

Attachment to Resolution No. 2015/14
dated December 30, 2015
of the Board of Directors

Surveillance rules of the “Mongolian Stock Exchange”

SURVEILLANCE RULES

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CHAPTER ONE. GENERAL PROVISIONS

Article 1. General Provisions

- 1.1. The purpose of this rule is to regulate the relations pertaining to monitoring, conducting surveillance, and imposing liability to the fulfillment of implementation of the laws, regulations, and instructions governing the activities of securities trading, member securities companies, and issuers.

Article 2. Scope of the rules

- 2.1. Surveillance operations of the "Mongolian Stock Exchange" /hereinafter referred to as the "Exchange"/ shall be implemented within the framework of the Law on Companies, the Law on the Securities Market, other relevant laws and regulations, instructions, and other decisions made in accordance therewith approved by the Financial Regulatory Commission /hereinafter referred to as the "Commission"/ and the Exchange, and agreement concluded with the issuer and the member securities company.
- 2.2. This rule applies equally to foreign and domestic legal entities.

Article 3. Definitions of terms

- 3.1. Terms used in these rules shall have the following meanings:
 - 3.1.1. "Member Securities Company" is a member of the Exchange as stated in Sections 24.1.1 and 24.1.2 of the "Law on the Securities Market";
 - 3.1.2. "Professional Participant" means a person who has been authorized according to the "Rules on Granting the Right to Participate in Securities Trading";
 - 3.1.3. "Other participants" means participants in the securities market other than member securities companies, such as investors and issuers;
 - 3.1.4. "Authorized person" means the Board of Directors of the Exchange, the Executive Director, the Director of the surveillance unit, and the inspector of the Commission;
 - 3.1.5. "Surveillance officer" means an officer of the Exchange's surveillance division, who has the authority to inspect the operations of securities companies and issuers listed on the Exchange, as well as to monitor the progress of securities trading and price changes;
 - 3.1.6. "Surveillance unit" means the unit of the Exchange that conducts monitoring and inspecting the related operations and securities trading of securities companies and issuers of the Exchange;
 - 3.1.7. "Joint working group" means a group that is authorized to carry out planned and spot checks and to impose liability stated in these rules and other laws, consisting of members appointed by the Exchange and the Commission;
 - 3.1.8. "Agreement" means the agreement made between the Exchange, the Member securities company and the issuer;
 - 3.1.9. "Surveillance" means exercising the powers stated in Sections 49.1.5, 70.1.6, and 70.1.9 of the Law on Securities Market, detecting and correcting errors, and imposing liability;
 - 3.1.10. "General surveillance" means monitoring the securities trading process through a surveillance system;
 - 3.1.11. "Detailed surveillance" means surveillance conducted based on suspicious transactions and information related to securities trading and prices found during the general surveillance;

- 3.1.12. "Planned surveillance" means the surveillance of the operations of member securities companies and issuers at certain time intervals according to the established schedule;
- 3.1.13. "Spot check" means the surveillance of member securities companies and securities based on current requirements in accordance with citizen's reports, complaints, news broadcasts, orders given by the management, trades, and irregularities detected during the remote monitoring of member securities companies and issuers;
- 3.1.14. "Warning signal" is a suspicious transaction defined by a surveillance system;
- 3.1.15. "Suspicious transaction" means a potentially illegal transaction determined by the surveillance unit based on the fluctuation of securities prices and traded quantities;
- 3.1.16. "Primary documents" means documents related to securities trading and cash transactions;
- 3.1.17. "Official task" means a document sent by the Surveillance Unit to member securities companies and issuers with time-bound tasks;
- 3.1.18. "Media" means radio, television, newspapers, magazines, and electronic publications.

CHAPTER TWO. INSPECTION DIRECTIVE

Article 4. Surveillance directive

- 4.1 Surveillance shall be conducted with the following directives:
 - 4.1.1. surveillance of securities trading;
 - 4.1.2. surveillance of member securities companies;
 - 4.1.3. surveillance of the issuer;
 - 4.1.4. surveillance based on complaints and reports.

