

LAW OF MONGOLIA
FUTURE HERITAGE FUND
CHAPTER ONE
GENERAL PROVISIONS

Article 1. Purpose of the law

1.1. The purpose of this law shall be to regulate matters relating to the establishing the future heritage fund (hereinafter referred to as the “fund”) for the purpose of implementing the principle of distributing fairly and equally the revenues from the non-renewable minerals mobilized into the budget to the current and future generations, mobilizing assets into the fund, allocating the return from the fund, establishing the structure and organization for the fund’s asset management, and reporting and oversight of the activities of the fund, and establishing a stable, efficient and smart macroeconomic management system.

Article 2. Legislation on Future Heritage Fund

2.1. Legislation on Future Heritage Fund is comprised of the Constitution of Mongolia, this law, and other laws and regulations which are consistent with these laws.

Article 3. Scope of the law

3.1. Relationships related to the activity of the fund shall be regulated by this law.

3.2. Relationships related to the management and organization of the legal entity to implement the fund asset management shall be regulated by this law, and other generic relationships by other laws.

3.3. Relationships related to the asset management of the fiscal stability fund, and implementation thereof shall be regulated by Fiscal Stability Law.

3.4. This law shall not apply to the relationships related to the conduct of investment activities of the Investment Fund.

Article 4. Definitions of law-terms

4.1. The following terms applied in this law shall carry the meanings stated as below:

- 4.1.1. “investment instrument” is the instruments listed in 4.1.6. of Law on Security Market and any other instruments not prohibited by this law;
- 4.1.2. “fund assets” is all physical and non-physical assets possessed or owned by the fund;
- 4.1.3. “asset management” is the activities to allocate the fund assets in investment instruments, and maintaining and increasing the real value of the fund assets by means of trading the instruments;
- 4.1.4. “advisory team” is the non-staff entity to implement functions listed in 16.2 of this law;
- 4.1.5. “asset management mandate” (hereinafter referred to as “Mandate”) is the policy document approved by the member of the government in charge of fiscal and budget affairs, entitling the implementation of the fund asset management in accordance with the requirements specified in this law;
- 4.1.6. “Future Heritage Fund Corporation” (hereinafter referred to as “Corporation”) is the 100 percent state owned legal entity responsible for implementation of the fund asset management within the limits of the authority assigned by the mandate;
- 4.1.7. “Governing Board” (hereinafter referred to as “Board”) is the ultimate governing body of the corporation;
- 4.1.8. “Nomination Committee” is the entity responsible for selection of the members of the Board;
- 4.1.9. “investment strategy” is the strategy document to be followed in the fund asset management activities and approved by the Board to ensure the implementation of the Mandate;
- 4.1.10. “fund’s investment income” is the financial result of the asset management activities such as interest, dividends, rents and income from the sale of invested instruments accumulated as the result of the fund asset management;
- 4.1.11. “fund’s net investment income” is the fund’s investment income net of expenses occurred in relation to the implementation of activities specified in 4.1.3 of this law;
- 4.1.12. “conflict of interest” is what is specified in 3.1.3 of the Law on Regulation of Public and Private Interests and Prevention of Conflicts of Interest in Public Service;
- 4.1.13. “perception of conflict of interest situation” is what is specified in 3.1.11 of the Law on Regulation of Public and Private Interests and Prevention of Conflicts of Interest in Public Service;
- 4.1.14. “investment management company” is the entity specified in 4.1.33 of the Law on Securities Markets;
- 4.1.15. “financial derivative” is what is specified in 4.1.7 of the Law on Securities Markets;
- 4.1.16. “base year” is 2017.

Article 5. Principles to be implemented in the fund asset management

- 5.1. The following principles shall be implemented in the management of the fund assets:
 - 5.1.1. Independence;
 - 5.1.2. Transparency;
 - 5.1.3. Prudence in managing the fund assets;
 - 5.1.4. Efficiency in managing the fund assets;
 - 5.1.5. Accountability.

Article 6. Implementation of the fund management principles

6.1. The principle of independence specified in 5.1.1 of this law shall be implemented as follows:

6.1.1. State institutions and officials shall not influence and provide guidance in the implementation of the asset management;

6.1.2. State institutions and officials shall not influence in any way the organization of selection, appointments and contracting activities specified under this law.

6.1.3. Maintain independence and be not influenced in implementing the asset management, and in organizing selection, appointments and contracting activities specified under this law.

6.1.4. Members of the Advisory Team, Board, Nomination Committee, Supervisory Board, persons involved in the activity of the fund, authorized officials of the corporation, its executive team and employees shall not make decisions or engage in activities that institute conflict of interest, or create a situation of perception of the conflict of interest;

6.1.5. Members of the corporation's Governing Board, executive management, supervisory board, and nomination committee shall be provided with competitive remuneration.

6.2. The principle of transparency specified in 5.1.2 of this law shall be implemented as follows:

6.2.1. Provide the public with accurate information on the management of the fund assets in accordance with the procedures specified in this law, in a clear and accessible way;

6.2.2. Provide information specified to be made public under this law at the predetermined dates.

6.3. The principle of accountability specified in 5.1.5 of this law shall be implemented as follows:

6.3.1. Follow strictly the mandate and investment strategy;

6.3.2. Separate the fund's assets from the corporation's assets;

6.3.3. Asset management activities shall be in compliance with rights, legal interests, and laws and regulations of Mongolia;

6.3.4. Prepare reports, conclusions, decisions and recommendations specified under this law in adherence with the timelines specified under the law;

6.3.5. Avoid investing in legal entities prohibited to receive investments;

6.3.6. Avoid any actions or inactions that undermine the reputation of the fund;

6.3.7. Avoid using fund's assets in conducting or financing political activities.

6.4. The principle of prudent management of the fund assets specified in 5.1.3 of this law shall be implemented as follows:

