from the Mongolian government are as follows:

- 1) Chairperson of FRC, as Project Director
- 2) Managing Director General of FRC, as Deputy Project Director,
- 3) Head of Capital Market Intermediaries Division, as Project Manager
- 4) Head of Capital Market Policy Planning Division
- 5) Head of Securities Issuers Division
- 6) Head of Capital Market New Financial Products and Services Division
- 7) Representative from MED (note: to be replaced by Representative from MOF)
- 8) Representative from MSE
- 9) Foreign Relations and Cooperation Division, Administration Department, as Secretary

From the Japanese government, Representative from JICA's Industrial Development and Public Department, as well as JICA Mongolia Office will attend the JCC.

## 4. Consultant team

Consultants are all well experienced in capital markets in Asia.

Consultants		Main responsibility
Ryota Sugishita	Daiwa Institute of Research	Project manager, capacity building for FRC
Takayuki Urade	Japan Economic Research Institute	IPO and dual-listing
Mitsutaka Ozaki	Japan Economic Research Institute	Policy Committee
Hiroyuki Kaneko	Daiwa Institute of Research	SRO
Akifumi Nakanishi	Daiwa Institute of Research	Capacity building for FRC, investor education
Masateru Igata	Frontier LLC	Seminar planning
Local consultants	Khishigjargal Jambal Chinzorig Chuluun	Assist consultants' activities incl. translation

### 4.1. Ryota Sugishita, Project Manager, capacity building for FRC

Mr Ryota Sugishita, Chief Consultant, Daiwa Institute of Research, is a capital market consultant, with experienced as an equity analyst based in Singapore, Taipei and Shanghai for 15 years, and 5 years in Tokyo. In recent years, he provides technical cooperation to Central Bank of Myanmar for bond market development. He is also a member in the Yangon Stock Exchange project since 2011, involved in planning, negotiation as well as capacity building.

### 4.2. Takayuki Urade, IPO and dual-listing

Mr Takayuki Urade, Chief Consultant, Japan Economic Research Institute, conducted a number of research on capital markets, financial sector and macro economy in Asia. He was involved in research on Mongolian capital market, including **JICA's research study** for Mongolian capital market in 2013-14. He has also experienced as an investment banker to support IPOs by Japanese companies, including a POWL (public offering without listing) in the US.

#### **4.3. Mitsutaka Ozaki, Policy Committee**

Mr Mitsutaka Ozaki, Director, Japan Economic Research Institute is an experienced financial sector consultant with a development finance background. Major projects in his recent years include JICA's research study for the Mongolian capital market (2013-14), needs study for capacity building at the Development Bank of Mongolia (2012) and staff training at the State Bank of Vietnam (2011-12).

#### **4.4. Hiroyuki Kaneko, SRO**

Mr Hiroyuki Kaneko, Managing Director, Daiwa Institute of Research, is experienced both in brokerage and investment banking, mostly in Asia and the Middle East for 25 years. Out of his 25-year experiences in Asia and the Middle East, he serviced as top management in the Philippines, Australia and Taiwan for 14 years in total.

#### **4.5. Akifumi Nakanishi, Investor Education**

Mr Akifumi Nakanishi, Daiwa Institute of Research, is a well-experienced consultant in capital markets in Asia, including his international experiences at the Worldbank Group for seven years. He has been assigned as a consultant for the bond market development project for Myanmar since 2011. Other recent projects include research on the Indonesian banking sector by Japan Bank for International Cooperation (JBIC), and JICA's study for state-owned enterprises in Myanmar.

#### **4.6. Masateru Igata, Seminar and coordination**

Mr Masateru Igata, is well-known in the Mongolian capital markets, as Founder and CEO, Frontier LLC. He has a background as a capital market specialist, with experienced in the Japanese stock market since 1980's. He is also well-known as a seminar planner, with ability to gather hundreds of attendees.

#### **4.7. Khishigjargal Jambal**

Ms Khishigjargal Jambal is a Mongolian consultant and has experiences working in the area of financial market development at EPRC project of USAID, and in credit and corporate finance area at Development Bank of Mongolia. She holds Finance MBA degree from KAIST Business School (South Korea), and MBA degree from Saunders College of Business, RIT (NY, USA).

#### **4.8. Chinzorig Chuluun**

Mr Chinzorig Chuluun is a Mongolian consultant, has experiences working as the Chairman of the Board of Mongol Post JSC, as head of the Controlling Committee of Shivee-Ovoo JSC, and also working as a head of department at SPC. He also worked on the restructuring of the MSE as authorized representative of the state. He supports Japanese Consultants in arranging meetings with Mongolian government officials. He holds a master degree from University of Osaka and National University of Mongolia and he is a doctorate of Kobe University.

### **5. PDM**

The Project Design Matrix (PDM) was also shared by JICA and FRC when the Record of Discussions was signed in Jun 2014. Indicators that the team is going to monitor in the Project are not specified yet.

The team would like to discuss with FRC on the PDM and decide indicators at the next JCC. Indicators will be picked up based on the overall goal, project goal and expected outcomes. The overall goal of the project is to increase IPO and promote dual-listing. The project goal is to improve market confidence by capacity building of FRC, MSE and others in regulation and supervision. Expected outcomes are 1) enhancing effective Policy Committee for vitalization of the capital markets, 2) improving FRC's capacity for regulation and supervision of capital markets, 3) writing a concept paper of SRO, 4) increasing IPO and

promoting dual-listing, as well as 5) enhancing financial literacy of general public.

6. Schedule

Tasks	Period	2014			2015							2016							2017															
		10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6
Project outlines			△								△												△											
Action plans						△						△												△										
Monitoring Sheet				△							△												△											△
Progress check list										△													△											△
Final report																																		△
(Output 1) Supporting policy committee																																		
1-1. Review FRC's regulatory frameworks, regulation and supervision			■	■																														
1-2. Conduct series of communicae events amongst market participants			■	■	■	■	■	■																										
1-3. Draft concept papers on policy committee					■	■	■	■																										
1-4. Assist managing policy committee based on Japanese experiences												■	■	■	■	■								■		■		■		■		■		■
(Output 2) FRC monitoring and control enforcement																																		
2-1. Assist updating regulatory framework if necessary			■	■	■																													
2-2. Design capacity building programs on risk-based supervision			■	■	■							■	■	■	■	■								■		■		■		■		■		■
2-3. Conduct trainings to relevant staffs incl. FRC based on 2-2						■										■																		■
(Output 3) Drafting concept paper for SROs																																		
3-1. Consider formulating working committee for establishing SRO			■			■	■																											
3-2. Review regulatory functions and mandates within working committee						■	■	■																										
3-3. Design capacity building training programs for establishing SROs									■									■	■	■	■													■
3-4. Conduct training programs designed on 3-3 (conduct seminar on final year)										□			■																	□	■			■
3-5. Propose concept paper on establishing SRO												■		■																				
(Output 4) IPO and dual listings measures																																		
4-1. Review current IPO provisions and draft ammendment proposal			■			■	■																											
4-2. Assist in formulating new regulations on IPO and dual listings						■	■	■																										
4-3. Design promotional event for IPO and dual listings targeting potential issuers									■																									
4-4. Conducting series of seminars and socializations on 4-3									■																									■
4-5. Design training programs for FRC, MSE staffs (in Mongolia / Japan)										■			■																					■
4-6. Conduct training programs on 4-5																□																		■
(Output 5) Investor education																																		
5-1. Designing public awarenes and financial literacy schemes for citizens			■					■	■																									
5-2. Conduct socialization and events designated at 5-1									■																									■
5-3. Introducing investor education activities in Japan to FRC												■	■																					■
5-4. (Stakeholders incl. FRC) Incorporating and applying feedbacks from 5-3														■	■												■		■		■		■	
Other activities																																		
Meeting with JICA			□												□																			□
Preliminary meeting with FRC staffs (in Tokyo)			□																															
Participate in JCC meetings						■						■													■									■

□ Work in Japan    △—△ Reportings    ----- Other tasks    ■ Work in Mongolia

7. Allocation of Consultants

	Tasks	Consultant	Company	FY Mar15												FY Mar16												Man-months					
				4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	FY Mar15		FY Mar16		Total	
				MN		JP		MN		JP		MN		JP																			
Mongolia	Regulation/supervision	Ryota Sugishita	Daiwa Institute of Research										■	■	■	■	■	■		■	■	■			1.67		3.33		5.00				
	IPO/dual listing	Takayuki Urade	Japan Economic Research Institute										■		■		■		■		■		■		1.33		3.00		4.34				
	Policy committee	Mitsutaka Ozaki	Japan Economic Research Institute										■	■		■				■	■	■			1.00		2.80		3.80				
	SRO	Hiroyuki Kaneko	Daiwa Institute of Research										■		■		■		■		■		■		1.07		2.14		3.20				
	Investor education	Akifumi Nakanishi	Daiwa Institute of Research												■	■				■	■				0.50		2.83		3.33				
	Seminar program	Masateru Igata	Frontier LLC													■										0.50		0.67		1.17			
				Total												6.07		14.77		20.84													
Japan	Regulation/supervision	Ryota Sugishita	Daiwa Institute of Research										□									□				0.25		0.75		1.00			
	IPO/dual listing	Takayuki Urade	Japan Economic Research Institute										□									□		□		0.25		0.75		1.00			
	Policy committee	Mitsutaka Ozaki	Japan Economic Research Institute										□									□		□		0.25		0.75		1.00			
	SRO	Hiroyuki Kaneko	Daiwa Institute of Research										□									□		□		0.75		1.25		2.00			
	Investor education	Akifumi Nakanishi	Daiwa Institute of Research											□									□		□		0.25		1.25		1.50		
	Seminar program	Masateru Igata	Frontier LLC																							0.00		0.00		0.00			
				Total												1.75		4.75		6.50													
Products														△	Inception Report																		

	Tasks	Consultant	Company	FY Mar17												FY Mar18												Man-months					
				4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	FY Mar17		FY Mar18		Total	
				MN		JP		MN		JP		MN		JP		MN		JP															
Mongolia	Regulation/supervision	Ryota Sugishita	Daiwa Institute of Research	■	■					■		■		■											2.00		1.00		3.00				
	IPO/dual listing	Takayuki Urade	Japan Economic Research Institute		■	■	■	■		■		■		■		■									3.00		0.67		3.67				
	Policy committee	Mitsutaka Ozaki	Japan Economic Research Institute	■	■					■		■		■		■									2.80		1.40		4.20				
	SRO	Hiroyuki Kaneko	Daiwa Institute of Research		■		■		■		■		■		■										2.50		0.50		3.00				
	Investor education	Akifumi Nakanishi	Daiwa Institute of Research			■					■				■										1.50		1.00		2.50				
	Seminar program	Masateru Igata	Frontier LLC		■									■		■									1.00		0.50		1.50				
					Total																								12.80		5.07		17.87
Japan	Regulation/supervision	Ryota Sugishita	Daiwa Institute of Research																					□		0.50		0.00		0.50			
	IPO/dual listing	Takayuki Urade	Japan Economic Research Institute																					□		0.50		0.00		0.50			
	Policy committee	Mitsutaka Ozaki	Japan Economic Research Institute																					□		0.50		0.00		0.50			
	SRO	Hiroyuki Kaneko	Daiwa Institute of Research																					□		0.55		0.00		0.55			
	Investor education	Akifumi Nakanishi	Daiwa Institute of Research																					□		0.75		0.00		0.75			
	Seminar program	Masateru Igata	Frontier LLC																							0.00		0.00		0.00			
					Total																									2.80		0.00	
Products																																	

## **8. Granting equipment**

JICA and FRC agreed on Record of Discussions, signed on 13 June 2014, for granting the equipment to FRC as listed below:

	<b>Equipment</b>	<b>Volume</b>
<b>1</b>	Server computer	2
<b>2</b>	Laptop computer	1
<b>3</b>	Voice recorder	1
<b>4</b>	Projector	1
<b>5</b>	Color printer	1
<b>6</b>	Portable external hard drive	1
<b>7</b>	Chalkboard	1

The team will procure the equipment in Ulaanbaatar. Asking quotation, equipment move-in and final checking will be also supported by the team. The team will discuss with FRC and JICA on models, prices and timing of purchase. Specification of equipment is as written on the Record of Discussions.

## **9. Others**

The team is considering PR activities for the Project. The team will discuss with FRC and JICA how the team should inform general public, corporates, professionals and the government in Mongolia about the Project.



**Монгол Улсад Хөрөнгийн Зах  
Зээлийг Хөгжүүлэх Төсөл:  
Ажлын Төлөвлөгөө**

**2015 оны 4 дүгээр сар**

**Дайва Судалгааны Хүрээлэн  
Японы Эдийн засгийн Судалгааны Хүрээлэн**



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## 1. Танилцуулга

Монгол Улсын хөрөнгийн зах зээлийн чадавхийг хөгжүүлэх уг төслийг өнгөрсөн жилүүдэд Санхүүгийн зохицуулах хороо (СЗХ) болон Японы олон улсын хамтын ажиллагааны байгууллага (JICA) хооронд тохиролцон, хэрэгжүүлэхээр төлөвлөж, 2013-2014 онуудад Монголын зах зээлийн судалгааг хийсний үндсэн дээр, албан ёсоор 2014 оны 7 дугаар сард эхлүүлсэн билээ. Уг төсөл нь 2014/11сар-2015/7сар, 2016/8сар-2016/7сар, 2016/8сар-2017/6сар гэсэн 3 үеэс бүрдэх болно.

Энэхүү төсөл нь Монгол улсын хөрөнгийн зах зээлийн хөгжүүлэхээр ажиллаж, хувь нэмрээ оруулахаар төлөвлөж байна. Монголын Хөрөнгийн Бирж (МХБ) байгуулагдаад 25 жил болж байгаа хэдий ч зах зээл нь сайн хөгжиж чадаагүй хэвээр байна. МХБ-ийн зах зээлийн үнэлгээ 2014 оны 12 дугаар сарын эцсийн байдлаар 1.4 триллион төгрөг байсан ба энэ нь Монгол Улсын ДНБ-ий дөнгөж 7% -тай тэнцэж байгаа юм. Арилжааны үйл ажиллагаа маш бага бөгөөд 2014 онд 24 тэрбум төгрөг буюу 2013 оны 98 тэрбум төгрөгөөс 75% буурсан үзүүлэлттэй гарсан байна..

МХБ-ийн идэвхгүй байдалд хэд хэдэн шалтгааныг онцлон тэмдэглэсэн болно.Үүнд: МХБ-д сайн төрлийн чанартай үнэт цаас, хувьцаа ховор байна. МХБ-д бүртгэлтэй ихэнх компанийн нийтийн эзэмшлийн хувь нь хэт бага, нэг оронтой тоонд байна. Санхүүгийн тайлан баталгаатай бус ба хөрөнгө оруулагчдын хувьд ил тод байдал нь хангалттай сайн биш байна. Олон нийт ерөнхийдөө хөрөнгийн зах зээлийн талаар ойлголтгүй гэхэд болохоор байна.

Монгол Улсын Засгийн газар нь хөрөнгийн зах зээлийг эрчимжүүлэхээр чармайн ажиллаж байна. Хөрөнгийн зах зээл нь эдийн засгийн хөгжилд маш чухал үүрэгтэй салбар бөгөөд компаниудад санхүүжилтийн бусад эх үүсвэрийг бүрдүүлж өгөх, иргэдийг хөрөнгөтэй болох боломжийг олгодог. Үүнээс гадна, Засгийн газар МХБ-ээр дамжуулж төрийн өмчит компаниудыг хувьчилж, төсвийн алдагдлыг санхүүжүүлэх хүсэлтэй байгаа болно.

СЗХ болон ЖАЙКА нь МХБ-ийн анхдагч зах зээлийн идэвхитэй байдал нь Монгол улсын хөрөнгийн зах зээл хөгжих амжилтын түлхүүрүүдийн нэг байх болно гэж үзэж байгаа бөгөөд СЗХ-ны болон холбогдох оролцогч талуудын чадвар чадавхийг дээшлүүлж зах зээлд итгэх итгэлийг нэмэгдүүлэх нь уг зорилгыг биелүүлэхэд нэн чухал шаардлагатай юм.

Төсөл нь 2014 оны 11 дүгээр сард СЗХ болон МХБ, Японы Санхүүгийн Үйлчилгээний Агентлаг (FSA), Япон Хөрөнгийн Бирж Групп (JPX), ЖАЙКА болон Зөвлөхүүдийн хамтын ажиллагаагаар эхэлсэн ба 2017 оны 7 дугаар сард дуусах юм.

Төслийн танилцуулгын хураангуй тайлбар:

Төслийн танилцуулга	
Хэрэгжих Хугацаа	2014 оны 11 сар -2017 оны 7 сар ( Төслийн эхний жил 2014/11-2015/7, Төслийн 2 дах жил 2015/8-2016/7, Төслийн 3 дах жил 2016/8-2017/7)
Ерөнхий зорилго	Жагсаалтанд ороогүй тогтвортой компаниудийн IPOг нэмэгдүүлж Монголын Хөрөнгийн Биржийн анхдагч зах зээлийг идэвхтэй болгох, мөн давхар жагсаалтанд бүртгүүлэхийг хөхүүлэн дэмжиж зах зээлийн чанарыг сайжруулахад оршиж байгаа болно.
Төслийн зорилт	Монголын Хөрөнгийн Зах Зээлийн хяналт, зохицуулалтад оролцогчдын чадварыг нэмэгдүүлэх
Монгол талын хамтрагч	СЗХ, МХБ
Япон талын хамтрагч	ЖАЙКА, Санхүүгийн үйлчилгээний агентлаг , Японы Хөрөнгийн Бирж Групп, Зөвлөхүүд

## 2. Хийгдэх Ажлууд

Төслийн ерөнхий зорилго нь биржид бүртгэлгүй Монголын сайн үйл ажиллагаатай компаниудыг нийтэд нээлттэй хувьцаа санал болгох явдлыг нь нэмэгдүүлэх, мөн зах зээлийн боломжид итгэх итгэлийг нь дээшлүүлсний үр дүнд биржид бүртгэлтэй компаниудыг гадаадын биржүүдэд давхар бүртгэлтэй болгох замаар МХБ дээр идэвхитэй анхдагч зах зээлийг бий болгож хөгжүүлэхэд оршино. Уг төслөөс таван гол үр дүн гарна гэж хүлээгдэж байгаа ба тэдгээрийг дурьдвал, 1) хөрөнгийн зах зээлийг сэргээхэд чиглэсэн үр нөлөө бүхий Бодлогын Зөвлөл, 2) хөрөнгийн зах зээлийг зохицуулах, хянахад чиглэсэн СЗХ-ны чадавхийг дээшлүүлэх, 3) Өөрийгөө Зохицуулах Байгууллага (ӨЗБ)-ын талаар бодлогын баримт бичиг бэлдэх, 4) IPO буюу нийтэд анх удаа хувьцаа санал болгох замаар нээлттэй компани болох, мөн гадаадын биржид давхар бүртгэлтэй болох явдлыг нэмэгдүүлэн идэвхижүүлэх, мөн 5) нийт ард иргэдийн санхүүгийн талаарх ойлголт, мэдлэгийг нэмэгдүүлэх зэрэг болно.

### **2.1. Хөрөнгийн зах зээлийг эрчимжүүлэхэд чиглэсэн үр дүнтэй Бодлогын Зөвлөл**

Бодлогын Зөвлөл нь СЗХ-ны харьяанд байгуулагдсан ба 2015 оны 1 дүгээр сарын 15-ны байдлаар нийт 13 гишүүнээс бүрдсэн уулзалтууд нь анх 9 дүгээр сарын 14-нд болсон үүсгэн байгуулах уулзалтыг оролцуулаад нийт дөрвөн удаа зохион байгуулагдсан байна. Японд мөн Японы Санхүүгийн Үйлчилгээний Агентлаг (FSA)-ын харьяанд байдаг Бодлогын Зөвлөл нь олон удаа уулзалт хийдэг бөгөөд FSA-ын бодлого боловсруулах үйл ажиллагаанд чухал үүрэгтэй оролцдог. ЖАЙКХ-гийн зөвлөхүүдээс бүрдсэн баг нь (Төслийн баг) СЗХ-ны Бодлогын Зөвлөлд ерөнхийдөө тайлан болон бодлогын баримт бичиг боловсруулж өгөх замаар дэмжлэг үзүүлэхээр төлөвлөж байна.

#### **2.1.1. Монголын Хөрөнгийн Зах зээлийн Өнөөгийн байдлын талаарх Тайлан**

Төслийн баг нь өнгөрсөн 12 дугаар сарын 14-н болон 1 дүгээр сарын 15-нд Улаанбаатарт хийсэн ажлын айлчлалуудынхаа үеэр олж мэдсэн гол гол зүйлсийг оролцуулан Монголын хөрөнгийн зах зээлийн өнөөгийн байдлын талаар тайлан бичиж, 2015 оны эхний улиралд Монголын Засгийн Газарт өргөн барих болно. Уг тайлан нь сургалтын хөтөлбөрүүдийг бэлтгэхэд гол лавлах материал болох юм.

#### **2.1.2. Бодлогын Зөвлөлийн талаарх бодлогын баримт бичиг**

Төслийн баг нь Бодлогын Зөвлөлийн талаар СЗХ-той хамтран бодлогын баримт бичиг бэлдэх бөгөөд түүнийгээ Монголын Засгийн Газарт 2015 оны 7 дугаар сар гэхэд өргөн барихаар төлөвлөж байна. Уг бодлогын баримт бичиг нь үндсэндээ Японы туршлага дээр тулгуурлах бөгөөд орон тооны гишүүд нь хэрхэн томилогддог, ямар асуудлууд хэлэлцэгдэж байсан, хэр олон удаа уулзалт хийдэг тухай болон уг зөвлөлөөс гарсан санал зөвлөмжүүдийг хэрэгжүүлэх үйл явц зэргийг тусгах болно. Төслийн баг нь энэхүү Зөвлөлийн үр өгөөжийг хэрхэн хүртэх буюу бодлогыг хэрэгжүүлэх практик арга барилын талаар СЗХ-той мэдлэг туршлага хуваалцахад уг бодлогын баримт бичиг нь ихээхэн ач тустай байна гэдэгт итгэж байна. Шаардлагатай бол төслийн баг нь Японы FSA-ын Бодлогын Зөвлөлөөс зөвлөгөө авах болно. Уг баримт бичгийг хүлээлгэн өгсний дараа тус зөвлөлийг хэрхэн үр дүнтэйгээр удирдан, ажиллуулах талаар дараа дараагийн шатанд нь СЗХ-той хамтран ажиллана.

### **2.2. Хөрөнгийн Зах зээлийг хянан зохицуулах болон хяналт тавихад чиглэсэн СЗХ-ны чадавхийг дээшлүүлэх**

2015 оны 2 дугаар сарын 27-ны байдлаар СЗХ-ны дотоод өөрчлөлтүүд явагдсан хэвээр байна гэж ойлгож байна. Төслийн баг нь байгууллагын бүтцийн хувь томоохон өөрчлөлт гарахгүй байх гэж үзэж байгаа. Үнэт цаасны Газарт багцаагаар 40 ажилтан, Хөрөнгийн Зах зээлийн Оролцогчдийн Газарт 7 ажилтан, 62 брокер/дилерийн компанийг хариуцан ажиллаж байна. Үнэт цаасны компаниудад тавих СЗХ-ны хяналт шалгалт нь голдуу тэдгээр компаниуд нь холбогдох хууль, журмыг мөрдөж ажиллаж байгаа эсэхэд чиглэдэг тул төслийн баг нь эрсдэлд суурилсан хяналтад тулгуурлан үнэт цаасны компаниудын санхүүгийн хяналтийн чиглэлээр чадавхийг бэхжүүлэх ажлууд хийхээр төлөвлөж байна.

Мөн түүнчлэн, СЗХ-нд дараах зүйлс дээр техникийн туслалцаа хэрэгтэй байна:

- а) ҮЦЗЗ-ийн тухай хууль болон Хөрөнгө Оруулалтын тухай хуулийн хүрээнд гарсан журам, зааврууд
- б) Хуулийн хэрэгжилтийг хангах
- в) Санхүүгийн шинэ бүтээгдэхүүнүүд

- г) Кастодиан банкинд тавих хяналт
- д) Маргаан таслах бусад арга замуудыг хэрэгжүүлэх
- е) Биржид бүртгэлтэй компаниудын нээлттэй ил тод байдлыг сайжруулах
- ё) Үнэт цаасны компаниудын харилцагчдад үзүүлж буй үйлчилгээний чанарыг сайжруулах

Төслийн баг нь мөн дээр дурьдагдсан хүсэлтүүдийн хувьд дэмжлэг үзүүлэх талаар авч хэлэлцэнэ. Тэдгээрт өгөх ач холбогдлын дарааллыг нь СЗХ-той цаашид дахин хэлэлцэх хэрэгтэй.

### **2.2.1. Эрсдэлд суурилсан хяналтад зориулсан сургалтын хөтөлбөр боловсруулах**

Төслийн баг нь СЗХ-ны Зах зээлийн оролцогчдын газрын ажилтнуудад зориулж эрсдэлд суурилсан хяналтын талаар сургалтын хөтөлбөр боловсруулна. Төслийн хугацаанд хийгдэх сургалт нь Улаанбаатарт таван өдөр байх ба Японы FSA-ын мэргэжилтэн, зөвлөхүүд нь СЗХ-ны ажилтнуудад эрсдэлд суурилсан хандлагын талаар заах болно. Төслийн баг нь уг сургалтын хөтөлбөрт мөн үнэт цаасны компанийн санхүүгийн шинжилгээг хэрхэн хийх, үнэт цаасны компаниудаас санхүүгийн болон үйл ажиллагааны талаарх мэдээлэл өгөгдлүүдийг хэрхэн тогтмол байдлаар татаж авч болох талаар тусгаж оруулах болно. Мөн түүнчлэн дээр дурьдсан долоон асуудлыг СЗХ-той хэлэлцсэний үндсэн дээр авч үзэх болно.

### **2.3. Өөрийгөө зохицуулах байгууллага (ӨЗБ)-ын талаар бодлогын баримт бичиг бэлдэх**

Сүүлийн жилүүдэд хөрөнгийн бирж болон олон улсын зах зээл дэх үнэт цаасны мэргэжлийн холбоод нь өөрийгөө зохицуулах байгууллага (ӨЗБ)-ын үүрэг ролийг хэрэгжүүлдэг болж байна. ҮЦЗЗ-ын тухай хуульд зааснаар МХБ нь мөн үүнтэй адил ӨЗБ байх хэрэгтэй байгаа. Төслийн баг нь Монголын талын оролцогч талууд болох МХБ болон Монголын Үнэт цаасны Арилжаа Эрхлэгчдийн Холбоо (МҮЦАЭХ)-тай хамтран тэдгээрийг үр дүнтэй бөгөөд үр ашигтай өөрийгөө зохицуулах үйл ажиллагааны хүрээг бий болгож хэрэгжүүлэхэд нь дэмжлэг болохуйц ӨЗБ-ын бодлогын баримт бичиг бэлдэж өгнө.

#### **2.3.1. Ажлын хэсэг байгуулах**

Төслийн баг нь МХБ-ын чадавхийг ӨЗБ гэдэг үүднээс хэрхэн өргөжүүлэх талаар хэлэлцэх ажлын хэсэг байгуулахыг санал болгож байна. Уг ажлын хэсэгт МХБ, СЗХ, Үнэт цаасны арилжаа эрхлэгчдийн холбоо (ҮЦАЭХ), Сангийн Яам болон ҮЦТТТХТ оролцох нь зүйтэй гэж үзэж байна. ӨЗБ-ын ажлын хэсгийн талаар Улаанбаатарт 3 дугаар сард хийх дараагийн айлчлалынхаа үеэр хэлэлцэнэ гэж төслийн баг тооцоолж байна.

#### **2.3.2. ӨЗБ-ын талаар хийх сургалтын хөтөлбөр боловсруулах**

Төслийн баг нь ӨЗБ-ын үйл ажиллагааны талаар МХБ, СЗХ, МҮЦАЭХ-нд тус бүрт нь зориулж сургалтын хөтөлбөр боловсруулна. МХБ-д зориулсан сургалт нь үнэт цаасыг бүртгэж авах болон үнэт цаасны арилжааг хэрэгжүүлэхэд чиглэсэн байна. МҮЦАЭХ-нд зориулсан сургалтын хөтөлбөр нь ихэнхдээ үнэт цаасны үйл ажиллагаа эрхлэгчдийн талаарх хууль журамд илүү анхаарсан байх болно гэж үзэж байна. Төслийн баг нь Улаанбаатар болон Токиод хоёуланд нь уг сургалтыг явуулна гэж үзэж байна. Сургалт хийх цаг хугацааг хэдийгээр дараа нь тодорхой болгох боловч урьдчилсан байдлаар 2015 оны 2-3-р улиралд Токиод, 2015 оны 4-р улиралд Улаанбаатарт, мөн 2017 оны 1-р улиралд Токиод хийнэ гэж үзэж байна.

#### **2.3.3. ӨЗБ-ын талаар бодлогын баримт бичиг бэлдэх**

Төслийн баг, МХБ болон МҮЦАЭХ нь Японы Хөрөнгийн Бирж Групп (JPX)-ийн мэргэжилтнүүдийн тусламжтайгаар ӨЗБ-ын талаар бодлогын баримт бичиг бэлдэнэ. МХБ болон МҮЦАЭХ-той хамтарсан баг нь ӨЗБ-ын талаарх бодлогын баримт бичгээ 2016 оны 7-р сар гэхэд Монголын Засгийн Газарт өгнө. JPX нь 2007 онд JPX Regulation (анх TSE Regulation гэж байсан) гэсэн биеэ даасан ӨЗБ байгуулсан бөгөөд уг JPX Regulation-ыг байгуулах процесс нь ӨЗБ гэдэг үүднээс МХБ-ын үйл ажиллагаанд тустай байна гэдэгт итгэж байна.

#### **2.3.4. ӨЗБ-ын талаар семинар зохион байгуулна**

Төслийн баг нь мөн 2017 оны 2-р улиралд МХБ болон МҮЦАЭХ-той хамтран ӨЗБ-ын талаар семинар

зохион байгуулах ба үнэт цаасны компаниуд болон биржид бүртгэлтэй компаниудыг урьж оролцуулан Улаанбаатарт хийхээр төлөвлөж байна. Урьж оролцуулах компаниуд нь үнэт цаасны компаниуд, биржид бүртгэлтэй компаниуд, СЗХ, Сангийн Яам, болон ҮЦТТХТ байх болно.

**2.4. Монголын компаниудыг IPO хийх буюу нийтэд анх удаа хувьцаа санал болгох, мөн гадаадын биржид давхар бүртгэлтэй компани болох явдлыг нь нэмэгдүүлэх**

Төслийн баг нь IPO-г нэмэгдүүлэх, МХБ болон гадаадын биржид давхар бүртгэлтэй болох явдлыг нэмэгдүүлэх таатай орчныг бий болгоход чиглэсэн техникийн хамтын ажиллагаагаар МХБ, СЗХ, андеррайтерууд болон бусад холбогдох оролцогч талуудыг хангаж ажиллана.

**2.4.1. МХБ-д бүртгэлтэй болох боломжит компаниудын жагсаалтыг гаргах**

Төслийн баг нь хамтран ажиллагч байгууллагууд болон бусад оролцогч талуудтай хамтран IPO хийх боломжит компаниуд болон гадаадын биржид бүртгэлтэй Монголд хөрөнгөтэй компаниудыг олж тогтоох ба мөн МХБ-д эсвэл өөр бусад биржид бүртгэлтэй болох хэрэгцээ шаардлагынх нь талаар тодорхойлно.

**2.4.2. МХБ болон СЗХ-ны ажилтнуудад зориулсан сургалтын хөтөлбөр боловсруулна**

Төслийн баг нь МХБ болон СЗХ-нд зориулж IPO болон гадаадын биржид давхар бүртгэлтэй болох талаар мэдлэг хуваалцахад чиглэсэн сургалтын хөтөлбөр хэрэгжүүлнэ. Төслийн баг нь Улаанбаатар болон Токиод энэ талын сургалтыг явуулахаар төлөвлөж байна. Сургалт болох цаг хугацааг хамтрагч байгууллагатай хэлэлцсэний үндсэн дээр тодорхой болгоно.

**2.4.3 IPO болон гадаадын биржид давхар бүртгэлтэй болох талаар семинар зохион байгуулах**

Төслийн баг нь IPO болон гадаадын биржид давхар бүртгэлтэй болох явдлыг идэвхижүүлэхэд чиглэсэн семинарыг МХБ-тэй хамтран Улаанбаатарт жилд нэг удаа зохион байгуулахаар төлөвлөж байна. Зорилтот оролцогчид нь андеррайтерийн компаниуд, үнэт цаасны брокерууд болон бүртгэлтэй болох боломжтой, болохоор сонирхож буй компаниуд байх болно. Сургалт болох цаг хугацааг хамтрагч байгууллагатай хэлэлцсэний үндсэн дээр тодорхой болгоно. Төслийн баг нь одоогоор энэхүү семинарыг 2015 оны 2-р улирал, 2016 оны 2-р улирал, 2017 оны 2-р улиралд тус тус хэрэгжүүлнэ гэж үзэж байна.

**2.4.4. Нэмэлт туслалцаа, дэмжлэг**

Төслийн баг нь андеррайтингийн компаниуд болон холбогдох бусад оролцогч талуудад санал бодол солилцох, хуваалцаж болох мэдээллийг харилцан солилцох замаар дэмжлэг үзүүлэхээр төлөвлөж байна.

**2.5. Иргэд, олон нийтийн санхүүгийн талаарх мэдлэгийг дээшлүүлэх**

Төслийн баг нь хөрөнгийн зах зээлийн идэвхитэй байх явдалд хөрөнгө оруулагчдын мэдлэг боловсрол чухал асуудал болдог гэдэгт итгэдэг. Төслийн баг нь ард иргэд олон нийтийн санхүүгийн боловсролыг дээшлүүлэх чиглэлээр хэрэгжүүлж болох боломжит ажлуудыг бодож боловсруулахдаа МХБ, СЗХ, Их сургуулиуд болон мэргэжлийн холбоод зэрэг холбогдох байгууллагуудтай санал солилцохоор төлөвлөж байна. Хөрөнгө оруулагчдын боловсролыг дээшлүүлэхэд чиглэсэн ажлуудыг зөвхөн СЗХ болон ЖАЙКА-гийн хооронд тодорхой хэлэлцээ хийгдсэний дараа л эхлүүлэх болно.

Хүлээгдэж буй үр дүн	Үндсэн ажлууд	Үндсэн оролцогч талууд
1) Хөрөнгийн зах зээлийг идэвхижүүлэхэд чиглэсэн үр дүнтэй Бодлогын Зөвлөл	✓ Монголын хөрөнгийн зах зээлийн өнөөгийн байдлын талаарх судалгаа	Зөвлөхүүд Японы Санхүүгийн Үйлчилгээний Агентлаг буюу Японы FSA
	✓ Бодлогын зөвлөлийн талаарх бодлогын баримт бичиг бичих	

2) Хөрөнгийн Зах зээлийг хянан зохицуулах болон хяналт тавихад чиглэсэн СЗХ-ны чадавхийг дээшлүүлэх	✓ Эрсдэлд суурилсан хяналтын хандлагаар СЗХ-ны зохицуулах болон хянан шалгах чадавхийг бэхжүүлэхэд чиглэсэн санал боловсруулах	Зөвлөхүүд Японы FSA	СЗХ
	✓ Сургалтын хөтөлбөрүүдийг хэрэгжүүлэх		
3) Өөрийгөө зохицуулах байгууллага (ӨЗБ)-ын талаар бодлогын баримт бичиг бэлдэх	✓ МХБ-ыг ӨЗБ болгоход чиглэсэн бодлогын баримт бичиг бичих	Зөвлөхүүд Японы FSA Японы Хөрөнгийн Биржийн Групп - JPX	МХБ МУЦАЭХ СЗХ Сангийн Яам ҮЦГТТХТ ҮЦК-ууд Биржид бүртгэлтэй компаниуд
	✓ Сургалтын хөтөлбөрүүдийг хэрэгжүүлэх		
4) Монголын компаниудыг IPO хийх, мөн гадаадын биржид давхар бүртгэлтэй компани болох явдлыг нь нэмэгдүүлэх	✓ IPO болон давхар бүртгэлтэй холбоотой хууль журам болон өнөөгийн байдлын талаар тайлан бичих	Зөвлөхүүд Японы JPX	МХБ СЗХ ҮЦК-ууд Биржид бүртгэлтэй болох хүсэлтэй компаниуд Хөрөнгө оруулагчид
	✓ IPO болон давхар бүртгэлийн талаар семинар зохион байгуулах		
5) Ард иргэд, олон нийтийн санхүүгийн талаарх мэдлэгийг дээшлүүлэх	✓ Хөрөнгө оруулагчдад зориулсан мэдээллийг түгээх, нэмэгдүүлэх хөтөлбөрүүдийг идэвхижүүлэх, шаардлагатай бол бусад олон нийтийн үйл ажиллагааг нэмэгдүүлэх	Зөвлөхүүд Японы FSA Японы JPX	ҮЦК-ууд Хөрөнгө оруулагчид МХБ СЗХ

Төслийн хүлээгдэж буй таван үр дүн нь ЖАЙКА болон Санхүүгийн зохицуулах хорооны хооронд хэлэлцэж тохиролцсон тохиолдолд өөрчлөгдөх боломжтой юм. Хэрэв СЗХ-оос нэмж ирүүлсэн хүсэлт нь дээр дурьдсан таван асуудлын аль нэг хэсэгт хамаарч байвал уг нэмэлтийг Ажлын төлөвлөгөөнд дахин оролцуулахгүй байж болно.

### 3. Үйл ажиллагааны төлөвлөгөө

ЖАЙКА-гийн Зөвлөхүүдийн баг нь төслийн дагуу техникийн туслалцаа үзүүлэхээр Улаанбаатар хотод жилд 4-6 удаа айлчилахар төлөвлөж байна. Монгол талын боломж бололцооноос хамаарч уг төлөвлөгөө өөрчлөгдөж болох ч, урьдчилсан байдлаар доорх хуваарийг боловсруулсан болно.

		2014	2015				2016				2017		
		10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9
Хууль журмуудыг судлах, тайлан гаргах		✓	✓	✓									
УБ-т хийгдэх сургалтууд	Хууль журам ба хяналт шалгалт			✓			✓				✓		
	Өөрийгөө зохицуулах байгууллага - ӨЗБ				✓								
	IPO/давхар бүртгэл								✓				
Токиод хийгдэх сургалтууд	ӨЗБ				✓						✓		
	IPO/давхар бүртгэл						✓			✓			
УБ-т хийгдэх семинарууд	ӨЗБ										✓		
	IPO/давхар бүртгэл			✓		✓			✓				
	Санхүүгийн боловсрол			✓			✓				✓		

2014 оны 4-р улирал болон 2015 оны 1-р улиралд Төслийн баг нь уг төслийн хамтрагчид болон бусад



оролцогчдоос дээр дурьдсан 5 зорилттой холбоотой нэн түрүүнд авч үзэх ёстой асуудлуудыг асууж тодруулна. Монголын Хөрөнгийн Зах Зээлийн Өнөөгийн Байдлын тухай тайланд үндэслэн, Төслийн баг нь сургалтын хөтөлбөрөө боловсруулахаар төлөвлөж байна.

### **3.1. Сургалтууд**

Төслийн баг нь зохицуулалт/хяналтын тухай сургалтыг жилд нэг удаа Улаанбаатар хотод зохион байгуулах өгөөд, IPO/SRO болон давхар бүртгэлийн тухай сургалтуудыг Улаанбаатар болон Токио хотуудад хийхээр ярилцаж байна. Улаанбаатар хотод болох сургалт 1 долоо хоног, Токио хотод болох сургалт 2 долоо хоног явагдана. Хичээлийг Японы FSA, JPX-ийн болон Зөвлөхүүдээс бүрдсэн мэргэжилтнүүд заан явуулах болно.

### **3.2. Семинарууд**

IPO/SRO болон давхар бүртгэлийн талаар хэд хэдэн семинар, мөн шаардлагатай гэж үзвэл санхүүгийн боловсролыг нэмэгдүүлэхэд чиглэсэн семинарыг мөн Улаанбаатар хотод хийхээр төлөвлөж байна. Семинар нь хагас өдөр эсвэл 1 бүтэн өдөр явагдах ба уг семинарыг Японы FSA, JPX-ийн мэргэжилтнүүд болон Зөвлөхүүд мөн холбогдох хүмүүс удирдан явуулна

### **3.3. Тайлан, бодлогын баримт бичиг болон бусад үр дүнгүүд**

Төслийн баг нь төслийн жил бүрийн эцэст тайлан, бодлогын баримт бичиг болон бусад үр дүнг гаргах ёстой.