Article 5. Surveillance of securities trading

- 5.1 The surveillance unit shall conduct the following general monitoring and detailed surveillance during daily securities trading using a surveillance system:
 - 5.1.1. monitor suspicious transactions using surveillance systems such as excessive fluctuations of stock prices, repeated trading in large or small quantities during daily securities trading;
 - 5.1.2. monitor the implementation of instructions for organizing trades;
 - 5.1.3. regular monitoring of securities trading participants for fraudulent trading in the form of market manipulation;
 - 5.1.4. detailed surveillance of suspicious transactions based on warning signals on the surveillance system, and further investigation of transactions deemed inconsistent;
 - 5.1.5. verify whether the owners of the sold and purchased accounts of suspicious transactions are affiliated.
- 5.2 In addition to the surveillance stated in section 5.1 of these rules, the unit responsible for surveillance shall also supervise primary market trading and block trading in the same way as other securities trading;
- 5.3 The surveillance unit shall create a database of insider information holders and monitor insider information holders using a surveillance system.

Article 6. Surveillance of Member Securities Companies

- 6.1 The following activities of member securities companies shall be regularly monitored in accordance with relevant laws and regulations:
 - 6.1.1. compliance with applicable laws, regulations, directives, and contractual obligations;

- 6.1.2. implementation of the code of conduct of the member company and its employees;
- 6.1.3. meeting the requirements and criteria stated in the Exchange's membership rules;
- 6.1.4. whether relevant news and information have been submitted within the specified time;
- 6.1.5. whether manipulated securities market;
- 6.1.6. receiving and fulfilling customer orders;
- 6.1.7. activities of the insider information holder;
- 6.1.8. other activities stated in the laws and regulations of professional participants.

Article 7. Surveillance of issuers

- 7.1 The following activities of the issuer shall be regularly monitored in accordance with relevant laws and regulations:
 - 7.1.1. compliance with applicable laws, regulations, directives, and contractual obligations;
 - 7.1.2. Whether the issuer fulfills its obligations under the "Listing Rules" of the Exchange and meets the established criteria and requirements;
 - 7.1.3. whether the issuer implements the procedures for disclosure of information to the public and whether the information is disclosed to the public on time;
 - 7.1.4. disbursement, financial records, and reporting of funds raised through the issuance of securities.

Article 8. Surveillance based on complaints and reports

- 8.1 Surveillance shall be conducted in accordance with the information disclosed to the public by the media and the information submitted by citizens and organizations.
- 8.2 Complaints submitted by citizens and organizations regarding securities trading, member securities companies, and issuers' activities will be reviewed and resolved in accordance with the "Procedure for Receiving and Handling Complaints from Citizens and Institutions to the MSE".

CHAPTER THREE. ORGANIZING SURVEILLANCE AND REPORTING

Article 9. Organizing surveillance and reporting

- 9.1 The surveillance shall be carried out with the following unit structure:
 - 9.1.1. Surveillance officer;
 - 9.1.2. Surveillance unit;
 - 9.1.3. Joint working group.
- 9.2 The Joint working group shall be constituted as follows:
 - 9.2.1. A joint working group shall be established by the order of the Head of the Commission and the Executive Director of the Exchange for the purpose of conducting surveillance on issuers;
 - 9.2.2. The composition of the joint working group consists of a surveillance officer of the Exchange and the State Inspector of the Commission.
- 9.3 Surveillance shall be carried out under the following conditions:
 - 9.3.1. Remote surveillance:
 - 9.3.1.1. Surveillance based on documents, reports, and other information submitted by member securities companies and issuers in accordance with relevant laws and regulations;
 - 9.3.1.2. surveillance using a trading surveillance system;

