

SECURITIES TRADING RULE OF MONGOLIAN STOCK EXCHANGE

ONE. GENERAL

1. The purpose of this Rule is to regulate the matters necessary for facilitation of legal, fair, transparent, efficient securities trading at the Mongolian Stock Exchange (hereinafter referred to as MSE).
2. The definition of the terms used in this Rule are as follows:
 - 2.1. Single auction – Trading of a particular security on an auction basis that is organized by Trade Administrator.
 - 2.2. Continuous auction – Trading of a security based on the received buy and sell orders.
 - 2.3. Securities block trading – Trading of a basket of one type of securities or basket of several types of securities
 - 2.4. Opening price - the price at which the first transaction of the trading day was held for a particular security.
 - 2.5. Closing price – the price at which the last transaction of the trading day was held for a particular security.
 - 2.6. Bond – Debt security issued by the appropriate institution
 - 2.7. Yield – Measure of return that Government and municipal bond gives until the maturity date.
 - 2.8. Transaction – Transaction that is registered in trading system during trading session and registered before the settlement.
3. Only listed securities must be traded at MSE.
4. Only representatives (hereinafter referred to as Trade Participants) of member broker dealer companies (hereinafter referred to as BDC) that earned “The license to conduct and provide professional service in the securities market” from Financial Regulatory Commission (hereinafter referred to as FRC) can participate in securities trading at MSE.

TWO. SECURITIES' TRADING, IT'S TYPES

5. Securities' trading at MSE is classified into primary market trading and secondary market trading.
6. Orders are matched by auction and continuous auction method.
 - 6.1. Following types of trades are carried out under continuous auction method
 - 6.1.1. Equity primary market trading
 - 6.1.2. Equity secondary market trading
 - 6.1.3. Corporate bond primary market trading
 - 6.1.4. Corporate bond secondary market trading
 - 6.1.5. Government and municipal bond secondary market trading
 - 6.1.6. Derivatives trading
 - 6.2. Following types of trade are carried out under call auction method
 - 6.2.1. Government and municipal bond primary market trading
 - 6.2.2. State owned securities trading
 - 6.2.3. Securities trading based on a resolution of legislative and regulatory authorities.
 - 6.2.4. Securities block trading

7. Securities' trading is carried out with the use of purpose built software.
8. Trade types stipulated in provisions 6.1.1 – 6.1.6, 6.2.1 of this Rule are carried out by the use of separate software; trade types stipulated in provisions 6.2.2, 6.2.3, and 6.2.4 are carried out by the use of one common software.
9. During a Trading Day the price fluctuations of single security must not exceed 15% away from the Closing Price of the previous Trading Day.
10. Any securities other than Government bonds and municipal bonds can be traded with currency other than MNT (Mongolian tugrug).
11. Securities' trading on MSE is carried out on each business day and the trading hours are stipulated by the resolution of Chief Executive Officer of MSE (hereinafter referred to as CEO) which must be approved by the FRC.
12. Securities trading day may be postponed by the resolution of CEO.
13. In case of technical failure (network failure, electricity supply failure) MSE may announce brake, other force majeure circumstances must be dealt in accordance with associated laws and regulations.
14. In case trading of particular securities is halt by any provisions in law or decree of associated authorities the Trade Administrator must announce that fact to BDCs.
15. During a securities auction trading time left until the completion of the transaction must be displayed on auction participants' computer screen in seconds.
16. In securities primary market only MSE or the securities underwriter can be the sellers of that security (the securities are supplied from their Securities Depository account only).

THREE. SECURITIES TRADING UNDER CONTINUOUS AUCTION METHOD

17. Continuous Auction period must follow 30 minute Preparation Period.
18. During Preparation period Trade Participants should input to the computer system orders that were rejected due to the 15 percent price fluctuation limit stipulated in provision 9 of the Rule, and the new orders received from their clients.
19. Trade participant must only enter clients' orders that were received according to the regulations of related authorities.
20. Following details of clients order should be entered into the computer system by the Trade Participant:
 - order type: buy/sell
 - clients' central depository account number
 - price of one unit of that security
 - number of securities
 - the duration of the order validity in days
21. Maximum validity period of securities' buy and sell orders are stipulated in associated regulations.
22. During 2 minutes after the input of any sell order, the computer system will hold any transactions related to that particular order and allow other trade participants to view that order and input buy order if necessary. If there is a buy order existed earlier or entered during the 2 minute price of which is exceeding or equal to the sell order price, no amendments can be made to that buy order.
23. Buy orders are prioritized by price, in case the prices are equal orders are prioritized by time.