2015 оны 7 дугаар сарын байдлаар дараах зүйлсийг хийж гүйцэтгэхээр төлөвлөж байна.

1. Монголын хөрөнгийн зах зээлийн өнөөгийн байдлын тухай тайлан
2. СЗХ болон Өөрийгөө Зохицуулах Байгуулагын эрх үүргийн тухай тайлан
3. Шинээр үнэт цаас гаргах болон давхар бүртгэлтэй болох тухай тайлан
4. Бодлогын Зөвлөлийн талаархи бодлогын баримт бичиг
5. Зохицуулалт, хяналт шалгалтын талаар хийгдэх сургалтын хөтөлбөр
6. Шалгах хуудас
7. Шийдэх ёстой асуудлууд

2016 оны 7 дугаар сарын байдлаар дараах зүйлсийг хийж гүйцэтгэнэ.

1. Өөрийгөө Зохицуулах Байгуулагын талаарх бодлогын баримт бичиг
2. Шинээр үнэт цаас гаргах болон давхар бүртгэлтэй болох талаар хийгдсэн сургалт
3. Шалгах хуудас
4. Шийдэх ёстой асуудлууд

2017 оны 7 дугаар сарын байдлаар дараах зүйлсийг хийж гүйцэтгэнэ.

1. Эцсийн тайлан
2. Шалгах хуудас
3. Шийдэх ёстой асуудлууд

Шалгах хуудсыг 2016, 2017 оны 1 дүгээр сар гэхэд бэлэн болгох ёстой. Мөн Эхлэлийн Тайланг 2015, 2016 оны 8 дугаар сар гэхэд Зөвлөхүүд боловсруулж, бэлэн болгох, Ажлын Төлөвлөгөөг 2015, 2016 оны 10 дугаар сар гэхэд бэлэн болгож явуулна.

### **3.4. Хамтын Зохицуулах Зөвлөл**

Түүнчлэн Төслийн баг нь Хамтын Зохицуулах Зөвлөл (ХЗЗ)-ийг хагас жил тутам зохион байгуулна. Төслийн баг нь анхны Хамтын Зохицуулах Зөвлөлөө Улаанбаатар хотод гуравдугаар сарын 30-ны

долоо хоногт зохион байгуулах төлөвтэй байна. Хэлэлцүүлгийн Тайлангаар тохиролцсоны дагуу,Хамтын Зохицуулах Зөвлөлийн албан ёсны гишүүдээр Монгол Улсын Засгийн газраас дараах хүмүүс байх болно. Үүнд:

1. Төслийн захирлаар СЗХ-ны дарга,
2. Төслийн дэд захирлаар СЗХ-ны Ерөнхий Захирал
3. Төслийн Менежерээр Хөрөнгийн зах зээлд зуучлагчдын хэлтсийн дарга,
4. Хөрөнгийн зах зээлийн одлого төлөвлөлтийн хэлтсийн дарга
5. Үнэт цаас гаргагчдийн хэлтсийн дарга
6. Хөрөнгийн зах зээлийн санхүүгийн шинэ бүтээгдэхүүн, үйлчилгээний хэлтсийн дарга
7. Эдийн Засгийн Хөгжлийн Яамны төлөөлөгч ( Сангийн Яамны төлөөлөгчөөр солигдох)
8. МХБ-ийн төлөөлөгч
9. Нарийн бичгийн даргаар Удирдлагын газар, Гадаад харилцаа, хамтын ажиллагааны хэлтэс

#### 4. Зөвлөх баг

Томилогдсон зөвлөхүүд нь Азийн хөрөнгийн зах зээлд олон жил ажилласан арвин туршлагатай.

Зөвлөхүүд		Үндсэн үүрэг, чиглэлүүд
Риота Сугишита	Дайвагийн Судалгааны Институт	Төслийн менежер, СЗХ-ны чадавхийг бэхжүүлэх үйл ажиллагаа
Такаюуки Урадэ	Японы Эдийн засгийн Судалгааны Институт	IPO болон давхар бүртгэлийн чиглэл
Мицутака Озаки	Японы Эдийн засгийн Судалгааны Институт	Бодлогын Зөвлөл
Хироюуки Канеко	Дайвагийн Судалгааны Институт	Өөрийгөө Зохицуулах Байгууллага
Акифуми Наканиши	Дайвагийн Судалгааны Институт	СЗХ-ны чадавхийг бэхжүүлэх, хөрөнгө оруулагчдын боловсрол
Масатэру Игата	Фронтнер ХХК	Семинар төлөвлөлт
Догоодын зөвлөхүүд	Ж.Хишигжаргал, Ч.Чинзориг	Монгол дахь зохицуулалтын ажлууд болон орчуулга зэрэг бусад дэмжлэг

##### 4.1.Рёота Сүгишита, Төслийн Менежер, Санхүүгийн зохицуулах хорооны чадавхийг сайжруулах

Рёота Сүгишита нь Дайва Судалгааны Институтын Ерөнхий Зөвлөх бөгөөд, үнэт цаасны шинжээчээр Сингапур, Тайвань, Шанхайд 15жил, Токиод 5 жил ажилласан туршлагатай. Сүүлийн жилүүдэд Мьянмарын Төв банкинд үнэт цаасны зах зээлийг хөгжүүлэх талаар техникийн туслалцаа үзүүлж байгаа. Сүгишита нь 2011 оноос хойш Янгон хөрөнгийн биржийн төсөлд оролцож, төлөвлөлт, хэлэлцээр болон чадавхийг бэхжүүлэх тал дээр ажиллаж байгаа.

##### 4.2.. Такаюүки Урадэ, IPO болон Давхар бүртгэл

Такаюүки Урадэ нь Япон Эдийн Засгийн Судалгааны Институтийн ерөнхий зөвлөх бөгөөд Азийн хөрөнгийн зах зээл, санхүүгийн салбар мөн макро эдийн засгийн талаар хэд хэдэн судалгааг хийсэн. Тэрээр 2013-14 онд ЖАЙКА-гийн Монгол улсын хөрөнгийн зах зээлийн судалгаанд оролцсон. Такаюүки Урадэ нь АНУ-д POWL хийх (биржид бүртгэлгүйгээр нийтэд хувьцаа санал болгох) зэрэг замаар Японы компаниудыг хөрөнгө босгоход нь дэмжиж ажилладаг туршлагатай хөрөнгө оруулалтын банкир юм.

### **4.3. Мицутака Озаки, Бодлогын Хороо**

Мицутака Озаки нь Япон Эдийн Засгийн Судалгааны Институтийн захирал бөгөөд туршлагатай санхүүгийн салбарын зөвлөх болно. Тэрээр сүүлийн жилүүдэд ЖАЙКА-гийн Монгол улсын хөрөнгийн зах зээлийн тухай судалгаа (2013-14), Монгол Улсын Хөгжлийн Банкны чадавхийг бэхжүүлэх судалгаа (2012), Вьетнам улсын Төрийн Банкны ажилтнуудын сургалт судалгаа (2011-2012) зэрэг томоохон судалгаа төслүүдэд оролцон ажилласан байна.

### **4.4 Хироюки Канэко , Өөрийгөө Зохицуулах Байгууллага**

Хироюки Канэко нь Дайва Судалгааны Институтийн гүйцэтгэх захирал бөгөөд Ази, Ойрхи Дорнодод брокер, хөрөнгө оруулалтын чиглэлээр 25 жил ажилласан туршлагатай бөгөөд үүний 14 жилд нь Филиппин, Австрали, Тайвань улсуудад удирдах албан тушаал хашиж байсан.

### **4.5. Акифүми Наканиши, Хөрөнгө оруулагчдийн боловсрол**

Акифүми Наканиши нь Азийн Хөрөнгийн Зах Зээлд мэргэшсэн Дайва Судалгааны Институтийн туршлагатай зөвлөх бөгөөд, Дэлхийн банкинд 7 жил ажилласан туршлагатай. Тэрээр 2011 оноос хойш Мьянмарын үнэт цаасны зах зээлийг хөгжүүлэх төслийн зөвлөхөөр томилогдон ажиллаж байгаа. Сүүлд оролцсон төслүүдээс дурьдвал Японы олон улсын хамтын ажиллагааны банкны (JBIC) Индонезийн банкны салбар дах судалгаа, ЖАЙКА-гийн Мьянмарын төрийн өмчит аж ахуйн нэгжийн судалгаа зэрэг болно.

### **4.6. Масатэру Игата, семинар, зохион байгуулалт**

Масатэру Игата нь Frontier ХХК-ы үүсгэн байгуулагч, захирал бөгөөд Монгол улсын хөрөнгийн зах зээлд хэзээний хүмүүст танигдсан Тэрээр 1980аад оноос хойш Японы хөрөнгийн зах зээлийг судалж ажилласан Хөрөнгийн Зах зээлийн мэргэжилтэн юм. Япон болон Монголд том хэмжээний семинар уулзалтыг зохион байгуулж явуулдагараа алдартай.

**4.7. Жамбалын Хишигжаргал** нь Монгол талын суурин зөвлөх бөгөөд өмнө нь АНУ-ын Олон Улсын Хөгжлийн Агентлагийн Эдийн Засгийн Бодлогын төсөлд санхүү, хөрөнгийн зах зээлийн хөгжлийн чиглэлээр, Монгол Улсын Хөгжлийн банкинд зээл, санхүүжилтийн чиглэлээр ажиллаж байсан туршлагатай. Тэрээр санхүүгийн мастер (БНСУ-ын KAIST) болон бизнесийн удирдлагын мастер (АНУ-ын RIT, Saunders) зэрэгтэй.

**4.8. Чулууны Чинзориг** нь мөн Монгол талын суурин зөвлөх бөгөөд өмнө нь Монгол Шуудан ХК ТУЗ-ийн дарга, Шивээ Овоо ХК-ийн ХШЗ-ийн дарга, ТӨХ–ны хэлтсийн даргаар ажиллаж байсан, мөн Монголын Хөрөнгийн Бирж ХК-ийн шинэчлэн өөрчлөн байгуулах итгэмжлэгдсэн төлөөлөгчөөр ажилласан байсан туршлагатай. Японы Зөвлөх баг болон Монголын төрийн албан хаагчдын уулзалт, хэлэлцээрийг зохион байгуулах ажлыг гүйцэтгэж байгаа. Тэрээр Осака мужын их сургууль, МУИС –ийн магистар бөгөөд Кобе Их Сургуулийн докторант юм.

## **5. PDM – Төслийн Загварын Матриц**

Төслийн Загварын Матриц (ТЗМ) –ийг ЖАЙКА болон СЗХ нь 2014 оны 6 дугаар сард Хэлэлцүүлгийн Тайланд гарын үсэг зурах үеэр танилцуулсан. Төслийн хүрээнд багийн хяналт тавих үзүүлэлтүүдийг хараахан тодорхойлоогүй байгаа.

Төслийн баг нь СЗХ-той ТЗМ-ийн талаар хэлэлцэж, дараагийн удаагийн Хамтын Зохицуулах Зөвлөл (ХЗЗ)-ийн уулзалтын үеэр дүгнэх үзүүлэлтүүдийг шийдвэрлэх хүсэлтэй байна. Дүгнэх үзүүлэлтүүдийг ерөнхий зорилго, төслийн зорилт болон хүлээгдэж буй үр дүнд үндэслэн сонгох болно. Төслийн ерөнхий зорилго нь IPO болон давхар бүртгэлийг нэмэгдүүлэхэд оршино. Төслийн зорилт нь СЗХ, МХБ болон бусад холбогдох талуудын зохицуулалт болон хяналтын тал дээр чадавхийг нь бэхжүүлэх замаар зах зээл дэх итгэл үнэмшлийг нэмэгдүүлэх явдал юм. Хүлээгдэж буй үр дүнгүүд нь 1) хөрөнгийн зах зээлийг сэргээхэд чиглэсэн үр нөлөө бүхий Бодлогын Зөвлөл, 2) хөрөнгийн зах зээлийг

зохицуулах, хянахад чиглэсэн СЗХ-ны чадавхийг дээшлүүлэх, 3) Өөрийгөө Зохицуулах Байгууллага (ӨЗБ)-ын талаар бодлогын баримт бичиг бэлдэх, 4) IPO болон гадаадын биржид давхар бүргэлтэй болох явдлыг нэмэгдүүлэн идэвхижүүлэх, мөн 5) Иргэд, олон нийтийн санхүүгийн боловсролыг нэмэгдүүлэх зэрэг болно.

6. Ажлын хуваарь

Зорилт	2014							2015							2016							2017													
	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	
Төсөл төлөвлөгөө		△									△												△												
Үйл ажиллагааны төлөвлөгөө					△							△												△											
Хяналтын хуудас			△							△						△							△					△						△	
Үйл явцыг хянах хуудас										△													△											△	
Эцсийн тайлан																																		△	
<b>(Зорилт 1)Бодлогын хороог дэмжих</b>																																			
1-1. СЗХ-ны зохицуулалтын хүрээ, дүрэм, журмыг хянан хэлэлцүүлэх			■	■																															
1-2. Зах зээлд оролцогчдын харилцааг сайжруулахын тулд цуврал бүхий уулзалтын зохион байгуулах							■	■	■																										
1-3. Бодлогын хорооны тухай үзэл төслийн танилцуулгыг боловсруулах							■	■	■																										
1-4. Японы туршлага дээр үндэслэн бодлогын хороог удирдахад дэмжлэг үзүүлэх												■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	
<b>(Зорилт 2)СЗХ-ны хяналт шалгалт болон дүрэм журам сахин хэрэгжүүлэх</b>																																			
2-1. Шаардлагатай гэж үзвэл СЗХ-ны зохицуулалтын хүрээг шинэчлэж засварлахад туслалцаа үзүүлэх							■	■																											
2-2. Эрсдэлд суурилсан хяналт шалгалтын тухай чадавхи хөгжүүлэх хөтөлбөрийг боловсруулах												■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	
2-3.2-2 т үндэслэн СЗХ болон хамааралтай албан хаагчдыг бэлтгэх сургалт зохион байгуулах							■																												
<b>(Зорилт 3) Өөрийгөө зохицуулах байгууллагуудын тухай төслийн танилцуулгыг боловсруулах</b>																																			
3-1. Өөрийгөө зохицуулах байгууллагыг байгуулахад чиглэгдсэн ажлын комиссыг томруулах талаар үзэлдөх																																			
3-2.Ажлын комиссын үйл ажиллагааны чиг үүрэг, бүрэн эрхийг хянан зохицуулах							■	■																											
3-3.Өөрийгөө зохицуулах байгууллагыг байгуулахад чиглэгдсэн чадавхи хөгжүүлэх сургалтын хөтөлбөрийг боловсруулах																							■	■	■	■	■	■	■	■	■	■	■	■	
3-4. 3-3т заасны дагуу сургалтыг зохион байгуулах( Сүүлийн жилд семинар зохион байгуулах)											□																								
3-5.Өөрийгөө зохицуулах байгууллагыг байгуулах тухай төслийн танилцуулгыг танилцуулах												■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	
<b>(Зорилт 4)Үнэт цаасыг шинээр гаргах болон давхар бүртгүүлэх арга хэмжээнүүд</b>																																			
4-1.Шинээр үнэт цаас гарах тухай өнөөгийн хуулийн заалтыг хянах ба нэмэлт өөрчлөлт оруулах тухай санал боловсруулах																																			
4-2.Шинээр үнэт цаас гаргах болон давхар бүртгүүлэх тухай заалтуудыг шинээр боловсруулахад туслалцаа үзүүлэх																																			
4-3.Боломжит үнэт цаас гаргагчид чиглэсэн IPO болон давхар бүртгэлийн талаар сурталчлах арга хэмжээ, үйл ажиллагааг боловсруулах																																			
4-4. 4.3ын талаар цуврал бүхий семинар болон олон нийтийн арга хэмжээг зохион байгуулах																																			
4-5. СЗХ, МХБ-ийн албан хаагчдад зориулж сургалтын хөтөлбөрийг боловсруулах(Монгол/Япон)																																			
4-6. 4.5-д үндэслэн сургалтыг зохион байгуулах																																			
<b>(Зорилт 5) Хөрөнгө оруулагчийн мэдлэг, боловсрол</b>																																			
5-1. Иргэд олон нийтийн санхүүгийн мэдлэг болон боловсролын түвшинг дээшлүүлэх, чиглэгдсэн хөтөлбөр, хөтөлбөрийн схемийг боловсруулах																																			
5-2. 5-1 д тулгуурласан нийгмийн үйл ажиллагаа, арга хэмжээг зохион байгуулах																																			
5-3. Японы хөрөнгө оруулагчдын боловсрол олгох үйл ажиллагааг СЗХ-нд танилцуулах																																			
5-4. 5-35.Заас гарсан санал хүсэлтийг нэвтрүүлж, хэрэгжүүлэх(СЗХ болон бусад оролцогч талууд)																																			
<b>Бусад үйл ажиллагаа</b>																																			
ЖАЙКА-тай хийх уулзалтууд																																			
СЗХ-ны албан хаагчидтай хийх бэлтгэл уулзалт (Токиод)																																			
ЖСС-тэй уулзалтуудад оролцох																																			

□ Японд хийх    △—△ Тайлан    ----- Бусад таскнүүд    ■ Монголд хийх

7. Зөвлөхүүдийн хуваарилалт

	Үүрэг	Зөвлөх	Компани	FY Mar15												FY Mar16												Man-months					
				4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	FY Mar15		FY Mar16		Нийт	
																												MN	JP	MN	JP	MN	JP
Монгол	Дурам, журал, хяналт зохицуулалт	Рёота Сүгишита	Дайва Судалгааны Институт									■	■	■	■	■	■			■	■	■	■	■	1.67		3.33		5.00				
	Шинэ уулзалт гаргах/давхар бүртгүүлэх	Такаюки Урада	Япон Зүйн Засгийн Судалгааны Институт									■	■	■	■	■	■			■	■	■	■	■	1.33		3.00		4.34				
	Бодлогын хороо	Мицутака Озаки	Япон Зүйн Засгийн Судалгааны Институт									■	■	■	■	■	■			■	■	■	■	■	1.00		2.80		3.80				
	Өөрийгөө зохицуулах байгууллага	Хироюки Канэко	Дайва Судалгааны Институт									■	■	■	■	■	■			■	■	■	■	■	1.07		2.14		3.20				
	Хөрөнгө оруулагчийн мэдлэг, боловсрол	Акифуми Наканиши	Дайва Судалгааны Институт									■	■	■	■	■	■			■	■	■	■	■	0.50		2.83		3.33				
	Семинар хөтөлбөр	Масатэру Игата	Frontier LLC									■	■	■	■	■	■			■	■	■	■	■	0.50		0.67		1.17				
				Нийт												6.07		14.77		20.84													
Япон	Дурам, журал, хяналт зохицуулалт	Рёота Сүгишита	Дайва Судалгааны Институт																					□		0.25		0.75		1.00			
	Шинэ уулзалт гаргах/давхар бүртгүүлэх	Такаюки Урада	Япон Зүйн Засгийн Судалгааны Институт																					□		0.25		0.75		1.00			
	Бодлогын хороо	Мицутака Озаки	Япон Зүйн Засгийн Судалгааны Институт																					□		0.25		0.75		1.00			
	Өөрийгөө зохицуулах байгууллага	Хироюки Канэко	Дайва Судалгааны Институт																					□		0.75		1.25		2.00			
	Хөрөнгө оруулагчийн мэдлэг, боловсрол	Акифуми Наканиши	Дайва Судалгааны Институт																					□		0.25		1.25		1.50			
	Семинар хөтөлбөр	Масатэру Игата	Frontier LLC																					□		0.00		0.00		0.00			
				Нийт												1.75		4.75		6.50													
Тайлан, хөтөлбөрүүд				△ Эхлэлийн тайлан												△ Монголын хөрөнгийн зах зээлийн өнөөгийн байдлын талаарх тайлан																	
				△ Ажлын төлөвлөгөө												△ Бодлогын хорооны төслийн танилцуулга																	
																△ Эрх зүйн тогтолцооны өнөөгийн байдлын талаарх тайлан																	
																△ Зохицуулалт, хяналт шалгалтын тухай сургалтын хөтөлбөр																	
																△ СЗХ болон Өөрийгөө зохицуулах байгууллагын эрх үүргийн тухай тайлан																	
																△ Өөрийгөө зохицуулах байгууллагын сургалтын хөтөлбөр																	
																△ Шинээр үнэт цаас гаргах болон давхар бүртгүүлэх тухай тайлан																	
																△ Шинээр үнэт цаас гаргах болон давхар бүртгүүлэлтийг сурталчлан дэмжих семинар																	
																△ Хөрөнгө оруулагчдыг сургах семинар																	
																△ Мониторингийн хуудас																	
																△ Шийдэх ёстой асуудлууд																	
				△ Эхлэлийн тайлан												△ Ажлын төлөвлөгөө																	
																Мониторингийн хуудас																	
				Нийт												7.82		19.52		27.34													

■ Монголд  
□ Японд

	Үүрэг	Зөвлөх	Компани	FY Mar17												FY Mar18												Man-months					
				4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	FY Mar17		FY Mar18		Нийт	
																													MN	JP	MN	JP	MN
Монгол	Дүрэм, журим, хяналт зохицуулалт	Рёота Сүгишита	Дайе а Судалгааны Институт	■	■						■		■		■											2.00		1.00		3.00			
	Шинээр үнэт цаас гаргах/давхар бүртгүүлэх	Такаоки Урада	Япон Засгийн Засгийн Судалгааны Институт		■	■	■	■		■			■		■											3.00		0.67		3.67			
	Бодлогын хороо	Мицутака Озаки	Япон Засгийн Засгийн Судалгааны Институт	■	■					■		■		■		■									2.80		1.40		4.20				
	Өөрийгөө зохицуулах байгууллага	Хироюки Канэко	Дайе а Судалгааны Институт		■		■			■		■		■		■									2.50		0.50		3.00				
	Хөрөнгө оруулагчийн мэдлэг, боловсрол	Акифуми Наканиши	Дайе а Судалгааны Институт			■				■				■		■									1.50		1.00		2.50				
	Семинар хөтөлбөр	Масатэру Игата	Frontier LLC		■									■		■									1.00		0.50		1.50				
				Нийт																								12.80		5.07		17.87	
Япон	Дүрэм, журим, хяналт зохицуулалт	Рёота Сүгишита	Дайе а Судалгааны Институт																							0.50		0.00		0.50			
	Шинээр үнэт цаас гаргах/давхар бүртгүүлэх	Такаоки Урада	Япон Засгийн Засгийн Судалгааны Институт																							0.50		0.00		0.50			
	Бодлогын хороо	Мицутака Озаки	Япон Засгийн Засгийн Судалгааны Институт																							0.50		0.00		0.50			
	Өөрийгөө зохицуулах байгууллага	Хироюки Канэко	Дайе а Судалгааны Институт																							0.55		0.00		0.55			
	Хөрөнгө оруулагчийн мэдлэг, боловсрол	Акифуми Наканиши	Дайе а Судалгааны Институт																							0.75		0.00		0.75			
	Семинар хөтөлбөр	Масатэру Игата	Frontier LLC																							0.00		0.00		0.00			
				Нийт																								2.80		0.00		2.80	
		Тайлан, хөтөлбөрүүд																															
				Нийт																								15.60		5.07		20.67	

■ Монголд  
□ Японд

### 8. Тоног төхөөрөмжийн хангамж

2014 оны 6-р сарын 13-нд гарын үсэг зурсан ЖАЙКА болон Санхүүгийн Зохицуулах Хорооны хэлэлцүүлгээр дараах хүснэгтэнд дурьдсан тоног төхөөрөмжүүдийг СЗХ-нд буцалтгүйгээр өгөхөөр тохиролцсон болно.

	Тоног төхөөрөмж	Тоо ширхэг
1	Сервер компьютер	2
2	Зөөврийн компьютер	1
3	Дуу хураагуур	1
4	Прожектор	1
5	Өнгөт принтер	1
6	Зөөврийн гадаад хард драйв	1
7	Самбар	1

Зөвлөхүүд уг тоног төхөөрөмжийг Монголоос худалдан авч ханган нийлүүлэхээр төлөвлөсөн. Үнийн тооцоо, тоног төхөөрөмжийн угсралт суурилуулалт, шалгалт хүлээн авалтыг Зөвлөхүүд гүйцэтгэнэ. Төслийн баг нь тоног төхөөрөмжийн төрөл загвар, үнэ, хэдийд худалдах авахыг СЗХ болон ЖАЙКА-тай зөвшилцсөний үндсэн дээр шийднэ. Авч өгөх тоног төхөөрөмжийн үзүүлэлтүүд нь Хэлэлцүүлгийн Тайланд тусгагдсанаар байх болно.

### 9. Бусад

Төслийн баг нь төслийг сурталчлан таниулах үүднээс холбогдох арга хэмжээ, үйл ажиллагааг хэрэгжүүлэхээр хэлэлцэж байна. Энэ талаар олон нийт, оролцогч компаниуд, мэргэжилтнүүд болон Засгийн Газарт хэрхэн мэдэгдэж, мэдээллэх ёстой талаар СЗХ болон ЖАЙКА-тай ярилцах болно.



## **Appendix 4**

### **Tentative plan for training course on risk-based supervision**

Date: 27 April – 1 May 2015 (tentative)

Venue: Financial Regulatory Commission, Ulaanbaatar

Lecturers: Expert(s) from Financial Services Agency  
JICA Consultant Team

Topics: 1) Basic framework of risk-based supervision  
2) Data/materials collection from capital market intermediaries  
3) Introduction to financial data analysis of capital market intermediaries  
4) Dialogue: FRC's current supervision on capital market intermediaries

Note: Detailed program schedule will be determined later.

**Draft**

# **Report on the Current Status of Mongolian Capital Market**

**April 2015**

**JICA Consultant Team**

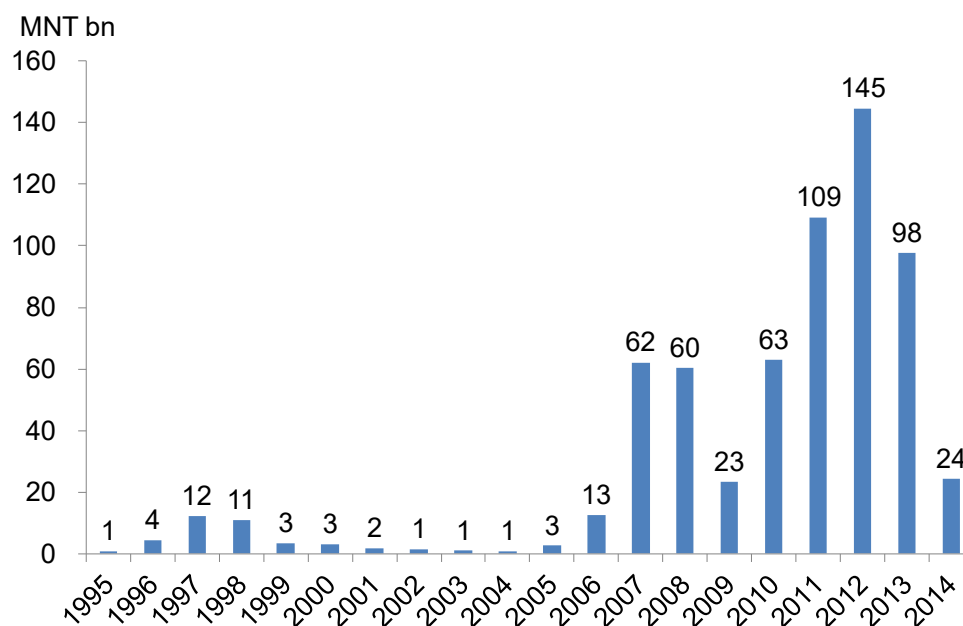
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## I. Overview of the Mongolian Capital Market

MSE faced another tough year in 2014. Trading value declined to MNT 24bn, down 75% from MNT 98bn for 2013. Market capitalization fell to MNT 1.4tn (US\$764m), which is **equivalent to 7% of Mongolia's GDP** at the end of Dec14. 7% to GDP is the second lowest in North and Southeast Asia, after Cambodia. By counter, APU is the largest in market capitalization at MNT 279bn (US\$150m), followed by Tavantolgoi's MNT 232bn.

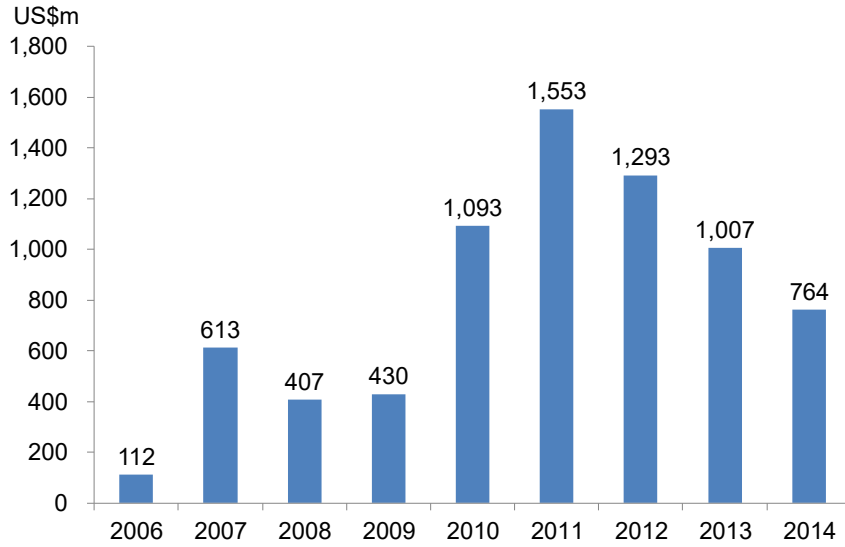
**Figure 1-1 Trading value at MSE**



Source: MSE

MSE's slow trading activities are attributed to structural issues as well as economic downturn. MSE is lack of blue chips. Floating rates for most of MSE stocks are too low at a single digit. Financial reports are sometimes not reliable. Disclosure is not favorable for investors for many cases. General public is not familiar with the stock market. In addition, Mongolia's economy has been hit by weak natural resource prices. Interest rates were raised to fight import inflation.

**Figure 1-2 MSE’s Market capitalization**



Source: MSE

**Table 1-1 Top10 companies by market capitalization, end-Dec14**

MNT bn

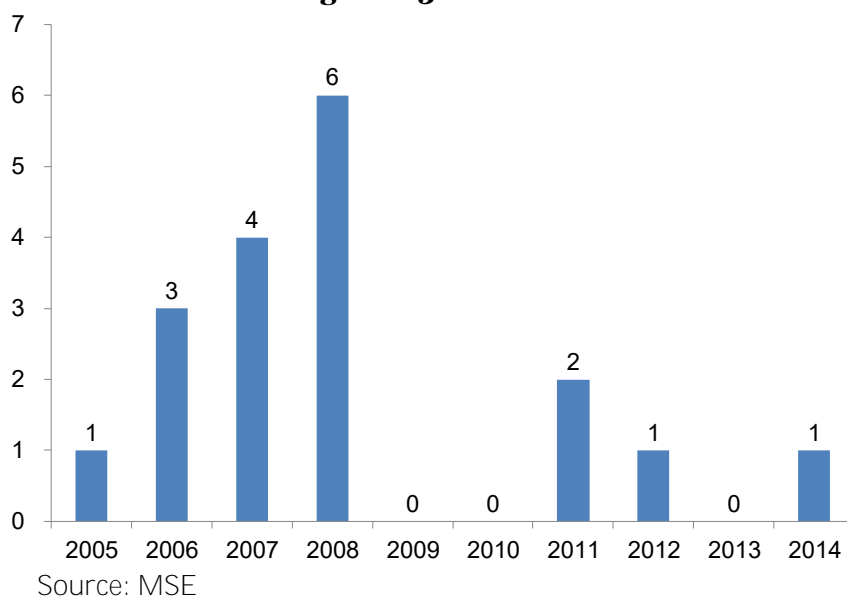
Market cap		2014
1	APU	279
2	Tavantolgoi	232
3	Berkh Uul	68
4	Shivee Ovoo	67
5	Sharyn Gol	62
6	Baganuur	61
7	Gobi	58
8	UB Buk	48
9	Suu	41
10	Mongol Securities	40

Source: MSE

**(1) Listed companies**

No of listed companies at MSE further decreased by 24 to 237 in 2014. The JICA Consultant team (the team) believes that delisting companies that do not meet listing requirements is a right action for MSE. Given that there have been only 18 IPO in the past, number of listed companies can potentially drop to less than 100, in our view.

**Figure 1-3 No of IPO**



Quite a few listed companies do not comply with corporate responsibility. Some of them even do not submit financial reports, according to a survey by FRC. There are some that do not hold an annual shareholders' meeting. Financial numbers are sometimes not reliable, according to accountants. There are only 10 or less listed companies that are audited by the big four international accounting firms. No of listed companies paying dividends are ranging from 15 to 40, depending on a year. The team believes that these facts definitely dampen market confidence, especially from overseas investors.

**Table 1-2 No of listed companies with corporate responsibility, 2013**

	# out of listed companies
<b>Paid dividends</b>	30
<b>Submitted financial reports</b>	204
<b>Renewed company charter</b>	161
<b>Appointed independent directors</b>	122
<b>Held annual shareholders' meetings</b>	150

Source: FRC

In fact, many of major Mongolian corporate group of companies are unlisted. There are roughly 50 overseas-listed companies with Mongolian assets, mainly in Toronto, Australia and Hong Kong. The team also believes that promoting IPO for unlisted Mongolian companies with sound fundamentals and making dual-listing for Mongolian-related companies at TSX/TSV, ASX, HKEx, LSE etc. will be necessary for more active market. Privatization including ETT can be also a driver for MSE, in our view.

## **(2) Securities companies**

The team thinks that securities industry needs further development. It is quite obvious that there are too many small-sized securities companies. According to FRC, there are some that even do not own office space. No of licensees for brokers and dealers declined to 62 from 83 in the past one year, which the team believes is a right action. The team also expects a further decline in no of securities companies after Jul15, when minimum paid-up capital requirements for licenses will be raised.

**Table 1-3 No of licensees**

	Broker, dealer	Underwriter	Investment advisory
<b>Dec-13</b>	83	25	16
<b>Jan-14</b>	79	25	16
<b>Feb-14</b>	79	25	16
<b>Mar-14</b>	79	25	16
<b>Apr-14</b>	79	25	16
<b>May-14</b>	79	25	16
<b>Jun-14</b>	79	25	16
<b>Jul-14</b>	71	25	16
<b>Aug-14</b>	71	25	16
<b>Sep-14</b>	71	25	16
<b>Oct-14</b>	65	25	16
<b>Nov-14</b>	65	25	16
<b>Dec-14</b>	62	25	16

Source: MSE

BDSec is the largest securities company in Mongolia, with a brokerage market share of 32% for 2014. The company is also known as a major underwriter in Mongolia, which has a track record of 11 IPO out of 18.

**Table 1-4 Brokerage share by securities companies, 2014**

	2014
<b>1 BDSEC</b>	32%
<b>2 TDB CAPITAL</b>	20%
<b>3 TULGAT CHANDMANI BAYAN</b>	8%
<b>4 TENGER CAPITAL</b>	7%
<b>5 GOLOMT SECURITIES</b>	6%
<b>6 DELGERKHANGAI SECURITIES</b>	4%
<b>7 STANDARD INVESTMENT</b>	3%
<b>8 MONSEC</b>	3%
<b>9 GENDEX</b>	3%
<b>10 ASIA PACIFIC SECURITIES</b>	2%
<b>Top10 total</b>	89%

Source: MSE

Nevertheless BDBSec is considered to be a small-sized securities company with employees of 50. Operating revenues for 2012 and 2013 were MNT 5.9bn and MNT 2.6bn, which are translated into US\$4.4m and US\$1.7m, respectively.

**Table 1-5 Summary of BDBSec's financial data**

MNT m

	2012	2013
<b>Cash and equivalents</b>	661	858
<b>Short-term investments</b>	3,801	3,684
<b>Total assets</b>	9,750	9,750
<b>Liabilities</b>	281	832
<b>Shareholders' equity</b>	9,469	8,918

<b>Operating income</b>	5,952	2,636
<b>Gross profit</b>	4,859	1,986
<b>Income before tax</b>	1,666	323
<b>Net income</b>	1,491	288

Source: BDSec

**Table 1-6 List of IPO**

MNT m

Ticker	Listed company	Listing date	IPO amount	Underwriter
<b>MSH</b>	Hotel Mongolia JSC	25-May-05	800	BDSec
<b>JTB</b>	Genco Tour Bureau JSC	17-Jan-06	8,259	BDSec
<b>520</b>	Zoos Bank JSC	2006	2,023	<i>Ace and T Capital (Worldkey)</i>
<b>BDS</b>	BDSec JSC	22-Jun-06	750	BDSec
<b>MIB</b>	Moninjbar JSC	2007	1,000	BDSec
<b>HBO</b>	HBOil JSC	2-May-07	400	BDSec
<b>OLL</b>	Olloo JSC	12-Sep-07	582	n.a.
<b>MDR</b>	Mongolian Development Resources	Dec-07	13,200	BDSec
<b>HRM</b>	Hermes Centre JSC	16-May-08	2,356	Bats Invest
<b>529</b>	Anod Bank JSC	2008	20,171	<i>without underwriter</i>
<b>RMC</b>	Remicon JSC	19-May-08	5,049	Gauli (DCF)
<b>NKT</b>	Nako Fuel JSC	24-Jun-08	900	BDSec
<b>HGN</b>	Khuh Gan JSC	30-Jul-08	3,195	BDSec
<b>533</b>	Mon Fresh JSC	2008	-	MICC (cancelled)
<b>SIL</b>	Silicat JSC	1-Aug-11	3,650	BDSec
<b>SHG</b>	Sharyn Gol JSC	2011	18,300	BDSec
<b>ETR</b>	E-Trans logistics JSC	9-Apr-12	924	BDSec
<b>MRX</b>	Merex JSC	14-Jan-14	2,600	Standard Investment

Note: Zoos Bank and Anod Bank were delisted  
Source: BDSEc, MSEC etc.

The team thinks that industry consolidation is necessary for Mongolia's securities industry. Current average size of securities companies is too small for operation, including investor education. Potential leaders in the industry are those under banking groups, in our opinion. Figure 7 shows that securities companies under banking groups ranked #2, #4 and #5 in the brokerage market share. The team also observes that there are attempts by bank-related



securities companies for expansion.

**Table 1-7 Mongolia’s big four banks and securities business**

	Khan Bank	Golomt Bank	Trade Development Bank	Xac Bank
<b>Total assets, 2013</b>	MNT 4.8tn	MNT 3.7tn	MNT 5.1tn	MNT 1.8tn
<b>Securities subsidiary</b>	-	Golomt Securities (subsidiary)	TDB Capital (subsidiary)	Tenger Capital (sister company)
<b>Securities license</b>	Underwriting (Khan Bank)	Brokerage (Golomt Sec) Underwriting (Golomt Bank)	Underwriting (TDB Capital)	Underwriting (Tenger Capital)

Source: Khan Bank, Golomt Bank, Trade Development Bank, Xac Bank

Bank-related securities companies are also major players in the retail government bond market. Tenger Capital gains 68% of share in accumulated amount for the period of 23 Dec-24Feb. TDB Capital and Golomt Securities are ranked #3 and #4, respectively.

**Table 1-8 Trading value of retail government bonds, 23 Dec 14-24 Mar 15**

	Sales	M/S
<b>Tenger Capital</b>	75,937	64%
<b>TDB Capital</b>	17,735	15%
<b>Ard Capital</b>	10,004	8%
<b>Golomt Securities</b>	7,820	7%
<b>BDSec</b>	4,106	3%

Source: MSE

### **(3) Investors**

Activities by Mongolian investors were slower for 2014. Although there are around 780,000 accounts at MSCH&CD, most of them are account holders that are allocated ETT shares, in our understanding. There are roughly 20,000 retail investors, but only 10,000 active investors, according to Mongolian Association of Securities Dealers.

There are almost no domestic institutional investors in Mongolia. Potential domestic institutional investors are insurance companies, but insurance companies do not have any exposure to shares so far. US-based Firebird is known as one of major overseas institutional investors in Mongolia, but overseas investors activities are also limited, due mainly to the current inactive market.

