

Approved by Decree 3 of the Board of the Directors of “Mongolian Stock Exchange” JSC on 08 April 2009.

SURVEILLANCE RULE

ONE. GENERAL PROVISIONS

1. The purpose of this Rule is to regulate relations concerning the supervision of the implementations of laws, regulations and instructions regulating securities trading, operations of member broker, dealer companies and securities issuers, to check their compliance with the agreement, to conduct proper inspection, to take measures based on the inspection findings and to impose appropriate legal sanctions.
2. Amendments to this rule can only be made by the meeting of the Board of Directors of Mongolian Stock Exchange (hereinafter referred to as MSE) upon the approval of the Regulatory Authority.
3. MSE surveillance operation is regulated by this rule, other relevant rules and regulations approved by the MSE Board of Directors (hereinafter referred to as BOD) and Executive management meeting (hereinafter referred to as EEM) and provisions in the agreements between MSE and Securities issuers/ Member companies.
4. Additional matters related to enforcing this rule shall be stated in the “Guidelines for the enforcement of Surveillance Rule”.
5. Definition of the terms used in this rule:
 - *“Member” – a legal entity who possess a license in accordance with the “MSE JSC membership rule”*
 - *“Trading participant”- a person who obtained a right according to the “Rule on granting a right to participate in MSE securities trading”*
 - *Agreement – An agreement between MSE JSC and the members/ securities issuers.*
 - *Regular inspection – Inspection to monitor securities trading process and the changes in prices by special software*
 - *Follow-up inspection – Inspection conducted following suspicious transactions, information and complaints related to securities trading and prices, that were detected through the regular inspection process*
 - *Scheduled inspection – Inspection conducted on members and securities issuers according to the set schedule and plan on a regular basis*
 - *On-demand inspection – Inspection conducted on members/ securities issuers when demands arise following the request from an authoritative person, management tasks, media releases, information from the citizens, contradictions detected during the trading surveillance process*
 - *“Exchange inspector” – Surveillance Department director and specialists with exclusive rights to conduct monitoring and inspection by the decision of MSE JSC Executive Director*

- *“Trade supervisor” – Exchange inspector who monitors securities trading process and price changes by special software*
- *“Other participants” – Securities market participants other than members such as investors and securities issuers*
- *“Suspicious transaction” – Transaction that might be suspicious as defined by the Surveillance Department based on securities price fluctuation and quantity traded*
- *“Related official” – MSE JSC Executive director and Surveillance Department director*
- *“Basic documents” – Documents related to securities trading, cash transactions such as order agreement, dealer’s order and money withdrawal request application*

TWO. SCOPE OF THE SURVEILLANCE OPERATION AND THE EXERCISING POWER OF THE EXCHANGE INSPECTOR

6. Exchange inspector is authorized to conduct the following:
 - 6.1. Surveillance on securities trading
 - 6.2. Surveillance on member operations
 - 6.3. Surveillance on securities issuers’ implementation of their duties
7. Exchange inspector shall conduct regular and follow-up inspections within the securities trading surveillance operations, scheduled and on-demand inspection within the scope of surveillance operations on members/ issuers, respectively.
8. Exchange inspector must satisfy the following requirement.
 - 8.1. Must have a degree in economics, banking, finance, accounting or law
 - 8.2. Must have work experience of at least 3 years in securities market and possess practical experience in surveillance operations.
 - 8.3. Must be ethical and have never received state punishments
9. Exchange inspector is obliged to abide by laws, not to succumb to external influences, to operate on the principle of fairness and to respect the reputation of entities and individuals.
10. Exchange inspector shall have following rights:
 - 10.1. To monitor the implementation of the securities rules and regulations and have the necessary issues discussed by the meeting of BOD and EEM of MSE,
 - 10.2. To have unrestricted access to the building of the company being inspected and to require provision of the documents, reports and information required for inspection free of charge,
 - 10.3. To impose an act based on the inspection findings, to give an official task to take corrective actions on the revealed flaws within a given period of time, to enforce their implementations and to impose sanctions as indicated in relative rules and agreements,
 - 10.4. To propose to the respective authorities the suspension of the trading of joint stock companies that are considered to violate the rights of investors and clients,
 - 10.5. To obtain necessary information from other departments and specialists, to involve related specialists in the process of inspection and to propose to conduct the inspection in conjunction with relative Authorities.
 - 10.6. To obtain information on securities ownership of senior and executive officers and their affiliated persons of companies operating in the securities market.
11. Exchange inspector shall have following duties:

