



6th Meeting of the Eurasia Corporate Governance Roundtable

15 February 2006

Enforcement of Corporate Governance Rules

Meeting Co-Hosted by
The Federation of Euro-Asian Stock Exchanges



With the Support of
The Government of Japan

The Global Corporate Governance Forum



**Session 3: Enforcement of Corporate Governance Rules – The Securities
Regulators and Judiciary's Role**

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Role of the Financial Regulatory Commission (FRC) in the enforcement of Corporate Governance in Mongolia

(speech on the Euro-Asian and South East European joint roundtable meeting on Corporate Governance February 15-16, Istanbul, Turkey)

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Before I start my speech I would like to inform you about the establishment of new financial market regulatory authority in Mongolia. Last month our Parliament has adopted decision to establish Financial Regulatory Commission. The Securities and Exchange Commission has become part of this newly established organization.

First of all, I would like to emphasize the significance of Euro-Asian Roundtable meetings in the development of Corporate Governance in Mongolia. There were some progresses in the Corporate Governance reform based on our experiences and knowledge gained from previous Roundtable meetings. Under the auspices of Economic Standing Committee of the Parliament of Mongolia, a working group was established. This Working group is responsible for the improvement in the Corporate Governance reform. Moreover, several seminars, research conferences on Corporate Governance were organized by the Securities & Exchange Commission and Ministry of Finance. As a result at least high level officials now can understand the importance of Corporate Governance reform.

Recently Mongolian Stock Exchange has celebrated its 15th anniversary and in connection with this event a research conference was organized. At this conference, all presenters have noted that Corporate Governance situation in our country needs more improvement. Especially, there is need to improve the role of newly established Financial Regulatory Commission in the enforcement of Corporate Governance.

We still have weak institutional framework for Corporate Governance and it hampers sustainable financial market development. Main Corporate Governance challenges in Mongolia are:

1. Weaknesses in the legislative and regulatory framework.
2. Lack of Government Policy on development of Corporate Governance.
3. Government Privatization Policy does not support the emergence of private sector with effective investors.
4. High degree of concentrated ownership, presence of large number of minority shareholders, inadequate shareholder protection.
5. Insufficient disclosure and transparency.
6. Inadequate Judicial System:
 - Ineffective enforcement of laws and regulations
 - Inadequate capacity of the Judiciary
 - Corruption in Judiciary System

What the Financial Regulatory Commission should do in this situation to improve Corporate Governance reform?

First of all the FRC should improve its capacity in terms of finance and human resources.

Now we are drafting the amendments to the Company Law and to the Securities Market Law. In this regard, we are paying special attention to the protection of minority shareholders. After we have made amendments to these laws, we should establish or improve existing rules and regulations on the following:

- Enforcement of basic shareholders rights, including general shareholder meeting, voting procedures, share registration and payment of dividends. Violations of basic shareholders rights became normal in our country. Only half of the companies listed at the Stock Exchange have organized annual shareholders meeting, about only 5 percent of them have paid dividend for last year,
- Provide controlling shareholders the rights to buy out dispersed shares through a fair and equitable process,
- Non financial information disclosure. Ownership structure should be transparent. It will create the basis for transparency regarding major decision, related party transaction, actions of managers and controlling shareholders,
- Establish an independent organization which will act on behalf of minority shareholders and play significant role in the implementation of minority shareholders rights such as voting right. This independent organization shall force the improvement of the Corporate Governance of listed companies,
- Improve transparency and disclosure by establishing Public company accounting oversight board under the Financial Regulatory Commission,
- Establish Corporate Governance code,
- Public education and awareness campaign,
- The Mongolian Stock Exchange should improve its Listing requirement. Among listed companies there are about 30 non existing companies. All assets are tunnelled by controlling shareholders or executives. They are still not de-listed because of minority shareholders. The Financial Regulatory Commission plans to apply to investigation authority to resolve this problem. To avoid this kind of situation The Financial Regulatory Commission has started to cooperate with the State Title Registration Department of the Administration of Land Affairs, Geodesy & Cartography.

At last, I would like to say that there are a lot of pending issues concerning the Corporate Governance, and we sincerely believe that the efforts of the newly established Financial Regulatory Commission to reform the Corporate Governance in Mongolia will be supported by the OECD and other organizations.

Thank you for your attention.