### **(4) MSE**

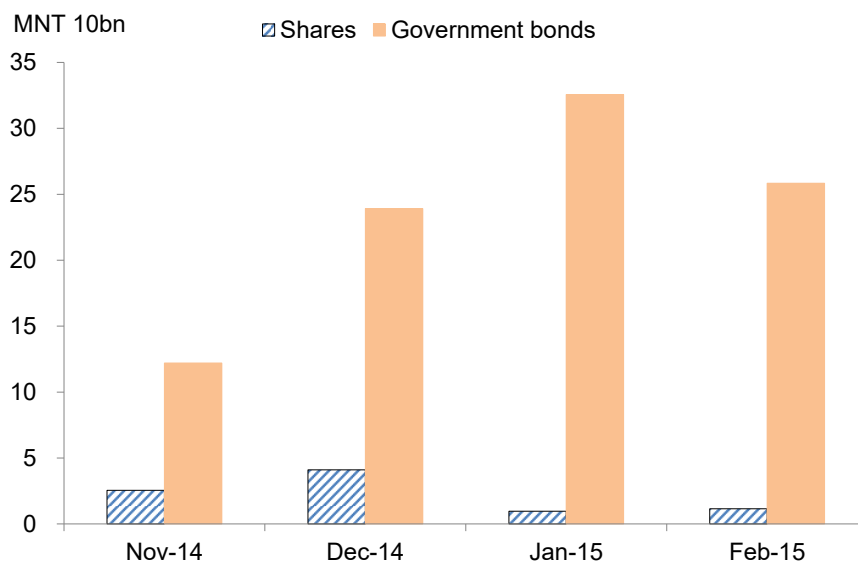
Since Jun14, MOF becomes controls MSE as its sole shareholder, replacing SPC. MOF and MSE appear to have discussions closely for revitalization of MSE. For 2014, the team forecasts that MSE incurred loss for the third consecutive year, as a result of weak market sentiment.

MSE has taken a couple of new measures in the past year, in an effort to reform the market. First, MSE categorized all listed stocks in three groups. Companies under Classification 1 will be regarded as globally-comparable quality stocks. Those under Classification 2 are mid-sized stocks, while stocks under Classification 3 are small cap counters and companies that do not meet requirements. There is none for Classification 1, 89 for Classification 2 and 148 for Classification 3.

Second, retail government bonds are now sold and traded at MSE. Government bonds which are auctioned in a preceding week, are sold at MSE for retail investors since Nov14. Secondary trading of retail government bonds started in Jan15. Currently there are three

maturities of 12, 28 and 52 weeks for retail government bonds, and they attract retail investors with a high-yield of 14-16%, which is sometimes slightly higher than bank deposit rates. In fact, amount of retail government bond sales exceeds that of shares in the past four months.

**Figure 1-4 Trading value of shares and retail government bonds**



Source: MSE

MSE is considering commodity futures and currency futures as new products. MSE apparently thinks that Commodity futures have potential, given relatively active Mongolia Agriculture Commodity Exchange. For currency futures, the team has impression that MSE studies Kazakhstan Stock Exchange’s experiences. KASE’s trading value for 1Q14 reached US\$65bn, 74% out of which was derived by currency futures, according to KASE.

**Table 1-9 Mongolian Agriculture Commodity Exchange**

Description	
<b>Established</b>	2013
<b>Trading value, 1H14</b>	MNT 450bn
<b>Products</b>	Cashmere (90% of total), wool, oilseeds
<b>Responsible agencies</b>	Ministry of Industry and Agriculture, FRC

Source: various

**Table 1-10 Breakdown of trading value at Kazakhstan Stock Exchange, 1Q14**

<b>Currency</b>	74%
<b>Shares</b>	0%
<b>Corporate bonds</b>	0%
<b>Government securities</b>	2%
<b>Repo (corporate securities)</b>	1%
<b>Repo (government securities)</b>	24%
<b>Total</b>	100%

Source: Kazakhstan Stock Exchange

## II. Five expected outcomes and JICA Consultant team's cooperation

### 1. Effective Policy Committee for vitalization of the capital markets

#### (1) Review on the current situation in Mongolia

FRC has established the Non-standing Policy Committee in September 2014 by the order of the Chairman of FRC as shown in the below. Main role of the Non-standing Policy Committee is to have deliberation on important issues on the capital market development, policy, regulations and other related matters, and to issue recommendation on such issues.

There are thirteen members in the Committee. According to what we heard in January 2015, Vice Chairman of the FRC took a role as the Head of the Committee. Senior Supervisor of the Securities Market Department and the head of Capital Market Policy Planning Division, was the secretary of the Committee. The members were assigned by FRC Chairman's order as shown below.

#### **Order of the FRC Chairman. About establishing the Policy Committee:**

According to the items 3.2, 4.2 of the Charter of FRC, approved by the Parliament Resolution #45 of 2006, it is ORDERED that:

1. In order to discuss the issues on capital market development, policy, regulations and other related matters, to elaborate recommendation and comments on necessary issues, establish the non-standing Policy Committee for Capital markets with below persons:

Head of the Policy Committee: Daajamba B. FRC Commissioner and Vice Director  
Members of the Policy Committee:

Jambaajamts T.	Acting head of the Securities department of FRC
Ganbat D.	Head of the Supervision Department, Bank of Mongolia
Nyamaa B.	Head of the Capital markets and insurance policy department, MoF
Angar D.	Acting CEO of MSE
Gandulam T.	CEO of MSCH &CD
Ulziibayar B.	Board member of MASD
Burenjargal Ts.	CEO of MASD
Lkhagvadorj B.	Board Chairman of BDSec
Altantsetseg B.	Economics teacher of Economics School, National University of Mongolia
Ganzorig A.	Economics teacher of Economics School, National University of Mongolia
Unenbat J.	CEO of Corporate Governance Development Center
Ganzorig U.	President of the Capital Markets Association

Secretary: Tumenbayar Sh., Senior Supervisor, CM Policy and Planning Division, Securities Department of FRC

2. Assign the Head of the Policy Committee /Daajamba B./ to take necessary measure for establishing and enacting the committee.
3. Assign the Head of the Policy Committee /Daajamba B./ to provide guidance and supervision on the committee activities and report and present the necessary issues to FRC Meeting.

By Chairman of FRC

Mr. Bayarsaikhan D.

Although the team does not have the latest member list of Policy Committee, the new responsible department for the committee is Market Development Department.

By January 2015, four meetings have been held since the establishment of the Committee. The first meeting was to make an introduction of members and role of the Committee to all members. The other three meetings were held on ad-hoc basis, depending on the current and urgent issues which FRC thought should be discussed among the major stakeholders and the academic experts. The topics of discussion and recommendation in the Committee are: split of function of CSD, tax policy to promote the capital market, privatization of state owned companies listed in MSE, private pension funds, etc. (see Appendix 1)

According to a member of the Committee, a couple days before the meeting being held, related documents for discussion are sent to each member by FRC. Summary of the meetings is disclosed on the FRC website in Mongolian but not in English<sup>1</sup>.

Although FRC submitted recommendations of the Committee to the Parliament and the Government, it seems that these recommendations are not considered very seriously by them, and none of these recommendations has come into effect up to now. This is because the Policy Committee is regarded as non-standing and is not officially institutionalized yet, and also, perhaps more importantly, thorough discussion with a wide range of viewpoints has not been made within a very short time-frame of the past meetings.

Hence, it will be very important for FRC to formalize the Policy Committee as an influential advisory institution in the capital market and to improve operation of the Committee in more effective manner.

## **(2) Possible solutions**

Taking into account the fact that the capital market in Mongolia is at a very early stage of development and a wide variety of issues needs to be discussed and resolved by only a limited number of people who have sufficient knowledge and experience on the capital market, the team has to say it would be difficult for FRC to emulate the structure and operations of the Financial System Council in Japan (described in Appendix 2) entirely. However, in order for FRC to strengthen the authority of the Policy Committee and to **improve the Committee's operation**, the team believes the following measures should be considered to be taken in the near future.

### **a) To institutionalize the Policy Committee as a formal and independent advisory body for the FRC**

Firstly, it is important to institutionalize the Policy Committee as a standing body, and some type of rules or regulations on roles & functions of the Committee should be issued when necessary. As illustrated in the case of Financial System Council in Japan, such rules or regulations should stipulates major tasks, organization, appointment of members, etc. of the Committee.

Also, such Committee should be regarded as an independent body which would make recommendation to the government from the perspective of the third party. In this regard, it would be desirable that the head of the Policy Committee be a person with an independent standpoint.

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<sup>1</sup> Bank of Mongolia (BOM) has Monetary Policy Committee consisted of 14 members including 7 BOM management people, 3 academic experts and 1 MOF official and 3 from the financial industry associations. Monetary Policy Committee was held four times in 2014, and "statement" or decision in the Committee is disclosed on BOM's website both in Mongolia and in English.

**b) To set up an appropriate meeting schedule which enables the members to analyze a specific issue and deliberate it thoroughly**

As indicated in the current operations of the Financial System Council, its Sectional Committees and several Working Groups in Japan, the team supposes that members of the Policy Committee need to have more time and wider-ranging viewpoints to make thorough discussion and deliver an opinion which is effective and constructive for the development of the capital market in Mongolia. In other words, the Policy Committee needs to have sufficient consensus building process, especially for important issues which are very new to the Mongolian capital market or which could have large influence on the current and future market players. For a certain type of issue, it would be more effective to invite industry professionals who make presentation or explanation on the current situation of the issue, in order for the members to have better understanding on the issue. Each issue should be discussed in the Committee at least [three] times within a certain time frame before submitting a recommendation or a report to the Chairmen of FRC.

**c) To enlarge the members of the Policy Committee**

It would be difficult for each member of the Committee to have thorough understanding and give an independent opinion of all the issues discussed in the Committee. At the same time, considering a limited number of professional people and academic experts of the capital market in Mongolia at this stage, it would not be realistic to have Sub Committee or Working Group for each of a specific issue.

Hence, the team believe that it would be important to enlarge the members of the Committee so that at least some member(s) could have profound knowledge and actual business experience (either in Mongolia or abroad) on an issue. Inviting more professionals from the private sector including large companies listed at MSE or at overseas stock exchange, institutional investors, banks, law firms, etc. could be an option. Also, including expatriates or foreign professionals working in Ulaanbaatar could be considered to learn from experiences abroad.

**d) To disclose minutes of the Policy Committee both in Mongolian and in English**

It will get more and more important for FRC as a regulator to earn stronger trust from the financial industry and the public. In order to achieve that, FRC needs to be more transparent when making an important decision which affects the current and future businesses of players in the capital market. Sharing information on the current progress of a specific issue could also be helpful to enhance knowledge level of professionals in the capital market.

In this regard, the team believes that it would be important to disclose information of the Policy Committee as much as possible, including minutes and relevant documents of meetings, both in Mongolian and in English.

**(3) Probable technical cooperation activities under JICA program**

In this JICA project, a FSA person, who is in charge of the Financial System Council in Japan, will be able to provide helpful information to FRC on its experiences and efforts in operating the Council since 1998.

In addition, depending on a specific topic discussed in the Policy Committee, FSA, an industry professional or an academic expert will be sent from Japan as an outside lecturer (or as a non-standing member) of the Committee.

The JICA consulting team will help FRC to institutionalize the Policy Committee as an independent advisory body, give advice on appropriate and effective operation of the Policy

Committee and suggest possible outside lecturer from Japan.

Based on discussions with FRC, MSE and the market participants, possible issues to be discussed further in the Policy Committee are:

- Taxation related to the securities market
- Introduction of derivative products in MSE

Enhancing research and planning capability at Market Development Department is an additional request that FRC expects support from the team. The team will discuss with JICA on this matter.

## **Appendix 1: Recommendations by the Policy Committee in the past meetings**

### **Recommendation #1**

In regard to the Government Resolution # 292, dated on September 18, 2014, **about the measures to be taken for the “MSCH & CD” LLC.**, the Policy Committee recommends following:

1. **Separating some of the functions of the “MSCH & CD”, and transferring them** to the new entity will bring significant changes in the securities clearing, settlement and deposit in the country, and the impact on the overall market infrastructure may be significant. Therefore, in order to avoid any systemic risk, any distortion or confusion in the market, and any damage to clients and investors, it is recommended that there should be a Working Group established and shall be composed of the representatives from the professional institutions and all other market participants, and the implementation of the resolution shall be conducted based on the comments and conclusions of that Working Group, and if deemed necessary, the implementation shall be done by stages/phases.
2. **The “MSCH & CD” is a special object that contains secret and confidential** information of the State as well as individuals and thus it is under the protection of State security guards. It is recommended that the Government shall resolve the due care issues to make sure there is no leakage of any confidential information to any third party during the process of transferring some of its functions to the new entity.
3. Although it is appropriate to separate the securities settlement function as an independent entity as stated in the item 4 of the abovementioned resolution, it is not appropriate to have it under 100% control of a securities trading organization. Instead, the Government and Ministry of Finance should own its shares, and coordinate and direct those three companies of securities trading, central depository of securities and securities settlements. Because, the securities settlement entity will not only conduct MSE trading settlements, but also the settlements for other trades that are conducted on the Commodity exchange and OTC market. Therefore it is inappropriate to have the MSE own all of its shares.
4. To ensure that there is no increase in the fees charged from market participants, investors and clients due to shifting the securities settlement function to a separate entity.
5. Keeping its main activities (settlement, title registration, safekeeping of securities) that require a lot of work to transfer at the current company, and separate other activities by shifting them to the new entity is the key leverage for maintaining the normal flow of the company and also avoid any potential systemic risk. In other words, the current company shall continue to undertake the safekeeping of securities, registration of titles to the securities, and the securities settlement function shall be transferred to the new entity. This will be the optimal solution for the time being, and if necessary, the relevant decisions should be altered accordingly.

### **Recommendation #2**

In order to stimulate the capital market development, the Government should

implement a policy on increasing the demand and supply in the capital market products, and in this regard, the Policy Committee is recommending the followings to the Parliament and the Government:

### **One: Promoting supply and demand in the market through tax/fiscal policy**

It is recommended to offer tax credits or discounts for IPO companies.

#### 1.1. For the Issuing company:

- 1.1.1. To offer a corporate income tax discount or scaled tax rate for an IPO company depending on its trading volume during the first 3 years since IPO. Example: for a company that raised 10 billion by issuing securities (either IPO or bond), a 5% corporate income tax can be levied during the first 3 years, and if the raised fund exceeds 10 billion, then the tax is waived during the first 3 years. Or, for new securities offering, a discount tax rate for the first 3 years, and furthermore, the current 10% and 25% rates can be lowered to 5% and 10%.
- 1.1.2. For businesses that are based on public interests (i.e. banks, mining companies, telecommunication companies), if they become a listed company, a tax waive can be applied for certain period of time.
- 1.1.3. The current 10% tax on **capital gain is discouraging the investors' interest** in this type of financial products. Thus, the tax on capital gain shall be waived until January 1<sup>st</sup> of 2021, or for capital gains earned over up to 2 years of holding period, the tax rate should be 5%, and for capital gains earned over 2 and more years of holding period, the tax should be waived, or the rate should be lowered depending on the length of holding period.
- 1.1.4. For companies, the tax on dividend income earned by investing in a public company shares should be waived until January 1<sup>st</sup> 2021.

#### 1.2. For Individual Investors:

- 1.2.1. The capital gain tax for individual investors shall be waived until January 1<sup>st</sup> of 2021, or for capital gains earned over up to 2 years of holding period, the tax rate should be 5%, and for capital gains earned over 2 and more years of holding period, the tax should be waived, or the rate should be lowered depending on the length of holding period.
- 1.2.2. For individual investors, the tax on dividend income earned by investing in a public company shares should be waived until January 1<sup>st</sup> 2021.

### **Two: Trading of the shares of State Owned Companies that are listed on MSE**

According to an official survey, there are 1,965,759,932 shares of 21 companies that are 100% State owned; and 72,552,967 shares of 16 companies that have state ownership to some degree. However, there is no market capitalization calculated for the 100% state owned companies. The State ownership portion in those partially state-owned companies constitutes 31% of the total market capitalization of the securities market. This is something we need to pay attention to.

Although abovementioned companies are listed on the MSE, their shares are not traded. The actions to start trading these shares need to be taken. By trading the



shares owned by the State, the total trading volume of the market, investment activities and the number of investors in the market will increase, and it will enable an environment for determining more accurate market value of the securities, and thus furthermore lead to better corporate governance practices, and evolvement of large national companies.

**Three: Use of the securities market infrastructure and ensuring higher valuation of the shares when conducting the privatization activities of the State owned companies**

The development of the securities market is related to the privatization program of the country. Conducting the privatization of the state owned companies through MSE, using its infrastructure and systems will enable significant fund raising by attracting many investors. Moreover, it will help stimulating the market activities and thus contribute to the economy.

It is not sufficient to privatize only 4 companies out of the 22 state-owned companies included in the privatization list submitted by the Government to the Parliament. It is recommended to increase the number of state-owned companies to be privatized.

It is resolved to trade the Government bonds via MSE, and offering the shares of the state-owned companies in the same manner will help boosting the investor confidence.

**Four: About Private Pension Fund activities**

It is an international common practice to put the idle funds of pension funds into the securities market. We need to do the same, by moving some of the idle fund of the pension fund that are invested as deposits at commercial banks and earning less return. We need to do this urgently. For this, it is recommended to modify the investment policy of the fund, stating specifically that the fund should invest only in the shares of those companies that have stable operations and are in compliance with the international standards of corporate governance. Pension funds are usually the biggest investors and also they monitor the company operations well. With the presence of this type of large investors, confidence of the minority shareholders can be increased and thus stimulate the market activities and improve the liquidity of the shares.

On the other side, the need to adopt a law on private pension fund arises along with the capital market development. Establishing the ground for private pension funds will enable the evolvement of large, sophisticated investors. Promoting the presence of large professional / sophisticated investors in the market will bring in a lot of progress in the development of the market.

**Five: Ensuring the sustainability of the macro-economy**

It is considered that macro-economic situation is the key indicator of the state of a **country's financial sector. Mongolian economy is facing a slowdown during last year, double digit inflation, MNT depreciation and these factors are increasing the investment risks.**

The development and stability of the securities market help addressing the financial matters of the businesses in real sector and also attract foreign investors. These will, in turn, contribute to the sustainability and the long-term growth of the economy.

The Policy Committee hopes that the Government will take actions according to

these recommendations.

## Appendix 2: Financial System Council under FSA in Japan

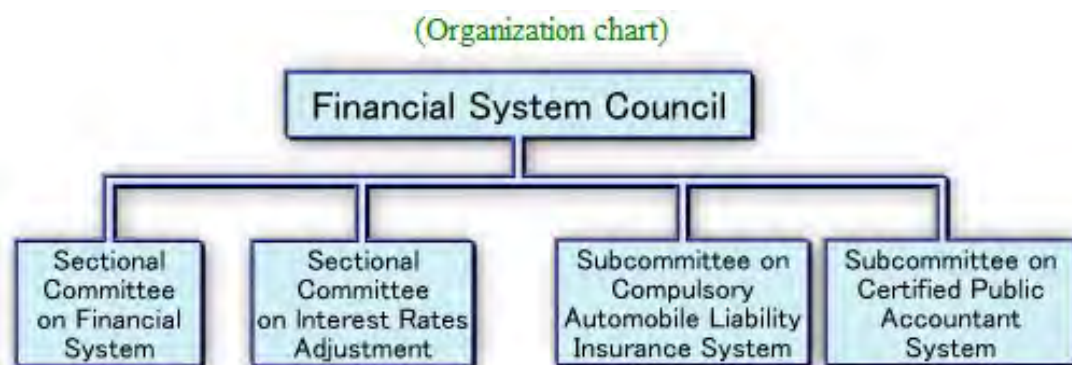
### Overview of Financial System Council

Financial System Council was established in 1998 based on Financial Services Agency Establishment Act.

According to Article 7 of the Act, main role and functions of Financial System Council is (1) to have deliberation on important issues related to financial system improvement, etc. based on a request from the Prime Minister, the Commissioner of FSA or the Minister of Finance, (2) to deliver an opinion on the above issues to the Prime Minister, the Commissioner of FSA or the Minister of Finance, and (3) to have deliberation on important issues related to Compulsory Automobile Liability Insurance System with request from the **Prime Minister or the Commissioner of FSA. In addition, the Council's role is to deliver an opinion** on interest rate adjustment to the Prime Minister, the Commissioner of FSA, the Minister of Finance or Policy Board of the Bank of Japan, and to have deliberation on issues related to Certified Public Accountant System with request from Prime Minister or the Commissioner of FSA.

Members of the Financial System Council are appointed by the Prime Minister with approval from the both houses of the Diet, and the members should exercise their authorities independently from major stakeholders, and each member must not be a board member of any political organizations. Term of the members is three years. Deliberation process should be disclosed annually.

The following is an organization chart of Financial System Council, and there are four sectional committees, each focusing on different and specific issues.



Source: FSA's website

### Financial System Council Order

Under Article 7 of the Financial Services Agency Establishment Act, there is Financial System Council Order which stipulates organization, appointment of members, etc. of the Financial System Council.

According to the Order, the Financial System Council should be organized with less than thirty members, and an ad hoc member or an expert member could be included in the Council when needed.

Chairman of the Council should be chosen by the members of the Council. Term of

members is two years. Also, Chairman of the Sectional Committee on Financial System and on Interest Rate Adjustment should be chosen by the members of the Sectional Committee. Working Group could be organized under the Council or the Sectional Committee. Members of the Working Group should be chosen by the Chairman of the Council or the Sectional Committee.

The Financial System Council cannot hold a meeting and make a decision without majority of the members.

In order to carry out its task, the Council is able to request cooperation to the top of related governmental organization for submitting documents, providing a relevant explanation, etc.

### **Current operation of the Financial System Council**

Currently, there are seventeen members in the Financial System Council. Professor Naoyuki Yoshino of Keio University Economics Department is the Chairman of the Council. Ten members including Professor Yoshino are academic experts, two from consulting companies (Boston Consulting Group and Nomura Research Institute), two from private companies (Mitsui Sumitomo Insurance and Mitsubishi Corp), one lawyer, one from Japanese Trade Union Confederation, and one from voluntary consumer organization. The Financial System Council and the Sectional Committee of Financial System are held twice or three times a year. Recently, the Council and the Sectional Committee have been held concurrently. As of January 2015, there has been thirty-three meetings for the Financial System Council and twenty-one meetings for the Sectional Committee of Financial System. Minutes and **discussion materials of meeting are disclosed on FSA's website.**

There are several Working Groups under the Financial System Council or Sectional Committees, including Working Group on Investment Management, Working Group on Sophistication of Payment and Settlement Operations, Working Group on the Mid- and Long-Term Roadmap of the Financial Industry in Japan, Working Group on the Provision of Risk Money to Emerging and Growing Companies, Working Group on the Provision of Insurance Products/Services, etc. Generally, such working groups are held more frequently compared to the Financial System Council. For example, Working Group on Investment Management which started October 2014 has been held five times in three months. Also, in case of the Working Group on the Provision of Risk Money to Emerging and Growing Companies, before finalizing the draft report, eleven meetings were held within six months. Similar with the Financial System Council, minutes and discussion materials of every meeting are disclosed.

The chart below is a summary of operations of the recent Working Groups.

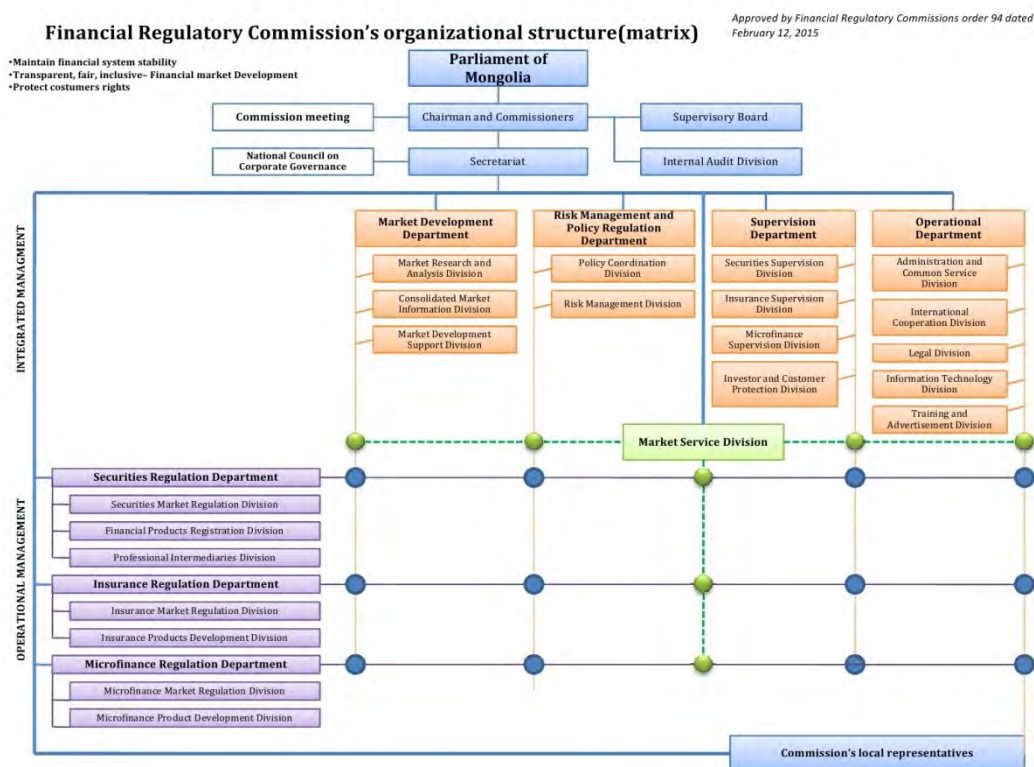
<b>Name of the Working Group (WG)</b>	<b>Term / # of meetings</b>	<b># of members / Head of the Group</b>	<b>examples of outside lecturers</b>
<b>WG: Investment Management</b>	Oct 2014 - / 6	17 / Mr. Kanda, prof., Univ. of Tokyo, Graduate school of law and politics	Nomura Institute of Capital Markets Research, SESC, National Consumer Affairs Center, Nippon Technology Venture Partners, The Japan Academic Society for Ventures and Entrepreneurs, Japan Federation of Bar Associations, Japan Venture Capital Assoc., etc.

<b>WG: Sophistication of Payment and Settlement Operations</b>	Oct 2014- / 10	23 / Mr. Iwahara, prof., Waseda Univ. Law School	NTT Data Group, Japan Bankers Assoc., The Japan Research Institute, Fujitsu, Bank of Japan (BoJ), Deloitte Tomatsu Consulting, JCCI, National Consumer Affairs Center, The Center for Financial Industry Information Systems, etc.
<b>WG: Mid- and Long-Term Roadmap of the Financial Industry in Japan</b>	Jun 2011 – May 2012 / 14	21 / Mr. Yoshino, prof., Kelo Univ. Economics Dept.	Bank of Tokyo-Mitsubishi UFJ, Tokio Marine Holdings, Daiwa Securities, Japan Center for Int'l Finance, Sumitomo Chemical, Mitsubishi Corp., HSBC, JPMorgan, Goldman Sachs, Citigroup, BoJ, Dogan Advisors, The Kagoshima Bank, Sumitomo Mitsui Asset Management, Japan Assoc. for Financial Planners, MorningStar, Carlyle Japan, A.T.Kearney, Nomura Research Institute, etc.
<b>WG: Regulation on Insider Trading</b>	Jul 2011– Dec 201 / 5	16 / Mr. Kanda, prof., Univ. of Tokyo, Graduate school of law and politics	Tokyo Stock Exchange, Tokio Marine Holdings, JX Holdings, Keidanren, etc.
<b>WG: Regulation on Investment Trust and Investment Corporation</b>	Mar 2012-Dec 2012 / 13	18 / Mr. Kanda, prof., Univ. of Tokyo, Graduate school of law and politics	NRI, Nomura Institute of Capital Markets Research, Deutsche Bank Group, Assoc. for Real Estate Securitization, SMBC Nikko, etc.

## 2. Improving FRC's capacity for regulation and supervision of capital markets

### (1) Review on the current situation in Mongolia

Regulation and supervision for market intermediaries, including securities brokers/dealers, underwriters, investment funds etc., used to be covered by FRC's Capital Market Intermediaries Division under Securities Department, but now its responsible department is newly-established Supervision Department. Capital market intermediaries are to be supervised by Securities Supervision Division (SSD) under Supervision Department.



SSD conducts on-site monitoring for major intermediaries, from time to time. It appears that frequency of on-site monitoring is not fixed, typically once in a couple of years. Main purpose of on-site monitoring is to inspect capital market intermediaries if they comply with laws, rules and regulations.

Financial data is not scrutinized by its off-site monitoring. SSD does not have access to capital **market intermediaries'** financial data, except for semi-annual/annual financial reports submitted by intermediaries. Resolution No.457, issued in November 2013, defines data that securities companies need to submit on a monthly basis, but it is mostly trading data and does not key financial numbers.

Moreover, no of staff in SSD is only 9, compared to 62 brokers/dealers, 25 underwriters and 16 investment advisory companies. In addition, SSD is also responsible for supervision of around 300 listed companies, in addition to intermediaries including securities companies, custodian banks, commodity brokers, MSE and MSCH&CD.

### (2) Possible solutions

For better results by its limited staff count at SSD, FRC plans to change its supervision to risk-based supervision from compliance-based. Risk-based supervision is increasingly

common for financial regulators globally, and the team thinks that FRC's attempt to implement risk-based supervision is a positive move. By risk-based supervision, regulators are supposed to supervise high risk-profiled targets (securities companies, for instance) more than those who are low risk-profiled. Although FRC received some support from World Bank for risk-based supervision in the past, that was more or less theoretical inputs, and the team observes that SSD needs further support for what to do in implementing risk-based supervision.

### **(3) Probable technical cooperation activities under JICA program**

The team suggests that a training course will be necessary for FRC to understand basics for risk-based supervision. The team believes that it will be a simple formula for the time-being, given that Mongolian securities companies' operations are mostly brokerage of shares and sales of government bonds, while underwriting and dealing activities are limited.

The team proposes that the first training course on this matter should include the basic framework of risk-based supervision, what kind of data and materials FRC needs to collect from securities companies, and basic financial data analysis. Eventually manuals on risk-based supervision will be necessary. The team understands that a manual for on-site supervision is being developed by Risk Management and Policy Regulation Department.

The team believes that FSA will dispatch its experts for a training course on risk-based supervision to share knowledge and their experiences with FRC. The first training course in Mongolia is tentatively scheduled for 27 April to 1 May 2015. The team proposes that the course will consist of three topics: a) basic framework of risk-based supervision and FSA's experiences; 2) data/materials collection from capital market intermediaries; and 3) introduction to financial data analysis of capital market intermediaries.

In addition, technical cooperation by the team, FSA and other Japanese experts is expected in the area of the following issues:

- a) Rules and guidelines under Securities Market Law and Investment Fund Law
- b) Law enforcement
- c) New financial products
- d) Supervision of custodian banks
- e) Implementing alternative dispute resolution
- f) Improving disclosure for listed companies
- g) Better quality of client services by securities companies

## **Appendix: Guidelines for on-site inspection/supervision of securities firms (brokerage and dealer firms)**

1. General
  - 1.1. The purpose of the supervision is to ensure the compliance of the regulated entities to the Securities market law and other related laws and regulations, and to assess and correct any incompliance if any.
  - 1.2. Inspection has to be conducted by the inspectors in accordance with this guideline.  
Inspection team:  
Head of the team:  
Members of the team:  
  
The time period covered by the inspection:  
The dates/period of the inspection to be conducted:
  - 1.3. The head of the team will be in charge of organizing the team (working group), ensuring the coverage of all the aspects stated in the guideline, conducting the inspection well, and timely reporting the results to FRC.
  - 1.4. The management of the regulated entity will let the inspection team to conduct the inspection, and provide the necessary information in a timely and complete manner.
2. Preparation of the inspection
  - 2.1. Prior to the inspection, the person in charge of the company shall provide following documents to the inspection team:
    - 2.1.1. **Company charter and operation's manual**
    - 2.1.2. Findings on off-site supervision on the company
    - 2.1.3. Any petition, complaints received from clients about the damages they incurred due to the wrongdoings of the company and/or its employees.
    - 2.1.4. **Previous feedbacks and responses given from FRC to the company's financial statements and filings.**
3. The scope of the inspection activity
  - 3.1. Regarding the enforced rules and regulations
    - 3.1.1. Check whether the company charter is registered at the state registration and any amendments are approved by the relevant authority, and the version that is kept at the company is the same as the one kept at FRC (shall have no discrepancy between those copies).
    - 3.1.2. Check whether the internal rule and code of the company that are required by FRC are in compliance with the relevant laws and regulations, and are followed/ enforced accordingly in its operations.
    - 3.1.3. Check whether the internal audit function of the company is efficient and in accordance with the relevant regulations.
    - 3.1.4. Check whether the company paid the required fees
    - 3.1.5. Check whether the company adopted a rule on Anti-money-laundering, and is complying with the rule in its operations.
    - 3.1.6. Check whether the company is reporting to the Financial Information office in **accordance with the FRC regulation on "Client identification Process and reporting of suspicious transactions" which was approved by the FRC resolution # 253, dated on November 23, 2009, and amended by the FRC resolution # 272 of 2010.**
    - 3.1.7. If the inspection was being conducted due to any issue reporting to FRC, the scope of the inspection should be determined, and the inspection shall be conducted accordingly.

- 3.1.8. The inspection team shall advise and inform the company management about any updates or amendments on relevant laws, regulations and also new rules and regulations.
- 3.2. Regarding the main activities / operations
  - 3.2.1. Check whether the company is in compliance with the documentation requirements of all the processes that range from receiving client orders to recording and accounting of the securities transactions, set by FRC, and properly kept and secured the risk of loss and damage to those documents/files.
  - 3.2.2. Check whether the activities such as receiving orders, conducting and canceling of orders are in compliance with the relevant laws and regulations, and there is a daily internal control function on monitoring the orders received/given during the trading process, the price of the securities etc.
  - 3.2.3. Check whether the company provided information about its employees and related parties to the database of the FRC, and whether the company conducts any control and monitoring on the use of inside information, and prevents any exploitation of such information.
  - 3.2.4. Check whether the company ensures the safety and confidentiality of information.
  - 3.2.5. **Check whether the company is submitting the required information to the FRC's** information database, and keeping the required forms and records.
  - 3.2.6. Check whether the company is providing the clients with necessary information, whether the company is doing any activities to help the clients have better understanding of the market.
  - 3.2.7. Check whether the company is providing any services for organizing the shareholder meeting, dividend distribution, share repurchases./if so, the content of that service agreement is in compliance with the relevant laws and regulations/
  - 3.2.8. Check whether the company is addressing the complaints from the clients
  - 3.2.9. Check how the company is keeping the record of **“power of attorney”, and check whether the time period and the scope of all the “power of attorney” are still valid.**
  - 3.2.10. Check whether the company is providing the information stated in the Article 57 of the Securities Law to FRC and the clients.
  - 3.2.11. In terms of publicly disclosed information, check whether the company is in **compliance with the FRC regulation on “Marketing activities of a regulated entity”,** approved by the FRC resolution # 370 of 2013.
  - 3.2.12. In terms of archiving of accounting and bookkeeping records, check whether the company is in compliance with the clause 52.2 of the Securities Law.
  - 3.2.13. Check whether the company has a contract with an audit firm that is registered at FRC according to the clause 53.1 of Securities Law, and whether the audit firm is in compliance with the clause 53.2 of the Securities Law.
  - 3.2.14. Check whether the information disclosed to public is proper, accurate, and the resource and distribution channels are in compliance with the RC regulation.
  - 3.2.15. Inform and warn the company about the amendment in the Criminal Law about imposing criminal sanction on actions such as trading on the insider information, market manipulation, initiating transactions with no change of owners, providing fake information, starting from February 09, 2014.
- 3.3. Regarding Financing, Equipment and HR matters
  - 3.3.1. Check whether the company is in compliance with the prudential ratio criteria
  - 3.3.2. Check whether the loss reserve/provision is sufficient to the level set by FRC, and whether the company rule on compensating any damage to the clients from the loss reserve is effectively enforced.
  - 3.3.3. Check whether the management, internal audit personnel, and employees of the company are licensed by FRC and obtained the professional indemnity insurances.
  - 3.3.4. Check whether the workplace, equipment, software meet the standard/requirement **set by the regulation on “Licensing of regulated entity”, approved by FRC resolution**



- #506 of 2013, and the **regulation on “Operations of a regulated entity”**, approved by the FRC resolution #7 of 2014.
- 3.3.5. Check whether the documentation of accounting and bookkeeping activities are in compliance with the relevant laws, regulations, and IFRS standards.
  - 3.3.6. Check whether the company regularly submitted its financial statements in a timely manner in accordance with the regulation approved by FRC resolution #454 of 2013.
  - 3.3.7. If the regulated entity is undertaking other types of regulated activities, check whether the other activities meet the requirements set by the Securities law, and FRC regulations.
4. Reporting the result of the inspection
    - 4.1. The report of the inspection shall be finalized within 10 working days since the end of the inspection and be presented to the Head of the Securities Department.
    - 4.2. Recommendations on correcting any incompliance revealed during the inspection shall be given to the company with a specified timeframe to correct. This recommendation shall be attached to the inspection report. The head of the inspection team will report the fulfillment of the recommended actions given with the specified timeframe to the Head of the Securities Department in a consolidated manner.
    - 4.3. The reports of inspections made in 2014 shall be presented to FRC.

#### SECURITIES DEPARTMENT

### **3. Writing a concept paper on self-regulatory organization**

#### **(1) Review on the current situation in Mongolia**

Under the Securities Market Law, MSE is designated as one of the SRO; however, the actual transformation process of MSE as an organization into SRO has not yet started.

There are differences in how the stock exchanges act as a self-regulatory body depending on the country, but generally can be classified into two groups: 1) regulation on listing, and 2) regulation on trading.

The first classification involves activities related to listing probation and activities related to examine the adequacy of those companies listed. The activities related to listing probation for instance in JPX is rather a ceremonial event where final screenings take place including official meeting with management of soon-to-be-listed companies since most of the necessary check-ups regarding listing requirements are conducted by underwriters. It will also be ideal for MSE to act such way given its capacity; however, the current surrounding situations such as the limited capacities on the securities houses and limited staff count in MSE are the bottlenecks. On the other hand, the activities concerning verification of the adequacy of those already listed companies should be conducted effectively by the MSE with reasonable responsibility, it can be achieved via modifying and/or implementing its mandates stipulated on the relevant law.

Activities regarding regulation on trading include monitoring activities towards member **securities companies' financial** soundness and whether they are complying with laws, rules **and regulations, as well as checking investors' wrong**-doings. It is advisable to demarcate the actual details during the monitoring process of securities companies with those of FRC. Monitoring of investors has been enhanced via the MIT surveillance system which was implemented in 2012.

In addition to MSE, Mongolian Association of Securities Dealers (MASD) is expected to play a major role in regulating the market as an SRO. The team understands that MASD is preparing rules and regulations as an SRO. Given that MASD is an association of securities companies, the team expects for MASD to self-regulate member companies' behavior, especially that of sales representatives. Sharing ethics with securities sales representatives is important to improve investors' confidence.

#### **(2) Possible solution**

The team thinks that the first step should be building consensus for SRO among Mongolia's stakeholders. Setting up a working group is a good idea to discuss roles of each regulatory organization – FRC, MSE and MASD. FRC is a regulator, MSE and MASD are SROs. A concept paper on SRO will be prepared and shared by stakeholders, when the working group reaches consensus.

#### **(3) Probable technical cooperation activities under JICA program**

After assisting the working group for SRO and writing the concept paper, the team plans to hold a training course in Mongolia as well as in Japan for relevant stakeholders. Main beneficiaries will be MSE, MASD and FRC, but the team believes that other stakeholders including listed companies also need to learn about the new regulatory framework for the capital market. The team also plans to host a seminar on SRO.

The team expects supports by experts from Japan Exchange Group (JPX) and Japan Securities Dealers' Association (JASD). JPX separated its SRO function to another organization called Japan Exchange Regulation (JPX-Regulation) in 2008 (then called Tokyo Stock Exchange Regulation) and the team believe that it will be helpful for MSE to learn from JPX-Regulation how the company managed to enhance its SRO function. The

team also thinks that JASD will be able to provide plenty of useful knowledge and experiences as an SRO, which continues to enhance its function in light of variable securities market.