- 9.3.1.3. remote surveillance shall be carried out regularly by the surveillance unit of the Exchange in accordance with the directions stated in Section 4.1 of these rules.
- 9.3.2. On-site surveillance:
 - 9.3.2.1. conducting planned surveillance of member securities companies and issuers according to the approved guidelines at the set schedule and date;
 - 9.3.2.2. Conduct spot check on the operation of member securities companies and issuers according to current circumstances, such as tasks assigned by management, press releases, citizens' reports, and violations detected during trading.
 - 9.3.2.3. On-site inspections of member securities companies and issuers shall be carried out by the Exchange's surveillance unit and joint working group, respectively.
- 9.4 The Executive Director of the Exchange shall approve the surveillance guidelines stated in Clause 9.3.2 of these rules.
- 9.5 The surveillance guidelines shall state the following:
 - 9.5.1. surveillance directives;
 - 9.5.2. purpose of the surveillance;
 - 9.5.3. surveillance period and extension conditions;
 - 9.5.4. surveillance team.
- 9.6 After completion of surveillance stated in Section 9.3.2 of these rules, a report with opinion and conclusion shall be issued within 5 business days and presented to the Chairman of the Commission and the Executive Director of the Exchange.
- 9.7 The surveillance officer shall provide the member securities company with a deadline for submitting information, orders, and other necessary documents related to foreign and domestic investors.
- 9.8 If the violations and errors found during the surveillance would adversely affect the normal operation of the market and the interests of investors, measures shall be taken to inform the public of the non-confidential information of the legal entities.
- 9.9 If the violations found during the surveillance are of a criminal nature related to the investor or the issuer, they shall be transferred to the law enforcement agency.
- 9.10 The Exchange shall immediately inform the Commission about the violations found during the surveillance in accordance with the "Law on the Securities Market", and submit a proposal on the responsibility to be imposed on the guilty party, attach the violations determined by the surveillance, evidence, and submission.
- 9.11 The suspension of the issuer's securities trading or the restriction of the member securities company's right to participate in trading due to violations shall not be a grounds to exempt them from disclosing information or other obligations stated by laws and regulations.

CHAPTER FOUR. JOINT WORKING GROUP AND SURVEILLANCE OFFICER

Article 10. Rights of surveillance officer and Joint working group

- 10.1 Joint working group has the following rights:
 - 10.1.1. Supervise the implementation of laws and regulations on the securities market and the procedures established for general compliance based

- on them, and submit the necessary issues for discussion at the Commission's meeting;
- 10.1.2. establishing an act, imposing a fine, and ensuring compliance for violations found during planned or spot check, issuing time-bound obligations and official requirements to eliminate the violations, and ensuring compliance, if the violation is deemed to be a violation of the "Law on Securities Market", or if it is determined that it has been violated responsibilities stated in section 14.1 and 14.2 of these rules by the decision of the authorized entity;
- 10.1.3. other rights provided by law.
- 10.2 Surveillance officer has the following rights:
 - 10.2.1. freely enter the organization to be inspected, to obtain documents and reports necessary for the inspection free of charge from the appropriate person;
 - 10.2.2. Based on the results of the inspection and the violation sheet (Form-1), assign obligations and official tasks to correct the violations found during surveillance, monitor its fulfillment, and impose the responsibilities stated in the relevant regulations and contracts;
 - 10.2.3. submit a proposal to stop the trading of securities of the joint-stock company, which is considered to commit a serious violation of the rights of investors and customers to the authorized entity;
 - 10.2.4. obtain necessary information from other departments and officers, involving relevant professionals in the surveillance, and conduct surveillance in cooperation with authorized organizations;
 - 10.2.5. obtain information about the securities held by management and executive employees of professional organizations participating in the securities market, and affiliated entities;
 - 10.2.6. To propose surveillance if deemed necessary to take measures to eliminate irregularities and deficiencies found during the review of submitted reports and news;
 - 10.2.7. other rights provided by law.

