

DOING BUSINESS IN MONGOLIA – 2014

Doing Business in Mongolia by LexLocI LLP contains general information about selected Mongolian laws and regulations as of May, 2014. The information contained in this document is not for the purpose of providing legal advice, and should not be treated as such. You must not rely on the information in this document as an alternative to legal advice from your attorney or other professional legal services provider. If you have any specific questions about any legal matter in respect of Mongolian laws and regulations, you may contact with us or should consult your attorney or other professional legal services provider.

LEXLOCI LLP

TABLE OF CONTENTS

1. MONGOLIA: AN OVERVIEW	1
1.1 Geography and Climate	1
1.2 Population and Language	1
1.3 Religion	1
1.4 The Political System	1
1.5 Currency	2
2. THE LEGAL SYSTEM	2
2.1 The Law	3
2.2 The Courts	3
2.3 Arbitration	4
3. FOREIGN INVESTMENT	4
3.1 Investment Law	4
3.2 Restrictions on Foreign Participation in Specific Sectors	4
4. INVESTMENT INCENTIVES	5
4.1 Tax Stabilization	5
4.2 Investment Agreements	5
4.3 Other Incentives and Benefits	5
4.4 Bilateral Investment Treaties	5
5. FORMS OF BUSINESS ORGANIZATION	6
5.1 Limited Liability Companies (LLC)	6
5.2 Joint Stock Company (JSC)	6
5.3 Partnerships	7
5.4 Representative and Branch Offices	7
6. TAXATION	7
6.1 Corporate Income Tax	7
6.2 Personal Income Tax	9
6.3 Value Added Tax (VAT)	9
6.4 Mining Tax	10
6.5 Excise Tax	10
6.6 Immovable Property Tax	11
6.7 Stump Duty	11
6.8 Tax Audit and Appeal Procedures	11
6.9 Tax Treaties	12
7. SECURITIES LAW AND REGULATIONS	12
8. INTELLECTUAL PROPERTY	13
9. COMPETITION LAW & CONSUMER PROTECTION	13

10. LABOR REGULATION	14
10.1 General	14
10.2 Leave and Holidays	14
10.3 Severance Pay	14
10.4 Other Regulations	15
11. IMMIGRATION, VISAS AND WORK PERMITS	15
11.1 Visas	15
11.2 Employment Visa & Work Permits	15
11.3 Labor Quotas	16
12. IMPORTING AND EXPORTING	16
12.1 Import Controls	16
12.2 Export Controls	16
12.3 Exchange Regulation	17
12.4 Customs Duty	17
13. REAL ESTATE	18
13.1 Land Title	18
13.2 Foreign Ownership of Condominiums	18
14. DISPUTE RESOLUTION	18
14.1 Litigation	18
14.2 Arbitration	19
14.3 Recognition and Enforcement of Foreign Judgment	19

1. MONGOLIA: AN OVERVIEW

1.1 Geography and Climate

Mongolia is a landlocked country in Central Asia (41°35'N - 52°09'N and 87°44'E -119°56"E), Mongolia's longest stretch from west to east is at 2,392 km., and from north to foremost southern point is 1,259 km. It is bordered by Russia to the north and China to the south, east and west. At 1,564,116 sq. km, Mongolia is the 19th largest country in the world.

The geography of Mongolia is varied, with the Gobi Desert to the south and with cold and mountainous regions to the north and west. Much of Mongolia consists mainly of a vast plateau with the elevation ranging from 914 to 1,524 meters (m) broken by mountain ranges in the north and west. The Altai Mountain in the southwest rises to heights of 4,267 m above the sea.

Most of the country is hot in the summer and extremely cold in the winter. The temperature ranges between -15° and -30°C (-5° and -22°F) in winter and 10° and 26.7°C (50° and 80°F) in summer. Annual mean temperature in Altai, Khangai, Khentii, Khuvsgul mountainous region is lower than - 4°C, and between the mountains and in base of large rivers, the average temperature is lower than -6 to -8°C. In the steppes and desert regions it is lower than 2 C, while in south Gobi, the average temperature is higher than 6°C.