#### 4. Increasing IPO and promoting dual-listing of Mongolian companies

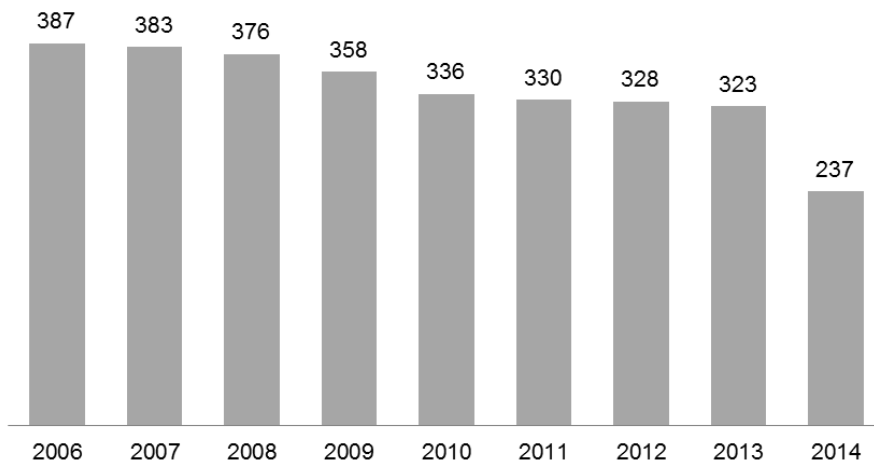
##### (1) Review on the current situation in Mongolia

Equity financing activities through MSE have been stagnant in recent years and there seems to be almost no immediate deals in the pipeline, even after the introduction of the new Securities Market Law in January 2014. This is due not only to the macroeconomic momentum affecting the investor sentiment, but also to several fundamental issues inherent in the current capital markets in Mongolia. In this section, observations by JICA Consultant team (**hereafter** ‘the team’) on the current situation of equity financing in the Mongolian are introduced from five perspectives --- security issuers (listed companies and potential issuers), investors (institutional and retail), intermediaries (brokerage firms and underwriters), stock exchange (MSE) and the regulator (FRC).

##### a) Listed companies

As of the end of 2014, there are 237 listed companies at MSE, 150 less than the end of 2006 (Figure 2-1). The decrease is due largely to the recent effort by FRC and MSE to delist the companies which failed to fulfill the legal requirements to stay listed. In 2013 and 2014, 68 and 25 companies were delisted, respectively. (See also Table 2-1 and 2-2 for the complete list of the companies listed at, and delisted from, MSE. Definitions of three classifications in Table 2-1 are detailed in (d) MSE, later in this section.)

**Figure 2-1 Number of companies listed at MSE**



Source: MSE

**Table 2-1 Listed companies by classification (as of February 20, 2015)**

I Classification			II Classification			III Classification		
№	Symbol	Company name (None)	№	Symbol	Company name	№	Symbol	Company name
1	AAR	Autozam	1	AZZ	AZZAN	68	JGV	Juulchin Gobi
2	AOI	Autoimpex	2	ERD	Ajlyn Khuvtas	69	BLG	Zavkhan Bayalag
3	ATI	Agrotechimpex	3	ALD	Azyk	70	ZVH	Zavkhan teever
4	ADL	Aduunchuluun	4	ALM	Almaas	71	ORG	Zavkhan teekh
5	APP	Asia Pacific Properties	5	ALA	Altai	72	ZSB	Zoos bank
6	APU	APU	6	AZH	Altain zam	73	ZOO	Zoos goyol
7	EER	Arig gal	7	ANO	Anod bank	74	INT	Ingettolgoi
8	ATR	Atar-Urguu	8	ABH	Ar Bayankhangai	75	IHN	Ikh nuur
9	BAN	Baganuur	9	ART	Ar tarkhi	76	IHU	Ikh uusgel
10	BNG	Bayangol Hotel	10	ARJ	Arvijikh	77	MNG	Mandalgobi impex
11	BTG	Bayantceg	11	ALI	Arijaa Impex	78	MMH	Machine mechanism
12	BDS	B D Sec	12	CND	ASBI	79	MNB	Mon Nab
13	HHC	Bishrelt Industrial	13	NOG	Achit alkaby	80	MDZ	Mongol diesel
14	BHL	Buunii hudaldaa	14	ARG	Aerogeodezi	81	MSR	Mongol Shir
15	BHG	Bukhug	15	BZO	Baganuur, zuun umnut busiin tsakhilgaan tugeekh suljee	82	MEG	Mongol EEG
16	GTJ	Guril tejeel Bulgan	16	BRC	Barilga Corporation	83	MTZ	Mongolian railway
17	BEU	Berkh Uul	17	BNB	Bayalag Nalaikh	84	HAM	Mongolin khugil undesnii negdel
18	SUL	Gazar Suljmel	18	BLS	Bayalag Shar.Gol	85	HBJ	Mongolyn hurungiin birj
19	GHC	Gan khiits	19	BAJ	Bayalag Sumber	86	MSV	Monsav
20	HZB	Gan Kherlen	20	VIK	Bayan Aldar	87	AZA	Munkh Jim
21	HRM	Hermes centre	21	BBD	Bayanbogd	88	NDS	Nalaikhyn dulaany stants
22	GOV	Gobi	22	BTL	Bayantalbai	89	NIE	Noyot Khairkhan
23	GTL	Gutal	23	BAL	Bayantolgoi	90	TGS	Nomin Khishig
24	DZG	Darkhan Hotel	24	BTR	Bayantooroi	91	ORI	Orgil Gobi-Altai
25	NEH	Darkhan Nekhii	25	BHR	Binse	92	UAA	Uv-Uujuulagch
26	DHU	Darkhan Khuns	26	BSKY	Bluesky Securities	93	ULZ	Ulzii-Dundgobi
27	DRN	Dornod	27	BOR	Bornuur	94	ONH	Undurkhaan
28	DES	Dornod Khudakdaa	28	BRO	Boroogijn Ujldver	95	OEE	Urgun Khereglee
29	SOI	Eurofeu Asia	29	BUN	Bulgan Undarga	96	GTU	Sav shim
30	JTB	Genco tour bureau	30	CCA	Buudain Tsatsal	97	ARH	Selenge Ar D"huvc
31	IBA	Ikh Barilga	31	BYN	Buyan	98	DLH	Selenge Dulaankhaan
32	MIE	Materialimpex	32	BUT	Buteel	99	SEM	Selenge Impex
33	MMX	Makhimpex	33	BLC	Buteelch Uils	100	SES	Selenge sureg
34	MRX	Merex JSC	34	BRM	Beren mining	101	TVL	Tavilga
35	BDL	Mogoin gol	35	GTR	Gan teerem	102	TAL	Talyn Gal
36	ASA	Mon-Asar	36	DLA	Gantumurt	103	UST	Tuv Us
37	MBG	Mon It Buligar	37	HML	Global mongolia holdings	104	TLP	Tulpar
38	MOG	Mongo	38	JGL	Govin Undur	105	ACL	Teever-Achlah
39	ERS	Mongol Alt	39	GFG	Gobi Financial Group	106	HUN	Uvs Khuns
40	KEK	Mongol Keramik	40	GNR	Gonir	107	UDS	Ulaanbaatar dulaany suljee
41	DLG	Mongol makh expo	41	GUR	Guril	108	UTS	Ulaanbaatar tsakhilgaan tugeekh suljee
42	MNH	Mongol nekhmel	42	DBL	Davaanbulag	109	UNS	Ulaansan
43	UYN	Mongol savkhi	43	DZS	Dalanzagad DTsS	110	LJA	Uliastai tegsh
44	MSC	Mongol Securities	44	DAR	Darkhan guril tejeel	111	UND	Undarga Umnugobi
45	MVO	Mongol shevro	45	HSH	Darkhan makh-expo	112	UBA	Uran Barilga
46	MSH	Mongol shiltgeen	46	DSS	Darkhan Selengiin tsakhilgaan tugeekh suljee	113	CMD	Ujsjuulakh
47	MDR	Mongolia development resources	47	DTU	Darkhan Metallurgical Plant	114	SOH	Uujim Khangai
48	GGE	Mongolyn Gegee	48	DUS	Darkhan us suvag	115	HBZ	KHAABZ
49	MCH	Telecom Mongolia	49	DAH	Darkhan Khuvun	116	HGL	Khangal
50	MIB	Moninjbar	50	DDS	Darkhany dulaany suljee	117	AVH	Kharshim Gegee
51	MNS	Monnoos	51	DAS	Darkhan dulaany tsakhilgaan stants	118	CHE	Khorgo Khairkhan
52	MUDX	MUDIX	52	DZU	DZUZG	119	SDT	Khot development
53	NKT	Naco tulsh	53	BAZ	Digital catalist	120	ADU	Khuvsgul altan duulga
54	NUR	Niislel Urguu	54	DAZ	Dornod autozam	121	HUV	Khuvsgul Geology
55	NXE	Nekheesgui Edlel	55	DIM	Dornod Impex	122	HUZ	Khuvsgul usan zam
56	OLL	Olloo	56	DOT	Dornod Teever	123	HVL	Khuvsgul
57	ORD	Orkhondalai	57	DHS	Dornod Khuns	124	HHS	Khuvsgul khuns
58	RMC	Remicon	58	DRU	Durvun-Uul	125	HUT	Khuduugin Teever
59	SIL	Silicate	59	DSH	Dulaan sharyn gol	126	HBT	Khungun beton
60	SSG	Songolon Barmat	60	DKS	Dulaany tsakhilgaan stants II	127	HSG	Khusug Trade
61	SOR	Sor	61	DGS	Dulaany tsakhilgaan stants III	128	HTS	Khutulin cement shokhoi
62	SUU	Suu	62	DSD	Dulaany tsakhilgaan stants IV	129	DAO	Khurtai
63	TAV	Tav	63	DMA	Devshil Mandal	130	HAH	Khuns-Arkhangai
64	TTL	Tavantolgoi	64	SUN	Euroasia Capital Holding JSC	131	HRD	Khurd
65	TCK	Talkh-Chikher	65	JLT	Jargalant uils	132	HRL	Kherlen Khivs
66	TAH	Takhi Ko	66	JST	Jinst	133	HLG	Khyalganat
67	TEX	Technimport	67	JIV	Jinst-Uvs	134	HJL	Tsuutaj
68	TMZ	Tumriin Zavod				135	CDU	Chandmani dundgobi
69	TUS	Tushig Uul				136	CAD	Chandmani uul
70	TEE	Teever Darkhan				137	SIM	Shim
71	BUK	UB-BUK				138	AMT	Shimtle
72	CHR	Uvs Chatsargana				139	NRS	Shinest
73	UBH	Ulaanbaatar khivs				140	SCL	Shimechlel Invest
74	UID	Ulsyn ikh delguur				141	JRG	Evlel
75	HBO	HBOil				142	EAZ	Erdenet Autozam
76	HMK	Khanyn Material				143	EUD	Erdenet us, dulaan tugeekh suljee
77	TVT	Khar tarvagatai				144	TAS	Erdenet Khuns
78	HAG	Khargia				145	EDS	Erdenetiin dulaany tsakhilgaan stants
						146	BOE	Erchim Bayan-Ulgii
						147	ECV	Ereentsav
						148	ESG	Esgii Gutal

Source: MSE

**Table 2-2 Companies delisted from MSE**

№	Symbol	Company name	Date delisted	№	Symbol	Company name	Date delisted	№	Symbol	Company name	Date delisted
1	ULN	Ulaanbaatar Hotel	2014/11/24	53	HNG	Khangai	2013/8/23	105	IAR	Ilch-Arkhantai	2010/7/9
2	CSU	TSaSTU	2014/11/24	54	HUJ	Khujirt Urguu	2013/8/23	106	ERH	Erdenet khivs	2010/6/24
3	MEL	Monel	2014/11/24	55	SHR	Shar Khooloi	2013/8/23	107	NIC	NIC	2010/5/27
4	RIN	RIN	2014/11/24	56	ETL	Erdenetolgoi tuv	2013/8/23	108	ATK	Avto kombinat	2010/5/19
5	BNT	Tuul bayan	2014/11/24	57	JIM	Urgun Jim	2013/8/23	109	AVT	Khorinmaindugaar Baaz	2010/4/22
6	DLM	Modlog	2014/11/24	58	MAN	Mandal	2013/8/23	110	SBB	Spirit Bal Buram	2010/4/16
7	CHI	Chimbai	2014/11/24	59	ZOS	Zoos trade	2013/8/23	111	HOR	Khash Ord	2010/4/16
8	OTL	Orkhon bulag	2014/10/3	60	OZT	Shakhait khairkhan	2013/8/23	112	OGU	Uguuj-Sumber	2010/4/8
9	OZM	Uguumur uul	2014/9/4	61	BNR	Bayankhongor	2013/8/23	113	NHT	Khotgor	2010/3/5
10	HAL	Tegsh	2014/6/13	62	SAI	Sainshand	2013/8/23	114	MNF	Monfresh Juice	2010/3/4
11	ALT	Altan Taria	2014/5/21	63	UVN	Uvs	2013/8/23	115	BJT	Buyant	2010/2/26
12	DRI	Darkhan Impex	2014/5/9	64	ASG	Asgat	2013/8/23	116	CCL	Tsatsral Mon	2010/2/24
13	MTS	Khorol-Erdene	2014/1/24	65	JRT	Jargalant Tuv	2013/8/23	117	UDV	Undur Dov	2010/2/23
14	DNU	Dornod noos	2014/1/14	66	BBS	Bayanbulag	2013/8/23	118	AYN	Ayanchin	2010/2/23
15	IBU	Torgon ur	2014/1/14	67	MER	Merei	2013/8/23	119	EHB	EKHBUT	2010/2/23
16	ULH	Ulaan khotgor	2014/1/14	68	HBB	Buyantbulag	2013/8/23	120	SHO	Shoroon ord	2010/2/23
17	TEV	Teever tuv	2014/1/14	69	HDS	Selenge Khurd	2013/8/23	121	MZR	Manzushir	2010/2/23
18	ARI	Arijaa	2014/1/14	70	BUR	Ij Buren	2013/8/23	122	KER	Ceramzit	2010/2/23
19	DRZ	Dar Zam	2014/1/14	71	OBL	Ikha daats	2013/8/23	123	BUL	Bayan-Uul	2010/2/23
20	JNN	Jinchin	2014/1/14	72	CNR	Teever tsagaannuur	2013/8/23	124	DTT	Mon khulug	2009/12/18
21	ULB	Ulbaa	2014/1/14	73	AHD	Autoteever-27	2013/8/23	125	SBU	Bilgekhi bayanburd	2009/11/12
22	AHM	Altai khayn material	2014/1/14	74	ADC	Autodaats	2013/8/23	126	DEE	Deej	2009/11/12
23	OZH	Mandal Orgil	2014/1/14	75	HII	Khiits-Uvs	2013/8/23	127	DLB	Delgertrade	2009/11/12
24	SUO	Sumber-Ulzii	2014/1/14	76	TBE	Jonshit teever	2013/8/23	128	BUS	Baruun-Urt Us	2009/11/12
25	GOS	Gobi sumber	2014/1/14	77	TRN	Turuun	2013/8/23	129	SVN	Savan trade	2009/9/4
26	HIE	Khereglee-impex	2013/12/16	78	MED	Mongol Ed Impex	2013/8/23	130	ZMS	ZGMS	2009/9/2
27	UGT	Ugtaal tuv	2013/8/23	79	DDL	Khalkhu buudai	2013/8/23	131	ORL	Tuv orgil	2009/7/1
28	AGA	Agro-Amgalan	2013/8/23	80	ATA	Atar tuv	2013/8/23	132	SNH	Shankh	2009/6/8
29	CHA	Chandgan	2013/8/23	81	NUL	Khangain Tsaram	2013/8/23	133	NDR	Naid	2009/6/8
30	THA	Takhilgat	2013/8/23	82	GGL	Gun Galuut	2013/8/23	134	ARL	Darkhan khudalmaa	2009/6/8
31	SNO	Shine Urguu	2013/8/23	83	UAR	Us-Arkhantai	2013/8/23	135	EHT	Ed khereglegchdiin tuv	2009/6/8
32	NLO	Nalaikh Ugruu	2013/8/23	84	ASH	Asralt khairkhan	2013/8/19	136	TGD	Zurkh uul	2009/6/8
33	ARZ	Ardyn Zorig	2013/8/23	85	SHS	Shines	2013/8/19	137	UUG	Jirmen suljee	2009/6/8
34	BNM	Bayanmod-Uul	2013/8/23	86	MSD	Mongol Shudenz	2013/7/25	138	SSR	Munkhsansar	2009/6/8
35	BNH	Bayankhan	2013/8/23	87	HCH	Javkhant kharaa	2013/7/25	139	URC	Mon Urgats	2009/6/8
36	ZES	Bat Khiits	2013/8/23	88	OJN	Orkhon jims nogoo	2013/7/25	140	MGJ	Magsarjav	2009/6/8
37	BND	Bayandukhum	2013/8/23	89	ERZ	Erdene zam	2013/7/25	141	URT	Ikha Urguu	2009/3/10
38	JMT	Jimst	2013/8/23	90	DHM	Deed Buyan	2013/7/25	142	ATG	Altan joloo-gobi	2009/1/24
39	CGC	Tsagaanchuluut	2013/8/23	91	ITL	Bayan-Itegel	2013/6/21	143	BNZ	Urgats uguuj	2008/12/26
40	BRD	Gobi shand	2013/8/23	92	TLG	Tulga	2013/5/6	144	HHB	Dornin bers	2008/12/12
41	BBG	Del Bayanbulag	2013/8/23	93	MEI	Mongol Em Impex	2013/4/22	145	SIT	Dornod SiTo	2008/10/29
42	TSN	Tsagaannuur	2013/8/23	94	HRH	Khurkh gol	2012/12/27	146	GNL	Gan negdel	2008/10/14
43	AYG	Altan Useg	2013/8/23	95	DHO	Delgerekh khuns	2012/12/14	147	DER	Darkhan urguu	2008/9/4
44	HTO	Khuns Tuv	2013/8/23	96	BGL	Baiguulamj	2012/7/17	148	ACH	Atar chandgan	2008/8/26
45	HRA	Altandulga	2013/8/23	97	MEZ	Monenzim	2012/4/9	149	ATE	Achaa teever	2008/8/26
46	SGT	Selenge Guril Tejeel	2013/8/23	98	JOL	Jol	2011/11/30	150	BLA	Monmoid	2008/7/4
47	UDR	Undram	2013/8/23	99	CNT	Chandmani tal	2011/11/9	151	ENT	Emnelgin Technique	2008/6/6
48	ZNR	Zuunkharaa-Urguu	2013/8/23	100	OHR	Ord kharsh	2011/6/16	152	MSL	Suljee	2008/4/24
49	NSD	Noyon Shand	2013/8/23	101	MNM	Mongol Nom	2011/5/12	153	DBZ	Damjlaga baaz	2008/3/31
50	BBH	Bayanbadrakh	2013/8/23	102	BRL	Khash urguu	2011/5/5	154	LZB	Janna D Ark	2008/2/26
51	ORH	Orkhon	2013/8/23	103	HST	Khailaast	2010/9/23	155	TNV	Tenkheg-Uus	2008/2/22
52	ZAL	Zaluuchud	2013/8/23	104	ARX	Ardiin erkha	2010/9/21	156	HZH	Khazna	2008/1/3

Source: MSE

According to the 2013 Annual Report of FRC, among 323 listed companies (as of the end-2013), 23 companies are state-owned, 30 are parastatal, 193 are private companies with over 75% ownership concentration and 77 are with less than 75% concentration. This high concentration of ownership of listed companies implies very thin trading activities<sup>2</sup>. Coupled with the recent economic downturn in Mongolia, share trading value at MSE has been declining dramatically for the past two years, as mentioned in “I. Overview of the Mongolia’s Capital Markets”

According to the market participants interviewed by the team, there are many listed

<sup>2</sup> According to the 2013 Annual Report, 99% of trading amount and 98% of traded volume were of 30 stocks that were most actively traded. This indicates almost 300 listed companies were poorly traded or were not traded at all in 2013.

companies which have not been traded at all. However, due to the lack of explicit delisting rules and weak enforcement at FRC and MSE, many of these companies are still on the board. FRC, MSE and the market participants share the view that such companies should be delisted as soon as possible for MSE to gain confidence both from domestic and international investors.

Due to this inactive market with low liquidity and very thin investor base, it is generally regarded by Mongolian companies, including those already listed, that economic and social benefits of being listed at MSE are quite limited.

Under such circumstances, the level of the corporate governance and information disclosure of the listed companies have been at a low level, despite the efforts by FRC and the **development partners (DPs)**. According to the **“Corporate Governance Scorecard 2011”** provided by IFC in 2013, even for the 20 largest listed companies surveyed in this report, the overall mean score was 27.5%<sup>3</sup>, **implying ‘poor application of good corporate governance practices.’** Based on the evaluation of the report, among the five major areas of company corporate governance --- **1) shareholders’ rights, 2) equitable treatment of shareholders, 3) stakeholders’ roles in corporate governance, 4) disclosure and transparency and 5) the responsibilities of the board** --- 3), 4) and 5) should be given much more attention by the companies.

FRC, as the government agency in charge of regulations related to corporate governance, will need to make additional efforts to improve corporate governance and information disclosure of the listed companies.

Table 2-3 is the list of companies included in MSE Top 20 Index (as in October 2013) and their market capitalization up to date. Out of the 20 companies, 6 are mining-related, mainly in the coal mining, followed by 3 in the food and hospitality sectors, respectively. Market capitalization of the mining sector has decreased substantially due to the turbulent economic conditions, although some signs of recovery can be observed on the back of the expectation on another move going forward. Performance of other sectors varies to a great extent.

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<sup>3</sup> Based on similar studies by IFC for other Asian countries, the overall mean scores are: Vietnam 43.9% (2009), Hong Kong 72% (2008), Thailand 50% (2001) and 77% (2011), Philippines 53% (2004) and 72% (2008).

**Table 2-3 Market capitalization of the companies included in MSE Top 20 Index**

№	Symbol	Company name	Industry	Market capitalization (MNT billion)			Change	
				2011/5/18 (A)	2013/10/1 (B)	2015/2/18 (C)	(A)→(B)	(B)→(C)
1	APU	APU	food	222.9	282.5	267.7	27%	-5%
2	BAN	Baganuur	coal mining	398.6	83.9	48.2	-79%	-43%
3	BNG	Bayangol Hotel	hospitality industry	16.1	20.3	23.5	26%	16%
4	BDS	BDSec	broker, dealer, underwriter, investment consulting	44.0	33.0	34.0	-25%	3%
5	GOV	Gobi	textile	41.0	37.4	56.9	-9%	52%
6	JTB	Genco tour bureau	hospitality industry	9.4	8.5	8.8	-10%	4%
7	BDL	Mogoin gol	coal mining	34.8	9.4	7.2	-73%	-23%
8	MSH	Mongol shiltgeen	hospitality industry	n.a.	8.5	7.0	n.a.	-18%
9	MDR	Mongolia development resources	real estate	23.4	8.1	6.5	-65%	-19%
10	MCH	Telecom Mongolia	telecommunication	75.8	34.1	31.0	-55%	-9%
11	RMC	Remicon	construction material manufacturing	15.1	13.8	7.2	-9%	-48%
12	SIL	Silicate	chalk refining	n.a.	9.2	10.4	n.a.	14%
13	SUU	Suu	food	n.a.	27.5	31.2	n.a.	14%
14	TTL	Tavantolgoi	coal mining and trade	416.1	168.5	202.8	-59%	20%
15	TCK	Talkh-Chikher	food	n.a.	12.9	20.0	n.a.	55%
16	ULN	Ulaanbaatar Hotel	real estate	15.4	26.8	(Delisted)	74%	n.a.
17	UID	Ulsyn ikh delguur		12.7	15.5	19.4	22%	25%
18	HGN	Khukh gan	iron concentrate	19.3	13.0	12.0	-33%	-8%
19	SHG	Sharyn Gol	coal mining	123.0	76.7	57.3	-38%	-25%
20	SHV	Shivee Ovoo	coal mining	322.1	73.8	83.2	-77%	13%

Source: MSE

Turning to the IPO/SPO markets, the track records in recent years are quite limited, with only two IPOs and six SPOs in the past 6 years (Table 2-4). Among these, three are mining-related, two from construction materials and three from others (finance, logistics and petro importing). Sector-wise, in the team's observation, financing needs tend to be skewed to those with revenue potential outside the country, due partly to the limited size of the domestic demand. Among the domestic demand-oriented sectors, construction has greater presence than others, possibly reflecting the heating real estate market.

**Table 2-4 Past public offerings at MSE**

**IPOs since 2005**

№	Symbol	Name of JSCs	Industry	Listed date	Amount (MNT)
1	MRX	"Merex" JSC	construction material	2014/1/14	2,600,000,000
2	ETR	"E-Trans logistics" JSC	cargo reloading service	2012/4/9	924,000,000
3	HGN	"Khukh gan" JSC	mining	2008/7/30	3,195,456,280
4	NKT	"Nako Fuel" JSC	semi-coke processing	2008/6/24	-
5	RMC	"Remicon" JSC	cement & concrete product manufacturing	2008/5/19	5,048,820,200
6	HRM	"Hermes Centre" JSC	owner of shopping center	2008/5/16	2,356,290,000
7	OLL	"Olloo" JSC	leading portal website	2007/9/12	582,029,900
8	HBO	"Hai Bi Oil" JSC	importing petroleum & oil	2007/5/2	400,000,000
9	BDS	"BDSec" JSC	securities	2006/6/22	750,000,000
10	JTB	"Jenco Tour Bureau" JSC	tourism	2006/1/17	8,259,239,676
11	MSH	"Mongol Shiltgeen" JSC	hotel, restaurant	2005/5/25	800,000,000



### SPOs since 2007

No	Symbol	Name of JSCs	Industry	Listed date	Amount (MNT)
1	BDS	"BDSec" JSC	securities	-	-
2	SHG	"Sharyn gol" JSC	coal mining	2011/10/13	18,301,439,069
3	SIL	"Silikat" JSC	manufacturing lime & concrete blocks	2011/5/6	3,650,017,500
4	SHG	"Sharyn gol" JSC	coal mining	2011/1/13	-
5	HBO	"Hai Bi Oil" JSC	importing petroleum & oil	2010/8/25	728,474,814
6	NKT	"Nako Fuel" JSC	semi-coke processing	2010/8/25	270,264,655
7	BDS	"BDSec" JSC	securities	2008/6/12	2,625,346,500
8	HBO	"Hai Bi Oil" JSC	importing petroleum & oil	2007/11/29	-
9	MIB	"Moninjbar" JSC	construction	2007/1/16	1,000,000,000

Source: MSE

Based on our discussions with the industry experts, potential issuers on the MSE will be state-owned companies (hereafter 'SOCs', including those in the mining sector, MIAT, Mongolian Railways, power plants, etc.), medium-sized growing companies in such sectors as the agriculture, tourism, construction and real estate, and financial institutions.

As for SOCs, the government of Mongolia (hereafter 'GOM', including SPC and other relevant line ministries) has its basic policy that percentage of the future government ownership shall be determined by industry and plans to sell the remaining shares to the market going forward. GOM maintains and updates the list of companies to be privatized for the coming years, which is approved by the Parliament. Once the latest list becomes available, the team shall review and examine it for possible incorporation into this TA.

Another catalyst for further activating the capital market will be IPO of the major private corporate groups such as MCS Holding LLC (having consumer goods, real estate, telecom and energy businesses under the group. Its coal mining subsidiary was listed on HKEx.) and Tavan Bogd Group (having Khan Bank, hotel, travel agency, Gobi Corporations listed on MSE, etc.). While these conglomerates face hurdles on financing from the domestic banks regulated by the Bank of Mongolia, they generally have negative views on utilizing the domestic capital market as an alternative due to the lack of market liquidity, and tend to finance more efficiently from international organizations such as EBRD or through capital markets abroad. It is also pointed out that these corporate groups tend to be owned and managed by the founders who typically hesitate to sell their shares to the third parties.

As for the listing abroad, there are - more than 40 companies listed on the foreign stock exchanges (Table 2-5). Under the new Securities Market Law, as well as the requirement of the Minerals Law on the strategic deposits as introduced later in this section, listing of these companies at MSE could possibly be further promoted.

**Table 2-5 Overseas-listed companies with assets/businesses in Mongolia**

Company	Ticker	Market	Prices	Market cap	Sector	Main business
			31-Dec-14	US\$m		
Aspire Mining	AKM	ASX	AUD 0.033	19	Metals & Mining	Coking coal
Blina Minerals	BDI	ASX	AUD 0.001	1	Metals & Mining	Copper
Carajas Copper	CJC	ASX	AUD 0.001	1	Metals & Mining	Copper, Gold
Cougar Energy	CGM	ASX	AUD 0.002	1	Metals & Mining	Coal
Draig Resources	DRG	ASX	AUD 0.013	1	Metals & Mining	Coal
Eumeralla Resources	EUM	ASX	AUD 0.055	2	Metals & Mining	Tungsten
FeOre	FEO	ASX	AUD 0.026	2	Metals & Mining	Iron ore
General Mining Corp	GMM	ASX	AUD 0.005	1	Metals & Mining	Metals
Guildford Coal	GUF	ASX	AUD 0.036	27	Energy	Coal
Haranga Resource	HAR	ASX	AUD 0.014	3	Metals & Mining	Iron ore
Modun Resources	MOU	ASX	AUD 0.003	176	Energy	Thermal coal
Mongolian Resources - suspended	MJB	ASX	AUD 0.023	108	Metals & Mining	Gold
Newera Resources	NRU	ASX	AUD 0.002	81	Energy	Coal
Tian Poh Resources	TPO	ASX	AUD 0.200	198	Metals & Mining	Coal, Copper
Viking Mines	VKA	ASX	AUD 0.020	166	Metals & Mining	Coal, Zinc
Wolf Petroleum	WOF	ASX	AUD 0.045	446	Energy	Oil
Xanadu Mines	XAM	ASX	AUD 0.100	1,203	Metals & Mining	Copper, Gold
			31-Dec-14	US\$m		
Asia Coal	835	HKEx	HKD 0.14	163	Metals & Mining	Coal
China Daye Non-Ferrous Metals Mining	661	HKEx	HKD 0.14	315	Metals & Mining	Molybdenum
CNNC International	2302	HKEx	HKD 2.85	180	Metals & Mining	Uranium
Mongolia Energy Corp	276	HKEx	HKD 0.41	88	Metals & Mining	Coal
Mongolian Mining Corp	975	HKEx	HKD 0.36	424	Metals & Mining	Coking coal
North Asia Resources	61	HKEx	HKD 0.15	117	Metals & Mining	Gold
Peacemap Holding	402	HKEx	HKD 0.34	295	Metals & Mining	Coal
SouthGobi Resources	1878	HKEx	HKD 3.87	109	Metals & Mining	Coal
Winsway Coking Coal	1733	HKEx	HKD 0.26	124	Metals & Mining	Coking coal
			31-Dec-14	US\$m		
Central Asia Metals	CAML	AIM	£1.83	319	Metals & Mining	Molybdenum, Gold
Origo Partners	OPP	AIM	£0.06	34	Private equity	Coking coal, Mo, Cu
Petro Matad	MATD	AIM	£0.02	9	Energy	Oil
			31-Dec-14	US\$m		
Altan Rio Minerals	AMO	TSXV	CAD 0.020	2	Metals & Mining	Copper, Gold
Centerra Gold	CG	TSXV	CAD 6.040	1,235	Metals & Mining	Gold
Denison Mines Corp	DML	TSX	CAD 1.130	494	Metals & Mining	Uranium
East Asia Minerals Corp	EAS	TSXV	CAD 0.010	1	Metals & Mining	Gold
Entrée Gold	ETG	TSX	CAD 0.205	26	Metals & Mining	Copper, Gold
Erdene Resource Development Corp	ERD	TSX	CAD 0.105	8	Metals & Mining	Gold, Mo, Cu
Lundin Gold	LUG	TSX	CAD 4.300	376	Metals & Mining	Copper etc.
Minecorp Energy	GMZ	TSXV	CAD 0.025	2	Metals & Mining	Coal
Kincora Copper	KCC	TSXV	CAD 0.025	7	Metals & Mining	Copper
Khan Resources	KRI	CSX	CAD 0.485	29	Metals & Mining	Uranium
Lucky Strike Resources	LKY	TSXV	CAD 0.015	1	Metals & Mining	Uranium
MNP Petroleum	MNP	TSX	CAD 0.095	14	Energy	Oil
Mongolia Growth Group	YAK	TSXV	CAD 0.740	22	Property	
Prophecy Development Corp	PCY	TSX	CAD 0.050	13	Metals & Mining	Coal
Turquoise Hill Resources	TRQ	TSX	CAD 3.590	6,247	Metals & Mining	Copper, Gold
			31-Dec-14	US\$m		
Banpu	BANPU	SET	THB 24.90	1,941	Metals & Mining	Coal

Source: JICA Consultant team

In order to check information disclosure of the companies listed at MSE, the team have picked up 5 companies among those in the Top 20 Index and looked into their websites to find English annual reports (Table 2-6). For these companies, no English annual reports were found. Given the importance for the Mongolian capital market to broaden international investor base in the future, it should be noted that without prompt and proper information disclosure by listed companies, international players would hesitate to invest in the Mongolian capital markets. Hence, more proactive attitude toward information disclosure by the MSE listed companies should be regarded as the urgent issue.

**Table 2-6 Availability of English disclosures for the companies in Top 20 Index**

	website in English	Availability of financial reports in English
Company A	○	×
Company B	○	×
Company C	×	×
Company D	×	×
Company E	○	×

## b) Investors

**Institutional investors:** Table 2-7 summarizes an overview of the institutional investors, both of foreign and domestic, trading at MSE.

**Table 2-7 Overview of foreign and domestic investors, end-September 2013**

	Number of accounts		Trading volume (2013)	
	entity	citizen	entity	Citizen
Local investors	2,388 (0.3%)	769,037 (99.5%)	32%	17%
Foreign investors	155 (0.0%)	1,706 (0.2%)	44%	7%

Source: “Overview of MSCH&CD operations” (October 9, 2013)

Domestic entities include commercial banks and companies under major conglomerates. Commercial banks invest mainly in bond products especially the government bonds, and **tend to hold them to maturity rather than trading them actively. Commercial banks’ investments in stocks are limited due to the regulation on banks’ shareholding in the Banking Law.** The insurance industry is still at the infant stage and the companies are still small in size as shown in Table 2-8. The insurance companies are not regarded as the institutional investors, since their experience and expertise in fund management are very **limited and they put most of their fund in bank deposits under FRC’s regulations on fund operations.** There is a hope for the future development of the industry with an enactment of the Private Pension Law and the Sovereign Wealth Fund (SWF) for managing the national revenue from the mining sector, although it should take some time for them to gain enough presence as institutional investors in the Mongolian capital markets.

**Table 2-8 Total assets of insurance companies**

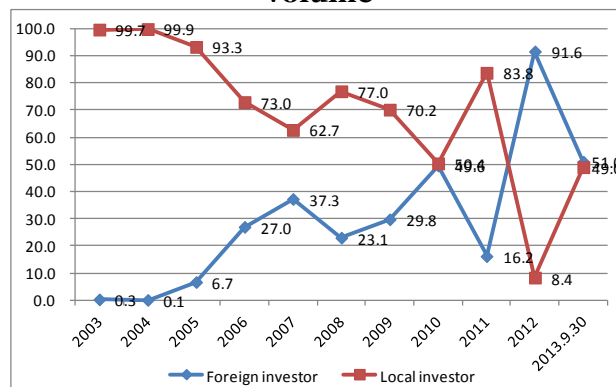
(MNT million)

insurance companies	2010	%		2012	%
1 Mongol daatgal	16,058	28%	1	21,274	20%
2 Bodi daatgal	5,072	9%	2	10,937	10%
3 Tenger daatgal	4,310	8%	4	7,412	7%
4 Practical daatgal	4,184	7%	3	7,728	7%
Mandal			5	7,271	7%
5 Mig daatgal	4,104	7%	6	6,655	6%
6 Nomin daatgal	3,029	5%	9	5,993	6%
7 Ard daatgal	2,983	5%	8	6,345	6%
8 Soyombo daatgal	2,438	4%	7	6,366	6%
9 National life daatgal	2,143	4%	10	4,683	4%
10 Ganzam daatgal	2,032	4%	15	3,144	3%
11 Monre daatgal	1,695	3%	11	3,600	3%
12 Mongoltrust holding daatgal	1,678	3%			
13 Ulaanbaatar city daatgal	1,656	3%	13	3,263	3%
14 Munkh daatgal	1,527	3%	14	3,166	3%
15 Jonon daatgal	1,409	2%	18	1,646	2%
16 Grand daatgal	1,402	2%			
Ger daatgal			16	2,584	2%
17 Monnis daatgal	1,046	2%	12	3,283	3%
18 Khan daatgal			17	2,255	2%
<b>Total</b>	<b>56,764</b>	<b>100%</b>		<b>107,605</b>	<b>100%</b>

Source: 2010, 2012 Annual Report of FRC

As for foreign entities, investment funds focusing on the frontier markets are major players in the Mongolian market. According to an industry expert, just one U.S. investment fund is considered to have occupied most of the trading value by foreign institutional investors, implying that there are not many active foreign investors in the market. As shown in Figure 2-2, foreign investors' presence in terms of trading volume has been fluctuating dramatically. Small capital markets with dominant share of foreign investors tend to be more volatile due to possible speculative activities by such foreign investors. Hence, the regulatory authority of the capital market will need to monitor carefully the investment activities by foreign investors. Also custodian services, currently prepared by some of the commercial banks, are expected to prompt the benefit of foreign investors, which eventually contribute to expanding the investor base.

**Figure 2-2 Percentage of foreign vs domestic investors in terms of trading volume**



Source: "Overview of MSCH&CD operations" (October 9, 2013)

**Retail investors:** As shown in Figure 2-3, the number of accounts held by Mongolian citizens reaches almost 770 thousand, meaning that 27.5% of the total population or every household has an investment account. However, most of these accounts are likely to be inactive, as they were opened when vouchers were distributed in early 1990s and in 2011.

Currently commercial banks in Mongolia offer a deposit interest rate at around 15% p.a., which tends to drive local citizens to leave their money in the deposit as the safest and the most accessible investment. Due also to the perception of the general public that stocks are illiquid and risky, participation of local citizens in the capital markets is very limited in Mongolia except for a few wealthy individuals.

Given all these, as well as the small population in Mongolia, the upside for the retail investor base shall be rather limited for the time being. However, there should be some rooms for increase in individual investors, if there are more opportunities for financial educations and if new financial products such as investment trust fund are marketed effectively through distribution channel of commercial banks, considering high percentage of adults holding investment accounts as mentioned above. This can also be supported by an introduction of preferential tax treatment for securities investment by individuals.

**Figure 2-3 Percentage of adults (age 15+) with an account at a formal financial institution**



Source: The World Bank

### c) Securities intermediaries

The history of securities companies in Mongolia goes back to 1991, when 29 state-owned brokers were established in each 21 provinces and Ulaanbaatar City to distribute stocks of SOCs to the people. They were privatized later, and many others were established when stocks of Erdenes Tavan Tolgoi LLC (ETT) were distributed to the public.

As of the end-2013, there are 26 security companies with the underwriting license and 91 with the brokerage license. The number of brokerage firms increased by 40 in 2011, when shares of Erdenes Tavan Tolgoi LLC (ETT) were distributed to the general public in Mongolia. However, according to the interviews with the market participants, there are only a few security firms which have actual underwriting capability<sup>4</sup>, and there are many small-sized brokers which have been dormant. In its 2013 Annual Report, FRC analyzes

<sup>4</sup> A market participant commented that only BD Sec and couple of others have underwriting capacity.

that a lack of skilled human resources and financial constraints of security intermediaries were part of the reasons behind the decline in the market capitalization.

**Table 2-9 Number of capital market licensees**

Year	Underwriting	Investment Advisory	Professional Intermediaries
2006	2	0	25
2007	8	8	36
2008	17	4	46
2009	15	5	48
2010	16	8	52
2011	22	16	92
2012	25	18	97
2013	26	18	91

Source: FRC

In order to ensure the soundness and stability of the security industry, FRC planned to raise the minimum capital requirement, starting from July 1, 2014. When a company cannot clear the requirement in three-month grace period, FRC will cancel the license of such company. However, facing strong objections from the security companies and the industry association (MASD), FRC decided to postpone the enforcement to July 2015. The actual enforcement of the new rule is likely to throw many security companies out of business.

