Capital Market Development in Mongolia

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Financial Regulatory Commission of Mongolia

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- Background of Capital Market
- Regulation and Supervision of Capital Market
- Strategy for Capital Market Development
Mongolia

Country data
Population (in millions): 2.6
Area (’000 sq km): 1,567.0
GDP (in billion USD, 2005): 1.9
GDP per capita USD: 1,169
National currency: Tugrug
Background of Capital Market

- **1991.** MSE was established and following that 29 broker dealers firms launched its business in each of the 21 provinces and the city districts.

- **1992.** In the privatization framework 475 state owned enterprises were reorganized into Joint Stock Companies (JSC) and 1.3 million people became the shareholders of these companies.

- **1994.** Mongolian Securities Exchange Commission was established.
1995. Securities law was passed and started “cash” trading between the shareholders of privatized JSC which is the “secondary market”.

1996. First government bond was traded through the MSE.

2002. Securities Market law was amended by the Parliament of Mongolia.

2003. Securities Clearing House and Central Depository was organized and MSE reassigned its savings and clearing and settlement activities over to the SCHCD.

2005. New JSC’s were registered in FRC and listed on MSE.
In Nov of 2005, the Parliament of Mongolia has passed the Law on Legal Status the Financial Regulatory Commission of Mongolia.

In Jan of 2006, FRC of Mongolia was restructured with extended duties instead of SEC by the decision of the Parliament and on Jan 25, the Chairman, the members, and the head of the Supervisory Board for the FRC of Mongolia were appointed.
FRC of Mongolia is responsible for the regulation and supervision of the following sectors:

- Capital markets
- Insurance companies
- Non-bank financial activities
- Saving and Credit Cooperatives

The year of 2007 has been announced as a year of further development of the capital market by FRC.
The Structure of the Capital Market in Mongolia

- **Financial Regulatory Commission**
  - Operates under the supervision of the Parliament of Mongolia
  - By law it is required to regulate and supervise all aspects of Capital Markets except for the Banking Sector
  - Grants an approval to the capital market professionals and registration of the securities at IPO

- **Mongolian Stock Exchange**
  - Currently the only place that organizes trading of the securities
  - Trades Gov. Bonds, and Company bonds, and stocks

- **Securities Clearing House and Central Depository**
  - Executes the settlement and savings of the securities
  - Keeps a record of the dematerialized securities registration on the basis of contracts made with JSC’s
Regulation Concerning Operation of the Capital Market

- Civil Code
- Company Law
- Securities Market Law
- Regulations authorized by FRC
- Regulations authorized by MSE and SCHCD
### Current situation of Capital market

- (Market capitalization/GDP)

<table>
<thead>
<tr>
<th>Date</th>
<th>GDP /000’ USD/</th>
<th>Market Capitalisation /USD/</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>1,018,900</td>
<td>36,900,000</td>
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<tr>
<td>2001</td>
<td>1,115,600</td>
<td>37,500,000</td>
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<td>2002</td>
<td>1,240,800</td>
<td>31,900,000</td>
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<tr>
<td>2003</td>
<td>1,174,500</td>
<td>42,400,000</td>
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<td>2004</td>
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<td>24,800,000</td>
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<td>2005</td>
<td>2,145,800</td>
<td>45,600,000</td>
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<tr>
<td>2006</td>
<td>2,700,000</td>
<td>112,600,000</td>
<td>4.1</td>
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</tbody>
</table>
Securities market

2005
- Shares: 21%
- Corporate bond: 22%
- Government bond: 57%

2006
- Shares: 70%
- Corporate bond: 5%
- Government Bonds: 25%
MSE TOP-20 INDEX from 1995 to 2006
The Current Situation of the Capital Market in Mongolia

NUMBER OF COMPANIES LISTED ON THE MSE

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
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<tbody>
<tr>
<td>1995</td>
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<td>2004</td>
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<tr>
<td>2005</td>
<td>392</td>
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<td>2006</td>
<td>387</td>
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</tbody>
</table>
The Current Situation of the Capital Market in Mongolia

CAPITALIZATION OF THE MONGOLIAN STOCK EXCHANGE
(mln USD)

- 1995: 27.1
- 1996: 25.9
- 1997: 53.2
- 1998: 39.8
- 1999: 32.1
- 2000: 36.9
- 2001: 37.5
- 2002: 31.9
- 2003: 42.4
- 2004: 24.8
- 2005: 45.6
- 2006: 112.6
The Current Situation of the Capital Markets in Mongolia

NUMBER OF INVESTMENT ACCOUNTS
(IN THOUSAND)

- Number of accounts increasing from 1995 to 2006.
- Peak in 2006 with approximately 350 thousand accounts.

FRC MONGOLIA
Challenges

- IT and Data Base Development
- Legal Environment
- Capital Market Standards and Policy
- Training for Market Participants
- Corporate governance
- Protection of minority shareholders
- Ethical issues
The Current Situation of the Capital Markets in Mongolia

![Bar chart showing the number of brokerage dealer companies from 1995 to 2006.](chart_image)

- **1995:** 28
- **1996:** 29
- **1997:** 29
- **1998:** 41
- **1999:** 41
- **2000:** 42
- **2001:** 42
- **2002:** 34
- **2003:** 25
- **2004:** 25
- **2005:** 24
- **2006:** 24
International Cooperation of Mongolian FRC

- **IOSCO:** Became a member of IOSCO in 2002
  - FRC is IOSCO ordinary member and has one voting right
  - FRC is Member of Asia Pacific Regional and Emerging Markets Committee

- **Memorandum of Understanding:**
  - Has signed an agreement with such countries as Poland and India.
  - Preparing to sign an agreement with China Securities Regulatory Commission to cooperate in this matter
International Cooperation with international and bilateral Organizations such as ADB, EBRD, WB, IMF, UNDP

USAID, GTZ, JAIKA, KOIKA...

- ADB TA3747-Mon, Capacity building for Financial Sector Reform
What Should We Do to Improve the Capital Market?

- To enhance the legal environment
- To encourage competition among the professional participants and increase their staffs capacity
  - Improve the management and conduct of those market participants
  - In order to support competition, we need to encourage professional participants that are being newly founded
  - Enhance conduct of staff and their skills
Encourage the issuers of securities

- To support the issuers
- To provide an harmonization of the IPO standards in Mongolia with the internationally acceptable standards
- To promote Mortgage - Backed Securities Market
- To promote issuance of new type of security instruments and to form a legal environment to do so.
The Protection of Investors and Reduction of Market Risk

- To develop an effective method which is intended to protect investors
- To ensure that investors are given fair access to market facilities
- To ensure that securities markets are transparent
- To facilitate an effective regulation to prevent the financial failure of market intermediaries
The Effective Enforcement of Securities Regulation

- Harmonization of the Mongolian Regulations with the International Standards
- To clearly define the responsibilities of the self-regulatory organizations
- To ensure better regulation and supervision of the issuer activities and the professional intermediaries
Thank you for your attention!

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