1.2 Population and Language

As of the end of 2013, the size of Mongolia's population is 2,824.2 thousand, which makes the country the least densely populated nation in the world. The present urban population is above 1 million, mostly in Ulaanbaatar, the capital city of Mongolia, one third of the total population of the country. People live in rural areas are mainly engaged in traditional livestock herding and some extent in crop production. Population density one person per 1.6 square km. 68% of the total populations are young people under the age of 35. The average life expectancy is just over 65 year.

The official language of Mongolia is Khalkha Mongolian, which uses the Cyrillic alphabet, and is spoken by 90% of the population. A variety of different dialects are spoken across the country. In the west the Kazakh and Tuvan languages, among others, are also spoken.

1.3 Religion

According to the CIA World Factbook and the U.S. Department of State, 50% of Mongolia's population follow the Tibetan Buddhism, 40% are listed as having no religion, 6% are Shamanist and Christian, and 4% are Muslim. Various forms of Tengriism and Shamanism have been widely practiced throughout the history of what is now modern day Mongolia, as such beliefs were common among nomadic people in Asian history. Such beliefs gradually gave way to Tibetan Buddhism, but Shamanism has left a mark on Mongolian religious culture, and continues to be practiced.

1.4 The Political System

Mongolia is a parliamentary republic. The parliament is elected by the people and in turn elects the government. The president is elected directly through the public election every four years. Mongolia's

constitution guarantees full freedom of expression, religion, and others. Mongolia has a number of political parties, the biggest ones being the Mongolian People's Party and the Democratic Party.

Mongolia's president has a largely symbolic role, but can block the parliament's decisions, who can then overrule the veto by a 2/3 majority. The president acts as the head of state and chief of the armed forces. Mongolia's Constitution provides three requirements for taking office as President: the individual must be a native-born Mongolian, be at least 45 years of age, and have resided in Mongolia for five years prior to taking office.

Mongolia uses a unicameral parliamentary system in which the president has a symbolic role and the government chosen by the legislature exercises executive power. The legislative arm, the State Great Khural – the Parliament of Mongolia, has one chamber with 76 seats and is chaired by the speaker of the parliament. It elects its members every four years by general elections.

The Prime Minister of Mongolia and the cabinet members (ministers of the each Ministry) nominated by him are appointed by the State Great Khural.

1.5 Currency

The official currency of Mongolia is 'tugrugs' (sign: ₮; code: **MNT**). On April 1, 2014, the official exchange rate announced by the Central Bank of Mongolia was USD \$1 = MNT ₮ 1,782.55.

In 2009, the Parliament of Mongolia approved a new legislation called 'Law on Conducting Settlement in National Currency', which requires that all prices of goods, work and services should be expressed and settlement shall be conducted only in national currency in the territory of Mongolia. The law prohibits setting prices, carrying out settlements or running advertisements in foreign currencies or settlement units without official approval of the Central Bank of Mongolia.

2. THE LEGAL SYSTEM

The Constitution of Mongolia (1992) created the foundation for a democratic state based on republican principles and reflects, *inter-alia*, the following principles and concepts:

- All forms state and private ownership were recognized and are equally protected. "The State recognizes all forms of both public and private property and shall protect the rights of the owner by law",
- State power is exercised based on the allocation of legislative, executive and judiciary power,
- Universally recognized principles of international law and international treaties are recognized as part of the Mongolian legal system. "Adhering to the universally recognized norms and principles of international law", "The international treaties to which Mongolia is a party, shall become effective as domestic legislation upon the entry into force of the laws or on their ratification or accession",
- The court shall be independent and subject to law,

2.1. The Law

Statutes are the main source of law in Mongolia. The right to adopt laws remains with the legislative branch of the State. Law is the legislation enacted solely by the Parliament (“State Great Khural”) pursuant to its constitutional authority, by prescribed means and such that it becomes the law governing conduct within its scope. Only members of the State Great Khural, the Government, and the President of Mongolia may initiate a draft of a law.