FRC also examines possibility of introducing ‘capital adequacy ratio’ as an important indicator to measure financial soundness of securities companies. It will be necessary for the Mongolian securities industry to introduce and utilize financial soundness indicators effectively, and hence, to realize sustainable development of the industry. However, after introducing financial soundness measures, there will be restructuring and consolidation of the industry, including withdrawals of small brokers that cannot meet the minimum requirements. Such process will be inevitable for the entire industry to become sounder and more competitive with players above a certain level of business base and financial stability. Therefore, it will be very important for FRC to foresee the future image of the securities industry, and to respond to the industry restructuring in a careful manner to avoid the turmoil.

**Table 2-10 Minimum capital requirements for security-related business licenses**

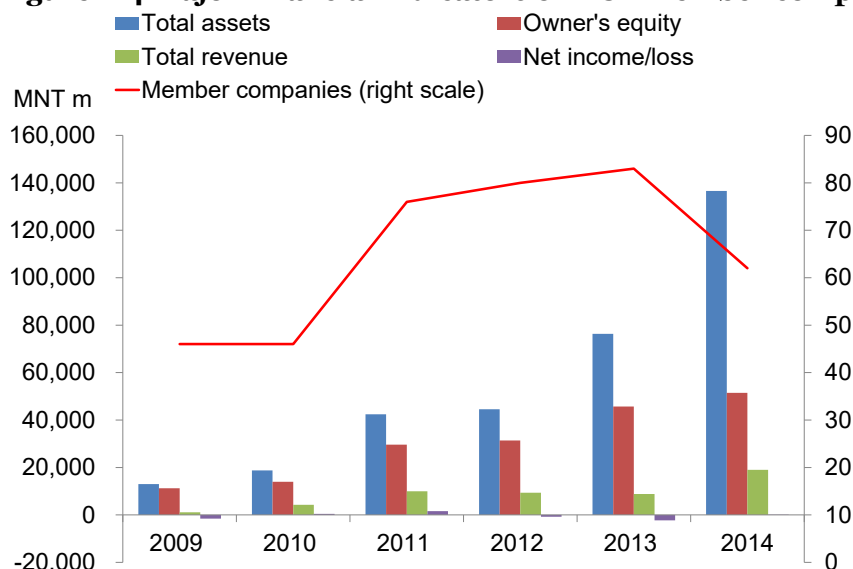
	Current minimum capital based on the present Security Market Law (article 27 & 28)	Revised Minimum capital
Brokers	MNT 50 million	MNT 200 million
Dealers		MNT 300 million
Brokers & Dealers		MNT 500 million
Underwriters	MNT 200 million	MNT 1,000 million
Brokers, Dealers & Underwriters		MNT 1,500 million

Source: FRC

Figure 2-4 illustrates major financial indicators of the total MSE member companies. With increase in the number of securities companies when stocks of ETT were distributed, total assets, owner’s equity, and total revenue of the securities industry increased substantially in

2011. However, total revenue has been stagnant and the net profit has been sluggish since then. 35 companies out of 76 in total in 2011, and 60 out of 80 in 2012 reported net loss. More than half of securities companies continued making loss for 2013 and 2014.

**Figure 2-4 Major financial indicators of MSE member companies**



Source: MSE's website

Ability to plan and develop financial products will be a very important factor for the future growth of the industry. With the implementation of Investment Fund Law in 2014, new financial products such as investment fund and mortgage-backed securities (MBS) can be designed and marketed, which can contribute to broadening the investor base in Mongolia. To take advantage of this opportunity, securities companies need to build up their expertise to deal with such new products.

Also strengthening marketing/distribution network will be critical. Currently a limited number of active companies are dependent on the relationship with particular foreign investors or wealthy local individuals, and there are only a few securities companies that have broad marketing/distribution networks for the mass market. It will be important to expand the network with clients including potential investors, in order for new products to penetrate in the market.

#### **d) MSE**

**Listing rules:** In line with the enforcement of the new Securities Market Law by FRC, MSE has revised its listing rule in October 2014 to make the stock exchange comply with the international standards, to gain confidence from the investors, to improve credibility of listed companies and to increase IPOs by SMEs and growing companies in Mongolia. Comparing the criteria of Classification 1 with that of the former listing rule, minimum percentage of floating shares has decreased from 30% to 25%, minimum operating years increased from 1 to 3 years, and numerical criteria for revenue and profit has been introduced as well as qualitative requirements for the management. According to MSE, there is currently no listed company that meets all requirements for Classification 1. Classification 2 has looser criteria than the former rule, in the sense that its minimum floating shares percentage is 15%, minimum market capitalization is MNT 1 billion (instead of MNT 10 billion in the former rule) and there is no requirements for the profit size. According to the MSE website, 89 listed companies out of 237 fall into this category. Classification 3 is designed for professional investors and more IPO activities by SMEs, but there is no IPO up to now. Also, MSE intends to delist a part of the 148 companies falling

into this category step by step.

**Table 2-11 Listing rules for MSE**

**Classification 1**

<b>Nº</b>		<b>Criteria for the Issuer</b>
1	Operating years	At least 3 years
2	Accounting Standard	IFRS, GAAP, last 3 years
3	Profit	Revenue - above MNT 10 billion Net Profit - above MNT 1 billion
4	Requirements for Board, Management, and controlling shareholders	<ul style="list-style-type: none"> <li>- All debt and other liabilities must be disclosed in the prospectus. Must NOT have significant past-due loans</li> <li>- There should be no changes in 2/3<sup>rd</sup> of the management team within the last 2 years. There should be no significant changes in the composition of the controlling shareholders within the last 1 year.</li> <li>- Top management must possess relevant experiences to the business</li> </ul>
5	Corporate Governance	Must be compliant with the local (FRC CG Codex) or international codes
6	Market intermediary	Must have an underwriter or have an agreement signed with an underwriter
<b>Nº</b>		<b>Criteria for the Security</b>
7	Market capitalization	Above 10 billion MNT
8	Floating %	At least 25% of the total shares
9	MSE listed period / trading history	At least 2 years

**Classification 2**

<b>Nº</b>		<b>Criteria for the Issuer</b>
1	Operating years	At least 2 years
2	Accounting Standard	IFRS, GAAP, last 2 years
3	Working Capital	Must have sufficient working capital for at least 12 months of operation
4	Requirements for Management	<ul style="list-style-type: none"> <li>- All debt and other liabilities must be disclosed in the prospectus. Must NOT have significant past-due loans</li> <li>- Top management must possess relevant experiences to the business</li> </ul>
5	Corporate Governance	Should be compliant with the local (FRC CG Codex) or international codes
6	Market intermediary	Must have an underwriter or have an agreement signed with an underwriter
<b>Nº</b>		<b>Criteria for the Security</b>
7	Market capitalization	Above MNT 1 billion
8	Floating %	At least 15% of the total shares

**Classification 3**

<b>Nº</b>		<b>Criteria for the Issuer</b>
1	Requirements for Management	<ul style="list-style-type: none"> <li>- All debt and other liabilities must be disclosed in the prospectus. Must NOT have significant past-due loans</li> <li>- Top management must possess relevant experiences to the business</li> </ul>
2	Corporate Governance	Should be compliant with the local (FRC CG Codex) or international codes
3	Market intermediary	Must have an underwriter or have an agreement signed with an underwriter



Criteria for the Security		
4	Market capitalization	MSE will decide based on its other requirements
5	Investor base	Professional investors, and other sophisticated and informed investors, who understand the risks of this type of securities

**Table 2-12 Listing examination criteria**

No	Requirement criteria	General	Specific *
1	Shareholder equity	more than MNT 10M	more than MNT 10M
2	Non-current asset size in the price of a security to be listed	more than 10%	more than 20%
3	Number of shareholders**	more than 50	more than 50
4	Percentage of common stock that are publicly offered**	more than 30%	more than 10%
5	Years of running a business operation**	more than 1 year	more than 3 years
6	Profit size**	Shall generate a profit. If incurred a loss, the loss size shall be no more the 30% of an equity capital	No requirement
7	Others	<ol style="list-style-type: none"> <li>1. Company shall adopt and comply with its governance rules and regulations under internationally standardized practice and guidance.</li> <li>2. Financial reports, securities transaction, price, trading data, influential information and operational information of the company and management shall be distributed transparently to the public and MSE as soon as possible.</li> <li>3. Companies must have a specialist who is responsible for securities trading.</li> <li>4. <b>Announce and arrange the shareholders'</b> meeting to the public within the term stated in the Law. These include meeting notes and resolution to be provided to MSE within the time frame.</li> </ol>	

Note:

\* Companies that have a significant role to the sector with infrastructural and strategic importance for the economy shall be reviewed under specific listing criteria.

\*\* Requirement criteria 5 and 6 are not applicable to companies founded under project implementation, requirement criteria 3, 4 and 6 are not applicable to companies being privatized by the state.

Source: MSE website

According to the market participants, examination process for IPOs conducted both by MSE and FRC is quite time-consuming (usually taking 9 to 11 months)<sup>5</sup>, and getting loans from commercial banks is much easier for most companies. After the introduction of the new listing rule which is more friendly and realistic to IPO candidates, it is now very important for MSE to implement the rule in more efficient and effective manner.

<sup>5</sup> Article 7 of the MSE's new listing rule stipulates that "after receiving all the necessary documents and application from the securities issuer, MSE shall conduct inspection and revision of submitted documents within 20 working days."

**Corporate governance:** MSE introduced a new function in charge of corporate governance of listed companies in September 2014. MSE is now conducting a survey on corporate governance and information disclosure of MSE Top 20 companies, in which MSE prepares “self-assessment check list” of 90 questions related to the management, board of directors, information disclosure, accounting standards of these companies. According to the interview with the staff in charge at MSE, the result of survey will be announced in the near future.

**Business planning:** Market Development Department of MSE has prepared the business plan of 2015, and the plan is now under discussion with the government. In this plan, the target number of IPOs in 2015 is set at five, although there is no concrete potential deal as of today.

#### **e) FRC**

Securities Regulation Department is in charge of examining listing companies and monitoring the listed companies in MSE. Some of the functions that FRC used to have in checking IPO applicant have been transferred to MSE as well as the third parties including auditing firm, law firm and evaluators, with the enforcement of new Securities Market Law and MSE’s new listing rule. However, FRC still has authority to approve registration of prospectus of each IPO candidate in MSE. In other words, IPO candidates need to apply to both FRC and MSE for IPO examination process, and there seems to be some overlapping work<sup>6</sup> between FRC and MSE in their examination process, which could lead to complaint about time consuming procedure by underwriters and listing companies. Also, in monitoring work of MSE listed companies, there could be some overlap between FRC and MSE<sup>7</sup>.

According to the Division manager, under the current limitation of the number of staff (nine in total), it is not possible for FRC to monitor all of the 237 listed companies. FRC cooperates with auditing firms to conduct on-site inspection for the listed companies, but FRC would need to prepare some type of inspection manual to receive appropriate results from the work of auditing firms.

Also, the National Council on Corporate Governance which was established under FRC as the institution implementing corporate governance policy has been working with MSE and MSE Top 20 companies to improve understanding and practices on better corporate governance and information disclosure.

As commented earlier, IPO examination process partly covered by FRC is time-consuming, and such situation should be resolved as early as possible.

#### **f) Relevant laws and regulations**

**Securities Market Law:** The Securities Market Law was initially enacted in 2002, which was amended to a large extent in May 2013 and took effect on January 1, 2014, with the main purpose of providing an effective regulatory environment for further developing the securities market. Table 2-13 and 2-14 summarize the basic structure and the changes from the previous version, for which the parts closely related to IPO and dual-listing are marked.

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<sup>6</sup> According to former Securities Issuer Division of FRC, in IPO examination process, FRC mainly focuses on accuracy of content in prospectus including information on management, financial conditions, business plan, methodology of public offering, etc., while MSE need to check criteria set in each Category.

<sup>7</sup> According to former Securities Issuer Division of FRC, monitoring work of MSE listed companies has been mainly conducted by FRC up until now due to capacity limitation of MSE.

**Table 2-13 Structure of the Amended Securities Market Law**

**Chapter 1: General provisions**

Article 1. Purpose of the Law Article 2. Legislation relating to the securities market	Article 3. Scope of application of the Law Article 4. Definitions of terms used in this Law
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**Chapter 2: Issue and trading of securities**

Article 5. Securities Article 6. Issue of securities Article 7. Securities issuers Article 8. Procedures for issuing securities by way of public offer Article 9. Registration of securities and approval of public offer Article 10. Securities prospectus Article 11. Public offer of securities Article 12. Selling securities on the primary securities market and related reporting Article 13. Depositary receipt	Article 14. Mongolian depositary receipts Article 15. Global depositary receipts Article 16. Company debt instruments Article 17. Issue of securities in a foreign jurisdiction by a company listed on the stock exchange Article 18. Issuing of securities in Mongolia by a legal entity registered in a foreign jurisdiction Article 19. Issuing derivative financial instruments Article 20. General obligations of the issuer Article 21. Demand of information relating to securities issuers and submission of claims
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**Chapter 3: Purchasing all or a controlling block of the shares of a company**

Article 22. Making of an offer to purchase the shares of a company Article 23. Procedures for the purchase the shares of a company
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**Chapter 4: Regulated activities**

<p><b>Sub-chapter 1: General regulations</b> Article 24. Regulated activities Article 25. Principles to be observed when undertaking regulated activities Article 26. Regulations for regulated activities</p> <p><b>Sub-chapter 2: Issuing and registering licenses to legal entities to undertake regulated activities</b> Article 27. Applications for licenses Article 28. Granting a license Article 29. Suspension of a license Article 30. Revocation of a license Article 31. Consequences of suspension or revocation of a license Article 32. Measures to be taken and implemented by the FRC in connection with suspending, restoring, and revoking a license Article 33. Regulated activities to be undertaken on the basis of registration Article 34. Right to make a complaint</p> <p><b>Sub-chapter 3: Professional certification</b> Article 35. Professional certification</p>	<p><b>Sub-chapter 4: Types of regulated activities</b> Article 36. Securities broker activities Article 37. Securities dealing activities Article 38. Investment fund activities Article 39. Securities investment advisory activities Article 40. Security nominee activities Article 41. Underwriting activities Article 42. Securities ownership rights registration activities Article 43. Securities clearing activities Article 44. Securities trade settlement activities Article 45. Securities central depository activities Article 46. Custodial services Article 47. Securities trading activities Article 48. Participating in trading on the stock exchange Article 49. Conditions and requirements for stock exchange activities Article 50. Credit rating activities Article 51. Concurrently conducting regulated activities</p> <p><b>Sub-chapter 5: Accounting and auditing</b></p>
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	Article 52. Keeping accounting registers Article 53. Auditing Article 54. Audit inspection
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**Chapter 5: Securities market information**

Article 55. Primary securities market information Article 56. Secondary securities market information Article 57. Information regarding regulated entities	Article 58. Investor information Article 59. FRC information Article 60. Receiving of information by the FRC
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**Chapter 6: Securities market regulation**

<p><b>Sub-chapter 1: State regulation of securities market</b></p> <p>Article 61. The central state administrative body in charge of finance and budget matters Article 62. Organization in charge of implementing state regulation in the securities market Article 63. Authority of the FRC Article 64. Cooperation with competent regulatory bodies of foreign jurisdictions and international organizations Article 65. Issuing recommendations Article 66. Issuing instructions Article 67. The register of regulated entities Article 68. Determining suitable persons</p>	<p><b>Sub-chapter 2: Self-regulatory organizations of the securities market</b></p> <p>Article 69. Self-regulatory organizations Article 70. Authority of a self-regulatory organization Article 71. Registration of a self-regulatory organization Article 72. The charter and by-laws of a self-regulatory organization Article 73. Management and organizational structure of self-regulatory organizations Article 74. Relations between the FRC and self-regulatory organizations Article 75. Supervising the operations of self-regulatory organizations</p>
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**Chapter 7: Prohibited activities in the securities market**

<p><b>Sub-chapter 1: Activities prohibited to a holder of inside information</b></p> <p>Article 76. Inside information Article 77. Holders of inside information Article 78. Prohibition on participation in trading activities using inside information Article 79. Disclosing inside information to the public</p>	<p><b>Sub-chapter 2: Market abuse</b></p> <p>Article 80. Prohibition on market abuse Article 81. Obligation to compensate damage</p>
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**Chapter 8: Supervision and inspection of the securities market**

Article 82. Demand of information Article 83. Regular supervision Article 84. Inspection of the activities of regulated entities	Article 85. Authority of the State Inspector of the FRC Article 86. Prohibition on obstruction of inspections Article 87. Emergency situations
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**Chapter 9: Miscellaneous**

Article 88. The Dispute Resolution Board Article 89. Sanctions for violations Article 90. Entry into Force
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**Table 2-14 Changes in the Securities Market Law and their purposes<sup>8</sup>**

<b>Change</b>	<b>Purpose</b>
<p><b>1. Implementation of segregation between legitimate ownership and beneficial ownership</b>                      In Mongolian law, a legitimate owner used to mean a beneficial owner and the concept of titular ownership did not exist. The amendment introduced the difference between legitimate and beneficial ownerships.</p>	<p>To make it possible for local banks to operate custody businesses so that depository and relevant process are conducted in Mongolia, while the beneficial ownership remains with foreign investors.                      If there are no reliable local banks which can operate custody business, foreign institutional investors may not invest in the market.                      To enable local banks to operate custody business and to accelerate investment in Mongolia from foreign institutional investors.</p>
<p><b>2. Dual listing and depository receipts (DRs)</b>                      Old law mentioned the possibility of dual listing, but there were no detailed rules. The amended law explicitly stipulates that dual listing of both Mongolia and foreign listed companies are allowed. Also the definition of eligible securities for trading has been expanded to cover DRs.</p>	<p>Currently, Mongolian securities market is not deep enough to fulfil the financing needs of companies. As a realistic solution, raising a certain part of the funds in foreign markets, besides domestic financing, can be considered. The amendment clarifies the availability of dual listing. It also aims at encouraging the usage of domestic capital market.                      Introduction of DR aims at 1) facilitating dual listing of Mongolian companies by listing their securities in foreign markets, and 2) making it easier for foreign blue chips to be listed at MSE. 2) is especially designed to enhance the status of the Mongolian market with more foreign company listings.</p>
<p><b>3. Strengthening information disclosure</b>                      Requirements of 1) issuance disclosure and 2) periodic disclosure will need to be enhanced. For 1), details of financial statements, stakeholders list, financing/ investment plans, and risk management plans should be provided in a prospectus. Disclosed Information must be audited by a certified public accountant and verified by a legal professional.                      While the old law used to require listed companies to disclose all the information required in the relevant laws, the amended law clearly defines a limited scope of disclosure and obliges them to disclose facts such as the certain forms of reorganization, significant changes in shareholder</p>	<p>Under the old law, many listed companies failed to disclose important information such as annual reports and financial statements. The amendment aims at improving the reliability of the market by enhancing the transparency of the market through enforcing the disclosure of the listed companies.</p>

<sup>8</sup> Study team used Hogan Lovells "Mongolia Adopts An Amended Securities Market Law, July 2013" as reference to make this table.

<p>composition and other information that may affect its stock price within one business day from the occurrence. Immediate disclosure is also required for certain situations. In addition, MSE must post information on its website which its listed companies need to disclose.</p>	
<p><b>4. Preventing unfair trading</b> The amended law includes more detailed provisions prohibiting insider trading &amp; market abuse.</p>	<p>It aims at aligning with the global standard on prevention of unfair trading to ensure fairness/ transparency and enhance the market reliability.</p>
<p><b>5. Enhancing supervision by FRC</b> The amended law defines greater number of securities market operations than the old one, enabling FRC to supervise a broader range of securities businesses. In addition, asset valuation companies, audit firms and law firms need to be registered with FRC to provide their services for the listed companies. Relevant regulations are being prepared by FRC.</p>	<p>FRC is going to ensure fairness &amp; transparency in the securities market and protect investors by imposing stricter responsibilities &amp; obligations on market participants.</p>
<p><b>6. Introduction of SRO</b> Stock exchanges, securities depository organizations and regulatory business organizations can be registered as SRO under the amended law. SROs will be responsible for a certain level of oversight of its market participants.</p>	<p>Introduction of SRO is intended to implement a framework for self-regulation among its members.</p>
<p><b>7. Implementation of a Dispute Resolution Board</b> The amended law mentions that a Dispute Resolution Board will be established within FRC to deal with disputes among relevant regulators, listed companies, and investors.</p>	<p>Instead of taking judicial action, a Dispute Resolution Board can provide services for faster, less expensive, undisclosed and more satisfactory dispute resolution.</p>

In connection with the enforcement of the amended Securities Market Law, 34 regulations (shown in Table 2-15 below) have already been issued.

**Table 2-15 New regulations under the amended Securities Market law**

Record of publicly offered securities in Mongolia, IPO & trading
Opening securities trading account, disposition & transaction of the securities & cash assets from the account
Custodian licensing and operations
Regulated activities in securities market
Granting, extending, suspending, reinstating & revoking license, and actions that will be taken in case of revocation/suspension of the license;
<b>Regulated entities'/market intermediaries/operation</b>
Accounting operation
Determination of the cap for the service charge & fee charged by regulated entities
Submitting information to FRC and informing to the public & its surveillance
10. Advertisement of regulated entities & securities issuers
<b>. Receiving and completing the client's order</b>
. Nominating the authorized person at regulated entities and determining fit & proper person
. Collection, maintenance and transfer of archive documents of regulated persons
. Instructions on submitting information & reports to FRC
. Setting the fee for regulated operations payable by regulated persons
. Brokerage service of the securities on foreign capital market
. Record and trading of Depositary Receipts
. Inside information of listed company
. Delivering information from listed company to shareholders
. Buying all shares or a controlling block of share of a listed company
. SROs
. Adjustment in emergency circumstance of regulated legal body in security market
. Preventing market manipulation
. Issuing financial derivatives
. Code of corporate governance
. Registering a legal body conducting legal advisory service for securities market participants
. Registering a legal body conducting auditing service for securities market participants
. Registering a legal body conducting asset valuation service for securities market participants
. Trustee management operation of securities
. Conducting qualification examination of securities market and granting suspending and revoking the qualification license of individuals
. Investments funds
. Investment Management Company
. Defining the financial strength ratings operation
34. Council settling dispute

Source: FRC

**Investment Law:** Given the recent decline in FDIs, the Investment Law was enacted in November 2013 in place of the Foreign Investment Law and relevant regulations, with a view to securing stable investments in strategically important sectors, both from foreign and domestic investors. Under this law, domestic and foreign investors are treated in the same way, and the provisions regarding the investment in sectors of strategic importance were removed, although they are still subject to the approvals under other sector-specific laws and regulations, where state involvement are required for business approval in some cases.

**Investment Fund Law:** The Investment Fund Law, which came into effect on January 1, 2014, is the first comprehensive law for investment funds and provides the enabling framework. It aims to pool small-lot funds to nurture new institutional investors and invite wealthy individuals to invest in domestic securities through Private Funds. It also aims to

attract investment from abroad by providing more convenient investment schemes.

It details the types, establishment, operation, management, accounting records and liquidation of investment funds, as well as the investment management companies and custodian banks, with FRC as the main regulator. The law defines two types of investment funds; mutual funds (open-ended or closed-ended) and private funds, which can be established by investment management companies for a period of up to 10 years. Investment incomes are exempt from Mongolian corporate income tax, but no other tax benefits are provided.

According to FRC, the following sub rules have been established or revised in connection with the enforcement of the law.

Establishing investment fund
Investment fund operation and supervision
Member record-keeping of investment fund law
Calling investment fund member meeting
Investment fund accounting, requirement for financial report, investment fund activities and its valuation
Investment fund information and advertisement
Liquidating investment fund
Asset/investment management operation
Custodian operation
. Set of detailed regulations on investment fund operation
. Investment fund registered in foreign countries
. Merger and consolidation of investment fund
13. Defining fit and proper candidates

Source: FRC

**Minerals Law:** The Minerals Law, aiming at regulating mineral exploration/extraction within the jurisdiction of Mongolia, has a provision related to the securities market activities. For example, Article 5.6 stipulates that a legal person holding a mining license for a mineral deposit of strategic importance shall float no less than 10% of its shares at MSE. While this is based on the idea that even 10% of such promising businesses should have substantial positive impact on domestic capital market, there is no penalty for incompliance with this rule at this point.

## (2) Possible solutions

Provided the development stage of Mongolian capital markets as detailed above, potential demands and the strategy of assistance for IPO/dual listing can be summarized as follows.

The basic idea is how to present the potential sectors/companies to the investors (especially foreign investors for the time being) in this difficult time of macroeconomic instability. In order to do that efficiently and effectively, the main focus should be marketing the Mongolian capital markets as a transparent one in line with the global standard, which can provide full investment opportunities attractive enough for global investors interested in high growth emerging markets. This is a reasonable and rational approach, particularly as a short-term strategy, as it takes much longer time to broaden the domestic investor base. (See the target image for the short-term in Figure 2-5, which was prepared by the JICA Study Team for the 'Data Collecting Survey for Development of Financial and Capital Market, and Capacity Building of its Regulation and Supervision in Mongolia', as a basis of this TA.)

More specifically, the key for the success is to 'remove uncertainty' for the investors as

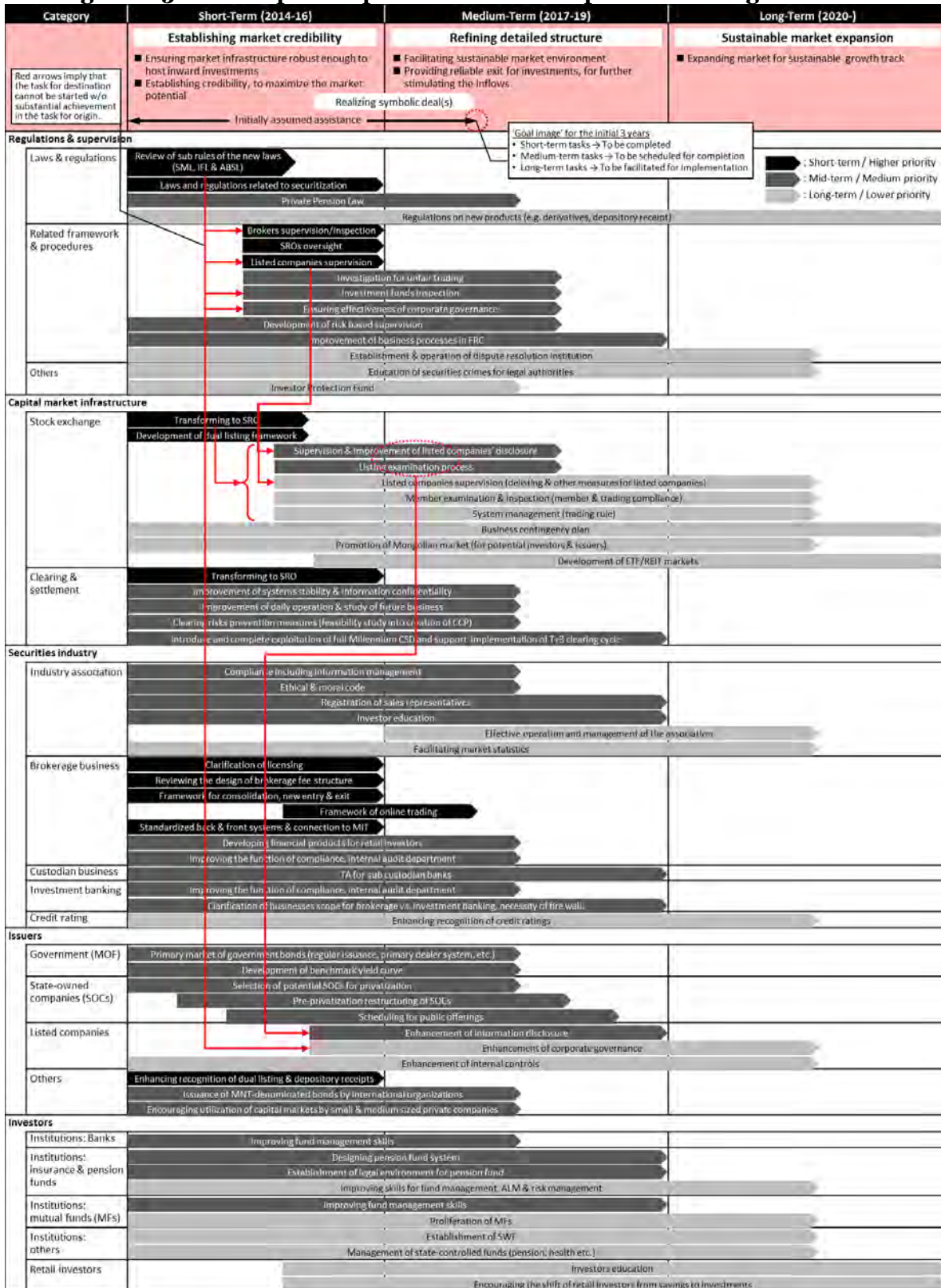


much as possible. In this regard, introduction of the new laws, such as Securities Market Law and Investment Fund Law, had quite positive impact on the investor sentiment, which was, unfortunately, more than offset by the recent macroeconomic downturn. Going forward, it is critical to keep pushing the implementation of these laws and the relevant regulations, introducing the new products, and providing reliable market infrastructure which contribute to reducing the transaction costs.

At the same time, it is necessary to address the longer-term objectives and to start working on their basis, although immediate result cannot be expected. These challenges include retail investor education, fostering institutional investors through training investment professionals and investment deregulation (although they are not included in the target outputs of this TA), and expanding the variety of the capital market products, etc.

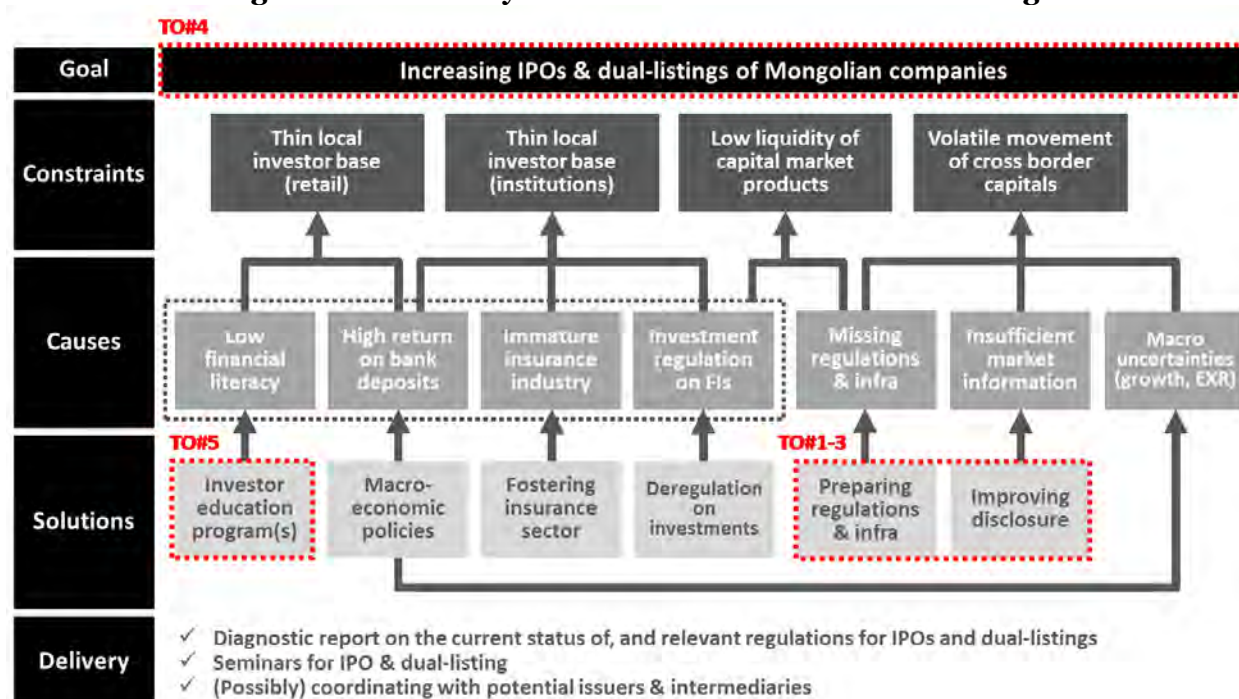
These issues and challenges are summarized in Figure2-6, which shows that IPO/dual listing component of this TA (target outcome #4) is a complex outcome of the measures for other targets (#1, 2 3 and 5). In the rest of this section, relevant measures are listed for the same categories as the previous section --- issuers, investors, intermediaries, stock exchange and the regulator.

**Figure 2-5 Roadmap for capital market development in Mongolia**



Source: JICA Study Team for the 'Data Collecting Survey for Development of Financial and Capital Market, and Capacity Building of its Regulation and Supervision in Mongolia' (2013-14)

**Figure 2-6 Summary of the issues on IPO and dual listing**



Source: JICA Expert Team

### a) Issuers

As discussed earlier, in order for MSE to receive more confidence of the market participants, the most imperative issue is to clean up some of the existing listed companies by delisting those not traded at all. In doing so, it is necessary for FRC and MSE to make rule of delisting rule explicit<sup>9</sup> and to enforce it properly.

In addition, the listed companies will need to make more effort to improve its corporate governance and information disclosure. As for this issue, appropriate cooperation with other DPs and local institutions should be carefully considered to avoiding overlaps, since DPs including the World Bank and IFC have conducted projects on this issue before, and there are local institutions specialized in corporate governance including the National Council on Corporate Governance and Corporate Governance Development Center.

More importantly, it would be helpful to have symbolic IPO deal(s) in drawing attention of the stakeholders and driving relevant resources toward the success of the actual deal(s). In general, potential demand can be classified into the following three groups.

- **Needs for privatizing state owned companies (SOCs)** – Currently the State Property Committee (SPC) is in the process of preparing the list of around 20 candidates for privatization and restructuring for 2015-16. Specifically, additional floating of the power plant companies and coal mining companies such as Baganuur and Shivee Ovoo (both under Erdenes MGL), IPO of MSE, Agricultural Commodity Exchange and other mining-related companies, are being considered. For the IPO candidates, feasibility studies and pre-privatization restructuring are the main emphasis, whereas the possibility of re-listing has been sought for some of the companies delisted so far.

<sup>9</sup> In the MSE's new listing rule, there is an article (Article 23) stipulating conditions and procedures on suspension of trading activity and delisting of securities.

- **Financing needs by medium-sized non-mining private sector companies** – On the domestic-demand oriented side, some of the prospective sectors include infrastructure- related, agro/food processing, telecommunication and import substitution sectors such as construction materials.
- **Financing needs by major banks** – Due to the lack of successful cases in the past, most of the commercial banks are cautious about IPO, and are likely to seek bond financing outside Mongolia. But greater usage of domestic capital markets is expected in the longer-term, as the market impact cannot be ignored once they decide to go for IPO.

## **b) Investors**

**Foreign investors:** Investor demography in Mongolia, with relatively large share of the limited number of foreign institutions/individuals as well as the thin domestic investor base, is less likely to go through immediate change in the near future. Especially considering the growing attention of Western institutional investors on Mongolia as one of the strategic emerging markets, this trend is likely to be strengthened, especially once the current macroeconomic uncertainty is removed.

**Domestic investors:** While the pace of the growth is likely to be slow, gradual changes are necessary. For the retail investors, as one of the focuses of this TA, fund flows into the markets are currently limited, given the high deposit interest rates and the lack of knowledge/ confidence in capital markets. It will become necessary, in the long run, to expand the needs for more active capital markets through guiding the investors from ‘savings’ to ‘investments’ with a view to diversifying their assets. Measures such as tax incentives (e.g. those focusing on IPO deals) shall be considered based on other countries practices, including those in Japan.

## **c) Securities intermediaries**

Most of securities companies in Mongolia do not have actual experience and sufficient expertise to achieve successful IPO transactions. Even the most experienced underwriter in Mongolia, BD Sec, commented during the interviews by the team that they need to have better understanding on the international standards of IPO prospectus. In order to increase the number of IPO deals in MSE, capacity building of securities companies is one of the indispensable component to be included in this TA. In addition to building up overall financial strength of the securities companies, capacity development in underwriting businesses will be needed, not only as an additional source for the securities companies, but also for the sustainable growth of the overall capital markets in Mongolia.

## **d) MSE**

It will be important for MSE to enforce the new listing rule effectively and properly. In addition, MSE will need to strengthen its capacity of analyzing the current and future prospect of business, corporate governance and financial conditions, and of examining the related documents from IPO applicants effectively and efficiently.

## **e) FRC**

As discussed earlier, there are some overlaps between FRC and MSE in supervising newly listing and the already listed companies. FRC will need to streamline its roles and functions of monitoring the listed companies and examining IPO applicants, in coordination with MSE.

## **(3) Probable technical cooperation activities under JICA program**

### **a) Listed companies**

New Chair of FRC commented in the meeting with JICA Expert Team on January 15, 2015 that the target output #4 (increasing IPOs and promoting dual listing of Mongolian companies) is the top priority which FRC expects from this TA project. Even one successful

and symbolic IPO deal could vitalize the current stagnant market through further attracting the investors and candidate issuers at MSE.

In order to accelerate this positive cycle, JICA Consultant team is planning to work closely with FRC, MSE, SPC, MOF, relevant line ministries and underwriters to identify the candidates for IPO at MSE, as well as for dual listing at other exchanges. Especially, the team shall take advantage of the close communications with these stakeholders in;

1. Matching the financing needs with intermediaries, and
2. Identifying the constraints/obstacles in the process of preparing for IPO/dual listing, with a view to feeding them back into the process of revising the existing systems,

on a real time basis. While the direct support for specific issuers and securities companies is beyond the scope of this TA, it is critically important to have a close look at the problems and issues faced by individual players to improve the quality of the feedbacks to FRC, MSE and other stakeholders.

As for the currently listed companies at MSE, improvement in corporate governance and **information disclosure is considered as one of the most urgent issues to restore investors' confidence**. JPX will be able to provide information and training programs on their practices or experiences in the field of corporate governance and information disclosure.

## **b) Investors**

See “5. Enhancing financial literacy for general public”

## **c) Securities intermediaries**

In order to strengthen capacity and expertise in underwriting, the team, with the support of Japanese major securities companies including Daiwa Securities, will be able to provide information and training programs on the roles and functions of underwriters in the process of IPO and dual listing. The delivery shall take the form of seminars involving both potential issuers and intermediaries, and the possible topics include:

- Benefit of IPO/dual listing (by),
- Global trend of IPO/dual listing ( - do - ),
- **Underwriter's roles in IPO/dual listing ( - do - )**,
- Relevant laws/regulations/institutional framework in Japan (by FSA)
- Listing rules and examinations (by JPX), and
- Preparation and procedure for IPO/dual listing (by securities companies and MSE),

with an emphasis on the implications on the capital market in Mongolia.

## **d) MSE**

In this TA project, JPX will play the most important role in strengthening the capacity of MSE in its examination of IPO candidates and monitoring of the listed companies. MSE will also need more marketing activities to broaden international investor base including those from Japan. The team and JPX will work together to hold seminars for MSE, covering these issues.

## **e) FRC**

With a view to ensuring the sustainable securities industry which can accommodate future IPO/dual listing deals, FRC will need to focus on designing the securities industry, including optimal size, number of players, etc., in addition to developing the framework of risk-based supervision discussed in the previous chapter. Specifically, it will become necessary to prepare future consolidation scenario of the industry after enforcing new minimum capital requirements. FSA and the team shall provide information on policy experiences in Japan and implications for Mongolia regarding the industry consolidation. Also for stimulating the appetite for IPO shares, tax measures can be examined and

adjusted, with the inputs from FSA based on the experiences/practices in Japan and other countries.

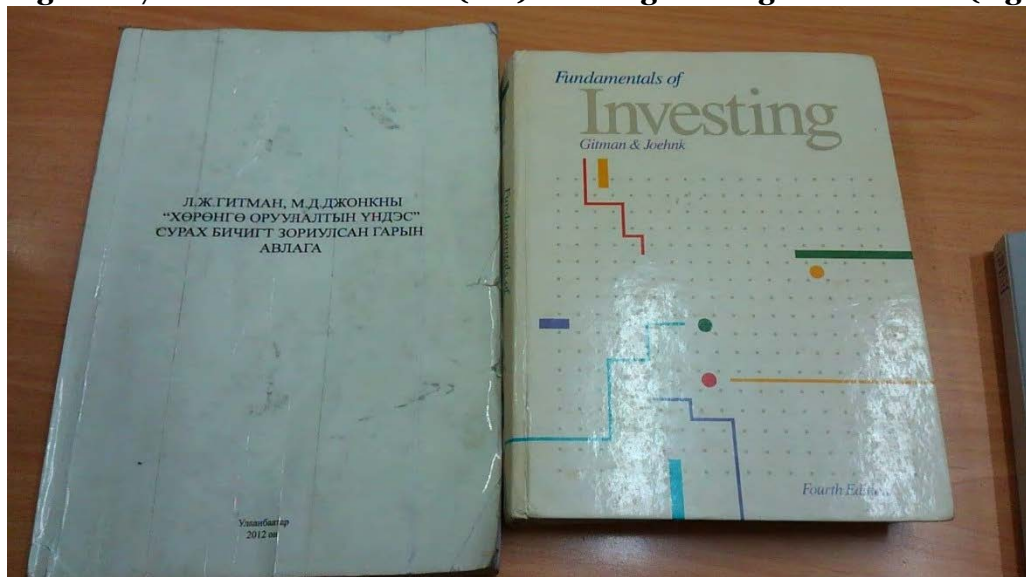
## 5. Enhancing financial literacy for general public

### (1) Review on the current situation in Mongolia

In Mongolia, there is neither specific education nor training focused on improving financial literacy including the investor education open for the public in general.

