

**6th Meeting of the Eurasia
Corporate Governance Roundtable**

**CORPORATE
GOVERNANCE IN
MONGOLIA**

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- *Corporate governance development*
- *Difficulties which we face*
- *Priorities to advance the corporate governance reform*

Corporate governance development (legal environment)

- 1991 Law on commercial entities
- 1991 Law on Privatization
- 1992, 1996 Civil code
- 1993, 2000 Law on prohibition of Unfair competition
- 1995, 2001 Securities Law
- 1999 Company Law
- 2001 Accounting law
- 2003 Law on Auditing

Corporate governance development (institutional environment)

- 1991 Establishment of Mongolian Stock Exchange
- 1995 Establishment of Securities Commission
- Since 2000 participation in Roundtable meetings organized by WB & OECD
- Since 2002 Parliament working group on Corporate governance (renewed in Jan 2006)
- 2006 Establishment of Financial regulatory committee (Securities market, NBFI, Insurance => commercial banks)

Corporate governance development (capacity building)

- 2001 Research on current situation of Corporate governance in Mongolia (jointly with EBRD)
- Since 2005 Training of executive managers at Russian Institute of Directors
- Various Trainings for students at local universities & colleges (new generation)

Corporate governance development

- As of Oct 2005 – 2.1 billion shares of 391 companies are registered with MSE
=> 1.9 shares of 65 SOE's
- 399600 people hold 284.8 mln shares of 326 private shareholding companies
=> 73% or 244,5 mln shares held by 1272 people, which is in fact held by only more than 200 individuals (some people hold shares of several companies)
trend – they realize the difficulties of managing the companies,
 - Risk is higher of holding the vast majority => trend selling shares

Corporate governance development

In 2005

- 31.5 per cent or 123 Joint stock companies announced the shareholders meetings
- 40 companies brought the proceedings of shareholders meetings to MSE
- Only 9 companies have distributed the dividends in first half of 2005 (in 2004 - 16 companies)

Difficulties we face

Lack of understanding of corporate governance

- Traditionally no culture of corporate governance, company;
- Lack of capacity to run the company (BoD, Executive management);
- BoD consists of representatives of interest groups;
- No independent directors;
- In most cases - Executive management is part of BoD (even Chairing the BoD);
- Poor structure and functioning of BoD (meetings not held, sub-committees not composed, by-laws not exist or violated)

Difficulties we face

Lack of understanding of corporate governance

- Lack of enforcement of the Law;
- Lack of sanction mechanism for violation of law requirements (shareholders meetings, dividends);
- Lack of capacity of existing state agencies including MSE, Financial regulatory committee;
- Accounting standards are not followed (in most cases don't comply with IAS)
- Poor performance of companies

Difficulties we face

Minority shareholders rights violated

- Only more than 200 individuals control the BoD of majority of shareholding companies;
- The shareholders meetings are not held;
- Dividends not distributed (Major shareholders benefit of being in BoD)
- Lack of information about the company's activities;

Priorities to advance the corporate governance reform

- Need for revision of existing laws:
 - To introduce sanction mechanisms (when we talk about sanctions, our socialist mentality comes forward – the result – it creates controversies or affects the opposite parties);
 - Sound protection of minority shareholders rights;

Priorities to advance the corporate governance reform

- Need for Training:
 - Targeted for Businessmen, Journalists, Judges, Board members, CEO's, general public;
 - To read and understand financial documents for none economists;
- Information:
 - Needs to be open & transparent,
 - Open for all shareholders, general public

Priorities to advance the corporate governance reform

Lack of institutional framework:

- Need for capacity building of existing state agencies;
- Need to Introduce none governmental institution to support corporate governance reform
- Improve the auditing of shareholding companies;
- Need for establishment of independent rating and reporting agency

- Thank you!