In Mongolia, legal acts in the broad sense of the word, can take any number of forms including parliamentary resolutions, presidential decrees, cabinet ministry resolutions, and ministry rules and orders. Parliamentary resolutions are often concerned which specific topics for the implementation of a broad range of Government activities.

Executive power in Mongolia is the responsibility of the Government, which, limited by the Constitution, laws, and normative acts of the State Great Hural, issues resolutions and ordinances. If these resolutions and ordinances are incompatible with laws and regulations, the government itself or the State Great Hural invalidates them.

The President is specifically authorized to issue decrees in accordance with the Constitution and Mongolian law.

All Ministries and Agencies have the power to issue normative acts pursuant to specific delegations of authority from the State Great Hural and Government. The acts of ministries and other government offices of Mongolia are sometimes called instructions, instructive regulations, and others. Ministries issue, as a rule, an order or instruction.

Only laws and Parliamentary resolutions, as well as Cabinet Ministry resolutions may be implemented nationwide. All other normative acts including orders, rules and regulations issued by the Ministries, government agencies and Governors of the Aimags (Province), Capital city, Soums (Districts), Districts must conform to the laws of the nation and be registered with the Ministry of Justice prior to its enforcement.

2.2. The Courts

Mongolia has three levels of ordinary court:

- Soum (sub-province), inter-soum and district courts have jurisdiction only at first instance
- Province courts in the provincial capitals and the Capital City Court in Ulaanbaatar deal with appeals from the lower level courts
- At the highest level is the Supreme Court in Ulaanbaatar which deals with appeals from decisions of the Province Courts and the Capital City Court

Civil law contains a concentration of legal principles concerned with the regulation of civil life, or in other words, the affairs between private individuals and entities. Citizens and legal entities implement the right to lodge a claim by themselves or through their representatives.

The Courts in Mongolia are classified in 3 categories, namely Civil Court dealing with disputes between private individuals and entities, Criminal Court dealing with all types of criminal cases and Administrative

Court, which resolves claims lodged by individuals and entities against the acts or actions of government organizations.

Despite, Mongolia has followed the example of some other civil law countries and has established a constitutional court known as the Tssets. This court examines and settles constitutional disputes at the request of the Great Khural, the President, the Prime Minister, the Supreme Court, the General Prosecutor, on its own initiative, or on the basis of petitions received from citizens.

2.3. Arbitration

The Mongolian International and National Arbitration Center at the Mongolian National Chamber of Commerce is the only internationally accepted permanent arbitration in Mongolia that has branches in 21 provinces of the country. It is a member of the International Commercial Arbitration Association of Asia and the Pacific, Arbitration Court of the International Trade Chamber and Permanent Court of Arbitration in Hague.

3. FOREIGN INVESTMENT

3.1 Investment Law

A new Investment Law was approved by the Parliament of Mongolia and came into effect on 1 November 2013. The Law replaces the Law of Mongolia on Foreign Investment (1993) and the Law of Mongolia on the Regulation of Foreign Investment in Business Entities Operating in Sectors of Strategic Importance (2012).

The Investment Law eases the regulatory approval requirements for foreign private investment and streamlines the registration process for foreign direct investment. Further, it sets out certain legal guarantees and tax and non-tax incentives so as to promote investment activities in Mongolia.

Under the Investment Law, "investment" is defined as "tangible or intangible assets invested in share capital of a legal entity carrying out profit-making activities in Mongolia as reflected in the financial statements". A foreign-invested entity is defined as a business entity (i) which is incorporated in accordance with the laws of Mongolia; (ii) in which foreign investor(s) hold(s) a 25% or more interest; and (iii) the capital contributions made by each foreign investor (shareholder) exceeds US\$ 100,000 or the MNT equivalent of the same.

3.2 Restrictions on Foreign Participation in Specific Sectors

Under the Investment Law, a foreign state-owned legal entity must obtain the government approval from the Ministry of Economic Development of Mongolia for investments exceeding a 33 per cent or more interest in Mongolian-incorporated legal entities which operate in any of the following sectors: (a) mining; (b) banking and finance; and (c) media and telecommunications. A foreign state-owned legal entity is defined as an entity of which 50 or more percent are owned directly or indirectly by a foreign government.