At middle school and high school age, there are no curriculum that aims on money education and courses that teach financial terms, while only occasion that is related securities industry is the study tour to the MSE during the excursions to UB. Even at the higher education for instance, there is no finance textbook written in Mongolian language used amongst the faculties of Economics Department at the National University of Mongolia a prestigious university in Mongolia. Given the situation, some of the professors prepare translated version of the English textbooks obtained from abroad as handout materials.

**Figure 2-7 Translated textbook (left) and original English textbook (right)**



Source: JICA Consultant team

Similarly, the investor education channels available to the retail investors are also scarce. FRC provides very brief explanation of knowledge and concepts regarding the capital markets in Mongolia on their website. At MSE, some basic knowledge on securities and investment are shown on their website and in addition, short basic training courses on securities trading are offered to the general public. Few securities companies provide capital markets related half-day seminars in several occasions and one of them also provide some knowledge and awareness via its publications. Moreover, currently there exist no platform of financial knowledge and jargons available to the public to fully understand and meet their interests towards capital markets and securities trading.

**Figure 2-8 Publication by one of the securities company**



Source: JICA Consultant team

Likewise, structured educational and training programs for the financial professionals are also limited in Mongolia. MSE provides series of training courses for the prospective professionals and examination for dealers and brokers. Mongolian Association of Securities Dealers (MASD) also provides internal training to those 45 (out of 71 securities dealers/brokerage licensed firms) member companies however, the trainings are conducted on an ad-hoc basis due to limited trainers and 26 non-members to the association do not usually participate. In addition, the Financial Markets Association (FMA) offers training courses to the professionals but the contents and frequencies are both insufficient due to limited capacity.

Given the current situation, the World Bank has been supporting the Mongolian government as well as the financial regulators including BoM and FRC to draft “National Strategy for Financial Literacy” in order to improve awareness and financial literacy of the general public. This strategy is aiming to be implemented by the end of 2015 and the actual financial education and training programs will start from the following year. In addition, ADB has been supporting relevant institutions to create a series of TV drama aiming to educate the general public and started broadcasting since December 2014. However, these programs provided by the international donors have more focuses on financial inclusion rather than the

Luxembourg Agency for Development Cooperation (Lux Dev) has been providing technical cooperation programs targeting more specifically FRC and financial institutions since 2012. As one of their key outputs, Lux-Dev supported the FRC to publicize three booklets on capital markets, insurance business, and microfinance all with financial terms and glossaries in local language. These booklets however are limited only amongst the relevant counterparties such as the financial authorities and financial institutions such as banks, insurance companies and NGOs. The training programs are also not specifically focused on the actual operations regarding capital markets and securities trading but rather more emphasis on institutional capacity buildings aspects.

**Figure 2-9 Publication by Luxembourg Development**





Source: JICA Consultant team

## (2) Possible solutions

Based on the current situation and the necessities for the capacity buildings to improve financial literacy and awareness amongst the relevant parties such as the regulators and financial institutions as well as the public, the consultants propose several technical cooperation activities as follows:

- Provide series of seminars / lectures: target audiences and the contents shall be determined at the necessary basis with prioritizations along with the level of difficulties.
- Assist in structuring the national framework regarding the financial literacy: this includes who takes the initiative and what sort of knowledge and information to be disseminated to the public from which platform.
- **Support in drafting “media mix strategy” to promote financial literacy: primary focus on the delivery channels via social network services (SNS), TV shows, radio program, newspapers, magazines, websites, educational institutions, etc.**

## (3) Probable technical cooperation activities under JICA program

Further details of the activities are subject to consultation with the FRC as well as JICA.

# List of Attendees

### **Financial Regulatory Commission**

- 1) Narantuya. Z, Chair, as Project Director
- 2) Enkhbayar. T, Managing Director General, as Deputy Project Director
- 3) Batpurev. A, Director for Market Development Department, as Project Manager
- 4) Avir. A, Head of Market Development Division
- 5) Oyuntsatsral. B, Director for Risk Management and Policy Regulation Department
- 6) Gandulam. T, Director for Securities Regulation Department
- 7) Dolgorsuren, Head of Securities Supervision Division
- 8) Bathmunkh, Head of Foreign Relations and Cooperation Division, as Secretary

### **Mongolian Stock Exchange**

- 1) Angar. D, Acting CEO

### **Ministry of Finance**

- 1) Nyamaa. B, Director, Financial Policy Department
- 2) Amarbat. Yo, Senior Officer, Debt Management Division,  
Development Financing and Debt Management Department

### **Government of Japan**

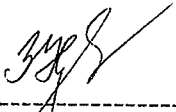
- 1) Yoshio Wada, Executive Advisor to the Director General,  
Industrial Development and Public Policy Department, JICA
- 2) Mutsumi Sato, Chief Representative, JICA Mongolia Office
- 3) Saikhantuya.A, Representative, JICA Mongolia Office
- 4) Tuvshin-Od. Kh, Program Officer, JICA Mongolia Office
- 5) Motonobu Matsuo, Director, Planning Division, FSA
- 6) Kosei Ishiwata, Section Chief, Office of International Affairs, FSA

### **JICA Consultants**

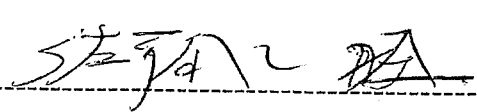
- 1) Ryota Sugishita, Project Manager, Daiwa Institute of Research
- 2) Takayuki Urade, IPO/Dual-listing, Japan Economic Research Institute
- 3) Hiroyuki Kaneko, SRO, Daiwa Institute of Research
- 4) Chinzorig Chulun, Mongolian consultant
- 5) Khishigjargal Jambal, Mongolian consultant

MINUTES OF JOINT COORDINATING COMMITTEE  
ON  
THE PROJECT FOR CAPACITY BUILDING OF  
CAPITAL MARKET IN MONGOLIA  
AGREED UPON BETWEEN  
FINANCIAL REGULATORY COMMISSION OF MONGOLIA  
AND  
JAPAN INTERNATIONAL COOPERATION AGENCY

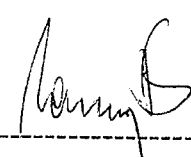
Ulaanbaatar, 20 November 2015



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Mrs. Zagdkhuu Narantuya  
Chair  
Financial Regulatory Commission  
Mongolia



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Mr. Mutsumi Sato  
Chief Representative  
JICA Mongolia Office



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Mr. Badamkhatan Gantulga  
Director General, Development Financing  
And Debt Management Department  
Ministry of Finance  
Mongolia

This is to record the results of the second JCC meeting held on 20 November 2015.

The proceedings went on chaired by Mrs. Zagdkhuu Narantuya as according to the agenda (Appendix 1).

Key discussion points were as follows:

1. **Report on the activities for the first project year (Nov14-Aug15).** The Consultant Team reported on technical cooperation activities for the first project year, including an IPO seminar for state-owned companies, a training course in UB, an IPO/dual-listing seminar as well as a several small-group presentations.
2. **Approval of the plan for the second project year (Aug15-Aug16).** The Consultant Team proposed plans for the second project year, with main activities including two training courses in Japan (one of them completed in Oct15), a training course in UB, the second IPO/dual-listing seminar as well as an event for investor education. The JCC members approved the plan.
3. **Submission of the List of IPO candidates.** JICA Consultants prepared a list of companies for potential initial public offerings. Members shared the list confidentiality. The list will be shared once it is updated.
4. **Approval of the project design matrix indicator.** JICA Consultants proposed an indicator, which will be included in the project design matrix (project framework), to manage progress of the project. JCC members approved the indicator.

**Attached documents:**

- Appendix 1: Agenda
- Appendix 2: List of attendees
- Appendix 3 : Report on the activities for the first project year
- Appendix 4: Plans for the second project year
- Appendix 5: List of IPO candidates
- Appendix 6: Proposal for a project design matrix indicator



B.S.



## Appendix 1

### Project for Capacity Building of Capital Market in Mongolia

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

## Joint Coordinating Committee

20 November 2015, FRC, Ulaanbaatar

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## Agenda

### Opening Remarks

- 10:30 - 10:35 Ms Zagdkhuu Narantuya, Chair, Financial Regulatory Commission  
10:35 - 10:40 Mr Yoshio Wada, Executive Advisor to the Director General,  
Industrial Development and Public Policy Department, JICA

### Discussion

- 10:40 - 11:55 Agenda 1: *“Introduction of JCC members”*  
*by JICA Consultant Team*
- Agenda 2: *“Report on the activities for Nov14-Aug15”*  
*by JICA Consultant Team*
- Agenda 3: *“Plans for Aug15-Aug16”*  
*by JICA Consultant Team*
- Agenda 4: *“Sharing a list of IPO candidates”*  
*by JICA Consultant Team*
- Agenda 5: *“Approval on the PDM (project design matrix) indicator”*  
*by JICA Consultant Team*

### Closing Remarks

- 11:55 - 12:00 Ms Zagdkhuu Narantuya, Chair, Financial Regulatory Commission

## **Appendix 2**

### **Project for Capacity Building of Capital Market in Mongolia**

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

## **Joint Coordinating Committee**

20 November 2015, FRC, Ulaanbaatar

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### **List of Attendees**

#### **Financial Regulatory Commission**

- 1) Narantuya.Z, Chair, as Project Director
- 2) Batselenge.B, Managing Director General, as Deputy Project Director
- 3) Batpurev.A, Director for Market Development Department, as Project Manager
- 4) Avir. A, Head of Market Development Division, Market Development Department
- 5) Oyuntsatsral.B, Director General, Supervision Department
- 6) Tulgaa.S, Deputy Director, Securities Regulation Department
- 7) Dolgorsuren, Head, Securities Supervision Division, Supervision Department
- 8) Ider.T, Senior specialist, International Affairs Division, as Secretary

#### **Mongolian Stock Exchange**

- 1) M.Bolor, Acting CEO

#### **Ministry of Finance**

- 1) Nyamaa.B, Director General, Financial Policy Department
- 2)Gantulga.B, Director General, Development Financing and Debt Management Department

#### **Japan International Cooperation Agency**

- 1) Yoshio Wada, Executive Advisor to the Director General,  
Industrial Development and Public Policy Department, JICA
- 2) Ryosuke Watanabe, Industrial Development and Public Policy Department, JICA

#### **JICA Mongolia Office**

- 1) Mutsumi Sato, Chief Representative
- 2) Saikhantuya.A, Representative
- 3) Tuvshin-Od. Kh, Program Officer

#### **JICA Consultants**

- 1) Ryota Sugishita, Project Manager, Daiwa Institute of Research
- 2) Takayuki Urade, IPO/Dual-listing, Japan Economic Research Institute
- 3) ChinzorigChuluun, Mongolian consultant

## Appendix 3

### Project for Capacity Building of Capital Market in Mongolia

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

## Joint Coordinating Committee

20 November 2015, FRC, Ulaanbaatar

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### Report on the activities for the first project year (Nov14-Aug15)

Based on the Record of Discussions signed between the two countries in Jun 2014, the Consultant Team was appointed by JICA in November 2014. The Consultant Team visited UB six times for the first project year: Dec14, Jan15, Mar15, Apr15, May15 and Jun15. After several discussions between the Mongolian counterpart and the Consultant Team to identify what exactly the Mongolian counterpart needs, the Consultant Team wrote a basic report on the current status on the Mongolian capital market and provided technical cooperation as follows:

**Half-day seminar for state-owned companies on IPO** – In March 2015, a half-day small seminar for an IPO was held at Corporate Hotel with attendees from more than ten state-owned companies.

**One-week training course on supervision of securities companies** – In April 2015, a one-week training course was held in UB for FRC's officials at Mongolian Japan Center with lecturers by Japan's Financial Services Agency (FSA) on off-site and on-site monitoring of securities companies, and the Consultant Team on knowledge sharing for the capital market. Five officials including two lecturers from FSA stayed in UB for 27-28 April.

**One-day seminar on IPO/dual-listing** – On 23 June 2015, a one-day seminar for IPO/dual-listing was held at Mongolian National Chamber of Commerce and Industry with lecturers by FRC, MSE, JPX, the Consultant Team, Daiwa Securities Capital Markets Hong Kong and ADB. Roughly 150 people from financial institutions, private and state-owned companies, government organizations and media attended the seminar.

**Presentations on demand** - In addition, the Consultant Team provided several

## Project for Capacity Building of Capital Market in Mongolia

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

### Joint Coordinating Committee

20 November 2015, FRC, Ulaanbaatar

presentations for small groups at FRC, MSE as well as MASD for supervision of securities companies, self-regulatory organization and investor education.

		2014		2015							
		11	12	1	2	3	4	5	6	7	8
		Start	Kickoff	JCC							
Tasks	Policy Committee	Study	Study								Study
	Supervision	Study						Training course in UB			Presentation
	SRO	Study									Presentation
	IPO/dual-listing		Study			Study Seminar for SOCs		Study			IPO/dual-listing seminar
	Investor education							Study			Presentation
Output		Work plan		Status Report on the Cap Mkt				Monitoring Sheet			



## Appendix 4

### Project for Capacity Building of Capital Market in Mongolia

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

## Joint Coordinating Committee

20 November 2015, FRC, Ulaanbaatar

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### Plans for the second project year (Aug15-Aug16)

The second project year started on 24 August 2015. A training course in Tokyo was already held in October 2015, and another is planned by August 2016. A training course in UB is also planned. In addition, the second seminar for IPO/dual-listing will be held during the project year. An event (for instance, a seminar) for investor education will be also included in the project.

**A training course in Tokyo** – In October 2015, a seven-day training course was held for fourteen FRC officials in Tokyo by FSA, JPX, Japan Securities Dealers Association, Japan Investor Protection Fund, the Consultant Team as well as Daiwa Securities. The course focuses on supervision of securities companies.

**A training course in UB** - The Consultant Team proposes a training course in UB in the first quarter of 2016. The course aims to share knowledge with the Mongolian counterpart mainly for self-regulatory organization.

**Another training course in Japan** – The Consultant Team proposes the second training course in Japan in the second quarter of 2016. Lecturers for the course are expected to be mainly on self-regulatory organization.

**The second IPO/dual-listing seminar** – The second IPO/dual-listing seminar will be held in the first quarter of 2016.

**An event for investor education** – The Consultant Team also plans an event for investor education. The details will be determined later.

The Consultant Team also plans lecturers/presentations for small groups at FRC, MSE and MASD upon requests.

## Project for Capacity Building of Capital Market in Mongolia

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

# Joint Coordinating Committee

20 November 2015, FRC, Ulaanbaatar

Plans for the second project year (Aug15-Aug16)

		2015					2016							
		8	9	10	11	12	1	2	3	4	5	6	7	8
		Start		JCC			JCC			End				
<b>Tasks</b>	<b>Policy Committee</b>													
	<b>Supervision</b>	Training course in Japan						Training course in Japan						
	<b>SRO</b>							Training course in UB						
	<b>IPO/dual-listing</b>	Short-list for IPO		Promoting IPO activities with securities companies			IPO/dual-listing seminar							
	<b>Investor education</b>							Event for general public						
<b>Output</b>		Work plan						Monitoring sheet						

Note: Schedule is subject to change, depending on discussion between Mongolian stakeholders and consultants.

## Appendix 5

### Candidates for Pilot IPO / Dual-Listing (DL) Projects

As of Nov 20, 2015

SOC/ Private	Candidate Issuer	Sector	Application (Jul 2015)			Underwriter	Auditor	Law Firm	Appraiser	Note
			IPO/DL	Window	Exchange					
SOC	Mongol Post	Postal Service	IPO			Gauli	n.a.	n.a.	n.a.	Preparation is almost done.
SOC	Power Plant 2	Power	DL	Long-term	HK, LD, TK	-----	To be selected by Nov 25, 2015	-----		On Privatization List. Consulting needs to be submitted.
SOC	Power Plant 3	Power	DL	Long-term	HK, LD, TK	-----	To be selected by Nov 25, 2015	-----		On Privatization List. Consulting needs to be submitted.
SOC	Power Plant 4	Power	DL	Long-term	HK, LD, TK	-----	To be selected by Nov 25, 2015	-----		On Privatization List. Consulting needs to be submitted.
SOC	Darkhan Power Plant	Power	DL	Long-term	HK, LD, TK	-----	To be selected by Nov 25, 2015	-----		On Privatization List. Consulting needs to be submitted.
SOC	Erdenet Power Plant	Power	IPO	Long-term	HK, LD, TK	-----	To be selected by Nov 25, 2015	-----		On Privatization List. Consulting needs to be submitted.
SOC	Shive Ovoo	Mining	IPO			n.a.	n.a.	n.a.	n.a.	On Privatization List, but not in the 1st batch.
SOC	Baganuur	Mining	-----	Not submitted	-----	n.a.	n.a.	n.a.	n.a.	On Privatization List, but not in the 1st batch. Requested separately.
SOC	Erdenes MGL	Mining	-----	Not submitted	-----	n.a.	n.a.	n.a.	n.a.	Not feasible at this point.
SOC	State Bank	Finance	-----	Not submitted	-----	n.a.	n.a.	n.a.	n.a.	Asked by SPC not to pitch w/o consulting with its Chair.
SOC	MIAT	Transport	-----	Not submitted	-----	n.a.	n.a.	n.a.	n.a.	Asked by SPC not to pitch w/o consulting with its Chair.
Private	*****	Conglomerate	DL	3-5yr	HK, LD, TK		n.a.	n.a.	n.a.	Turning to LD AIM for greater liquidity.
Private	*****	n.a.	IPO/DL	Next yr		To be selected	n.a.	n.a.	n.a.	
Private	*****	Telecom	-----	Not submitted	-----	n.a.	n.a.	n.a.	n.a.	Interviewed on Nov 3 & 5. Not interested at this moment.
Private	*****	Finance	-----	Not submitted	-----	n.a.	n.a.	n.a.	n.a.	
Private	*****	Manufacturing	-----	Not submitted	-----	*****	n.a.	n.a.	n.a.	Top share door manufacturer & expanding the business portfolio.
Private	*****	Conglomerate	-----	Not submitted	-----	n.a.	n.a.	n.a.	n.a.	
n.a.	n.a.	n.a.	IPO/DL	Next to 3-5yr		*****	n.a.	n.a.	n.a.	Consulting needs to be submitted.
n.a.	n.a.	n.a.	-----	Not submitted	-----	*****	n.a.	n.a.	n.a.	To be interviewed on consulting needs.
n.a.	n.a.	n.a.	-----	Not submitted	-----	*****	n.a.	n.a.	n.a.	Interested in Power Plant 3 & 4.

----- : Not eligible for a pilot project at this point

Yellow : 1st group for privatization.

Red : Consulting Needs submitted.

## **Appendix 6**

### **Project for Capacity Building of Capital Market in Mongolia**

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

## **Joint Coordinating Committee**

20 November 2015, FRC, Ulaanbaatar

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### **Proposal for a project design matrix indicator**

Given that the overall goal of the project is to increase the number of IPOs and to promote dual-listing, JICA Consultant Team proposes an indicator for the project design matrix as follows:

- Number of companies preparing for an initial public offering (IPO)

The indicator can describe progress of the project. The Consultant Team believes that “number of IPOs achieved” is not applicable as an indicator, given that timing of an IPO can be highly influenced by the stock market conditions. In other words, an IPO can be postponed if the market sentiment is weak and demand for the stock is below expectation.

“Number of companies preparing for an IPO” can be also divided into two stages:

- 1) Companies with an agreement with an underwriter for an IPO
- 2) Companies that are ready for an IPO

The project design matrix is a framework for project management, describing overall goal, expected outcome, indicators etc.

**MINUTES OF JOINT COORDINATING COMMITTEE**

**ON**

**THE PROJECT FOR CAPACITY BUILDING OF  
CAPITAL MARKET IN MONGOLIA**

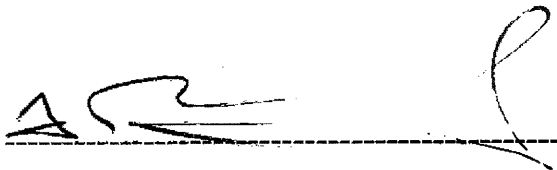
**AGREED UPON BETWEEN**

**FINANCIAL REGULATORY COMMISSION OF MONGOLIA**

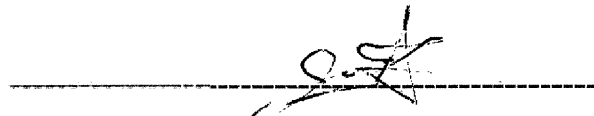
**AND**

**JAPAN INTERNATIONAL COOPERATION AGENCY**

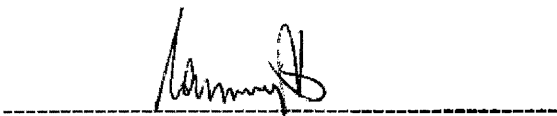
Ulaanbaatar, 15 March 2016



**Mr. Erdenebileg Batbold**  
Acting Chair and Commissioner  
Financial Regulatory Commission  
Mongolia



**Mr. Jiro Tsunoda**  
Senior Advisor  
Industrial Development and Public Policy Department  
Japan International Cooperation Agency



**Mr. Badamkhatan Gantulga**  
Director General, Development Financing  
And Debt Management Department  
Ministry of Finance  
Mongolia

This is to record the results of the second JCC meeting held on 15 March 2016.

The proceedings went on chaired by Mr. Erdenebileg Batbold as according to the agenda (Appendix 1).

Key discussion points were as follows:

1. **Report on the activities for Nov15-Feb16.** The Consultant Team reported on technical cooperation activities for Nov15-Feb16. For the past four months, the Consultant Team interviewed companies for initial public offering (IPO) candidates.
2. **Approval of the plan for Mar-Aug16.** The Consultant Team proposed plans for Mar-Aug16. The second IPO/dual-listing seminar will be held on 18 Mar, with two guest speakers from Japan. The second training course in Japan will be held for 11-15 April with 4 FRC officials, 3 MSE staff and 3 MASD members on self-regulation. The JCC members approved the plan.
3. **Submission of the List of IPO candidates.** The Consultant Team updated the list of companies for IPO candidates. Members shared the list with confidentiality.
4. **Approval of the project design matrix indicator.** The Consultant Team proposed key indicators for the project design matrix (project framework) to monitor progress of the project. JCC members approved the indicators.

**Attached documents:**

- Appendix 1: Agenda
- Appendix 2: List of attendees
- Appendix 3 : Report on the activities for Nov15-Feb16
- Appendix 4: Plans for Mar-Aug16
- Appendix 5: List of IPO candidates
- Appendix 6: Proposal for project design matrix indicators

## Appendix 1

### Project for Capacity Building of Capital Market in Mongolia

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

## Joint Coordinating Committee

15 March 2016, FRC, Ulaanbaatar

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## Agenda

### Opening Remarks

- 10:00 - 10:05 Mr Batbold Erdenebileg, Acting Chair and Commissioner  
Financial Regulatory Commission
- 10:05 - 10:10 Mr Jiro Tsunoda, Senior Advisor  
Industrial Development and Public Policy Department, JICA

### Discussion

- 10:10 - 11:25 Agenda 1: *“Introduction of JCC members”*  
*by JICA Consultant Team*
- Agenda 2: *“Report on the activities for Nov15 - Mar16”*  
*by JICA Consultant Team*
- Agenda 3: *“Plans for Mar - Aug16”*  
*by JICA Consultant Team*
- Agenda 4: *“Sharing a list of IPO candidates”*  
*by JICA Consultant Team*
- Agenda 5: *“Approval on the PDM (project design matrix) indicator”*  
*by JICA Consultant Team*

### Closing Remarks

- 11:25 - 11:30 Mr Batbold Erdenebileg, Acting Chair and Commissioner,  
Financial Regulatory Commission

## **Appendix 2**

### **Project for Capacity Building of Capital Market in Mongolia**

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

## **Joint Coordinating Committee**

15 March 2016, FRC, Ulaanbaatar

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### **List of Attendees**

#### **Financial Regulatory Commission**

- 1) Batbold. E, Acting Chair and Commissioner, as Project Director
- 2) Natsagdorj. T, Managing Director General, as Deputy Project Director
- 3) Oyuntsatsral.B, Director General, Supervision Department
- 4) Altan-Od. P, Director of Administration Department
- 5) Avir. A, Head of Market Development Division, Market Development Department
- 6) Tulgaa.S, Deputy Director, Securities Regulation Department
- 7) Dolgorsuren. B, Head, Securities Supervision Division, Supervision Department
- 8) Ider. T, Senior specialist, International Affairs Division, as Secretary

#### **Mongolian Stock Exchange**

- 1) Bolor M, Acting CEO

#### **Ministry of Finance**

- 1) Nyamaa.B, Director General, Financial Policy Department
- 2) Gantulga.B, Director General,  
Development Financing and Debt Management Department

#### **Japan International Cooperation Agency**

- 1) Jiro Tsunoda, Senior Advisor,  
Industrial Development and Public Policy Department, JICA
- 2) Ryosuke Watanabe, Industrial Development and Public Policy Department, JICA

#### **JICA Mongolia Office**

- 1) Mutsumi Sato, Chief Representative
- 2) Saikhantuya. A, Representative
- 3) Buyanjargal. T, Representative

#### **JICA Consultants**

- 1) Ryota Sugishita, Project Manager, Daiwa Institute of Research
- 2) Takayuki Urade, IPO/Dual-listing, Japan Economic Research Institute
- 3) Shinji Ohno, Policy Committee, Japan Economic Research Institute
- 4) Akifumi Nakanishi, Investor Education, Daiwa Institute of Research
- 5) Chinzorig. C, Mongolian consultant



## Appendix 3

### Project for Capacity Building of Capital Market in Mongolia

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

## Joint Coordinating Committee

15 March 2016, FRC, Ulaanbaatar

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### Report on the activities for Nov15 - Feb16

Since the last JCC meeting in Nov15, the Consultant Team worked mainly on IPO/dual-listing and SRO.

#### 1. IPO/dual-listing

The Consultant Team short-listed potential IPO candidates. Although some of targeted companies did not express interest in IPO, others were newly recommended by underwriters. The Team interviewed with four private sector companies by Feb16, of which one would like to dual-list in Tokyo.

#### 2. SRO

The Consultant Team started to contact MASD again for supporting in its newly building self-regulations. In Nov15, the Consultant Team organized a meeting on SRO for FRC, MSE and MASD. The Team advised on demarcation of regulators, including that for listing approval. The Team also made presentation for FRC about listing requirements.

#### 3. Public relations

As a part of public relations activities, the Consultant Team opened a Facebook account JICA Capacity Building for Mongolian Capital Market in November 2015. As of 15 March, 252 **members can benefit from the account by sharing information on Team's** activities. The Consultant Team also briefly pointed out the current issues for the capital markets in Mongolia and explained about the JICA program at *Invest Mongolia*, Dec15 as well as *Development of Financial Market National Forum*, Jan16.

## Appendix 4

### Project for Capacity Building of Capital Market in Mongolia

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

## Joint Coordinating Committee

15 March 2016, FRC, Ulaanbaatar

### Plans for Mar - Aug16

From Mar16 to Aug16, the Consultant Team plans:

#### 1. SRO

The second training course in Japan will be held for 11-15 Apr, with 10 participants. The course focuses on self-regulation of capital markets. The tentative program is as follows:

Date	Time	Subject	Lecturer			Venue
			Name	Designation	Tel	
10-Apr		Arrival in Tokyo				
11-Apr	9:00 - 11:30	Orientation		JICA, DIR/JERI		TIC
	13:30 - 15:00	Comparative analysis on stock exchanges in Asia	Yuki Yamada	DIR/JERI	Akifumi Nakanishi 080-9809-3269	Daiwa Securities Group GranTokyo North Tower 25F
	15:20 - 16:50	SROs in ASIA	Akifumi Nakanishi	DIR/JERI		
12-Apr	9:30 - 9:50	Introduction to Tokyo Stock Exchange - DVD	Yumi Honda	JPX	Shohei Yamagata 050-3377-7583	
	9:50 - 10:20	Site tour to TSE Arrows	Ms Noguchi	JPX		
	10:20 - 10:30	Greetings by Director	Mr Isaka	JPX		
	10:30 - 11:30	Japanese economy and capital markets	Yumi Honda	JPX		
	13:00 - 14:30	Listing examination		JPX		
	15:00 - 16:30	Monitoring listed companies		JPX		
13-Apr	9:00 - 10:30	Monitoring daily trades		JPX	Shohei Yamagata 050-3377-7583	JPX
	10:30 - 12:00	Disciplinary action on trading participants		JPX		
	14:00 - 15:20	Accounting scandals in Japan	Ryota Sugishita	DIR/JERI	Ryota Sugishita 080-9809-3255	Daiwa Securities Group GranTokyo North Tower 25F
	15:40 - 17:00	Training for sales representatives	Ryota Sugishita	DIR/JERI		
14-Apr	9:00 - 10:20	Overview of JSDA		Japan Securities Dealers Association	Ryuichi Shiina 03-3667-8537	Japan Securities Dealers Association 1-5-8, Kayaba-cho, Nihombashi, Chuo-ku
	10:40 - 12:00	Rules for client management, sales representatives		Japan Securities Dealers Association		
	13:00 - 14:20	Qualification and registration for sales representatives		Japan Securities Dealers Association		
	14:40 - 16:00	Case study		Japan Securities Dealers Association		
	16:20 - 17:30	Dispute resolution		Japan Securities Dealers Association		
15-Apr	10:00 - 12:00	Wrap up	Ryota Sugishita	DIR/JERI	080-9809-3255	Daiwa Securities G
	13:00 - 14:10	FSA and JSDA	Mr Yokoo	FSA, Securities Business Div	Shungo Koreeda 03-3506-6177	FSA
	14:25 - 15:45	FSA and JPX Regulation	Mr Murakami	FSA, Financial Markets Div		
	16:00 - 17:00	Collaboration in market monitoring	Mr Murakami	SESC		
	17:00 - 17:20	Certificates by JICA		JICA		
16-Apr		Departure from Tokyo				

## **Project for Capacity Building of Capital Market in Mongolia**

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

# **Joint Coordinating Committee**

15 March 2016, FRC, Ulaanbaatar

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### **2. IPO/dual-listing**

The Consultant Team continues to support Mongolian companies to be ready for an IPO/dual-listing, mainly for the companies in our list.

### **3. Investor education**

The Consultant Team plans an event for investor education. Details will be discussed further.

**Appendix 5**

**Candidates for Pilot IPO / Dual-Listing (DL) Projects**

As of Mar 15, 2016

SOC/ Private	Candidate Issuer	Sector	Application (Nov 2015)			Underwriter	Auditor	Law Firm	Appraiser	Note
			IPO/DL	Window	Exchange					
SOC	Power Plant 4	Power		1Q2016		Golomt Bank	n.a.	n.a.	n.a.	On Privatization List. Consulting needs to be submitted.
SOC	(Power Plant 3, 4)	Power	IPO	1Q206		TDB Capital	E&Y Mongolia	Mongol Omgoolgch	BDO Audit	Submitted by underwriter
Private	*****	Conglomerate	DL	3-5yr	HK, LD, TK	*****	n.a.	n.a.	n.a.	Turning to LD AIM for greater liquidity.
Private	*****	Manufacturing	IPO	2017		*****	n.a.	n.a.	n.a.	Top share door manufacturer & expanding the business portfolio.
Private	*****	Conglomerate	IPO	n.a.		*****	n.a.	n.a.	n.a.	

\*\*\*\*\* : 1st group for privatization.

## Appendix 6

### Project for Capacity Building of Capital Market in Mongolia

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

## Joint Coordinating Committee

15 March 2016, FRC, Ulaanbaatar

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### Proposal for a project design matrix indicator

The Consultant Team proposes additional project design matrix (PDM) indicators to monitor the progress of the project. The PDM is a framework for project management, describing overall goal, expected outcome, indicators etc.

#### 1. PDM indicators

- 1) Overall goal - Number of companies preparing for an IPO/dual-listing (**continued**)
- 2) Number of rules, regulations, guidelines, notifications and other relevant documents that are made or modified by FRC, MSE and MASD with help of the Team and other Japanese experts (**added**)

#### 2. Results for Nov15-Feb16

##### 1) Overall goal

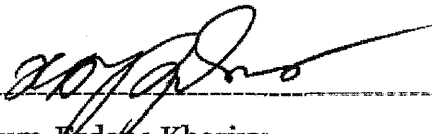
- Number of companies preparing for an IPO/dual-listing for Nov15-Feb16 was **six** (four private sector companies and two state-owned companies).
- In addition, there were two new listings at MSE: MIK Holding made an IPO in Dec15; Mongol Shuudan listed without offering in Jan16. Furthermore, iTools is expected to make an IPO at MSE soon.

##### 2) Number of rules, regulations, guidelines, notifications etc. that are made or modified by FRC, MSE and MASD with help of the Team and other Japanese experts

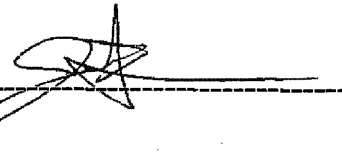
- FRC decided to its transfer listing approval function to MSE.
- FRC's off-site monitoring guideline for securities companies were modified after the training course in Japan in Oct15.
- FRC also made a notification for securities companies in monthly data submission.

MINUTES OF JOINT COORDINATING COMMITTEE  
ON  
THE PROJECT FOR CAPACITY BUILDING OF  
CAPITAL MARKET IN MONGOLIA  
AGREED UPON BETWEEN  
FINANCIAL REGULATORY COMMISSION OF MONGOLIA  
AND  
JAPAN INTERNATIONAL COOPERATION AGENCY

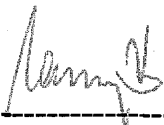
Ulaanbaatar, 21 June 2016



Mr. Bum-Erdene Khariyu  
Commissioner and Vice Chairman  
Financial Regulatory Commission  
Mongolia



Mr. Jiro Tsunoda  
Senior Advisor  
Industrial Development and Public Policy Department  
Japan International Cooperation Agency



Mr. Badamkhatan Gantulga  
Director General, Development Financing  
And Debt Management Department  
Ministry of Finance  
Mongolia

This is to record the results of the second JCC meeting held on 21 June 2016.

The proceedings went on chaired by Mr. Bum-Erdene Khariyu as according to the agenda (Appendix 1).

Key discussion points were as follows:

1. **Report on the activities for Mar-Jul16.** The Consultant Team reported on technical cooperation activities for Mar-Jul16. On 18 March, the team and FRC hosted an IPO/dual-listing seminar, with two invited Japanese experts, at Tuushin Hotel. In April, the team organized a five-day training course in Japan for 11 members from FRC, MOF, MSE and MASD. The team and MASD also held half-day workshops, including a lecture by MSE, mainly for securities companies on 20 and 23 May. In addition, the team provided consulting services for the IPO candidate companies.
2. **Plans for Aug16-Jul17.** The Consultant Team proposed plans for the final project year (Aug16-Jul17). A major event for investor education is to cooperate with MASD in holding Investor Week early Sep16. The team also plans to organize a training course both in Mongolia and Japan, to host an IPO seminar and to provide lectures as requested. One of the pilot IPO projects is also expected to materialize in Oct-Dec16. The JCC members approved the plan.
3. **Discussion on Phase 2.** FRC proposed extending the project. The application form for the Phase 2 with modified tasks was submitted to MOF on 16 Jun, and the form will be submitted to JICA later. JCC members acknowledged FRC has submitted the application for the Phase 2.
4. **Discussion on the project design matrix indicators.** Initial discussion was held. JCC members decided to continue discussions for finalizing the PDM indicators by the end of Aug16.

**Attached documents:**

- Appendix 1: Agenda
- Appendix 2: List of attendees
- Appendix 3: Report on the activities for Mar-Jul16
- Appendix 4: Plans for Aug16-Jul17
- Appendix 5: Items included in the Application Form for Japan's Technical Cooperation (dated June 17, 2016)
- Appendix 6: Candidates for pilot IPO / dual-listing (DL) projects

**Attached documents:**

- Appendix 1: Agenda
- Appendix 2: List of attendees
- Appendix 3: Work Plan for September 2016-July 2017 - Summary
- Appendix 4: Work Plan for September 2016-July 2017
- Appendix 5: PDM indicators - Summary
- Appendix 6: PDM indicators - Monitoring Sheet
- Appendix 7: Candidates for pilot IPO / dual-listing projects



## Appendix 1

### Project for Capacity Building of Capital Market in Mongolia

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

## Joint Coordinating Committee

21 June 2016, FRC, Ulaanbaatar

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## Agenda

### Opening Remarks

- 10:00 - 10:05 Mr Bum-Erdene Khariyu, Commissioner and Vice Chairman  
Financial Regulatory Commission
- 10:05 - 10:10 Mr Jiro Tsunoda, Senior Advisor  
Industrial Development and Public Policy Department, JICA

### Discussion

- 10:10 - 11:25 Agenda 1: *“Report on the activities for Mar - Jul16”*  
*by JICA Consultant Team*

Agenda 2: *“Plans for Aug16 - Jul17”*  
*by JICA Consultant Team*

Agenda 3: *“Discussion on Phase 2”*  
*by FRC*

Agenda 4: *“Discussion on the PDM (project design matrix)  
indicators”*  
*by JICA Consultant Team*

### Closing Remarks

- 11:25 - 11:30 Mr Bum-Erdene Khariyu, Commissioner and Vice Chairman  
Financial Regulatory Commission

## **Appendix 2**

### **Project for Capacity Building of Capital Market in Mongolia**

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

## **Joint Coordinating Committee**

21 June 2016, FRC, Ulaanbaatar

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### **List of Attendees**

#### **Financial Regulatory Commission**

- 1) Mr Bum-Erdene. K, Commissioner and Vice Chairman
- 2) Natsagdorj. T, Managing Director General, as Deputy Project Director
- 3) Oyuntsatsral.B, Director General, Supervision Department
- 4) Altan-Od. P, Director of Administration Department
- 5) Avir. A, Head of Market Development Division, Market Development Department
- 6) Tulgaa.S, Deputy Director, Securities Regulation Department
- 7) Dolgorsuren. B, Head, Securities Supervision Division, Supervision Department
- 8) Ider. T, Senior specialist, International Affairs Division, as Secretary

#### **Mongolian Stock Exchange**

- 1) Bolor M, Acting CEO

#### **Ministry of Finance**

- 1) Nyamaa.B, Director General, Financial Policy Department
- 2) Gantulga.B, Director General,  
Development Financing and Debt Management Department

#### **Japan International Cooperation Agency**

- 1) Jiro Tsunoda, Senior Advisor,  
Industrial Development and Public Policy Department, JICA
- 2) Ryosuke Watanabe, Industrial Development and Public Policy Department, JICA

#### **JICA Mongolia Office**

- 1) Mutsumi Sato, Chief Representative
- 2) Saikhantuya. A, Representative
- 3) Buyanjargal. T, Representative

#### **JICA Consultants**

- 1) Ryota Sugishita, Project Manager, Daiwa Institute of Research
- 2) Takayuki Urade, IPO/Dual-listing, Japan Economic Research Institute
- 3) Hiroyuki Kaneko, SRO, Daiwa Institute of Research
- 4) Akifumi Nakanishi, Investor Education, Daiwa Institute of Research
- 5) Chinzorig. C, Mongolian consultant

## **Appendix 3**

### **Project for Capacity Building of Capital Market in Mongolia**

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

## **Joint Coordinating Committee**

21 June 2016, FRC, Ulaanbaatar

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### **Report on the activities for Mar - Jul16**

Since the last JCC meeting in Mar16, the Consultant Team worked mainly on IPO/dual-listing and SRO.

#### **1. IPO/dual-listing**

The Consultant Team held the second IPO/dual-listing seminar on 18 Mar 2016 at Tuusin Hotel. Two guest speakers from Japan, Prof Seiji Adachi, ex-JPX specialist, and Mr Tatsuya Imade, an expert for investor relations, made an impressive presentations for better understanding of capital market development and Japan's experiences. The Team thinks that the seminar was a remarkable event, as MONOS announced its IPO plan during the seminar.