24. At the end of the 2 minutes period ,if there are matching orders, transaction will be held as follows:
 - If buy and sell order prices are equal the transaction will be held at that equal price.
 - If sell order price is less then buy order price the transaction will be held at buy order price.
25. Opening and closing prices for a particular security will be determined on each trading day when trade has occurred.

FOUR. SECURITIES TRADING UNDER SINGLE AUCTION METHOD

26. Single auctions must be carried out in compliance with the order received from a securities seller (hereinafter referred to as Seller) on the date announced to the public.
27. Details of any block trading should be announced to public 3 days prior to the trading day.
28. In compliance with Sellers order the trading under single auction method can be carried out either in single unit shares or blocks.
29. Single auction consist of following periods:
 - a. Order Receipt
 - b. Auction
 - c. Matching

The Trade Administrator has the responsibility of commencing the trading process and informing the Trade participants about progress of the auction.
30. The Order Receipt period commences after the minimum bid price is announced. Thee duration of order receipt period is 2 minutes and the Trade Administrator has the responsibility to announce any changes best buy(bid) price.
31. The order receipt period may be extended by 2 minutes only once.
32. Only those Trade Participants who input buy order during the Order Receipt Period are allowed to bid during the Auction Period.
33. The Trade administrator must announce Trade Participants about the end of Order Receipt period and the commencement of Auction Period and announce the best bid price (lowest yield) each time it changes.
34. During Auction period after each occasion of change in best bid price or amount countdown timer will be reset and start from 40 seconds.
35. If there is no change in the bid price or amount during the 40 seconds from the beginning of Auction period or if 40 seconds have passed since the last change in the bid price and amount the Matching will be carried out.
36. The Matching will be carried out at the highest bid price if the security is other than government or municipal bond.
37. The matching will be carried out at the lowest yield level if the security is government or municipal bond.
38. During government and municipal bond Single Auction buy bids must be input in yield and during Single Auction of other securities buy bids must be input in MNT (tugrugs).
39. The minimum amount of yield that trade participants must input during government or municipal bond Auction period must be at least 0.01 percent higher than the best bid at that moment.

FIVE. SECURITIES BLOCK TRADING

40. Block trading is classified as follows:
 - Trading of a basket which consists of more than 5% of the outstanding amount of a particular security
 - Trading of basket which consists of more than 3 types of securities each of which is more than 1% of the outstanding amounts.
41. If a group of entities has Common Interests and delivered a declaration to FRC about their common interest and fulfilled their legal duties, equities of their ownership can be treated as one basket and traded under “block trading method”.
42. For those investors who were defined as strategic by the issuer of the security primary market issuance will be carried out under block trading principle.

SIX. SECURITIES TRADING FEES, CHARGES

43. Securities trading fees at MSE will be deducted depending on the transaction volume:
 - 43.1. From equity sell side and buy side
 - 43.1.1. If transaction value is less than 100 million MNT, then trading fee 0.5 percent is deducted.
 - 43.1.2. If transaction value is more than 100 million MNT but less than 1 billion MNT, then trading fee of 0.4 percent is deducted
 - 43.1.3. If transaction value is more than 1 billion MNT then trading fee of 0.3 percent is deducted.
 - 43.2. From the sell side of government and municipal bonds traded on primary market fee of 0.12 percent of the whole transaction value is deducted, from the buy side 0.009 percent fee is deducted.
 - 43.3. No fee is applicable to the sell side of government bond and municipal bond on secondary market, fee of 0.009 percent is applicable to the buy side.
 - 43.4. From the sell side of corporate bonds on primary market 0.1575 percent fee is deducted, from the buy side 0.0175 percent fee is deducted.
 - 43.5. No fee is applicable to the sell side of corporate bonds on secondary market; buy side is charged a fee of 0.0175 percent.
44. Fees can be charged according to an agreement made between the party and the exchange.