4. INVESTMENT INCENTIVES

4.1. Tax Stabilization

Qualifying projects may enjoy a stable tax environment under the Investment Law. The Stabilization Certificates issued by the Ministry of Economic Development, the central government body in charge of investment affairs, provide investors with stable tax rates for a certain period in respect of corporate income tax, value-added tax, custom duty and minerals royalty. The term of Stabilization Certificate varies from 5 to 18 years for mining, heavy industry, or infrastructure projects and 5 to 15 years for other projects depending on the amount of investment and the project location. The effective period of a Stabilization Certificate will be extended by 1.5 times the period specified in the Investment Law in relation to certain projects qualified to the specific requirements set by the law.

The benefits of tax stabilization will not apply to investment made in activities relating to the production, import, and sale of tobacco products or alcoholic beverages.

4.2. Investment Agreements

The Investment Law provides any entity whose investment value will exceed MNT 500 billion with an option to enter into an Investment Agreement with the Government of Mongolia for the purpose of stabilizing the business environment. An Investment Agreement may stipulate a longer stabilization period than the tax stabilization period and include providing legal guarantees as specified in the Investment Law, stabilization of tax environment, and certain regulatory and financial incentives.

4.3. Other Incentives and Benefits

Investors may enjoy variety of other tax and non-tax benefits from the Government of Mongolia. Tax benefits may include exemption from the payment of certain taxes, preferential tax treatment, accelerated depreciation and amortization that is deductible from taxable income, carrying forward of losses and deduction of employee training expenses from taxable income. In addition, equipment imported for construction purposes may be exempt from custom duties and value-added taxes.

The non-tax benefits may include longer land lease rights, residential permits for international investors and their families, expedited registration process if the investment involves a free economic zone or industrial complex, and financial guarantees for investment projects involving innovative technology.

It should, however, be noted that all those tax and non-tax benefits listed above will effectively apply upon relevant laws on the subject matters are amended or revised accordingly if such benefits are not reflected in those particular laws.

4.4. Bilateral Investment Treaties

Since 1990, when Mongolia had emerged from centrally planned system to a free market economy, the Government of Mongolia has signed 'Treaty Concerning the Encouragement and Reciprocal Protection of Investment' with more than 40 countries including two major neighbouring powers, Russia and China, and other important trade partners such as US, Korea and Japan et al. The most of the Bilateral Investment Treaties were concluded between 1990 and 2000 with the standard provisions on, *inter alia*, national and

most favoured nation treatment, fair and equitable treatment, full protection and security, expropriation and dispute settlement.

5. FORMS OF BUSINESS ORGANIZATION

5.1 Limited Liability Companies (LLC)

Under the Company Law of Mongolia (2011), a limited liability company is a company whose shareholders' capital is divided into shares, and the right to dispose of such shares is limited by the company charter. The number of shareholders is restricted at 50. An LLC shall issue shares, options to acquire shares, and securities convertible into shares, only by means of closed subscription, and shall not issue securities to be offered to the public.

The governing document of an LLC shall include the Company Charter and Shareholder's Agreement (in case there are more than two shareholders). The Company Law of Mongolia provides more flexibility to LLCs by stating that the Company Charter may adopt otherwise in respect of several issues regulated by the law.

There is no minimum capital requirement for a LLC founded by a Mongolian entity or individual, while the Investment Law requires an initial capital contribution of at least USD 100,000 from each foreign investor in the form of cash or other property and property rights assessed in their monetary equivalent with regard to a foreign invested LLC as described above Section 3.1.

LLC is a most common vehicle chosen by foreign investors either by sole ownership or joint venture with a local entities and individuals.

5.2 Joint Stock Company (JSC)

There are two types of public company in Mongolia, namely 'open JSC' and 'closed JSC'. An "open JSC" is a company whose capital invested by the shareholders is divided into shares, which are registered at the securities trading organization and which may be freely traded by the public, whereas a "closed JSC" is a company whose capital invested by the shareholders is divided into shares, which are registered at the securities depositing organization, and which are traded in the market in a closed extent outside of the securities trading organization, the Mongolian Stock Exchange.