6.4.1. Prudently determine the target return so that the fund does not incur losses, or take excessive risks;

6.4.2. Determine the investment portfolio in an optimal way so that the return is no less than that specified in the mandate;

- 6.4.3. Follow the direction of improving the risk-return situation in diversifying the investment portfolio;
- 6.4.4. Regularly monitor market evolution and changes in target risk-return profile and adjust the investment strategy, risk levels, and investment portfolio in response to changes thereof.
- 6.4.5. Investment decisions shall be based on estimations and research and justifiable;
- 6.4.6. Invest in markets and countries with stable economic, political and social environments;
- 6.4.7. Avoid excessive concentration of risks, and implement prudent liquidity management;
- 6.4.8. Maintain structure, methodology and tools to manage risks in a prudent way;
- 6.4.9. Avoid covering the corporations payment responsibilities by use of the fund's assets, except in the situations specified in this law;
- 6.4.10. adhere to the international universally accepted principles followed by the sovereign wealth funds internationally.

6.5. The principle of efficient management the fund assets specified in 5.1.4 of this law shall be implemented as follows:

- 6.5.1. Operate by meeting the target level of return specified in the Mandate in implementing the fund asset management.
- 6.5.2. Place the fund assets in investment instruments which have positive returns over a long time period.

CHAPTER TWO

SOURCES AND SPENDING OF THE FUND

Article 7. Sources of the fund

7.1. The fund shall comprise of the following sources:

7.1.1. Dividends distributable to the state owned shares of legal entities with state ownership participation or state owned enterprises in possession of mining licenses for mineral deposits of strategic significance, and proceeds of sales of such shares;

7.1.2. The remaining balance after distribution to the Stabilization Fund in accordance with Law on Fiscal Stability, or 70 percent, of the mineral royalty payments collected in the budget in accordance with Article 47 of Law on Mineral Resources;

7.1.3. The remaining balance of the fund's net investment income after transfers specified in 9.6 of this law.

7.1.4. 50 percent of the additional revenue collected to the state budget from legal entities conducting exploitation of mineral resources specified in 4.1.7 of Law on Mineral Resources, by

means of amending or revising laws and regulations of Mongolia, creating taxes through newly approved laws, or amendments made to the rate and level of taxes.

7.1.5. Starting from 2018, 20 percent of the amount of minerals revenues to be collected to the state budget in excess of the base year outturn, except for the revenues specified in 7.1.1-7.1.4 of this law.

7.2. State Great Hural shall include in the state budget and approve assets specified in 7.1 of this law to be mobilized to the fund.

7.3. The government minister in charge of fiscal and budget affairs shall approve the methodology for estimating and mobilizing to the fund sources specified in 7.1 of this law.

Article 8. Mobilization of the sources of the fund

8.1. Within five working days since the source specified in 7.1.1 of this law is mobilized in the state central treasury and the source specified in 7.1.2 of this law is distributed in accordance with related procedures, respectively, shall be transferred to the fund's account.

8.2. The use or administration of sources specified in 7.1 of this law for the purposes other than those specified in this law shall be prohibited.

8.3. The government minister in charge of fiscal and budget affairs shall approve the procedures for transfer of assets among the state budget, the fund, corporation, custodian and investment management company.

Article 9. Financing of the fund asset management costs and distribution of net investment income to the state budget

9.1. The corporation's costs related to its implementation of the fund asset management, and expenses of the external audit specified in this law shall be financed from the fund's assets.

9.2. Salaries, remuneration, bonuses of the members of, and meeting expenses of Nomination Committee, Supervisory Board and Advisory Team shall be included in the budget portfolio of the Government minister in charge of fiscal and budget affairs and financed from the state budget.

9.3. All expenses related to the management of the fund assets in exception of the costs specified in 9.1 of this law shall be financed from the state budget.

9.4. The total amount of the expenses specified in 9.1 of this law for a given year shall be approved by the government minister in charge of fiscal and budget affairs on the basis of agreement with the corporation's Governing Board, in line with the amount of fund assets managed by the corporation and international standards.

9.5. Spending from the fund's sources and assets in any form shall be prohibited until 2030, except as specified under 9.1 of this law.

9.6. Starting from 2030, 10 percent of the fund's net investment income shall be transferred to the state budget.

9.7. State Great Hural shall approve the methodology for estimating and procedures for transferring to the budget the fund's net investment income, upon submission by the Government.

CHAPTER THREE

MANAGEMENT OF THE FUND ASSETS

Article 10. Mandate

10.1. The fund asset management shall be implemented in accordance with the specifications of the mandate.

10.2. The mandate shall include the following:

10.2.1. Target level of return;

10.2.2. The time horizon for implementing investments in order to attain the acceptable risk and target level of return;

10.2.3. Types of investment instruments related to the period specified in 10.2.2 of this law;

10.2.4. The upper limit of the share and amount of funds to be placed in each of the investment instruments specified in 10.2.3 of this law;

10.2.5. Investment environment, type of currency;

10.2.6. Requirements for the benchmark portfolio to guide the implementation of asset management;

10.2.7. Other items in line with the international standards.

10.3. Providing direct and indirect instructions for investments by specifying names of specific investment instruments, legal entities or economic activities in the mandate shall be prohibited;

10.4. The state central administrative body in charge of fiscal and budget affairs shall develop the proposal of the mandate and solicit the opinion of the corporation's Governing Board at least 30 days in advance of the government minister in charge of fiscal and budget affairs approving the proposal;

10.5. The government minister in charge of fiscal and budget affairs shall approve the mandate and oversee the implementation through the supervisory board;

10.6. The government minister in charge of fiscal and budget affairs shall approve the methodology for estimating the real value of the fund and income to be generated as the result of the fund's asset management;

10.7. The methodology specified in 10.6 of this law shall be used in estimating and evaluating the results of the fund's asset management activities, and in monitoring the implementation of the mandate;

10.8. The board shall take all measures specified in the law to ensure the implementation of the mandate, and report to the government minister in charge of fiscal and budget affairs;

10.9. The board shall immediately notify in a written statement the government minister in charge of fiscal and budget affairs of any violations, or formation of a situation for potential violations of the mandate;

10.10. The government minister in charge of fiscal and budget affairs shall make one of the following decisions within five days of receiving the notice:

10.10.1. Oblige the Board to provide a written explanation of the reasons for the violation of the mandate within a specified timeframe;

10.10.2. Provide to the Board directions for measures to resolve the situation and conditions under which violations of the mandate occurred, and ensure the implementation of the directions.