SEVEN. SECURITIES TRADING SUPERVISION

45. Trade supervision will be carried out by Trade Administrator and Supervision department of MSE, if it is thought necessary cases can be forwarded to FRC for resolution.
46. If Trade Administrator believes illegal trade was carried out, he/she should inform Supervision department and report MSE management after the investigation of the matter is done (Trade Administrator should use Form# 1 to inform Supervision department)

47. If any transaction was identified as illegal or due the Trade participants mistake securities price significantly fluctuated, transaction details may be edited before the settlement activities of that day has begun.
48. If a securities price significantly changed due an error made by Trade Participant, the Trade Participant should fill in and sign 3 copies of Form# 2 and hand them to Trade Administrator within 5 minutes after the trading hour is ended. The appeal is subject to approval by the Trade and Research Department of MSE (hereinafter referred to as TR department) and after approval it should be forwarded to Information and Technology Department (hereinafter referred to as IT department).
49. If Trade Administrator or Trade Supervisor believes that Trade Participant has carried out and an illegal transaction, or a securities price significantly fluctuated due an error made by Trade Participant and that transaction is not reversible, he/she should hand in 3 copies of Form# 3 to Head of TR department within 10 minutes after the closure of trading session and with approval of CEO the form should be forwarded to IT department.
50. List of transactions must be delivered to securities clearing, settlement and depository body in electronic and printed format. If any transaction is being withdrawn associated documents should be attached.
51. Any details regarding the time period within which the List of Transactions must be delivered any other relevant conditions are stipulated in an agreement between MSE and securities' clearing and depository body.
52. Following restrictions can be introduced following changes in any relevant law and regulations or by the resolution of relevant authorities:
 - 52.1. Restriction on the maximum amount of a particular security that single investor can purchase
 - 52.2. Suspension of that particular securities trading
 - 52.3. Suspension of BDC's right to participate in trading
 - 52.4. Other

EIGHT. OTHERS

53. After each trading session Trade Data must be made available on MSE's website www.mse.mn.
54. Any other inquiries on trading data (historical, moving averages of a securities price etc.) are fulfilled in accordance to "MSE data distribution regulation".
55. Those who violated this regulation are punished according to the relevant laws, regulations, and resolutions.
56. If a Trade Participant has any complaint regarding the trading session activity it will be resolved according to this Rule and "Supervision rule of Mongolian Stock Exchange".

Attachment №2

FORM №1

Date:

Name of BDC:

Transaction: a.Buy b.Sell

Inquiry to investigate a Transaction

Securities code	Transaction No	Transaction		Total value
		Amount	Price	

Explanation:

Inquiry by: TR department specialist

Approved by: Head of TR department.....

Received by: Specialist supervision department.....

Date (yyyy/mm/dd)

Response from this Inquiry:

Delivered by: Specialist of Supervision department

Received by Specialist of TR department:

Date: (yyyy/mm/dd):

Inquiry No ...to amend a Transaction

NOTE:

1. Trade Participant must hand in this form within 5 minutes after the end of trading session.
2. In space provided after “Explanation” Trade participant should explain why he/she wants to amend the transaction.
3. Any choice should be clearly marked

Date (yyyy/mm/dd):.....

Name of BDC:.....

Transaction type: a. Buy b. Sell

Explanation:

Because of the reason explained above, our company is asking to amend the following transactions to market order.

Securities code	Transaction No	Amount	Price	
			Transaction held at	Amend to

Inquiry by: BDC representative(signature)

Approved by:BDC representative.....(signature)

Received by: TR department specialist.....

Approved by head of TR department.....

Amended by: Specialist of IT department

Transaction amendment approval No...

NOTE:

1. Trade administrator or trade supervisor should hand in this Form within 5 minutes after the end of trading session.
2. If the head of TR department is approving he/she should inform about it to CEO.
3. If the case is approved by the CEO, IT department of MSE should amend the transaction details and hand in 1 hard copy of Transaction list to securities clearing and depository house.

Date (yyyy/mm/dd):

Transaction number:.....
Securities code:.....
Buy side account number:.....
Sell side account number:.....
Amount of securities:.....
Unit price:

The reason to amend the Transaction:

Because of the reason stated above I propose to change that transaction details.

Proposition by: Specialist of department
Head of department

Above stated Transaction is violating law, therefore I permit IT department to amend the transaction.

CEO of MSE:
Transaction amended by: specialist of IT department

Date (yyyy/mm/dd):