The minimum amount of registered capital for listing at the Mongolian Stock Exchange is MNT 10 million, with the exception of banks and insurance companies which must have a higher registered capital. The Mongolian Stock Exchange requires that a JSC should adopt and comply with its governance rules and regulations under internationally standardized practice and guidance, and financial reports, securities transaction, price, trading data, influential information and operational information of the company and management shall be distributed transparently to the public and the Mongolian Stock Exchange as soon as possible.

Further, the Financial Regulatory Commission of Mongolia has established a series of regulations and guidelines with regard to company stocks and corporate governance compliance matters, which a JSC must obey.

It should be noted that newly adopted Company Law of Mongolia introduced the definition of ‘Independent Director’ and requires, *among others*, that one third of the Board of Directors, which consists at least nine Directors, of a public company must be Independent Directors.

5.3 Partnerships

There are three types of partnerships in Mongolia, namely Unlimited Partnership, Limited Partnership and Limited Liability Partnership. In an unlimited partnership, its partners are jointly and severally liable for partnership obligations with the property contributed to the partnership and with their personal property. In a Limited Partnership is a partnership where at least one of the partners is entirely liable for partnership obligations to the extent of his contribution and personal property while the liability of other partners is limited to the amount of their contributions.

Limited Liability Partnership (“LLP”) structure is introduced by the amendment to the Partnership Law (1995) in 2013 following the enactment of the new Law on Lawyer’s Legal Status in 2012. Under the amendment, it requires that lawyers could only establish a LLP, in which the partners are liable for partnership obligations with the property contributed to the partnership and the partner who is responsible for wrongful acts is entirely liable for partnership obligations to the extent of his contribution and personal property, if they wish conduct legal service jointly.

5.4 Representative and Branch Offices

Under the Company Law of Mongolia, a Representative Office of a company is defined as a unit located in a place other than the principal place of business of the company and shall conduct activities of legal representation such as undertake to protect the legal interests of the company and conclude transactions on behalf of the company.

A Branch Office is a unit located in a place other than the place of business of company; and may perform the principal functions of the company, in whole or in part, and may also function as the company’s representative office.

A Branch or Representative Office of a foreign legal entity in Mongolia should be registered with the registration authority, the State Registration Office of Mongolia, in order obtain their legal status and conduct their activities within the territory of Mongolia.

6. TAXATION

6.1 Corporate Income Tax

Taxable income falls under the following three categories:

- Income from activities which includes
 - a) Income from primary and auxiliary production and sales of work and services;
 - b) Income from sale of rights;
 - c) Income from sale of shares and securities;
 - d) Income from quizzes, gambling, and lotteries;

- e) Income from sale and rental of erotic publications, books, and video recording, and service of erotic performance;
 - f) Income from goods, work, and service received from others free of charge;
 - g) Income from sale of intangible assets;
 - h) Income from technical, management, consulting, and other services;
 - i) Income from interest and/or penalty for nonperformance of contract duties, and compensation for a damage;
 - j) Realized gain from foreign currency exchange rate;
 - k) Other income similar to those specified in above
- Income from property which includes:
 - a) Income from movable and immovable property rentals;
 - b) Royalty income;
 - c) Dividend income;
 - d) Interest income
 - Income from the sale of property (both immovable and movable, except for shares and securities).

Taxable income is defined as aggregate annual income less allowable deductions specified in Article 12 of the Corporate Income Tax Law of Mongolia (2006) and the exceeding portions of the stabilized tax rates and amounts in case there is a stabilization certificate is issued.

Mongolian corporate income tax uses the progressive rate scale of 10% and 25%. 10% applies to annual income of up to 3.0 billion MNT; and 25% applies to the amount in excess of 3.0 billion MNT.

Certain types of income may be taxed at different tax rates.