Article 11. Investment Strategy

11.1. The Board shall approve the investment strategy and any amendments thereof in compliance with the mandate and within a timeframe specified in the agreement made with the Government minister in charge of fiscal and budget affairs after the mandate was approved or any amendments to it were made;

11.2. If deemed necessary, the board shall be entitled to make amendments, or approve the revision to the investment strategy regardless of the mandate having been amended or not;

11.3. Every time it is revised and approved, or amended, the investment strategy shall be delivered to the government minister in charge of fiscal and budget affairs;

11.4. The investment strategy implementation progress shall be discussed and a conclusion be made by the Board meeting monthly;

11.5. The board shall be responsible for exerting regular monitoring of the implementation progress of the investment strategy;

11.6. The board shall produce an annual report and conclusion on the implementation of the investment strategy within 25 days after the Fund's annual financial and operational report is produced.

Article 12. Requirements for the fund asset management activities

12.1. The following requirements shall be exerted for the fund's asset management activities:

12.1.1. Avoid taking loans except in all situations except as provisioned in 12.3 of this law;

12.1.2. Avoid entering in agreements or contracts to collateralize the fund assets, issue loans, loan guarantees or warrantees, or any other forms of fulfilling responsibilities of others;

- 12.1.3. Avoid entering in any agreements or contracts including a financial leverage;
 - 12.1.4. Financial derivatives shall be used only for the purposes of eliminating or reducing investment risks;
 - 12.1.5. Place the fund's assets only in financial instruments issued on the international markets and traded on the territory of foreign countries;
 - 12.1.6. For a given financial instrument where assets are placed, the level of the investment shall not reach the controlling package of the invested entity;
 - 12.1.7. Avoid investing in securities and bonds issued by the participant registered in Mongolia, or with related interest with a Mongolian legal entity, or to the group of companies, securities nominated in tugrugs, an other investment instruments registered in Mongolia;
- 12.2. The following investments from the fund assets shall be prohibited for:
- 12.2.1. Military, weapons, narcotics, drugs, tobacco and alcohol production, trade and other legally prohibited activities;
 - 12.2.2. Countries on the list approved by the Governor of Mongolbank in accordance with 3.2 of the Law on Fighting Money Laundering and Terrorism Financing;
 - 12.2.3. Securities not registered with authorized bodies;
 - 12.2.4. Immovable property included in roads, railways, airports and engineering infrastructure specified in 3.1.10 of the Law on Urban Development.
- 12.3. If at the time of the decision to make investments there is no necessity to obtain loans, loans can be obtained only for the implementation of the Fund's investment decision and to cover the shortfall of short term sources that is needed to complete payments for investing in a specific instrument;
- 12.4. To obtain loans in accordance with 12.3 of this law, the following conditions shall all be met:
- 12.4.1. The loan period shall be less than 7 days;
 - 12.4.2. The loan amount shall be guaranteed by the cash assets of the fund and the cash income from the investment that is expected to be received within the period of the loan repayment;
 - 12.4.3. The loan balance of the fund shall not exceed 5 percent of the market value of the fund's assets.
- 12.5. The decision to take the loan specified in 12.3 of this law shall be made by the Investment Committee, or the Executive Management within the limits of the authority given by the Investment Committee.

CHAPTER FOUR
FUND MANAGEMENT

Article 13. Future heritage fund

- 13.1. The fund shall be the property of all people of Mongolia.
- 13.2. The fund asset management shall be implemented autonomously by the state owned, independent legal entity established in accordance with this law.
- 13.3. The Government of Mongolia shall exercise the ownership of the legal entity specified in 13.2 of this law.
- 13.4. The fund management shall be implemented by the government minister in charge of fiscal and budget affairs.
- 13.5. Stamp, logo and letterheads made in compliance with established procedures shall be used in the fund's activities.
- 13.6. The Auditor General of Mongolia shall exert oversight of the activities of the fund.

Article 14. Authority of the Government Minister in charge of fiscal and budget affairs with regard to the fund management

- 14.1. The government minister in charge of fiscal and budget affairs shall implemented the following authority with regard to the management of the fund:
 - 14.1.1. Approve the mandate and amend, revise or invalidate it;
 - 14.1.2. If deemed necessary, commission an audit on whether the strategy document is in compliance with the mandate each time the board approves the document or makes amendments to it;
 - 14.1.3. Produce a conclusion on the implementation of the mandate and present it to the State Great Hural;
 - 14.1.4. In case the mandate implementation is concluded to be unsatisfactory, commission an audit to the activity of the Corporation;
 - 14.1.5. Conclude a contract with the board member and determine the level of remuneration;
 - 14.1.6. Organize the selection of the advisory board members and conclude contracts with them;
 - 14.1.7. Conclude a contract with the supervisory board;
 - 14.1.8. Organize the selection of board members;
 - 14.1.9. Receive and review the fund's report;
 - 14.1.10. Approve the ethics code for the fund's operations;
 - 14.1.11. Other as specified by laws.

Article 15. Supervisory Board

15.1. The government minister in charge of fiscal and budget affairs shall commission a supervisory board with the authority to oversee the activities of the board.