Article 11. Duties of surveillance officer and members of the joint working group

- 11.1 The surveillance officer and member of the joint working group shall have the following responsibilities:
 - 11.1.1. conduct the examination based on factual evidence and free of influence;
 - 11.1.2. strictly maintain the confidentiality of information that has not been disclosed to the public and related to the surveillance, and do not make preliminary conclusions or disclose information, and use the surveillance document information for other purposes;
 - 11.1.3. if the surveillance is directly related to one's own interests or interests align with the person being inspected, notify the authorized official about this, refuse to conduct the examination, withdraw from the joint working group;
 - 11.1.4. to archive the report of the surveillance report and its annexes, documents and information as the original form, affirm with a sign, seal, or signature;
 - 11.1.5. take full responsibility for the accuracy of the conclusions, reports, instructions, warnings, documents and proofs of the surveillance;

- 11.1.6. the surveillance officer shall use the license and badge issued by the decision of the Executive Director of the Exchange;
- 11.1.7. the officer shall not transfer their license to others, and use it for personal gain.

Article 12. Prohibited activities for surveillance officer and members of the joint working group

- 12.1. Surveillance experts and members of the joint working group are prohibited from carrying out the following activities:
 - 12.1.1. distributing, transmitting, or using surveillance materials, documents, and information for other purposes without permission;
 - 12.1.2. to take a personal interest in the surveillance, receive gifts, money, rewards, or any assistance beneficial to oneself from the examinee, and to demand documents that are not part of the work schedule;
 - 12.1.3. willfully concealing or falsely reporting irregularities found during the surveillance;
 - 12.1.4. conducting surveillance on matters not included in the guidelines, threatening or acting inappropriately with management and executive officers;
 - 12.1.5. informing the public before the conclusion of the surveillance and attacking the reputation of others.

CHAPTER FIVE. VIOLATION, AND LIABILITY

Article 13. Types of violation

- 13.1. If the following violations are found after surveillance, based on the violation sheet determined by the surveillance officer and the conclusion of the joint working group, the responsibility stated in Section 13 of these rules shall be imposed:
 - 13.1.1. The violations related to securities trading:
 - 13.1.1.1. artificially held, increased or decreased the price of securities /opening, closing, upper and lower rates/ at a certain level;
 - 13.1.1.2. in order to artificially maintain, increase or decrease the price of securities at a certain level, transactions with a small number of units and changes in exchange rates were made repeatedly during securities trading;
 - 13.1.1.3. disclosed false and incorrect information related to the market in order to influence the price;
 - 13.1.1.4. the owner of insider information and his/her related party participated in the trading of listed securities and financial instruments using insider information;
 - 13.1.1.5. participated in trading using insider information, concealed information to be disclosed to the public and domestic and foreign investors;
 - 13.1.1.6. carried out securities trading and cash transactions on behalf of others and using his own name account;
 - 13.1.1.7. refused to provide documents and materials related to the surveillance to the officer;
 - 13.1.1.8. after buying one security at a high/low/ price during the same day's trading or during a certain period of time, repeated the act of selling at a low/high/ price, and received and fulfilled such order from the customer;

- 13.1.1.9. executed a large number of orders without the intention of fulfilling them, made multiple edits to that order, downloaded, and divided one order into multiple orders;
 - 13.1.1.10. given false and incorrect information to customers, deliberately misled customers, disclosed information before fulfilling customers' orders, omitted orders, conducted transactions without customer's permission or transactions that adversely affected customers, changed order prices and quantity;
 - 13.1.1.11. The conditions of orders for the selling and buying of securities given by the customer /order quantity, price, type, validity period/ were deliberately or carelessly changed and entered into the system;
 - 13.1.1.12. in case the order is changed or canceled due to fraudulent activity of the professional participant, measures will be taken to remind according to section 14.1.1 of the regulation, and if it is repeated repeatedly, measures will be taken to temporarily suspend the rights of the participant in the trading of the professional participant;
 - 13.1.1.13. member authorized to participate in remote trading intentionally or negligently transferred their access to others or allowed others to access the system;
 - 13.1.1.14. did not fulfill the tasks of the surveillance officer on time, repeatedly violated trading rules, did not prepare primary and financial documents in accordance with the proper procedure, did not issue accurate and complete reports;
 - 13.1.1.15. submitted incorrect, incomplete, or false primary documents;
 - 13.1.1.16. did not provide documents necessary for the surveillance, and obstructed the surveillance;
 - 13.1.1.17. committed other actions that violate fair trading conditions and customer rights;
 - 13.1.1.18. violated articles 78 and 80 of the Law on the Securities Market and the "Rules on Prevention of Manipulating the Securities Market" of the Commission.
- 13.1.2. The violations related to the activities of the member securities company:
- 13.1.2.1. Amount of equity does not meet the amount set by the Commission;
 - 13.1.2.2. it is found that the capital of the operational risk protection fund does not reach the specified level;
 - 13.1.2.3. the workplace, equipment, and personnel do not meet the requirements specified in the relevant rules and contracts;
 - 13.1.2.4. did not follow the set of rules and regulations of regulated activities;
 - 13.1.2.5. failed to comply with membership regulations and contractual obligations;
 - 13.1.2.6. did not submit relevant news and information within the specified time;
 - 13.1.2.7. violated rules on securities insider information and its owner's activities on the securities market.