- 11.1. To monitor the implementation of laws, regulations, instructions and duties indicated in agreements and to enforce their implementations,
- 11.2. To conduct the inspection based on real evidence,
- 11.3. To keep the confidentiality of the information undisclosed to the public found during the inspection, to make and inform a preliminary conclusion on the matter of inspection, and not to use the inspection information and documents for any other purposes,
- 11.4. To refuse to conduct the inspection by informing a related official, if the inspection involves self-interest or a shared interest with the entity being inspected,
- 11.5. To keep the confidentiality of the documents, reports and computer files found during the inspection in accordance with the related regulations,
- 11.6. To have the inspection directive approved by the related official before the commencement of the inspection and introduce it officially to the entity being inspected,
- 11.7. To conduct the inspection process completely in accordance with the inspection directive and guidance and to provide the inspection report within the deadline,
- 11.8. To impose an act on the company violation by verifying its grounds and evidences and to take responsibility for the accuracy of these information,
- 11.9. To introduce the inspection report, the act and the relative documents to the entity being inspected and have the report signed, and/or receive an explanatory letter from the entity if s/he refuses to sign,
- 11.10. To transfer the inspection to relative officials should the violation relate to the investors and securities issuers and is a criminal case,
12. Exchange inspector shall possess an ID card issued by the MSE and an imprint with personal number.
13. Exchange inspector shall sign a confidentiality agreement with MSE.

THREE. SURVEILLANCE ON SECURITIES TRADING

14. Surveillance department shall conduct regular and follow-up inspections within the scope of surveillance on securities trading.
15. Regular inspection consists of overseeing the order on the trading floor and inspecting the securities trading process by special software.
16. The following operations shall be overseen within the scope of the supervision of the order on the trading floor:
 - 16.1. Operations of the trade conductor
 - 16.2. Computer software and technical operations
 - 16.3. Operations of the trading participants
17. Surveillance department shall inform the related departments regarding the corrective actions needed to be taken when violations are detected in operations specified in provisions 16.1-16.2 of this rule.
18. Trading participant shall adhere to the trading rule indicated in the “MSE Instructions for organizing securities trading”.
19. Trade supervisor shall conduct regular inspection by a special software during the trading process. Regular inspection may be conducted in conjunction with the Trading department.

20. Trade supervisor shall monitor the supply of the security in primary market trading.
21. Trade supervisor shall inspect suspicious transactions detected during the regular inspection and conduct a follow-up if considered to be a violation.
22. Follow-up inspection shall be conducted on the basis of securities trading database, basic documents, information disclosed to the public, and findings of research and analysis.
23. Exchange inspector shall give an official assignment to the members to bring demanded documents such as investor information and order agreements within a given period of time.
24. Exchange inspector shall complete the inspection by presenting the inspection report to a related official if no violations were detected during the follow-up inspection.
25. If any violations are detected, appropriate measures, as stated in Article 6 of this rule, shall be taken.