15.2. The supervisory board shall comprise of 5 non-staff members.

15.3. The members of the Supervisory Board shall meet the following requirements:

15.3.1. Have an undergraduate level of education in either economics, finances, or securities and at least 10 years of professional experience;

15.3.2. Have not overdue debt under loan, guarantees or warrantee contracts;

15.3.3. Ethical and personal reputation of the person to not impact negatively to the fund's operations;

15.3.4. Have not been as staff member of the corporation or participated in the corporation's asset management activities over the past two years;

15.3.5. Be a citizen of Mongolia;

15.3.6. Have no criminal record.

15.4. The following persons shall not be nominated for being a member of the supervisory board:

15.4.1. State political official;

15.4.2. Member of a political party;

15.4.3. A person who have worked for the legal entity which participates in the fund's asset management implementation activity;

15.4.4. An owner of the controlling package of shares in the legal entity which participates in the fund's asset management implementation activity.

15.5. The following entities shall nominate members of the Supervisory Board:

15.5.1. One person selected by President of Mongolia, a finance and economics professional, or finance and economics research and academic institution or university research fellow or teacher with at least 10 years work experience;

15.5.2. One person selected by the Chairman of the State Great Hural with the experience of economic and finance research and analytical work and being from the non-government organization serving the public;

15.5.3. One person each, and a total of three persons, selected by the Government Minister in charge of fiscal and budget affairs, being from and having received the majority votes of all employees of the following types specialized entities:

15.5.3.1. A) association of banks and banking professionals;

15.5.3.2. B) association of professional entities and professionals participating in the security market;

15.5.3.3. C) association of professional entities and professionals of certified accountants, audit and asset valuation.

15.6. The government minister in charge of fiscal and budget affairs shall conclude a contract for a five year period with the persons nominated under the procedure specified in 15.5 of this law;

15.7. The contract concluded with the Supervisory Board member shall be terminated on the basis of the following:

15.7.1. Requirements specified in 15.3 of this law be no longer met, or justifications specified under 15.4 become valid;

15.7.2. A member requested to terminate the contract for the health and other justifiable reasons;

15.7.3. A member is convicted in the criminal act;

15.7.4. Contract validity period has elapsed;

15.7.5. It is determined that a member's action or inaction contradicted the interests of the fund;

15.7.6. Conflict of interest occurred;

15.7.7. Other specified by law.

15.8. The Supervisory Board shall implement the following functions:

15.8.1. Exert a regular oversight and produce conclusions and recommendations on the implementation of the mandate and the investment strategy;

15.8.2. Receive Advisory Team's proposals and recommendations and produce conclusions on the compliance of the investment strategy and other documents with the Mandate;

15.8.3. Monitor the implementation of the investment management principles and fulfillment of requirements for the investment management specified in Article 5 and Article 12 of this law respectively;

15.8.4. Notify immediately both the Government Minister in charge of fiscal and budget affairs and the Board on the violations or occurrence of a situation for violation of provisions 12.1 and 12.2 of this law and have them take appropriate measures;

15.8.5. Monitor the internal audit of the Board, implementation of the investment strategy and the corporation's report being reported to the government minister in charge of fiscal and budget affairs and to the public;

15.8.6. Produce proposals and recommendations on the legal entities who do not meet the criteria for the fund's investment and who shall not be invested in, and present them for a decision to the government minister in charge of fiscal and budget affairs;

15.8.7. Interact and exchange opinions with the corporation's internal audit department, audit committee, the auditor, and auditors from the entity auditing the financial report of the corporation;

15.8.8. If deemed necessary, submit a proposal to commission an audit to the activities of the Board and the corporation to the government minister in charge of fiscal and budget affairs.

15.9. The government minister in charge of fiscal and budget affairs shall approve the procedures for selection and activities of the Supervisory Board members.

Article 16. Advisory Team

16.1. The government minister in charge of fiscal and budget affairs shall operate an Advisory Team comprised of 3 non-staff members.

16.2. The advisory team shall have the following functions:

16.2.1. Advise the government minister in charge of fiscal and budget affairs on the decision to approve the mandate or amend and revise, or invalidate the mandate;

16.2.2. Produce and deliver to the government minister in charge of fiscal and budget affairs conclusions and recommendations on the implementation of the mandate and measures to be taken, on the basis of the fund's quarterly and annual financial and activity reports;

16.2.3. Conduct other research and analyses as deemed necessary by the government minister in charge of fiscal and budget affairs.

16.3. The government minister in charge of fiscal and budget affairs shall approve procedures for selection of the advisory team members.

16.4. Advisory team members shall meet the following criteria:

16.4.1. Have experience of working in the management position on the international financial market for at least 15 years and participating in decision making on investments;

16.4.2. Ethical and personal reputation of the person to not impact negatively to the fund's operations;

16.4.3. Other requirements set by the government minister in charge of fiscal and budget affairs.

Article 17. Functions to be implemented by the State Central Administrative Body in charge of fiscal and budget affairs

17.1. The State Central Administrative Body in charge of fiscal and budget affairs shall implement the following functions with regard to the fund management:

17.1.1. Develop the mandate proposal;

17.1.2. Ensure normal conditions for the fund to implement its activities, and provide professional and methodological assistance to the government minister in charge of fiscal and budget affairs in implementing his/her functions;

17.1.3. Ensure the coordination of activities among the government minister in charge of fiscal and budget affairs, the advisory team, the supervisory board and the corporation;

17.1.4. Organize the selection of the Advisory team;

17.1.5. Others as set by the government minister in charge of fiscal and budget affairs.

CHAPTER FIVE

CORPORATION AND ITS ACTIVITIES

Article 18. Corporation

18.1. The government shall make decisions to establish and liquidate the corporation and present the decision to the State Great Hural.

18.2. The corporation shall make investment decisions within the limits of the mandate and the investment strategy, and independently and autonomously from the other entities and officials;

18.3. The corporation shall have tugrug and foreign currency nominated checking accounts in Mongolbank.

18.4. Transactions between the tugrug and foreign currency accounts of the corporation in the Mongolbank shall be performed by Mongolbank using the official exchange rate announced by Mongolbank.