Separately, the Team provided and will continue providing consulting services for the IPO candidate companies.

#### **2. SRO**

For 11-14 April, the Team organized a five-day training course in Japan for 11 members from FRC, MOF, MSE as well as MASD. JPX, Japan Securities Dealers Association (JSDA), FSA and the Team provided lectures on self-regulation.

The Team also had discussions with MSE and MASD for developing their self-regulatory functions. It plans to make an action plan for MSE in listing and supervision of brokers, going into Jul16.

#### **3. Knowledge sharing for IPO, SRO and investor education**

The team and MASD held half-day workshops mainly for securities companies on 20 and 23 May. On 20 May, the Team provided presentation on capital policy and scheduling, in addition MSE gave a lecture on listing guidelines at MSE. On 23 May, the Team spoke on securities companies' daily retail operation, investor education by securities representatives as well as ethics.

## Appendix 4

### Project for Capacity Building of Capital Market in Mongolia

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

## Joint Coordinating Committee

21 June 2016, FRC, Ulaanbaatar

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### Plans for Aug16 - Jul17

The Consultant Team proposes plans for the final project year of Aug16 to Jul17 as follows:

#### 1. Policy Committee

The Team expects Policy Committee to resume. The Team also thinks that it is a good idea to hold a compulsory tri-party meeting among FRC, MSE and MASD every month. It can be under Policy Committee, or outside of Policy Committee.

#### 2. FRC capacity building

The Team will support FRC's capacity building upon requests.

#### 3. SRO

Self-regulation at a stock exchange is divided into two categories: listing and trading. The Team proposes to upgrade MSE's self-regulation regarding listing, including listing requirements, further adjustment of listed companies' classification as well listing companies' duties for disclosure. For MASD, the Team plans to cooperate in revising its curriculum for securities representative license and in drafting an official textbook for the exam.

#### 4. IPO/dual-listing

The Team continues to support the four pilot IPO/dual-listing candidates. One of the four companies hopes for listing at MSE in 4Q16. The Team also expects the privatization plan of Thermal Power Plant #3 and #4 to resume.

#### 5. Investor education

The Team plans to cooperate with MASD to hold *Investor Week* early September 2016. It is expected to be an annual event, going forward, to enhance general public's interest in the capital market. Contents of *Investor Week* will be discussed in Jul-Aug16. The Team also consults the website design for investor education, which are being developed by FRC and BOM.

## Appendix 5

### Project for Capacity Building of Capital Market in Mongolia

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

## Joint Coordinating Committee

21 June 2016, FRC, Ulaanbaatar

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### Items included in the Application Form for Japan's Technical Cooperation (dated June 17, 2016)

#### **Output 1: IPO and dual-listing (continued)**

Mongolian listed, state-owned and TOP private companies will be issued IPOs and dual-listed foreign stock exchanges. Managements and senior officials will be trained on the IPO and dual-listing seminars. Financing through IPO to be increased both for state-owned and private sector companies. Also, dual-listing to be increased for the companies wishing to finance both in Mongolian and overseas exchanges.

#### **Output 2: Self Regulatory Organization (SRO) (continued)**

FRC staff will be trained on SRO regulatory framework, and the staff members at MSE, MASD and other SROs (if identified as appropriate) will be guided and trained on SRO activities.

#### **Output 3: Investor education (continued)**

Investors, both retail and institutional (e.g. insurance companies, investment funds), will be educated on opportunities to invest in capital market.

#### **Output 4: Custodian business**

The custodian service by the licensed banks will be developed to be in line with the international practices.

#### **Output 5: Market surveillance**

Improving FRC's capacity to monitor market activities to ensure healthy, transparent and fair operation of the capital market.

#### **Output 6: Firewall regulations**

Establishing, operating and getting across to the market participants the firewall regulations between banking and securities businesses, in line with the global practices.

#### **Output 7: New capital market products (e.g. corporate bond products)**

Relevant regulatory framework (at FRC), product development capability (at securities companies) will be put in place for providing wider scope of financing/investment opportunities to the market participants.

#### **Output 8: Capital market development strategy**

## Appendix 6

### Candidates for Pilot IPO / Dual-Listing (DL) Projects

As of Jun 21, 2016

SOC/ Private	Candidate Issuer	Sector	Consulting Needs (Nov 2015)			Underwriter	Auditor	Law Firm	Appraiser	Note
			IPO/DL	Window	Exchange					
SOC	Power Plant 3	Power	IPO	n.a.		TDB Capital	n.a.	n.a.	n.a.	On Privatization List.
SOC	Power Plant 4	Power	IPO	n.a.		TDB Capital	E&Y Mongolia	Mongol Omgoologch	BDO Audit	On Privatization List.
Private	*****	Conglomerate	DL	3-5yr	HK, LD, TK	*****	n.a.	n.a.	n.a.	Turning to LD AIM for greater liquidity.
Private	*****	Manufacturing	IPO	2017		*****	n.a.	n.a.	n.a.	Top share door manufacturer & expanding the business portfolio.
Private	*****	Conglomerate	IPO	n.a.		*****	n.a.	n.a.	n.a.	

\*\*\*\*\* : 1st group for privatization.

MINUTES OF JOINT COORDINATING COMMITTEE

ON

THE PROJECT FOR CAPACITY BUILDING OF  
CAPITAL MARKET IN MONGOLIA

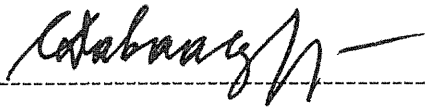
AGREED UPON BETWEEN

FINANCIAL REGULATORY COMMISSION OF MONGOLIA

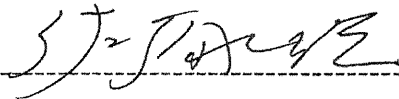
AND

JAPAN INTERNATIONAL COOPERATION AGENCY

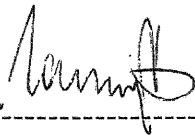
Ulaanbaatar, 25 October 2016



Dr. Davaasuren Sodnomdarjaa  
Chair  
Financial Regulatory Commission  
Mongolia



Mr. Mutsumi Sato  
Chief Representative  
JICA Mongolia



Mr. Gantulga Badamkhatan  
Director General, Development Financing  
And Debt Management Department  
Ministry of Finance  
Mongolia

This is to record the results of the JCC meeting held on 25 October 2016.

The proceedings went on chaired by Dr. Davaasuren Sodnomdarjaa as according to the agenda (Appendix 1).

Key discussion points were as follows:

**1. Work Plan for September 2016 - July 2017.**

The Consultant Team proposed plans for September 2016 – July 2017, with Work Plan for the period. The JCC members approved the plan for September 2016 – July 2017.

**2. Approval of the project design matrix indicators.**

As per recorded at the last JCC meeting held on 21 June 2016, FRC and JICA has held several discussion sessions for the amendments to PDM indicators. The JCC members approved the amendments of PDM indicators as proposed. Dr Davaasuren commented that the PDM indicators would need to be redesigned if Phase 2 of the project was adopted.

**3. Discussions on the project outputs**

Dr Davaasuren and other JCC members of Mongolia requested the Consultant Team on the outputs as follows:

- 1) Concept paper on the Policy Committee. Since the Policy Committee has not been held for a while and FRC is planning to resume in the near future, a concept paper on the Policy Committee will be helpful. The Consultant Team agreed on providing it, based on the Current Status Report submitted to FRC in April 2015.
- 2) Support for the risk-based supervision for securities companies. Since the 320-page supervision manual by the World Bank is difficult to use, customizing the manual will be helpful for FRC's supervisors. The Consultant Team agreed to check the amendments to the guidelines prepared by FRC staff after the Japan training course in October 2015 for further discussion.
- 3) Advices on FRC's web-site design as well as the booklet for financial literacy. The Consultant Team agreed on providing the relevant advices.

**4. Information sharing for consultancy to IPO candidates.**

Dr Davaasuren requested to share the information on IPO candidates. The Consultant Team confirmed to report to Dr Davaasuren on a regular basis.

**5. MSE's requested for further support.**

MSE's Mr Myagmarsuren Javzansuren requested the Consultant Team for further support in its marketing and dual-listing. The Consultant Team replied that marketing was not included in its tasks and that dual-listing had not been realized to date, due to such factors as worsening investor perceptions on Mongolian economy and the lack of local securities companies' commitment.



## Appendix 1

### Project for Capacity Building of Capital Market in Mongolia

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

## Joint Coordinating Committee

25 October 2016, FRC, Ulaanbaatar

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## Agenda

### Opening Remarks

- 11:00 - 11:05 Dr Davaasuren Sodnomdarjaa, Chair  
Financial Regulatory Commission
- 11:05 - 11:10 Mr Mutsumi Sato, Chief Representative  
JICA Mongolia

### Discussion

- 11:10 - 12:25 Agenda 1: *“Introducing new JCC members”*  
*by JICA Consultant Team*

Agenda 2: *“Plans for September 2016 – July 2017”*  
*by JICA Consultant Team*

Agenda 3: *“Approval of the PDM (project design matrix) indicators”*  
*by JICA Consultant Team*

### Closing Remarks

- 12:25 - 12:30 Dr Davaasuren Sodnomdarjaa, Chair  
Financial Regulatory Commission

## Appendix 2

### Project for Capacity Building of Capital Market in Mongolia

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

## Joint Coordinating Committee

25 October 2016, FRC, Ulaanbaatar

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### List of Attendees

#### Financial Regulatory Commission

- 1) Dr Davaasuren S, Chair
- 2) Bum-Erdene Kh., Vice Chair
- 3) Jambaajamts T., Manager Director
- 4) Tserenbadral T., Director, Securities Department
- 5) Ariunaa B., Director, Supervision and Regulation Department
- 6) Tumenbayar Sh., Senior specialist for Registration and Licensing, Securities Department
- 7) Erdemzaya J., Senior specialist for Policy and Planning, Securities Department
- 8) Munkhtuvshin G., Officer for Policy and Planning, Securities Department Secretariat
- 9) Ariunaa E., Officer, Foreign Relations and Cooperation Department

#### Mongolian Stock Exchange

- 1) Altai Kh., Acting CEO

#### Ministry of Finance

- 1) Nyamaa.B, Director General, Financial Policy Department
- 2) Gantulga.B, Director General,  
Development Financing and Debt Management Department

#### Japan International Cooperation Agency

- 1) Jiro Tsunoda, Senior Advisor,  
Industrial Development and Public Policy Department, JICA

#### JICA Mongolia Office

- 1) Mutsumi Sato, Chief Representative
- 2) Saikhantuya. A, Representative
- 3) Javkhlan. U, Program Officer

#### JICA Consultants

- 1) Ryota Sugishita, Project Manager, Daiwa Institute of Research
- 2) Takayuki Urade, IPO/Dual-listing, Japan Economic Research Institute
- 3) Masayoshi Tatewaki, Policy Committee, Japan Economic Research Institute
- 4) Akifumi Nakanishi, Investor Education, Daiwa Institute of Research
- 5) Chinzorig. C, Mongolian Consultant



## Work Plan for Sep16-Jul17

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25 October 2016

JICA Consultant Team

### Tasks

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1. Effective Policy Committee for vitalization of the capital markets	✓ Resume the committees
2. Improving FRC's capacity for regulation and supervision of capital markets	✓ Checking risk-based supervision procedure ✓ Others (depending on a request)
3. Writing a concept paper on self-regulatory organization and a textbook	✓ SRO concept paper, Dec16 ✓ Lectures (listing requirements, delisting requirements etc) ✓ Publishing a textbook for a securities license
4. Increasing IPO and promoting dual-listing of Mongolian companies	✓ IPO seminar, Mar17 ✓ Pilot IPO, Jan-Mar17
5. Enhancing financial literacy for general	✓ Investor Week, 24-30Oct16 ✓ Financial literacy web-site

## Schedule

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	2016 9	10	11	12	2017 1	2	3	4	5	6	7
Training course in Japan									✓		
Training course in UB								✓			
SRO Concept Paper				✓							
Textbook											✓
IPO Seminar							✓				
Pilot IPO							✓				
Investor Week		✓									

**Project for Capacity Building of  
Capital Market in Mongolia:  
Work Plan for  
September 2016-July2017**

**October 2016**

**Daiwa Institute of Research  
Japan Economic Research Institute**



## Contents

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<b>2. What to do.....</b>	<b>2</b>
<b>3. Schedule.....</b>	<b>4</b>
<b>4. Consultant team.....</b>	<b>4</b>
<b>5. Granting equipment.....</b>	<b>6</b>

## 1. Introduction

Project for Capacity Building of Capital Market in Mongolia (Project) has been planned between Financial Regulatory Commission (FRC) and Japan International Cooperation Agency (JICA) in the past years, and officially started in July 2014, after conducting a research study on the Mongolian capital markets in 2013-14. The project is designed in three periods, November 2014-July 2015, August 2015-July 2016 and September 2016-July 2017.

The Project is expected to contribute to development of Mongolia's capital markets. Despite the fact that Mongolian Stock Exchange (MSE) has 25 years of history, the market is still underdeveloped. MSE's market capitalization was MNT 1.3 trillion (tn) at the end of December 2015, down 60% from its peak in 2011. The market cap to GDP ratio also dropped to 5.4% in 2015, which is the third lowest in Northeast-Southeast Asia. Trading activities is very thin, with MNT 30 billion (bn) for 2015, demonstrating velocity, or turnover ratio, of only 2%.

Quite a few reasons have been pointed out why MSE is inactive. MSE lacks blue chips. Floating rates for most of MSE stocks are too low at a single digit. Financial reports do not contain sufficient information. Disclosure is not favorable for investors. General public is not familiar with the stock market.

The Mongolian government believes that it needs to vitalize the capital markets. The capital market is a significant platform for economic development, providing corporates with an alternative source of financing and giving opportunity for nationals to become wealthy. In addition, the government wishes to utilize MSE for privatization of state-owned enterprises to finance its budget deficit.

FRC and JICA have shared a view that active primary market at MSE will be one of the keys to success in developing Mongolia's capital markets and that improving market confidence by capacity building of FRC and relevant stakeholders will be necessary to accomplish this goal. The Project started from November 2014 by the JICA Consultant Team, supported by Financial Services Agency (FSA), Japan Exchange Group (JPX) and JICA, with Mongolian counterpart of FRC and MSE. The project will end in July 2017.

Description of the Project is summarized as below.

Project description	
Duration	
Overall goal	
Project purpose	
Mongolian counterpart	
Japanese counterpart	

## 2. What to do

Overall goal of the Project is to develop active primary market at MSE by increasing IPO for unlisted Mongolian companies with sound fundamentals, as well as promoting dual-listing for those listed in overseas stock exchanges, as a result of improving market confidence. There are five expected outcomes from the Project, namely, 1) effective Policy Committee for vitalization of the capital markets, 2) **improving FRC's capacity** for regulation and



supervision of capital markets, 3) writing a concept paper of SRO, 4) increasing IPO and promoting dual-listing, as well as 5) enhancing financial literacy of general public.

### **2.1. Effective Policy Committee for vitalization of the capital markets**

Policy Committee was established under FRC in 2014. The Consultant Team advised FRC to set up several independent committees that focus on a certain segment. FRC started five independent committees in 2016, but they are currently suspended due primarily to the change in the management team at FRC. The Consultant Team will support FRC to resume the operation of the committees.

### **2.2. Improving FRC's capacity for regulation and supervision of capital markets**

14 FRC officials were dispatched to the training course in Japan in October 2015 to learn risk-based supervision for securities companies. FRC has already implemented the risk-based approach, to some extent, in supervising securities companies. The Consultant Team will further support in strengthening capacity in risk-based supervision.

Previously FRC also hoped technical cooperation in the following items:

- a) Rules and guidelines under Securities Market Law and Investment Fund Law
- b) Law enforcement
- c) New financial products
- d) Supervision of custodian banks
- e) Implementing alternative dispute resolution
- f) Improving disclosure for listed companies
- g) Better quality of client services by securities companies

During the third project year, the Consultant Team will provide support for FRC whenever necessary.

### **2.3. Writing a concept paper on self-regulatory organization and a textbook**

Although MSE and MASD were approved as an SRO by FRC in 2015, self-regulating activities by MSE and MASD are still under development. The Consultant Team will continue providing lectures to MSE and MASD so that the two SROs can increase contribution in regulating the market. The Consultant Team plans to issue a concept paper for the self-regulation, based on the materials that were already provided. For MASD, the Consultant Team focuses on making a textbook for the securities license. Currently MASD organizes around 40 subjects for people who want to gain a license, but there is no official textbook at the moment. Some subjects may be removed or modified in the textbook.

### **2.4. Increasing IPO and promoting dual-listing of Mongolian companies**

The Consultant Team has provided consultancy to four private sector companies that hope to list their shares at MSE or dual-list at overseas exchanges. One of them is expected to make an IPO as early as in 1Q2017, which is regarded as the pilot IPO by the JICA project, in collaboration with the underwriting companies. The other three companies are not ready for an IPO or dual-listing, however the Consultant Team can provide consultancy to a state-owned company that plans listing, if the government needs to take a step ahead in privatization. In addition, the Consultant Team plans to host the third IPO seminar in UB in March 2017.

### **2.5. Enhancing financial literacy for general public**

The Consultant Team is in cooperation with MASD to hold *Investor Week* for the week of 24 October 2016, the first major event for enhancing financial literacy by MASD. The Consultant Team plans to take a part of presentation and panel discussion. Separately the Consultant Team will collaborate with FRC in developing its web-site for financial literacy that is being jointly designed with Bank of Mongolia.

### 3. Schedule

The third project year started on 12 September 2016 and lasts to the end of July 2017.

	2016				2017						
	9	10	11	12	1	2	3	4	5	6	7
Training course in Japan									✓		
Training course in UB								✓			
SRO Concept Paper				✓							
Textbook											✓
IPO Seminar							✓				
Pilot IPO							✓				
Investor Week		✓									

Note: Schedule is subject to change, depending on discussions with the relevant stakeholders.

### 4. Consultant team

Consultants are all well experienced in capital markets in Asia.

#### 4.1. Ryota Sugishita, Project Manager, capacity building for FRC

Mr Ryota Sugishita, Chief Consultant, Daiwa Institute of Research, is a capital market consultant, with experienced as an equity analyst based in Singapore, Taipei and Shanghai for 15 years, and 5 years in Tokyo. In recent years, he provides technical cooperation to Central Bank of Myanmar for bond market development. He is also a member in the Yangon Stock Exchange project since 2011, involved in planning, negotiation as well as capacity building.

#### 4.2. Takayuki Urade, IPO and dual-listing

Mr Takayuki Urade, Chief Consultant, Japan Economic Research Institute, conducted a number of research on capital markets, financial sector and macro economy in Asia. He was involved in research on Mongolian capital market, including **JICA's research study** for Mongolian capital market in 2013-14. He has also experienced as an investment banker to support IPOs by Japanese companies, including a POWL (public offering without listing) in the US.

#### 4.3. Masayoshi Tatewaki, Policy Committee

Mr Masayoshi Tatewaki, Director, Japan Economic Research Institute joined the Consultant Team in June 2016. He is specialized in development finance, and was experienced in study for the financial sector in Asia as well as capacity building projects for local development banks. He was dispatched as an expert by JICA to Vietnam Development Bank.

#### 4.4. Daisuke Tashiro, SRO

Mr Daisuke Tashiro, Daiwa Institute of Research, joined the Consultant Team in October 2016. He is experienced as a sales staff at a securities company for several years before

joining Daiwa. After he conducted research and consulting projects in the financial sector, he was assigned as a member of the Yangon Stock Exchange project in 2012, and stayed in Yangon until March 2016. He was involved in stipulating the Securities and Exchange Law and the listing requirements of Yangon Stock Exchange.

#### **4.5. Akifumi Nakanishi, Investor Education**

Mr Akifumi Nakanishi, Daiwa Institute of Research, is a well-experienced consultant in capital markets in Asia, including his international experiences at the Worldbank Group for seven years. He has been assigned as a consultant for the bond market development project for Myanmar since 2011. Other recent projects include research on the Indonesian banking sector by Japan Bank for International Cooperation (JBIC), and JICA's study for state-owned enterprises in Myanmar.

#### **4.6. Masateru Igata, Seminar and coordination**

Mr Masateru Igata, is well-known in the Mongolian capital markets, as Founder and CEO, Frontier LLC. He has a background as a capital market specialist, with experienced in the **Japanese stock market since 1980's. He is also well-known** as a seminar planner, with ability to gather hundreds of attendees.

#### **4.7. Khishigjargal Jambal**

Ms Khishigjargal Jambal is a Mongolian consultant and has experiences working in the area of financial market development at EPRC project of USAID, and in credit and corporate finance area at Development Bank of Mongolia. She holds Finance MBA degree from KAIST Business School (South Korea), and MBA degree from Saunders College of Business, RIT (NY, USA).

#### **4.8. Chinzorig Chuluun**

Mr Chinzorig Chuluun is a Mongolian consultant, has experiences working as the Chairman of the Board of Mongol Post JSC, as head of the Controlling Committee of Shivee-Ovoo JSC, and also working as a head of department at SPC. He also worked on the restructuring of the MSE as authorized representative of the state. He supports Japanese Consultants in arranging meetings with Mongolian government officials. He holds a master degree from University of Osaka and National University of Mongolia and he is a doctorate of Kobe University.

## 5. Granting equipment

JICA and FRC agreed on Record of Discussions, signed on 13 June 2014, for granting the equipment to FRC as listed below:

	Equipment	Volume
1	Server computer	2
2	Laptop computer	1
3	Voice recorder	1
4	Projector	1
5	Color printer	1
6	Portable external hard drive	1
7	Chalkboard	1

The Consultant Team will procure the equipment in Ulaanbaatar, once asking quotation. Equipment move-in and final checking will be also supported by the team. The team will discuss with FRC and JICA on models, prices and timing of purchase. Specification of equipment is as written on the Record of Discussions.



## PDM Indicators

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25 October 2016

JICA Consultant Team

### Introduction

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- ✓ Progress of a JICA project is monitored by setting policy design matrix indicators, or PDM indicators.
- ✓ The PDM indicators are typically numbers that can prove if there is any positive impact from the project.
- ✓ The PDM indicators are set for 1) overall goal, and 2) project purpose.

## Overall goal (1)

- ✓ Overall goal is a goal that can be achieved three years after the project is completed.
- ✓ The listing environment of Mongolian capital market for vitalization of initial public offering (IPO) & dual listing) is improved through enhancement of its credibility.

No	Objective verifiable indicators	Remarks																				
1	<b>MNT2.2tn</b> for the total market capitalization from <b>MNT1.5tn</b>	<table border="1"> <thead> <tr> <th></th> <th>Market cap MNT</th> <th>GDP MNT</th> <th>MC/GDP</th> </tr> </thead> <tbody> <tr> <td>2014</td> <td>1.4tn</td> <td>22.2tn</td> <td>6.5%</td> </tr> <tr> <td>2015</td> <td>1.3tn</td> <td>23.2tn</td> <td>5.4%</td> </tr> <tr> <td>2017E</td> <td>1.5tn</td> <td>25.4tn</td> <td>5.9%</td> </tr> <tr> <td>2020E</td> <td><b>2.2tn</b></td> <td>37.5tn</td> <td>5.9%</td> </tr> </tbody> </table> <p><i>Note: Its historical high was MTN2.2tn in 2011. GDP forecast by IMF.</i></p>		Market cap MNT	GDP MNT	MC/GDP	2014	1.4tn	22.2tn	6.5%	2015	1.3tn	23.2tn	5.4%	2017E	1.5tn	25.4tn	5.9%	2020E	<b>2.2tn</b>	37.5tn	5.9%
	Market cap MNT	GDP MNT	MC/GDP																			
2014	1.4tn	22.2tn	6.5%																			
2015	1.3tn	23.2tn	5.4%																			
2017E	1.5tn	25.4tn	5.9%																			
2020E	<b>2.2tn</b>	37.5tn	5.9%																			

3

## Overall goal (2)

No	Objective verifiable indicators	Remarks																
2	<b>0.1 percentage</b> point increase in (the total assets in the capital market sector)/(the total assets in the financial sector) ratio from <b>0.3%</b>	<table border="1"> <thead> <tr> <th></th> <th>Total assets Securities MNT</th> <th>Fin Sector MNT</th> <th>Share</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>68bn</td> <td>21.6tn</td> <td>0.3%</td> </tr> <tr> <td>2017E</td> <td>70bn</td> <td>22.5tn</td> <td>0.3%</td> </tr> <tr> <td>2020E</td> <td>100bn</td> <td>n.a.</td> <td><b>0.4%</b></td> </tr> </tbody> </table>		Total assets Securities MNT	Fin Sector MNT	Share	2015	68bn	21.6tn	0.3%	2017E	70bn	22.5tn	0.3%	2020E	100bn	n.a.	<b>0.4%</b>
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4

### Overall goal (3)

No	Objective verifiable indicators	Remarks												
4	Applications for IPO and dual listing increased to <b>three per year</b> from <b>one to two</b>	2013 none 2014 one IPO 2015 one IPO 2017E one to two IPOs 2020E <b>three IPOs</b>												
5	(Ref.) <b>0.35</b> point increase in “financial services meeting business needs” value by the latest World Economic Forum’s “Global Competitiveness Report”	<table border="0"> <tr> <td>Mongolia</td> <td>6 countries</td> <td>Asia</td> </tr> <tr> <td></td> <td>avg</td> <td>avg</td> </tr> <tr> <td colspan="3">-----</td> </tr> <tr> <td>2016-17</td> <td>3.21 pts → <b>3.56 pts</b></td> <td>4.18 pts</td> </tr> </table>	Mongolia	6 countries	Asia		avg	avg	-----			2016-17	3.21 pts → <b>3.56 pts</b>	4.18 pts
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Note1: The Global Competitiveness Report is issued every year in September. Around 130 countries are ranked by various indicators.

Note2: 6 countries are: Mongolia, Bhutan, Kazakhstan, Kyrgyz, Nepal and Tajikistan – inland Asian countries. Uzbekistan is not included in the Global Competitiveness Report.

5

### Overall goal (4)

No	Objective verifiable indicators	Remarks																		
6	(Ref.) <b>0.71</b> point increase in “affordability of financial services” value by the latest World Economic Forum’s “Global Competitiveness Report”	<table border="0"> <tr> <td>Mongolia</td> <td>6 countries</td> <td>Asia</td> </tr> <tr> <td></td> <td>avg</td> <td>avg</td> </tr> <tr> <td colspan="3">-----</td> </tr> <tr> <td>2014-15</td> <td>3.51 pts</td> <td>3.93 pts 4.44 pts</td> </tr> <tr> <td>2015-16</td> <td>3.51 pts</td> <td>3.93 pts 4.44 pts</td> </tr> <tr> <td>2016-17</td> <td>3.13 pts → <b>3.84 pts</b></td> <td>4.51 pts</td> </tr> </table>	Mongolia	6 countries	Asia		avg	avg	-----			2014-15	3.51 pts	3.93 pts 4.44 pts	2015-16	3.51 pts	3.93 pts 4.44 pts	2016-17	3.13 pts → <b>3.84 pts</b>	4.51 pts
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6

Project purpose (1)

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- ✓ Project purpose is a purpose that the project is grounded on.
- ✓ The credibility of capital market is enhanced through improvement of supervision and regulation capacity of target groups and improvement of the understanding by participants of capital market in Mongolia.

No	Objective verifiable indicators	Remarks
1	The capacity of target groups in supervising and regulating is strengthened	i) Planning a survey to staff being involved in the project at least for one year by the completion of the project ii) No of seminar/workshop participants iii) Development of guidelines and actual procedure for the risk-based supervision

7

Project purpose (2)

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No	Objective verifiable indicators	Remarks																				
2	Increase in positive response on the credibility of capital market from symposium participants to <b>50% of total</b>	Planning a survey twice by Facebook for Sep16-Jul17																				
3	<b>0.37</b> point increase in "regulation of security exchanges" value by the latest World Economic Forum's "Global Competitiveness Report"	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="text-align: center;">Mongolia</td> <td style="text-align: center;">6 countries avg</td> <td style="text-align: center;">Asia avg</td> </tr> <tr> <td colspan="4" style="text-align: center;">-----</td> </tr> <tr> <td>2014-15</td> <td style="text-align: center;">2.72 pts</td> <td style="text-align: center;"><b>3.31 pts</b></td> <td style="text-align: center;">4.13 pts</td> </tr> <tr> <td>2015-16</td> <td style="text-align: center;">2.87 pts</td> <td></td> <td></td> </tr> <tr> <td>2016-17</td> <td style="text-align: center;">2.94 pts</td> <td></td> <td></td> </tr> </table>		Mongolia	6 countries avg	Asia avg	-----				2014-15	2.72 pts	<b>3.31 pts</b>	4.13 pts	2015-16	2.87 pts			2016-17	2.94 pts		
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8



## Outputs

✓ We need to set a numerical target for three of our outputs in “IPO and dual listing by high potential Mongolian companies are conducted”:

- 1) No of symposiums (seminars) to be held;
- 2) Percentage of participants satisfied with the symposiums.

No	Objective verifiable indicators	Remarks
4-3	Symposium (seminar) series are organized ( <b>3 times</b> )	<ul style="list-style-type: none"> <li>i) Workshop for SOCs Mar15</li> <li>ii) #1 IPO/DL seminar Jun15</li> <li>iii) #2 IPO/DL seminar Mar16</li> <li>iv) #3 IPO/DL seminar Mar17 (e)</li> </ul>
4-5	In the survey results of each symposium, a response, "the relevance of the topics met the expectation as well as needs of the capital market," is obtained on average from ( <b>50%</b> ) of the participants	Number of respondents in the past seminars is not sufficient, but it appears so far so good

Project Monitoring Sheet I (Revision of Project Design Matrix)

Appendix 6

**Project Title: Capacity Building of Capital Market in Mongolia**  
**Implementing Agency: Daiwa Institute of Research Ltd., Japan Economic Research Institute**  
**Target Group: Financial Regulatory Commission, Mongolian Stock Exchange etc.**  
**Period of Project: Nov2014-Jul2017**  
**Project Site: Ulaanbaatar, Mongolia Model Site:**

**Version 8**  
**Dated 21 Oct 2016**

Narrative Summary	Objective Verifiable Indicators	Means of Verification	Important Assumption	Achievement	Remarks
Overall Goal					a)Market cap b)GDP a)/b) MNT tn MNT tn
The listing environment of Mongolian capital market for vitalization of initial public offering (IPO) & dual listing) is improved through enhancement of its credibility	1 <b>MNT2.2tn</b> for the total market capitalization from <b>MNT1.5tn</b>	1 MSE for total market capitalization and National Statistical Office of Mongolia for GDP	1 i) Market capitalization of equities only (excl. that for gov bonds), ii) the market cap target of MNT2.2tn will be a record high, ii) market cap will be largely impacted by the status of macro economy	1 MSE's market cap continued falling from its peak in 2011, due largely to the economic downturn, market cap/GDP ratio also fell to 5.4% in 2015	1 2014 1.4tn 22.2tn 6.5% 2015 1.3tn 23.2tn 5.4% 2017E 1.5tn 25.4tn 5.9% 2020E 2.2tn 37.5tn 5.9%  <i>Note: Its historical high was MNT2.2tn in 2011</i>
	2 <b>0.1 percentage</b> point increase in (the total assets in the capital market sector)/(the total assets in the financial sector) ratio from <b>0.3%</b>	2 FRC for the total assets in the capital market sector and the total assets in the financial sector	2 Aggregate securities companies' total assets do not include banks' investment banking assets	2	2 Securities Fin Sector Share MNT MNT 2015 68bn 21.6tn 0.3% 2017E 70bn 22.5tn 0.3% 2020E 100bn n.a. 0.4%
	3 Trading value of the capital market increases from <b>MNT60bn</b> to <b>MNT150bn</b>	3 MSE for trading value of the capital market	3 i) Trading value for equities only, ii) The trading value of MNT150bn will be a record high, iii) The velocity (annual trading value/market cap) of 7% is also its historical high, iv) Trading activities can be largely impacted by the status of macro economy	3 High interest rates and the current economic downcycle have dampened trading activities at MSE	3 2014 MNT24bn (1.5% velocity) 2015 MNT30bn (2% velocity) 2017E MNT60bn (4% velocity) 2020E MNT150bn (7% velocity)  <i>Note: Its historical high was MNT145bn in 2012</i>
	4 Applications for IPO and dual listing increased to <b>three per year</b> from <b>one to two</b>	4 FRC and MSE for applications	4 i) Combined number of IPO and dual listing applications, ii) new listings without public offering also to be included	4 There has been one new listing in Jan 2016, expecting another in <b>1Q17</b>	4 2013 none 2014 one IPO 2015 one IPO 2017E one to two IPOs 2020E three IPOs
	5 (Ref.) <b>0.35</b> point increase in "financial services meeting business needs" value by the latest World Economic Forum's "Global Competitiveness Report"	5 Global Competitiveness Report (The Global Competitiveness Index, 8th pillar: Financial Market Development)	5 <b>Achieve 3.56 pts</b>	5 n.a.	5 <b>Changed from "availability of financial services", as it was discontinued.</b>  2016-17 3.21 pts for Mongolia
	6 (Ref.) <b>0.71</b> point increase in "affordability of financial services" value by the latest World Economic Forum's "Global Competitiveness Report"	6 Global Competitiveness Report (The Global Competitiveness Index, 8th pillar: Financial Market Development)	6 <b>Achieve 3.84 pts</b>	6 Deteriorated by 0.38 pts	6 Mongolia 2014-15 3.51 pts 2015-16 3.51 pts 2016-17 3.13 pts
	7 (Ref.) <b>0.26</b> point increase in "financing through local equity market" value by the latest World Economic Forum's "Global Competitiveness Report"	7 Global Competitiveness Report (The Global Competitiveness Index, 8th pillar: Financial Market Development)	7 <b>Achieve 3.33 pts</b>	7 Improved 0.59 pts since 2014-15	7 Mongolia 2014-15 2.48 pts 2015-16 2.77 pts 2016-17 3.07 pts

Narrative Summary	Objective Verifiable Indicators	Means of Verification	Important Assumption	Achievement	Remarks
<b>Project Purpose</b>					
The credibility of capital market is enhanced through improvement of supervision and regulation capacity of target groups and improvement of the understanding by participants of capital market in Mongolia	1 The capacity of target groups in supervising and regulating is strengthened	1 Means of verification will be decided after the review of capital market i) Survey by Facebook, ii) No of seminar/workshop participants iii) Developments in the guidelines, iv) Procedure for the risk-based supervision	1 Stability of the macro economy and politics is maintained, sustaining attractiveness of the Mongolian capital market for the private sector	1 Not evaluated yet	1 i) Planning a survey to staff being involved in the project at least for one year by the completion of the project, ii) Listing up seminar/workshop participants, iii) Checking development of guidelines and actual procedure for the risk-based supervision
	2 Increase in positive response on the credibility of capital market from symposium participants to <b>50% of total</b>	2 Questionnaire survey at symposium series	2 Mongolian Government develops and implements a series of policies for capital market development	2 Not evaluated yet	2 Planning a survey twice by Facebook for Sep16-Jul17
	3 <b>0.37</b> point increase in "regulation of security exchanges" value by the latest <b>World Economic Forum's "Global Competitiveness Report"</b>	3 Global Competitiveness Report (The Global Competitiveness Index, 8th pillar: Financial Market Development)	3 <b>Achieve 3.31 points</b>	3 Improved 0.22 pts since 2014-15	3 Mongolia 2014-15 2.72 pts 2015-16 2.87 pts 2016-17 2.94 pts
<b>Outputs</b>					
1 Policy Committee is established for revitalization of the capital market, insurance, and microfinance	1-1 Concept paper for establishing policy committee is prepared	1-1 Concept paper	1-1 Policies that pertain regulation and supervision of capital market do not radically change	1-1 Recommendation provided in the report "The Current Status of Capital Markets in Mongolia, Mar15"	1-1 Policy Committee had been established when the project started. Five independent committees were established by Consultants' advice.
	1-2 Committee meeting minutes that include advisory input by the Project (and its experts) are compiled	1-2 Committee meeting minutes	1-2 The capital market related laws and regulations are in place	1-2 Should be kept at FRC, and to be confirmed by the Consultant Team	1-2 Expecting meeting minutes to be prepared by FRC when Policy Committee resumes
2 FRC's capacity for regulation and supervision of capital market (risk-based approach) is enhanced  Candidate areas for support: i) ii) Other participants on the capital market: iii) MSE and MSCH&CD	2-1 Recommendation paper that directs FRC's risk-based supervision is prepared	2-1 Recommendation paper	2-1 Transfers of C/P and training participants do not occur	2-1 i) A five-day training course in UB for supervision in Apr15, ii) a seven-day training course in Japan for risk-based supervision of securities companies in Oct15, iii) a training course in Japan for SRO in Apr16	2-1 14 FRC staff participated in the training course in Japan, received a lecture material from FSA for risk-based supervision
	2-2 Post-training record of all the training programs indicate C/P increased understanding on how to handle administration of the target topics	2-2 Pre-post record (narrative and/or numerical ranking, etc.) on each training program	2-2 Training activities in Mongolia's capital market progress in a stable manner	2-2 FRC developed the guidelines for risk-based supervision of securities companies	2-2 A report to be prepared, with comments by FSA
3 Concept paper of SRO is developed	3-1 Working team is established, and its decision regarding MSE's transition is determined	3-1 Record of discussion	3-1 None	3-1 The tri-party meeting by FRC, MSE and MASD started in Dec15, the second meeting in Jul16	3-1 None
	3-2 Post-training record of all the training programs indicate C/P increased understanding on how to handle administration of the target topics	3-2 Pre-post record (narrative and/or numerical ranking, etc.) on each training program	3-2 None	3-2 i) A five-day training course for SRO in Japan, ii) a follow-up small workshop at MSE, Jul16	3-2 A report to be prepared, based on evaluation sheets at the training course

Narrative Summary	Objective Verifiable Indicators	Means of Verification	Important Assumption	Achievement	Remarks
	3-3 Concept paper that discusses potentials for transition of MSE (MSCH&CD, MASD) into SRO is prepared	3-3 Concept paper	3-3 MSCH&CD (now MSC, MCSD) will not become an SRO	3-3 i) Presentation for MSE and MASD in May15, ii) MASD and MSE were approved as an SRO by FRC in Jul15 and Oct15, respectively	3-3 Provided a presentation in Jun15
4 IPO and dual listing by high potential Mongolian companies are conducted	4-1 Advisory records on developing new regulation of IPO and dual listing are compiled	4-1 Memos recording advisory input made by the Project	4-1 None	4-1 i) Workshop for MASD in May16, ii) providing advisory with four companies whenever necessary	4-1 1) MONOS 2) Standard Capital 3) Suu 4) Megawood
	4-2 Post-training record of all the training programs indicate participants increased understanding IPO an financial sector due diligence	4-2 Pre-post record (narrative and/or numerical ranking, etc.) on each training program	4-2 None	4-2 On-going	4-2 A survey sheet to be distributed
	4-3 Symposium series (3 times) are organized	4-3 Symposium proceedings	4-3 None	4-3 i) Workshop for SOCs Mar15, ii) #1 IPO/DL seminar Jun15, iii) #2 IPO/DL seminar Mar16	4-3 None
	4-4 Participants are drawn from securities-related supplier, issuers and investors	4-4 Symposium participants list	4-4 None	4-4 Keeping seminar/workshop attendees lists	4-4 None
	4-5 In the survey results of each symposium, a response, "the relevance of the topics met the expectation as well as needs of the capital market," is obtained on average from 50% of the participants	4-5 Questionnaire survey at symposium series	4-5 None	4-5 Number of respondents is not sufficient, but it appears so far so good	4-5 A survey sheet to be distributed at a seminar
	4-6 IPO and dual listing are conducted: IPO for 2 private companies; dual listing for 1 private company	4-6 JCC at the end of the project	4-6 None	4-6 Two new listings so far, although both of them were not supported by the project	4-6 1) MIK Holding (IPO), Dec 2015 2) Mongol Post (new listing), Jan 2016
	5 Financial literacy of general public is improved	5-1 Open Awareness Seminar Program contents and schedule are developed	5-1 Seminar program	5-1 Investor Week to be organized by MASD	5-1 Not yet
	5-2 Seminars are conducted as planned under 5.1	5-2 Seminar proceedings	5-2 None	5-2 Speech at Development of Financial Market National	5-2 None
	5-3 Japanese experiences on public awareness raising initiatives are studied	5-3 Memos summarizing Japanese cases	5-3 Prof. Adachi, ex-JPX expert, to be present at Investor Week	5-3 Not yet	5-3 An ex-JPX expert as a guest speaker at Investor Week

Narrative Summary	Objective Verifiable Indicators	Means of Verification	Important Assumption	Achievement	Remarks
	5-4 Financial literacy program(s) is/are prepared based on study conducted under 5-3	5-4 Program guide and/or materials (depending on the product type)	5-4 Collaborate in launching a FRC/BOM website for financial literacy	5-4 i) Lecture at FRC in May15, ii) workshop for MASD in May16, iii) lecture at Banking & Finance Academy in Jun16	5-4 None

Activities	Inputs		Pre-Conditions
	The Japanese Side	The Mongolian Side	
1) Training course in Tokyo for risk-based supervision of securities companies	1) Lectures by FSA, JPX, JSDA, JIPF, Daiwa Securities Group and the Team were provided for seven days.	1) 14 FRC officials were dispatched to Japan for seven working days in Oct15.	
2) Short-list of potential IPO candidates	2) The IPO candidate list was prepared by the Team after interviews with FRC, underwriters and companies.	2) FRC introduced some candidates, out of which one was interviewed by the Team.	
3) Presentation on listing requirements	3) The Team provided presentation for FRC on listing requirements in Asia for the purpose of improving MSE's current listing criteria.	3) Listing requirement revision at MSE is underway.	<Issues and countermeasures>
4) The Team also briefly pointed out the current issues for the capital markets in Mongolia and explained about the JICA program at <i>Invest Mongolia</i> , Sep15 as well as <i>Development of Financial Market National Forum</i> , Jan16.	4) Sugishita made a speech about Team's activities and also joined a panel discussion for technical assistance from Japan at <i>Invest Mongolia</i> . Urade spoke at <i>Development of Financial Market National Forum</i> on JICA project.	4) FRC's ex-Chair, Ms Narantuya, also joined the panel discussion at Invest Mongolia as well as Development of Financial Market National Forum.	