- 13.1.3. The violations related to the issuer:
 - 13.1.3.1. the issuer has failed to fulfill its obligations under the laws, rules, regulations, and contracts to be regularly performed during the listed period stated in the Exchange Registration Rules;
 - 13.1.3.2. no longer meet the criteria for the relevant class of securities; loss of liquidity of securities;
 - 13.1.3.3. the information was not submitted on time;
 - 13.1.3.4. the securities are removed from the dual-listed exchange;
 - 13.1.3.5. violated rules on securities insider information and its owner's activities on the securities market.
 - 13.1.3.6. for debt instruments, principal and interest payments are not paid on time.

Article 14. Liability

- 14.1. It is determined by the conclusion of the surveillance and the violation report that a member securities company has failed to fulfill its obligations under laws and regulations, engaged in prohibited activities, failed to comply with the activities stated in Article 6 of these rules, or committed a violation specified in Section 13.1.2, one of the following liabilities shall be imposed by the decision of the authorized person:
 - 14.1.1. Warning;
 - 14.1.2. Impose contractual liability;
 - 14.1.3. Temporarily restrict the member's right to participate in trading;
 - 14.1.4. Suspension of membership;
 - 14.1.5. Termination of membership;
 - 14.1.6. Submitting a proposal to suspend a member's special permit;
 - 14.1.7. Submit a proposal to revoke a member's special permit.
- 14.2. It is determined by the conclusion of the surveillance officer or the joint working group, as well as the violation sheet that the issuer has failed to fulfill its obligations under laws and regulations, has conducted prohibited operations, has not implemented activities stated in Article 7 of these rules, or has committed a violations stated in section 13.1.3, one of the following liabilities shall be imposed by the decision of the authorized person:
 - 14.2.1. Warning;
 - 14.2.2. Impose contractual liability;
 - 14.2.3. stop securities trading;
 - 14.2.4. downgrade securities classification;
 - 14.2.5. delist securities;
 - 14.2.6. limit the rights to list any additional securities.
- 14.3. In the decision to impose liability, the Exchange shall state the basis of the decision.
- 14.4. During the surveillance, the decision to take measures due to non-fulfillment of obligations under laws, regulations and contracts by the issuer and the member securities company shall be announced to the public through the Exchange's website.
- 14.5. If it is considered that the conditions and cause for the decision to stop securities trading, temporarily restrict the right to participate in trading, suspend or terminate the member's rights have disappeared, the issuer and the member securities company shall submit the request for the restoration of these rights and permission to the Exchange, together with the grounds and evidence.

- 14.6. If the Exchange deems that the conditions and reasons for temporarily restricting the right to participate in trading have been removed, trading may be resumed regardless of whether the issuer or the member securities company submits a request.
- 14.7. If the member company or the Issuer does not agree with violations found by the surveillance officer, they may file a complaint with the relevant authority.
- 14.8. If the responsible person does not accept the decision of the Exchange, they may file a complaint with the authority organization or official within 10 days.
- 14.9. If inspection experts and members of the Joint Working Group have exceeded or abused their rights stated in Article 10 of these rules, failed to perform their duties stated in Article 11, or conducted prohibited activities stated in Article 12, in accordance with the Exchange's "Internal Employment rules" and "Employment Contract" disciplinary action shall be taken.