18.5. The corporation shall have internal organizational units in charge of investment, risk management and internal audit.

18.6. Corporation's official business shall be conducted in both Mongolian and English.

18.7. The minimum level of the corporation's own equity shall be set by the Government.

18.8. The corporation's charter shall be approved by the Government in compliance with this law.

18.9. The corporation's charter shall mandatorily include the following:

18.9.1. The corporation's full and abridged name, and initials specifying its form;

18.9.2. The number and types of the corporation's shares, their nominal price, and the amount of contributed assets;

18.9.3. Authorities of the Board and Executive Management other than those specified under this law;

18.9.4. Areas of activities of the corporation;

18.9.5. The list of authorized officials of the corporation;

18.9.6. Other items specified by laws to be included in the corporation's charter.

18.10. The corporation's charter can include other items not contradicting the legislation.

18.11. The corporation shall follow ethical rules for the fund's operations and corporation's ethical rules in its activities.

Article 19. Activities of the Corporation

19.1. The Corporation shall implement the management the assets of the fund, and if entrusted by the government, the assets of the Fiscal Stability Fund.

19.2. The corporation shall be prohibited to conduct any activities not specified in this law.

19.3. The fund shall produce reports and information on the assets of the Fiscal Stability Fund entrusted by the government, the Corporation's asset accounting, financial and operational reports.

Article 20. Nomination Committee

20.1. The nomination committee shall comprise of 5 members.

20.2. The state central administrative body in charge of fiscal and budget affairs shall establish the nomination committee each time by selecting randomly the names of 5 citizens form the list specified in 20.9 of this law using lottery principles.

20.3. The nomination committee shall select the Board members within 8 hours of the establishment of the committee and officially present its decision to the government minister in charge of fiscal and budget affairs.

20.4. The board members shall be elected by the majority of all members of the nomination committee.

20.5. The selection of the board members shall be organized by the State Central Administrative Body in charge of fiscal and budget affairs.

20.6. The nomination committee's powers shall lapse upon the selection of the candidates to the Board and the presentation of the decision to the government minister in charge of fiscal and budget affairs.

20.7. The government minister in charge of fiscal and budget affairs shall conclude an agreement with the board member upon the presentation of the proposal by the nomination committee to the National Security Council.

20.8. The nomination committee member shall meet the following requirements:

20.8.1. Have not applied to compete for the membership of the corporation's board;

20.8.2. Meet requirements specified in 15.3.1-15.3.6 of this law.

20.9. The state central administrative body in charge of fiscal and budget affairs shall maintain a database with the list of names of citizens to work in the nomination committee. The data base shall be formed according to the following procedure:

20.9.1. At least 20 citizens on the basis of special invitation to the citizens meeting the requirements specified in 20.8 of this law;

20.9.2. At least 50 citizens meeting the requirements specified in 20.6 of this law through open selection.

20.10. In forming the list of names through the special invitation specified in 20.9.1 of this law, the principle to be followed shall be to involve in an optimal way representatives of academic and non-government organizations, private sector and professional associations, and citizens.

20.11. The State Central Administrative Body in charge of fiscal and budget affairs shall organize the delivery of invitations and the selection specified in 20.9.1 and 20.9.2 of this law respectively.

20.12. The government minister in charge of fiscal and budget affairs shall approve the detailed procedures for the work of the Nomination Committee and issue of compensation to the members of the committee.

Article 21. The Governing Board

21.1. The ultimate governing body of the corporation shall be the Governing Board. The Board shall comprise of 5 members.

21.2. The government minister in charge of fiscal and budget affairs shall conclude an agreement with the board member for the five year period.

21.3. The government minister in charge of fiscal and budget affairs may extend the agreement with the board member two times at most for the period of 5 years each.

21.4. The agreement concluded with the board member shall be terminated in the following cases:

21.4.1. The requirements specified in 21.5 of this law are no longer being met;

21.4.2. Justifications specified in 15.7.2-15.7.7 of this law have occurred.

21.5. The board member shall meet the following requirements:

21.5.1. Not be a person specified in 15.4 of this law, and requirements specified in 15.3.1-15.3.3 and 15.3.6 of this law;

21.5.2. Have occupied official positions in an entity which had managed assets of the value of at least the level set by the government minister in charge of fiscal and budget affairs, or identical with the authorized official specified in this law in an international financial institution.

21.5.3. Have worked for at least 10 years at the senior and management level as either a financial officer, financial analyst, certified accountant, auditor or lawyer making investment decisions, in an entity conducting asset management, accounting and audit activities.

21.6. The Board Chair shall be elected for a period of two years from the members of the board by the majority vote of all members.

21.7. In case the Board Chair becomes unable to perform his/her duties due to unavoidable reasons, the board member pre-elected by the board shall perform the duties of the Chair.

21.8. The ethics rules to be followed by the board members shall be included in and approved by the ethics rules of the funds' activities.

21.9. The Board shall have a secretary.

21.10. The Board shall appoint the board secretary as proposed by the Board Chair.

Article 22. Authority of the Governing Board

22.1. The Board shall implement the following authority:

22.1.1. Approve the Fund's Investment Strategy;

22.1.2. Communicate directly with the government minister in charge of fiscal and budget affairs and state the position on the issues related to the mandate and its implementation;

22.1.3. Determine the operational strategy of the fund;

22.1.4. Approve the structure, organization, and upper limit for staffing of the corporation;

22.1.5. Approve the corporations internal procedures, guides, and methodologies;

22.1.6. Select through an open international selection and conclude an agreement with the person to implement the corporation's executive management;

22.1.7. Approve the procedure and issue permission for selection of the persons to participate in the implementation of the management of assets specified in **28.19 and 28.20** of this law and other assets;