Candidates for Pilot IPO / Dual-Listing (DL) Projects

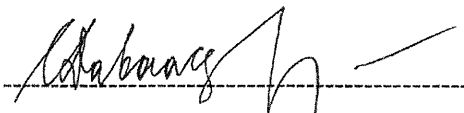
As of October 25, 2016

SOC/ Private	Candidate Issuer	Sector	Consulting Needs (Nov 2015)			Underwriter	Auditor	Law Firm	Appraiser	Note
			IPO/DL	Window	Exchange					
SOC	Power Plant 3	Power	IPO	n.a.		TDB Capital	n.a.	n.a.	n.a.	On Privatization List. The process is currently suspended.
SOC	Power Plant 4	Power	IPO	n.a.		TDB Capital	E&Y Mongolia	Mongol Omgoologch	BDO Audit	On Privatization List. The process is currently suspended.
Private	*****	Conglomerate	DL	3-5yr	HK, LD, TK	*****	n.a.	n.a.	n.a.	Turning to LD AIM for greater liquidity.
Private	*****	Manufacturing	IPO	2017		*****	n.a.	n.a.	n.a.	Top share door manufacturer & expanding the business portfolio.
Private	*****	Conglomerate	IPO	1Q2017		*****	*****	*****	*****	

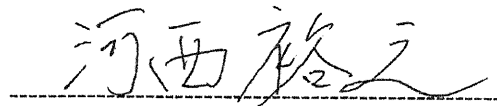
\*\*\*\*\* : 1st group for privatization.

MINUTES OF JOINT COORDINATING COMMITTEE  
ON  
THE PROJECT FOR CAPACITY BUILDING OF  
CAPITAL MARKET IN MONGOLIA  
AGREED UPON BETWEEN  
FINANCIAL REGULATORY COMMISSION OF MONGOLIA  
AND  
JAPAN INTERNATIONAL COOPERATION AGENCY

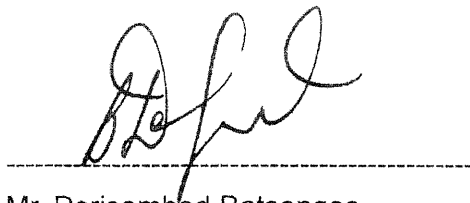
Ulaanbaatar, 14 April 2017



Dr. Davaasuren Sodhomdarjaa  
Chairman  
Financial Regulatory Commission  
Mongolia



Mr. Hiroyuki Kawanishi  
Senior Deputy Director General,  
Group Director for Governance,  
Industrial Development and Public Policy  
Department, JICA



Mr. Dorjsembed Batsengee  
Director, Department of Development Financing  
Ministry of Finance  
Mongolia

This is to record the results of the JCC meeting held on 14 April 2017.

The proceedings went on chaired by Dr. Davaasuren Sodnomdarjaa as according to the agenda (Appendix 1).

Key discussion points were as follows:

1. Result of the Terminal Evaluation.

Mr. Kenji Otsuka, JICA consultant, presented the pre-final result of the joint terminal evaluation based on the interviews and discussions conducted from April 3 through 13, 2017.

2. Plans for the rest of the current phase.

Mr. Ryota Sugishita, team leader of the JICA consultant team for this technical assistance project, introduced the plan for April through July, 2017.

3. Discussions on the plans for Phase 2.

FRC and JICA discussed on the upcoming Project (Phase 2) FY2017.

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Attached documents:

- Appendix 1: Agenda
- Appendix 2: List of Attendees
- Appendix 3: The summary of the Joint Terminal Evaluation Report on the Project for Capacity Building of Capital Market in Mongolia
- Appendix 4: Schedule for the Rest of the Current Phase



## Main Points Discussed

### 1. Terminal Evaluation

- a) Recommendations have been approved by JCC members. Mongolia side assured that based on the agreed recommendations, responsible persons will be allocated.
- b) Recommendations for actions to be taken after the Project will also be followed up in the next project which is approved by the Japanese Government.

### 2. Upcoming Project (Phase 2)

- a) FRC and JICA had a discussion on the scope of technical cooperation project (TC) for Capacity Building Capital Market in Mongolia Phase 2..
- b) FRC shared a view on the Project Phase2. FRC expects the Project Phase2 to enhance institutional capacity of FRC in operational and practical aspects as a regulator to financial service institutions other than the banking industry in Mongolia whereas the Phase1 contributed in broadening knowledge base and strengthening basic supervisory capacity of FRC.
- c) FRC shared a preliminary idea of outputs and the scope of works for the Project Phase2 verbally, of which components are dissimilar and more evolved from the application form for TC submitted last year. Hence FRC confirmed to revise the application and submit it to JICA soon.
- d) JICA appreciated for FRC's explanation for the Project Phase2, however, also noted that those are preliminary preference by FRC and a further consultation for elaborating the outputs and performance indicators (concrete scope of work for each output) is required. Therefore, JICA proposed to conduct a fact finding mission starting from 24 May 2017 for a week, which will be followed by the detailed planning design mission in June 2017 for finalizing Project Design Matrix (PDM), and Plan of Operation(PO). FRC agreed to accept these two missions with pre-consultation on the detailed schedule.

end

## Appendix 1

### Project for Capacity Building of Capital Market in Mongolia

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

## Joint Coordinating Committee

14 April 2017, FRC, Ulaanbaatar

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## Agenda

### Opening Remarks

- 11:00 - 11:05 Dr Davaasuren Sodnomdarjaa, Chairman  
Financial Regulatory Commission
- 11:05 - 11:10 Mr. Hiroyuki Kawanishi, Senior Deputy Director General,  
Group Director for Governance,  
Industrial Development and Public Policy Department JICA

### Discussion

- 11:10 - 12:25 Agenda 1: *“Result of the Joint Terminal Evaluation”*  
*by Mr Kenji Otsuka, JICA consultant*
- Agenda 2: *“Plans for the rest of the current phase”*  
*by JICA Consultant Team*
- Agenda 3: *“Discussion on the plans for Phase 2”*

### Closing Remarks

- 12:25 - 12:30 Dr Davaasuren Sodnomdarjaa, Chairman  
Financial Regulatory Commission
- Mr. Mutsumi Sato, Chief Representative, JICA Mongolia

### Project for Capacity Building of Capital Market in Mongolia

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

## Joint Coordinating Committee

14 April 2017, FRC, Ulaanbaatar

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### List of Attendees

#### Financial Regulatory Commission

- 1) Dr Davaasuren S., Chairman
- 2) Bayarsaikhan D., Vice Chairman
- 3) Jambaajamts T., Chief of Secretariat
- 4) Tserenbadral T., Director, Securities Market Department
- 5) Enkhbaatar V., Director, Foreign Relations and Cooperation Department
- 6) Tserentogtokh Ts., Senior Referent, Securities Market Department
- 7) Erdemzaya J., Senior Referent, Securities Market Department
- 8) Munkhtuvshin G., Officer, Securities Market Department
- 9) Ariunaa E., Officer, Foreign Relations and Cooperation Department

#### Mongolian Stock Exchange

- 1) Altai Kh., CEO
- 2) Munkhbayasgalan A., Chief Regulatory Officer
- 3) Mungunzul B. Specialist, Policy, Planning Department

#### Ministry of Finance

- 1) Munkhtuya L., Officer, Development Financing Department

#### Japan International Cooperation Agency

- 1) Hiroyuki Kawanishi, Executive Advisor to the Director General, Industrial Development and Public Policy Department
- 2) Jiro Tsunoda, Senior Advisor, Industrial Development and Public Policy Department
- 3) Ryosuke Watanabe, Industrial Development and Public Policy Department

#### JICA Mongolia Office

- 1) Mutsumi Sato, Chief Representative
- 2) Saikhantuya. A, Representative
- 3) Javkhlan. U, Program Officer

#### JICA Consultants

- 1) Kenji Otsuka, Terminal Evaluation Consultant, Financial Artisan
- 2) Ryota Sugishita, Project Manager, Daiwa Institute of Research
- 3) Takayuki Urade, IPO/Dual-listing, Japan Economic Research Institute
- 4) Akifumi Nakanishi, Financial Literacy, Daiwa Institute of Research
- 5) Chinzorig. C, Mongolian Consultant

## Summary of the Terminal Evaluation Results

### The Project for Capacity Building of Capital Market in Mongolia

<b>1. Outline of the Project</b>	
Country: Mongolia	Project title: The Project for Capacity Building of Capital Market in Mongolia
Issue/Sector: Fiscal Policy/Finance	Cooperation scheme: Technical Cooperation
Department in charge: Industrial Development and Public Policy Department	Total cost (as of March 2017): Approx. 146,750,000 yen Partner Country's Implementing Organization: Financial Regulatory Commission of Mongolia (FRC), Mongolia Stock Exchange (MSE), and Mongolian Association of Securities Dealers (MASD)
Period of Cooperation:  (R/D) July 1, 2014 – June 30, 2017	Related Cooperation:  - N/A
<b>1-1 Background of the Project</b>	
<p>Growth of Mongolian economy has been accelerating in recent years on the back of capital flows into the development project in the mining sector, as well as the international market conditions for coal and copper. At the same time, GOM is striving for macroeconomic stability through fiscal discipline under the Fiscal Stability Law (2013). They are also trying, with a view to meeting the growing demand for infrastructure, to diversify their financing toward government bonds in addition to the traditional donor financing, the first lot of which was issued in November 2012.</p> <p>One of the major concerns on Mongolian economy is its heavy dependence on abundant mineral resources, which calls for more diversified industrial structure through vitalizing small and medium scale businesses. Majority of their financing, however, has been through the banking sector, and the capital markets have not provided enough financing opportunities to these businesses. In Mongolia, more than 90% of the listed companies are the former SOEs listed in the process of shifting to the market economy, but the market liquidity is still very low, due to lack of enough disclosure, problems of corporate governance and compliances, insufficient investor base. The capital market itself is still immature, with insufficient level of regulation and supervision, which needs to be addressed as the financing needs through IPO grow in line with the economic expansion. To guide the economy to a stable growth path, it will be substantially important to provide wider range of financing options through facilitating the financial and capital markets which are open but not only to the domestic but also to the foreign investors.</p> <p>FRC is still a young organization established in 2006. It is in tremendous need for human capital/organizational developments and institutional design. Especially they are desperate for preparing the regulatory rules and strengthening the implementation framework, for which the request for a support has been made to JICA. To address those challenges relating to Mongolian capital market, FRC and JICA agreed to the start of the Technical Cooperation Project, following the approval of GOJ.</p>	
<b>1-2 Project Overview</b>	

(1) Overall Goal

The listing environment of Mongolian capital market for vitalization of initial public offering (IPO) & dual listing is improved through enhancement of its credibility.

(2) Project Purpose

The credibility of capital market is enhanced through improvement of supervision and regulation capacity of target groups and improvement of the understanding by participants of capital market in Mongolia.

(3) Outputs

- 1) Policy Committee is established for revitalization of the capital market, insurance, and microfinance.
- 2) FRC's capacity for regulation and supervision of capital market (risk-based approach) is enhanced. Candidate areas for support: 1) Brokers and dealers; 2) Other participants on the capital market; 3) MSE and MSCH&CD
- 3) Concept paper of SRO is developed.
- 4) IPO and dual listing by high potential Mongolian companies are conducted.
- 5) Financial literacy of general public is improved.

(4) Inputs (as of the Terminal Evaluation)

Japanese side:

- JICA Experts: 9 long-term
- Project Operation Cost: Total 146 million Japanese yen

Mongolian side:

- Main Target Group: 23 officials
- Others: Office space with desks, chairs and electricity

**2. Outline of the Terminal Evaluation Team**

Evaluation Team	Evaluation Team		
	Name	Job Title	Occupation
	Hiroyuki Kawanishi	Team Leader	Senior Deputy Director General Group Director for Governance Industrial Development and Public Policy Department JICA
	Jiro Tsunoda	Capital Market	Senior Advisor, Public Governance and Financial Management Team Industrial Development and Public Policy Department JICA
	Ryosuke Watanabe	Evaluation Planning I	Assistant Deputy Director, Public Governance and Financial Management Team Industrial Development and Public Policy



### 3. Summary of Terminal Evaluation Results

#### 3-1 Progress of the Project

##### (1) Achievement of Outputs

###### 1) Output 1

Output 1: Policy Committee is established for revitalization of the capital market, insurance, and microfinance.

Output 1 was achieved. As for Indicator 1-1, an advisory on effective implementation of policy committee was made in the document presented by the consultants in April 2015. Also an additional concept paper was prepared in December 2016. Regarding Indicator 1-2, a series of policy committee was held and the minutes of committee meetings were compiled reflecting the advisory input by the project or its consultants including: development of rules which the committee is based on, incorporation of sub-committee style, planning agenda and schedule, and inviting financial market practitioners or professionals from overseas.

###### 2) Output 2

Output 2: FRC's capacity for regulation and supervision of capital market (risk-based approach) is enhanced.

Output 2 was achieved. The recommendation paper that directs FRC's risk-based supervision was prepared and used in trainings or study tours. With regard to the degree of C/P's understanding on how to implement and administrate risk-based supervision, some post-training records prove high degree of satisfaction/understanding. Also, the result of a course of the Joint Terminal Evaluation substantially demonstrates the magnitude of realizing practical knowledge.

###### 3) Output 3

Output 3: Concept paper of SRO is developed.

Output 3 was mostly achieved. The consultants submitted to FRC a concept paper of SRO in December 2016. Inversely, MSE submitted their own concept paper in January 2017 seemingly taking into some consideration what the consultants suggested in the paper. Obtaining the paper MSE submitted, the consultants advised MSE to reflect the suggestion more substantially.

###### 4) Output 4

Output 4: IPO and dual listing by high potential Mongolian companies are conducted.

Based on the evaluation results, Output 4 was mostly achieved.

Two Mongolian major enterprises conducted IPO during the Project period. Contrary to these accomplishments, there were no dual listing cases and are not expected to be by the end of the Project. Aside from lack of dual listing, the understanding of participants in Mongolian capital market on IPO and financial due diligence was surely enhanced by the trainings or symposiums conducted by the experts.

###### 4) Output 5

Output 5: Financial literacy of general public is improved.

Output 5 was mostly achieved, based on the high degree of achievement of its Objectively Verifiable

Indicators and positive feedback/results observed in various methods including document review, questionnaire survey, interviews, and discussions with counterpart personnel, Japanese experts and relevant stakeholders.

(2) Prospect for achieving Project Purpose

*Project Purpose: The credibility of capital market is enhanced through improvement of supervision and regulation capacity of target groups and improvement of the understanding by participants of capital market in Mongolia.*

The Project Purpose was mostly achieved.

The high degree of achievement of Output 1 to 5 is able to endorse positive overall assessment of the Project Purpose. As for Output 1, Policy Committee was established reflecting the experts' advisory. Regarding Output 2, FRC's capacity for regulation and supervision of capital market (risk-based approach) was enhanced by a series of seminars, workshops and study tours. Output 3 was mostly achieved by the preparation and deliberation of the draft of concept paper on SRO. Output 4 was mostly achieved except that no IPO/dual listing encouraged by the Project was conducted. As to Output 5, Mongolian financial authorities like MASD, FRC and MSE learned basics, practical tips and overseas cases and took varied initiatives such as internal lectures, open events or PR on the website to promote financial literacy of general public.

(3) Prospect for achieving Overall Goal

*Overall Goal: The listing environment of Mongolian capital market for vitalization of initial public offering (IPO) & dual listing is improved through enhancement of its credibility.*

The Overall Goal as well as its Objectively Verifiable Indicators is expected to be achieved in three to five years after the Project completion, on the assumption that Mongolian economy is going to recover in 2016. The experts/consultants involved in the Project largely have apparent expectation to achieve the Overall Goal which can be implicitly endorsed by several positive impacts observed in survey conducted in the Project.

It is importantly assumed that the policy on SOE privatization in Mongolia will not change and related challenges in Mongolian capital market like lack of enough disclosure, problems of corporate governance and compliances or insufficient investor base, not exhaustively, are promoted to achieve the Overall Goal.

### 3-2 Summary of Evaluation Results

(1) Relevance

- The relevance of the Project is assessed as "High" for the following points. To guide the economy to a stable growth path, it will be substantially important to provide wider range of financing options through facilitating the financial and capital markets which are open but not only to the domestic but also to the foreign investors. To address challenges relating to Mongolian capital market, FRC and JICA agreed to the start of the Technical Cooperation Project, following the approval of GOJ. Furthermore, The Country Assistance Program for Mongolia prepared in November 2014 prioritizes an area of institution building and human resource development necessary for promoting a market economy, which covers the assistant



field of “development of trade and investment environment” including the enhancement of SROs to improve the supervision on capital market. Also, the promoting financial literacy contributes to improve the competitiveness of financial authorities, security brokers, listed companies and investors in Mongolia. In this way, the project components are along with the policy of the GOJ.

(2) Effectiveness

- The effectiveness of the Project is assessed as “Relatively High” for the following points. The Project Purpose is expected to be achieved by the completion of the Project. The improvements of the capacity of target groups due to the initiatives taken in the Project contribute directly to the Project Purpose. Therefore, it was appropriate that these Outputs were set for achieving the Project Purpose.

(3) Efficiency

- The efficiency of the Project is assessed as “High” for the following points. Inputs and Activities in the Project have been being planned and implemented sufficiently to achieve the Outputs. Followings were efficient or effective to achieve the Outputs. Long-term Experts having organized responsibilities based on each background contributed to the achievement of each Output. Also, series of training sessions, workshops/seminars, and study-tours in Japan were held. Each training was programmed to be fitted with the needs to enhance the capacity of the participants from FRC, MSE and MASD.

(4) Impact

- The impact of the Project is assessed as “Relatively High.” In terms of policy environment concerning SOEs, Mongolia's 2030 Sustainable Development Vision approved by Mongolian Parliament in February 2016 in essence highlights the importance of enhance of credibility of Mongolian capital market. Therefore, policy support for enhancement of credibility of Mongolian capital market would likely continue after the completion of the Project and accordingly lead to the more possibility to achieve Overall Goal. The continuous internal activities to strengthen institutional/staff capacity of FRC, MSE and MASD as well as initiatives to educate general public conducted during the Project will contribute to achieve the Overall Goal by ameliorating the credibility of Mongolian capital market.

(5) Sustainability

- The sustainability of the Project is assessed as “Moderate” for the following points. The policy and technical environment is likely to be favourable and positive for authorities relating capital market. On the other hand, the organizational and financial aspects have some issues to be overcome. Frequent transfers in target group might prevent the Project from proceed in an appropriate manner. Unclearness in financial support caused by Mongolian economy stagnation and fiscal deficit in Mongolian government might hamper the long-lasting positive effect of the Project.

### **3-3 Factors that Promoted the Realization of Effects**

#### **(1) Factors Concerning to Planning**

- Enhancement of credibility of Mongolian capital market has been a priority issue for the FRC and GOM.

#### **(2) Factors Concerning to Implementation Process**

- Positive attitudes the Mongolian staff of counterparts originally has contributed to the enhancement in operational skills regarding capital market.
- Not only lecture-style but also onsite-style sessions the consultants provided allowed the Mongolian counterparts to learn and obtain practical know-how on IPO/dual listing or risk-based supervision through many opportunities such as study tours in Japan and in-country training courses.
- Good relationship was maintained between high-skilled, experienced experts and counterparts.

### **3-4 Factors that Impeded the Realization of Effects**

#### **(1) Factors Concerning to Planning**

- Frequent transfer of executives of C/Ps caused unexpected catch-up cost and inconsistency in ways to proceed actions required to enhance the capacity of C/Ps.
- Repeated organizational changes of C/Ps often replaced key persons of the Project with others, which can hamper the development of skill and effective utilization of knowhow.
- The relationship between C/Ps as well as other relevant supervisory bodies is recommended to become closer by communicating each other more frequently to accelerate teamwork for enhancement of credibility of Mongolian capital market.

### **3-5 Conclusion**

Each output is expected to be achieved by the completion of the Project. Also, the Project Purpose is expected to be mostly achieved by the completion of the Project. Therefore, the team concluded that the Project would be terminated by June 2017 as scheduled.

### **3-6 Recommendations**

#### **(1) Measures to be taken by the termination of the Project**

Measures for achievement of Output 1

- Review and clarification of agenda of policy committee  
Entity/Person in charge: FRC
  - Restructure policy committee in style from thematically separated to single  
Entity/Person in charge: FRC
- After completion of these two arrangements, resume the committee.

Measures for achievement of Output 2

- Conduct pilot inspection and find issues according to the onsite/offsite guidelines  
Entity/Person in charge: FRC

Measures for achievement of Output 3

- Finalize the concept paper reflecting the experts' review  
Entity/Person in charge: MSE
- Provide advisory on the followings
  - Development of IPO rules of listing requirements, delisting and treatment of delisted stock
  - Promoting proper disclosure
  - Development of textbook for securities representative license examEntity/Person in charge: the experts

Measures for achievement of Output 4

- Conduct the third symposium on IPO/dual listing  
Entity/Person in charge: the experts
- Provide advisory on SOE privatization  
Entity/Person in charge: the experts

(2) Measures to be taken after the termination of the Project

Measures for policy committee

- Continuous and stable run  
Entity/Person in charge: FRC
- Legislation  
Entity/Person in charge of follow-up: FRC

Measures for risk-based supervision

- Develop procedures for implementation of the onsite/offsite guidelines  
Entity/Person in charge: FRC

Measures for SRO

- Develop/revise IPO rules of listing requirements, delisting and treatment of delisted stock within this year  
Entity/Person in charge: MSE
- Develop rules on activity based on the concept  
Entity/Person in charge: MSE

Measures for IPO/dual listing

- Increase the number of IPO/dual listing  
Entity/Person in charge of follow-up: MSE

Measures for financial literacy

- Continuous and stable run of Investor Week  
Entity/Person in charge: MASD
- Continuous activities according to National Strategy on Financial Knowledge of the Public  
Entity/Person in charge: all C/Ps

### 3-7 Lessons Learned

As stated in "3-2 Effectiveness", organizational characteristics of the government including frequent transfer or repeated organizational changes turned out to cause unexpected catch-up cost and inconsistency in ways

to proceed actions required to enhance the capacity of C/Ps, and to hamper the development of skill and effective utilization of knowhow. In engaging in any projects, it is important to make sure or understand the degree of such characteristics observed in the objective country in order to avoiding unforeseen burden of arrangement.

## Appendix 4

### Project for Capacity Building of Capital Market in Mongolia

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

## Joint Coordinating Committee

14 April 2017, FRC, Ulaanbaatar

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## Schedule for the Rest of the Current Phase

17 Apr	Lecture on crowd funding @ FRC 14:00
18-20 Apr	Consultancy for Company M, date and time t.b.c.
12 May	IPO/Dual-listing Seminar #3 @ Tuushin Hotel
17-24 May	Japan training course
14 Jun-5 Jul (tentative)	Wrap-up in UB
July	Final report

## **Project for Capacity Building of Capital Market in Mongolia**

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

# **Joint Coordinating Committee**

14 April 2017, FRC, Ulaanbaatar

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### **IPO & Dual-Listing Seminar (3)**

#### **Agenda (tentative)**

- |             |  |
|-------------|--|
| 8:30- 9:00  | Registration   |
| 9:00- 9:05  | Welcome remarks (Mr. Jambaajamts Tundev, Managing Director General, FRC)   |
| 9:05- 9:10  | Opening remarks (Mr. Mutsumi Sato, Chief Representative, JICA Mongolia Office)   |
| 9:10- 9:35  | Progress of JICA's Technical Assistance (Mr. Ryota Sugishita, Project Leader, JICA Team)                                       |
| 9:35-9:45   | Progress of MSE's transformation into an SRO and what have been achieved through cooperation with JICA (representative, MSE)   |
| 9:45-9:55   | Progress of MASD's transformation into an SRO and what have been achieved through cooperation with JICA (representative, MASD) |
| 9:55-10:25  | Redesigning Mongolian capital market: Rationale and technical issues (JICA team)   |
| 10:25-10:45 | Q&A  |
| 10:45-11:00 | Coffee break   |
| 11:00-11:40 | Opportunities for Mongolian Companies to Raise Capital in Japan (Mr. Hidetoshi Nagata, JPX)                                    |
| 11:40-12:00 | Q&A  |
| 12:00-13:30 | Lunch  |
| 13:30-14:10 | IPO & dual-listings utilizing overseas exchanges: Potentials and challenges for Mongolian issuers (JICA team)                  |
| 14:10-14:30 | Q&A  |
| 14:30-15:15 | Panel Discussion: Key issues & prospects of IPO & dual-listing by Mongolian companies  |
- Moderator: t.b.d
- Panelists: Mr. Tserenbadral Tudev, Director, Securities Department, FRC
- Mr. Altai Khangai, CEO, MSE
- Mr. Kazuhiko Yoshimatsu, Head of Global Strategy, JPX
- Mr. Takayuki Urade, Head of IPO & DL, JICA Team

## **Project for Capacity Building of Capital Market in Mongolia**

Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

# **Joint Coordinating Committee**

14 April 2017, FRC, Ulaanbaatar

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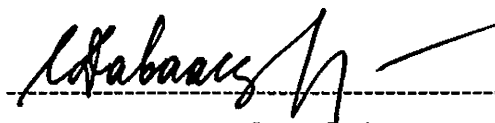
### **Training Course in Japan (3)**

#### **Schedule (tentative)**

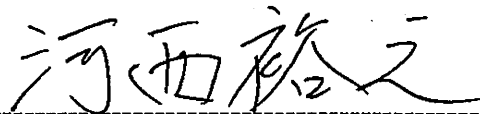
- 17 May Ulaanbaatar to Tokyo
- 18 May am Dual-listing, government bond secondary market, Daiwa Securities  
pm Government bond primary market, Bank of Japan (t.b.c.)
- 19 May am Commodity trading and settlement, Tokyo Commodity Exchange (t.b.c.)  
pm Dual-listing, listing management, Tokyo Stock Exchange
- 22 May am Securities clearing, Japan Securities Clearing Corp  
pm Self-regulatory activities, Japan Securities Dealers Association
- 23 May am Regulatory framework, Financial Services Agency (t.b.c.)  
pm Wrap-up
- 24 May Tokyo to Ulaanbaatar

MINUTES OF TECHNICAL MEETING  
FOR  
THE PROJECT FOR CAPACITY BUILDING OF  
CAPITAL MARKET IN MONGOLIA  
AGREED UPON BETWEEN  
FINANCIAL REGULATORY COMMISSION OF MONGOLIA  
AND  
JAPAN INTERNATIONAL COOPERATION AGENCY

Ulaanbaatar, 23 June 2017



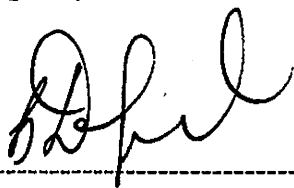
Dr. Davaasuren Sodnomdarjaa  
Chairman  
The Financial Regulatory Commission  
Mongolia



Mr. Hiroyuki Kawanishi  
Executive Advisor to the Director General  
Industrial Development and Public Policy  
Department  
JICA



Acknowledged by



A handwritten signature in black ink, appearing to read 'Dorjsembed Batsengee', is written above a horizontal dashed line.

Mr. Dorjsembed Batsengee

Director, Department of Development Financing

Ministry of Finance

Mongolia

This is to record the results of the technical meeting held on 23 June 2017.

The proceedings went on chaired by Mr. Lkhagvasuren Bataa, Director of Securities Market Department of the FRC as according to the agenda (Appendix 1).

Key discussion points were as follows:

Remaining tasks identified by the Joint Terminal Evaluation which was presented during the JCC meeting held on 14 April 2017 and the schedule for the rest of the current phase. Mr. Ryota Sugishita reconfirmed the remaining tasks identified during the Joint Terminal Evaluation conducted in April 2017, and introduced the progress to date, including the preparation of the proposal on revised listing standard at Mongolian Stock Exchange (MSE), as well as of the securities professional textbook.

Regarding the securities professional textbook, FRC and JICA agreed that the final product is submitted to JICA by July 31, 2017. Submission shall be done by JICA Consultant Team after the drafts are collected from the contributors including MSE and Mongolian Association of Securities Dealers (MASD), and the FRC shall be responsible for the final review.

In addition, implications on the next phase were shared and discussed with the attendees.

Due to its nature as a technical meeting focusing on specific technical issues, the session was not attended, but has been acknowledged, by the Ministry of Finance.

**Attached documents:**

- Appendix 1: Agenda
- Appendix 2: List of Attendees
- Appendix 3: Remaining Tasks for Phase 1, scheduled for the rest of the current phase

168  
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## Appendix 1

Project for Capacity Building of Capital Market in Mongolia  
Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

### Technical Meeting 23 June 2017, FRC, Ulaanbaatar

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## Agenda

### Opening Remarks

- 15:00-15:05 Mr Lkhagvasuren Bataa, Director of Securities Market Department at the Financial Regulatory Commission
- 15:05-15:10 Mr Hiroyuki Kawanishi, Executive Advisor to the Director General Industrial Development and Public Policy Department, JICA

### Discussion

- 15:10 - 15:55 Agenda: "*Remaining tasks identified during the Joint Terminal Evaluation as well as the schedule for the rest of the current phase*"  
by JICA Consultant Team

### Closing Remarks

- 15:55 - 16:00 Mr Hiroyuki Kawanishi, Executive Advisor to the Director General Industrial Development and Public Policy Department, JICA

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## Appendix 2

Project for Capacity Building of Capital Market in Mongolia  
Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

### Technical Meeting

23 June 2017, FRC, Ulaanbaatar

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#### List of Attendees

##### Financial Regulatory Commission

- 1) Enkhbaatar V., Director, Foreign Relations and Cooperation Department
- 2) Lkhagvasuren B., Director, Securities Market Department
- 3) Tserenbadral T., Deputy Director, Securities Market Department
- 4) Erdemzaya J., Senior Referent, Securities Market Department
- 5) Bilguun Kh., Senior Officer, Securities Market Department
- 6) Munkhtuvshin G., Officer, Securities Market Department
- 7) Gerelmaa Z., Senior Officer, Foreign Relations and Cooperation Department
- 8) Ariunaa E., Officer, Foreign Relations and Cooperation Department

##### Mongolian Stock Exchange

- 1) Munkhbayasgalan A., Chief Regulatory Officer
- 2) Mungunzul B., Specialist, Policy, Planning Department

##### Japan International Cooperation Agency

- 1) Hiroyuki Kawanishi, Executive Advisor to the Director General,  
Industrial Development and Public Policy Department
- 2) Jiro Tsunoda, Senior Advisor, Industrial Development and Public Policy Department
- 3) Ryosuke Watanabe, Industrial Development and Public Policy Department

##### JICA Mongolia Office

- 1) Saikhantuya A., Representative
- 2) Javkhlan U., Program Officer

##### JICA Consultants

- 1) Ryota Sugishita, Project Manager, Daiwa Institute of Research
- 2) Takayuki Urade, IPO/Dual-listing, Japan Economic Research Institute
- 3) Akifumi Nakanishi, Financial Literacy, Daiwa Institute of Research
- 4) Daisuke Tashiro, Self-Regulatory Organizations, Daiwa Institute of Research
- 5) Chinzorig Ch., Mongolian Consultant

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## Appendix 3

Project for Capacity Building of Capital Market in Mongolia  
Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

### Technical Meeting

23 June 2017, FRC, Ulaanbaatar

#### Remaining Tasks for Phase 1: Progress to Date

Task	Achievements
Policy Committee	-
Risk-based Supervision and Others	1) To be confirmed for the operation of risk-based supervision 2) Lecture on investor protection fund, 13 Apr 3) Lecture on crowd funding, 17 Apr
SRO	Discussion with MSE on listing and de-listing requirements (Please see page 2)
IPO and Dual-Listing	1) Consultancy for MONOS, 28 Mar-20 Apr 2) IPO/Dual-listing Seminar #3, 12 May (Please see page 3) 3) Japan training course #3, 17-24 May (Please see page 4)
Investor Education	Textbook (in progress) (Please see page 5)

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## Technical Meeting

23 June 2017, FRC, Ulaanbaatar

### Proposals for listing and delisting requirements

#### 1) Overview

- ✓ We believe that MSE's current classifications of three groups are OK.
- ✓ Classification 1 (C1) is for blue chips (bigger companies with sound fundamentals), C2 for small-and medium-sized companies, and C3 for others.
- ✓ We recommend that newly listing companies should meet requirements for C1 or C2. C3 should be set only for existing listed companies. Given that C3 is not for newly listing companies, those in the C3 may be recognized as companies that can be delisted sometime in the future.
- ✓ Only profitable companies can be newly listed, except for mining sector companies.

#### 2) Classification 1

- ✓ In our view, Classification 1 (C1), however, should be modified as MSE's mainboard where only blue chips can be traded. Minimum profit requirement of MNT 500m is too low. We think that the previous profit requirement of MNT 1bn is more appropriate.
- ✓ Eventually IFRS or IFRS-equivalent accounting as well as auditing by one of the Big Four should be included as a requirement for C1.
- ✓ Minimum number of shareholders of 100 should be included as a requirement.

#### 3) Classification 2

- ✓ We think that profit requirement is better than working capital. For instance, minimum profit requirement of MNT 100m rather than sufficient working capital for 12 months.
- ✓ Minimum number of shareholders of 50 should be included as a requirement.

#### 4) Delisting requirements

- ✓ We think that delisting requirements should be set. For instance, MSE can delist:
  - (a) if a listed company delays in submission of its periodical financial reports by one month or longer;
  - (b) if any false statements that can mislead investors are found in a periodical financial report;
  - (c) if floating rates of a listed company are below 10% for a certain period of time (e.g. two years);
  - (d) if a listed company is found to be insolvent;
  - (e) if there is no trading of a listed company for one year or more;
  - (f) if a listed company fails to pay its annual listing fee for one year or more;
  - (g) if MSE thinks that a listed company may give significant negative impact to the whole market.

### Agenda for IPO/Dual-listing Seminar #3

9:00 - 9:05	Welcome remarks (Dr Davaasuren, Financial Regulatory Commission)
9:05 - 9:10	Opening remarks (Mutsumi Sato, Chief Representative, JICA Mongolia)
9:10 - 9:25	Progress of JICA's Technical Assistance (Ryota Sugishita, Project Leader, JICA Team)
9:25 - 9:55	Redesigning Mongolian capital market: Rationale and technical issues (Takayuki Urade, JICA team)
9:55 - 10:05	Q&A

**Project for Capacity Building of Capital Market in Mongolia**  
Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

**Technical Meeting**

23 June 2017, FRC, Ulaanbaatar

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10:05- 10:45	<b>Opportunities for Mongolian Companies to Raise Capital in Japan</b> (Hidetoshi Nagata, GM, Head of Global Listings, Tokyo Stock Exchange)
10:45 - 10:55	<b>Q&amp;A</b>
10:55 - 11:10	<b>Coffee break</b>
11:10 - 11:50	<b>IPO &amp; dual-listings utilizing overseas exchanges: Potentials and challenges for Mongolian issuers</b> (Ryota Sugishita, JICA team)
11:50 - 12:00	<b>Q&amp;A</b>
12:00 - 12:40	<b>Panel Discussion: Key issues and prospects of IPO and dual-listing by Mongolian companies</b> <b>Moderator:</b> Bold-Erdene, Mongolian Mining Magazine <b>Panelists:</b> Tserenbadral Tudev, Director, Securities Department, FRC Altai Khangai, CEO, Mongolian Stock Exchange Kazuhiko Yoshimatsu, Head of Global Strategy, JPX Ryota Sugishita, Project Leader, JICA Team S.Bayanmunkh, Monos group Achit-Erdene Daramzabar, Executive Director, MICC
12:40 - 12:50	<b>Q&amp;A</b>
12:50- 13:00	<b>Closing remarks</b> (Ryota Sugishita, Project Leader, JICA Team)

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**Project for Capacity Building of Capital Market in Mongolia**  
 Financial Regulatory Commission of Mongolia - Japan International Cooperation Agency

**Technical Meeting**  
 23 June 2017, FRC, Ulaanbaatar

**Schedule for Japan Training Course #3**

Date	Time	Schedule	Lecturer	Title
18 May Thu	9:00 - 10:15	1) Eligibility for dual-listing: Securities companies' perspective	Sumio Otsuka	Executive Managing Director, ex-Head of Investment Banking, Daiwa Securities
	10:30 - 12:00	2) Japanese government bond market	Kenichi Tazawa	Managing Director, Global Market Planning Dept, Daiwa Securities
	14:00 - 16:00	3) TOCOM's overview	Mitsuhiro Onosato	Executive Officer, Tokyo Commodity Exchange
	18:00 - 20:00	Dinner with DIR		
19 May Fri	9:30 - 10:00	4) JPX site tour	Shohei Yamagata	Manager, Global Strategy
	10:00 - 11:30	5) Overview of Japan Exchange Group	Kazuhiko Yoshimatsu	General Manager, Global Strategy, JPX
	13:00 - 15:00	6) Listed company regulation and supervision		
	15:00 - 17:00	7) Overview of TSE equity market	Hidetoshi Nagata	Head of Global Listings, JPX
22 May Mon	9:00 - 11:30	8) JSCC's overview	Kazunari Tomita	Chief Manager, Strategic Planning Div, Japan Securities Clearing Corporation
	14:00 - 15:55	9) JSDA's regulatory framework	Satoru Yamamoto	Senior General Manager, Self-Regulatory Planning Div, JSDA
	16:05 - 17:00	10) Rules and regulations for public offering	Tetsuya Iwase	Assistant Manager, Equity Market Div, JSDA
	18:00 - 20:00	Dinner with JICA		JICA Tokyo
23 May Tue	10:00 - 12:00	11) FSA's framework for rules and regulations	Kaoru Murakami	Deputy Director, Coordination Division, SESC
	13:30 - 14:30	12) Japanese government bond market (2)	Atsushi Jinno	Deputy Director, Ministry of Finance
	14:45 - 16:30	Wrap-up		DIR/JERI/JICA

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## Technical Meeting

23 June 2017, FRC, Ulaanbaatar

### Progress for Textbook

Table of Contents	Party in charge/responsible			Draft progress (JICA)		
	MSE	MASD	JICA	19-May	5-Jun	19-Jun
<b>[Part1 Knowledge on Capital Markets]</b>						
1 Basic Knowledge on Securities Markets			✓			
2 Securities Market Law and Relevant Acts						
3 FRC Law and Regulations						
4 MSE Rules and Regulations	✓					
5 MASD Rules and Code of Conducts		✓				
<b>[Part2 Securities and Investment Businesses]</b>						
1 Equity Businesses			✓	✓		
2 Bond businesses			✓	✓		
3 Investment funds and investment businesses			✓		✓	
4 Sales operations			✓		✓	

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