FOUR. SURVEILLANCE ON MEMBER OPERATIONS

26. Surveillance department shall inspect the following within the scope of surveillance on member operations:
 - 26.1. Implementations of membership regulation, code of ethics of member companies' employees, and agreements made between MSE JSC and the members
 - 26.2. Operations of receiving and executing clients' orders
 - 26.3. Operations of trade participants and insiders
 - 26.4. Implementations of this rule, other related laws, regulations and instructions
27. Surveillance department shall conduct scheduled and on-demand inspections on members, as indicated below:
 - 27.1. To conduct inspection on main and branch offices,
 - 27.2. To conduct documentary inspection by requesting necessary documents and reports.
28. If any of following violations is detected during the inspection of members and their employees, the exchange inspector shall impose sanctions specified in provision 37 of this rule:
 - 28.1. To artificially increase, decrease or keep the price /open, close, high, low/ at certain level,
 - 28.2. To affect the price-setting of newly registered securities,
 - 28.3. To trade for the purpose of giving false notion to the public, adversely affecting the market price, and to conduct false and/or double transactions between brokers and affiliated persons,
 - 28.4. To conduct insider trading, to hide or to refuse to disclose information that should be available to the public and/or investors, to trade and/or make transactions under somebody else's identity using own accounts,
 - 28.5. To disseminate false market information in order to affect the price of shares,
 - 28.6. To give large orders with no purpose of trading, to make numerous corrections and cancellations, and to divide a single order into smaller orders,
 - 28.7. To trade stock repeatedly by buying higher (lower) and then selling lower (higher) during the day or a certain period, and to receive such orders from a client,

- 28.8. To provide false information to clients, to persuade or mislead the client, to disclose client's order information before the order gets executed, to leave out the order, to change the price and volume of the client's order, to make orders/ transactions without clients' permission, to make transactions that could lead to loss for client, to use client's money without his/her permission.
 - 28.9. To prepare incorrect, partial, and fake basic documents, to enter orders not recorded on the dealer's order into the trading program,
 - 28.10. To conduct other activities to violate fair trading and the rights of the clients,
 - 28.11. Not to complete official tasks given by the exchange inspector within the deadline, to repeatedly mistype clients' orders due to negligence and to violate the order of trading floor, not to submit basic and financial documents in compliance with the regulations, not to provide accurate and complete reports,
 - 28.12. Not to provide required documents for the inspection process to impede the process,
 - 28.13. To violate the provisions 13.1, 16, 17.2, 19.2.6, 19.2.11, 27.3 of the 'Securities Market Law' and other related laws, rules and regulations,
29. Exchange inspector shall prepare an inspection report and take appropriate measures specified in Article 6 of this rule.

FIVE. SURVEILLANCE ON SECURITIES' ISSUERS

30. Surveillance department shall inspect the following within the scope of surveillance of securities issuers:
- 30.1. Compliance with the requirements indicated in MSE Listing rule,
 - 30.2. Timely disclosure of information to the public that affect securities price,
 - 30.3. Issuer's implementation of their duties specified in laws, regulations, instructions and agreements,
31. Listing department shall conduct basic level surveillance as specified in provision 30 of this rule and submit information with regards to the securities issuer whenever available and report findings of regular inspection specified in the Listing rule every month to Surveillance department.
32. If necessary, the surveillance department shall conduct scheduled and on-demand inspections based on the findings from the regular inspection by listing department.

SIX. INSPECTION REPORTS AND SANCTIONS

33. Exchange inspector shall present the inspection report to the related official after the inspection completes.
34. Measures to inform the public shall be taken should any violations found during the inspection process could adversely impact the regular market operations and investors' rights.
35. Information regarding the violation and its subsequent measures shall be reported on the website of MSE.

36. FRC's state inspector of securities shall be informed if the trading price and volume suddenly changed dramatically, and/or securities issuers and investors violated the law related to the securities market.
37. Following sanctions shall be imposed to members and their employees based on the exchange inspector's act:
 - 37.1. Warning
 - 37.2. Sanctions indicated in the agreement
 - 37.3. Temporary suspension of the participant's permit to participate in trading
 - 37.4. Temporary suspension of the member's permit to participate in trading
 - 37.5. Termination of the participant's permit to participate in trading
 - 37.6. Temporary suspension of member's permits
 - 37.7. Termination of the member's permit
38. Sanctions stated on provision 37.2 of this Rule shall be imposed on the basis of violation notes concerning the implementation of duties indicated in the agreement.
39. The exchange inspector's act on imposing sanctions stated in the provisions 37.5-37.7 of this Rule shall be discussed and decided by the BOD and EMM.
40. The member may file a complaint to the EMM if refuses to accept the Stock exchange inspector's act.
41. The member may take the case to the Financial Regulatory Committee and the court if the member does accept EMM decision.