22.1.8. Approve the corporation's annual budget, business plan and indicators for the activity outcomes;

22.1.9. Oversee and evaluate the outcomes of the executive management's activities;

22.1.10. Take measures as a follow up to the Supervisory Board's recommendations and report to the government minister in charge of fiscal and budget affairs;

22.1.11. Set the upper limit for the assets to be invested in a single investment instrument by the decision of the executive management;

22.1.12. Make decisions on investments and divestments above the level specified in 22.1.11 of this law;

22.1.13. Approve the corporation's ethical rules.

Article 23. Governing Board Meetings

23.1. The main form of operation of the board shall be meetings;

23.2. The board shall meet at least once a month and approve the meeting procedures;

23.3. The meeting shall have a quorum of the majority of the Board members to be deemed valid;

23.4. The proceedings of the board meetings shall be validated by the meeting minutes and all members participating in the meetings shall sign the minutes;

23.5. If the board discusses a conflict of interest issue or an issue that might be perceived as involving a conflict of interest, the board member shall notify about this before the meeting begins and recuse himself/herself from participating in the discussion and making decision on the given issue;

23.6. The Board Secretary shall inform the public about the conflict of interest specified in 23.5 of this law each time it occurs.

Article 24. Governing Board Committees

24.1. The Board shall establish audit and investment committees.

24.2. The committee chairs shall be appointed by the majority vote of the committee members for the period of two years.

24.3. If deemed necessary, the board may establish other committees and set their rights and responsibilities within the limit of its powers.

24.4. The board shall approve the structure and working procedures of the committees.

Article 25. Audit Committee

25.1. The audit committee shall comprise of 3 board members.

25.2. The audit committee members shall be elected by the majority vote of the board members.

25.3. The audit committee shall implement the following functions:

25.3.1. Demand the corporation's executive management to follow the procedures approved by authorized entities and do monitoring and evaluation to the implementation;

25.3.2. Ensure the compliance of the corporation's accounting policies and bookkeeping with international standards and monitor the internal audit and risk management activities and the accuracy of the fund's financial and operational reports, other financial and economic information;

25.3.3. Demand the corporation's executive management to develop and enforce internal control procedures, monitor the implementation, and exchange opinions with the corporation's executive management and the auditor on the issues of the impact of internal control procedures;

25.3.4. Review the fund's and corporation's financial and operational reports and deliver the conclusions to the board before their approval by the board;

25.3.5. Review all types of investments and transactions considered to potentially negatively impact the fund's investment return and submitted to the audit committee by the auditor and the corporation's authorized persons;

25.3.6. Ensure the inclusion and monitor the implementation of the procedures to report conflicts inside the corporation in the corporation's charter and procedures, and ensure prudent management of operational risks;

25.3.7. Analyze and present to the board the state of independence of the executive management;

25.3.8. Other matters specified in the corporation's charter or deemed necessary by the board.

25.4. The audit committee shall discuss specific matters within the audit committee's responsibilities by meeting the corporation's internal audit committee and external auditors without the attendance of the executive management.

25.5. The audit committee shall appoint the auditor with the functions to provide support to the audit committee.

25.6. A person meeting the requirements specified in 15.3.2-15.3.4 and 15.3.6 of this law, and with the experience of working at least 10 years as an auditor in a company or international financial institutions conducting asset management activities, with finance and accounting profession, and other than persons specified in 15.4 of this law shall be appointed as the Auditor.

25.7. Auditor shall perform the functions of the director of the internal audit department and shall report to the audit committee on the matters of internal audit and to the executive director on administrative issues.

25.8. Corporation's authorized officials, managing officials of the internal units, employees, and persons with common interests and related to these officials or to the corporation shall be prohibited to serve as the audit committee member.

Article 26. Investment Committee

26.1. The investment committee shall comprise of all members of the board.

26.2. The investment committee shall have the following functions:

26.2.1. Implement functions determined by the board;

26.2.2. Approve proposals for all types of investments involving loans and debt related instruments within the powers assigned by the board in relation to the investment matters;

26.2.3. Hold meetings and discuss with the corporation's authorities and staff members the corporation's investment policy efficiency and progress towards achieving corporation's goals;

26.2.4. Require the following actions from the executive management:

26.2.4.1. Ensure the monitoring of the implementation of the corporation's investment policy and standards;

26.2.4.2. Preform the corporation's executive management in compliance with this law, the mandate, and the investment strategy.

Article 27. Authorized Official of the Corporation

27.1. The following persons shall be the corporation's authorized official:

27.1.1. Executive director, or the team members if the executive management is implemented by a team;

27.1.2. Director of the Internal Audit Department, the Auditor;

27.1.3. Director of the Investment Department;

27.1.4. Director for Risk Management;

27.1.5. Others as established by the Corporation's Charter.

Article 28. Corporation's Executive Management

- 28.1. The corporation's executive management (hereinafter referred to a "executive management") shall be implemented by an individual person or by a team.
- 28.2. The board shall make a decision on whether the executive management is implemented by an individual person or by a team.
- 28.3. The executive management shall carry out its activities on the basis of the corporation's Charter and the agreement concluded with the Board.
- 28.4. The agreement shall include issues such as rights, duties, the level of responsibility, limits, justifications for liberating from the responsibility, wages and bonuses.
- 28.5. The Executive management shall conduct business on behalf of the corporation without any assignment, including making negotiations, concluding agreements and representing the corporation.
- 28.6. In case the executive management is implemented by a team, the internal procedures regulating the work of each of team members in relation to the implementation of responsibilities specified by the corporation's charter and by the agreement made with the board shall be approved and enforced on the basis of consent with the board.
- 28.7. The team specified in 28.6 of this law shall be collegially accountable to the board in accordance with the agreement and corporation's charter, and laws and regulations.
- 28.8. In case the team executing the executive management concludes agreements or implements representation as specified in 28.5 of this law, the team leader shall put his/her signature on behalf of the corporation.
- 28.9. The team leader specified in 28.8 of this law shall be elected by the team members on the basis of consent with the board and the team leader shall exercise the duties of the corporation's executive director.
- 28.10. The minutes of the executive management team meetings and resolutions thereof shall be taken on a mandatory basis, and the executive director shall be personally responsible for the accuracy of the minutes.
- 28.11. The board may at any time issue a resolution to terminate the authority of the executive management.
- 28.12. In case an individual is implementing the executive management, that person shall be the corporation's executive director.
- 28.13. The executive management shall have the following rights and responsibilities:
- 28.13.1. Implement the investment strategy approved by the board;
 - 28.13.2. Represent the corporation within the powers specified by the corporation's charter and the agreement concluded with the board;
 - 28.13.3. Issue relevant resolutions related to the financial accounting, information, management and organization of operations on the financial market and execution of payments settlements;
 - 28.13.4. Develop the corporation's annual budget, get approval and organize the implementation of it;
 - 28.13.5. Select the corporation's directors on the basis of consent with the board, and conclude contracts to commence their work.

- 28.13.6. Conclude labor contracts with the corporation's staff to commence their work;
- 28.13.7. Approve procedures, guidelines, and methodologies other than those in the powers of the board, within the limits of powers assigned by the board;
- 28.13.8. Establish procedures for the valuation of investments in investment instruments, and take measures directed at increasing their efficiency.
- 28.13.9. Implement the fund's asset management in compliance with the mandate and the investment strategy, place assets in investment instruments effectively, and take measures to reduce the operational risks;
- 28.13.10. Produce a proposal on the returns and future trends thereof on the corporation's assets placed in investment instruments and present to the board;
- 28.13.11. Estimate the fund's net income level that may be transferred to the budget, and deliver the estimates to the state central administrative body in charge of fiscal and budget affairs in accordance with the budget calendar for their inclusion in the medium term budget framework statement;
- 28.13.12. Other as specified in the corporation's charter.

28.14. The executive management shall meet the following requirements:

- 28.14.1. Be a person other than that specified in 15.4 of this law;
- 28.14.2. Meet requirements specified in 15.3.1-15.3.4 and 15.3.6 of this law;
- 28.14.3. Have worked at the decision making level in the finance and investment activities for at least 10 years and at the managing position in the area of finances and asset management for at least 5 years;
- 28.14.4. The executive director or the team leader shall have experience of work and professional practice of at least 10 years at the decision making level in the finance and investment activities, of which at least 5 years at the managing position, in an entity that managed assets worth at the minimum the size determined by the government minister in charge of fiscal and budget affairs, in addition to meeting requirements specified in 28.14.3 and 28.14.4 of this law;
- 28.14.5. Directors in charge of the investments and risk management shall have worked at least 10 years at the senior level, at an identical position or in the given area and profession, in an entity that managed assets worth at the minimum the size determined by the government minister in charge of fiscal and budget affairs.

28.15. The executive management shall be prohibited to be employed at other work or assume other official positions.

28.16. The executive management shall transfer its authority to other persons on the basis of a decree in case of taking regular vacation, working domestically or abroad on official appointment, or be absent for long term due to illness, and such transfer shall not serve as a basis for freeing him/her from the responsibility.

28.17. The board may terminate the agreement concluded with the executive management if it has not implemented the investment strategy at the satisfactory level, as determined by the authorized persons and external oversight bodies.

28.18. The executive management shall have the internationally reputable custodian entity perform the fund's asset registration, storage, and other required activities on the basis of a contract.

28.19. The executive team can have the external investment management company to perform the management of some parts of the fund's assets with the permission of the board.

28.20. The contracts between the external investment management company, the custodian entity, and the Corporation shall be concluded by the executive management on the basis of permission from the board.

Article 29. Non-delayable measures

29.1. The executive management shall immediately notify the government minister in charge of fiscal and budget affairs and the board in case of occurrence of the following situations in relation to the investment management company or the custodian, and any other situations such as:

29.1.1. Liquidated or bankruptcy proceedings launched;

29.1.2. Violated requirements specified in this or other laws and regulations;

29.1.3. A situation that might seriously affect the fund and the corporation's reputation occurred;

29.1.4. The operations were terminated by authorized bodies, or delayed or terminated due to other reasons;

29.1.5. The fund's asset amount has decreased by 50 and more percent from the beginning of the fiscal year;

29.1.6. Other as deemed necessary by the executive management.

29.2. The government minister in charge of fiscal and budget affairs and the board shall issue a due resolution within 5 working days of receiving the notice specified in 29.1 of this law.

CHAPTER SIX

REPORTING, TRANSPARENCY AND OVERSIGHT

Article 30. Accounting

30.1. The corporation shall conduct the accounting of own assets and the fund's assets separately.

30.2. The corporation shall conduct the accounting of assets managed by external management companies on the basis of contracts individually for each management company.

Article 31. Reporting the operation of the Fund

31.1. The corporation shall produce financial and operational reports quarterly and annually

31.2. The following shall be included in the Fund's quarterly financial and operational reports:

- 31.2.1. The fund's financial report
- 31.2.2. The corporation's financial report
- 31.2.3. The mandate and investment strategy implementation;
- 31.2.4. Operational outcomes of the corporation's asset management;
- 31.2.5. Operational costs of asset management and return indicators;
- 31.2.6. The fund's budget revenue and expenditure outturn;
- 31.2.7. The corporation's operational budget outturn.

31.3. The following shall be included in the fund's annual financial and operational reports:

- 31.3.1. Items included in the quarterly report specified in 31.2 of this law;
- 31.3.2. Fund's risk management report;
- 31.3.3. Audit conclusions.

31.4. The fund's quarterly financial and operational reports shall be delivered to the government minister in charge of fiscal and budget affairs within the 15th day of the first month of the following quarter.

31.5. The government minister in charge of fiscal and budget affairs shall deliver the fund's quarterly financial and operational report to the Auditor General of Mongolia and the advisory team, and inform to public within 10 days of receiving the report.

31.6. The fund's annual financial and operational report shall be delivered to the state audit body within January 25 of the next year, and deliver to the audited financial report to the government minister in charge of fiscal and budget affairs within February 25.

31.7. The government minister in charge of fiscal and budget affairs shall produce a conclusion and present it to the State Great Hural together with the audit conclusion within 60 days upon receiving the Fund's financial and operational reports.

31.8. It shall be prohibited to have the corporation produce reports except as specified by laws.

Article 32. Transparency of the Fund

32.1. The following information related to the fund management shall be made public by the state central administrative body in charge of fiscal and budget affairs:

- 32.1.1. Resolutions by the State Great Hural and the Government on the fund matters within 10 days of the official publication thereof;
- 32.1.2. The mandate within 10 days of its approval by the government minister in charge of fiscal and budget affairs;
- 32.1.3. The advisory team recommendations within 5 days of their issuance;
- 32.1.4. The conclusion of the external audit made on the fund's financial and operational report within 10 days of its issuance;
- 32.1.5. The fund's financial and operational report within 10 days of its production.

32.2. The corporation shall update and make public on a monthly basis the following information related to the fund's asset management activities:

32.2.1. The classification and respective return levels of instruments the fund have invested in, as compared with benchmark indicators;

32.2.2. Changes to the composition of the board and the executive management;

32.2.3. Names of investment management companies, custodian entities and others participating in the activities to implement the fund's asset management;

32.2.4. Others specified by laws.

32.3. The government minister in charge of fiscal and budget affairs shall approve the format of the fund's financial and operational reports and special requirements for the reports.

Article 33. External Audit

33.1. An internationally reputable audit entity shall be commissioned to perform the audit of the fund's financial and operational reports under the following procedures:

33.1.1. At least biennially;

33.1.2. In case the government minister in charge of fiscal and budget affairs has concluded the implementation of the mandate as unsatisfactory.

33.2. The government minister in charge of fiscal and budget affairs shall select through an open international selection and conclude a contract with the audit entity specified in 33.1 of this law.

CHAPTER SEVEN

MISCELLANEOUS

Article 34. Basis for Imposition of Responsibility

34.1. The determination that a state official and serviceperson have influenced the implementation of the fund's investment management, and appointment and selection activities specified in this law, shall serve as a basis for removal of such state official and dismissal of such serviceperson, and refusal to reinstate such person in the public service.

34.2. The imposition of responsibility on the person violating the Future Heritage Fund Law as specified by this law shall not serve as a basis for exempting that person from criminal and other responsibilities.

Article 35. Responsibilities to be imposed on the violators of the legislation

35.1. In case the violation of the Future Heritage Fund Law does not qualify for criminal responsibility, the following disciplinary sanctions shall be imposed on the authorized official:

35.1.1. In case courts and the state inspector established that 6.1.1, 6.1.2, 6.1.3 and 10.3 of this law have been violated, the state official and the state service person shall be dismissed with no right to be reinstated in the public service for a period of 5 years;

35.1.2. The person who has disclosed confidential information related to the fund's activities or using such information for private purposes shall be dismissed with no right to be reinstated in the public service for a period of 10 years;

35.1.3. The person who violated 25.8 and 28.15 of this law shall be dismissed from the official position and damages be repaid;

35.1.4. The violation of 8.2 and 9.5 of this laws shall serve as a basis for the appointing authority to dismiss the official from the position.

35.2. In case the violation of the Future Heritage Fund Law does not qualify for criminal responsibility, the judge, or the state inspector shall impose the following administrative sanctions:

35.2.1. The person violating 6.3.1,6.3.2,6.3.5 and 6.4.9 of this law shall be levied a penalty of a tugrug amount equaling the minimum wage increased 50 times, and repay the damages caused to the Fund;

35.2.2. The official violating 8.2 9.5 and 12.2 of this law shall be levied a penalty of a tugrug amount equaling the minimum wage increased 250 times, and repay the damages caused;

35.2.3. The person who obtained a loan in violation of 12.3 of this law shall be levied a penalty of a tugrug amount equaling the minimum wage increased 250 times, and repay the damages caused;

35.2.4. If activities were conducted in violation of 19.2 of this law, revenues from the activity shall be seized and the responsible official shall be levied a penalty of a tugrug amount equaling the minimum wage increased by 350 times;

35.2.5. The person who made an appointment in violation of 24.2 of this law shall be levied a penalty of a tugrug amount equaling the minimum wage increased by 50 times and the person appointed illegally be removed;

35.2.6. The person violating 31.8 of this law shall be disclosed to the public and levied a penalty of a tugrug amount equaling the minimum wage increased by 50 times;

35.2.7. The person who did not produce reports, conclusions, resolutions and recommendations specified in this law within the timeframe specified by the law shall be levied a penalty of a tugrug amount equaling the minimum wage increased by 30 times;

35.2.8. The person who did not deliver or disclose the information that is specified by this law to be made public shall be levied a penalty of a tugrug amount equaling the minimum wage increased by 10 times;

35.2.9. The person disclosing the confidential information about the fund's activities or using such information for private purposes shall be levied a penalty of a tugrug amount equaling the minimum wage increased by 250 times and repay the damages caused.

35.3. The sanctions specified in 35.1 and 35.2 can be used in an overlapping manner.

Article 36. Amending, revising and invalidating the law

36.1. This law may be amended, revised, or invalidated by the minimum vote of two thirds of members participating in the standing committee and plenary sessions of the State Great Hural.

Article 37. The law entering into force

37.1. Provisions 7.1.1 and 7.1.2 of this law shall be enforced from January 1 of 2018.

37.2. Articles, sections and provisions other than that specified in 37.1 shall be enforced from January 1, 2015.

SIGNATURE