Source of income	Applicable tax rate
Dividends	10%
Royalties	10%
Interest	10%
Gambling, betting games and lotteries	40%
Sale or rental of erotic publication, book, and video recording and service of erotic performance	40%
Sale of immovable property (gross)	2%
Sale of rights (gross)	30%

As for non-resident tax payers, 20% withholding tax on income earned in the territory of Mongolia or on Mongolia source income shall apply to non-residents with no presence in Mongolia. Such income shall include, *among others*, dividends from Mongolia registered companies, loan and financial leasing interests, royalty payments, management fees and income from sales of goods and services in the territory of Mongolia or performed through electronic means to Mongolia.

Under the Corporate Income Tax Law, there is a certain degree of tax incentives, which include tax exemption and credit on particular type of income and loss carry forward regulations.

6.2 Personal Income Tax

A permanent resident taxpayer of Mongolia is subject to tax on his/her worldwide income. An individual who owns residence in Mongolia or resides in Mongolia for 183 or more days in a tax year shall be considered to be a permanent resident taxpayer.

A non-resident taxpayer of Mongolia, an individual who has no residence in Mongolia and has resided in Mongolia for 183 or less days in tax year, is subject to tax on the income earned in the territory of Mongolia in a tax year.

Source of income	Applicable tax rate
Employment & similar income	10%
Business and professional service income	
Property, i.e. dividends, royalty, interest, capital gain from sale of securities/stock	
Sale of immovable property (gross)	2%
Scientific, literary artistic works, inventions, patents, product; designs and useful designs (gross)	5%
Sport competitions, art performances, and similar income (gross)	
Betting games, gambling and lotteries (gross)	40%

6.3 Value Added Tax (VAT)

VAT is imposed at the rate of 10% on the supply of taxable goods and services within the territory of Mongolia and on imports into Mongolia.

Taxpayers are required to register with the tax authorities for Mongolian VAT purposes when their taxable turnover exceeds 10.0 million MNT. Taxpayers may also voluntarily register when their taxable turnover reaches 8.0 million MNT or if they have invested more than USD \$2.0 mil in Mongolia.

In particular, VAT is levied on the following in Mongolia:

- Goods sold in the territory of Mongolia;
- Goods exported from Mongolia for sale, use or consumption in foreign country;
- Goods imported into Mongolia for sale, use or consumption;
- Works performed and services rendered in Mongolia.

Article 12 and Article 13 of the Law on Value-Added Tax of Mongolia (2006) provide regulations on the goods and services subject to '0' rated VAT and VAT exemption respectively.

If a company is registered as 'VAT Payer' with the relevant tax office, then VAT paid for goods and service purchased for its business operation can be offset against VAT payable to the tax authority by providing documentary evidences such as contracts, payment evidences, VAT slips received from the seller, etc.

Under the Law on Value-Added Tax currently in effect, Mongolian individuals and entities have an obligation to withhold required VAT on the payment of sales of goods and services by persons not residing in the territory of Mongolia and pay to the Budget.

6.4 Mining Tax

Exploration and Mining License Fees

Pursuant to the Mineral Law of Mongolia (2006) exploration and mining license holders are required to pay annual license fees set as follows:

Exploration License Fees	
Year	Annual fee per hectare
Year 1	US\$0.10
Year 2	US\$0.20
Year 3	US\$0.30
Year 4 – Year 6	US\$1.00 each year
Year 7 – Year 9	US\$1.5 each year
Mining License Fees	
Type of Minerals	Annual fee per hectare
Coal, limestone, minerals for domestic industry	US\$5.00
Other minerals	US \$15.00

Failure of due license fee payments on time shall be subject to cancellations of the licenses.

Royalties

A royalty at the rate of 5% is payable in respect of the sales value of all products extracted (other than domestically sold coal and gold sold to the Central Bank of Mongolia), sold, shipped for sale, or otherwise used. The royalty rates for domestically sold coal and gold sold to the Central Bank of Mongolia are set at 2.5%, whereas the rate for international exports of these materials is 5%.

By the amendment to the Minerals Law dated November 25, 2010, a new surtax royalty that was applicable from January 1, 2011 was introduced. A surtax royalty is imposed on the total sales value of 23 types of minerals in addition to the standard flat-rate royalty previously applicable. The rates of the surtax royalty vary depending on the type of minerals, their market prices and their degree of processing (in case of gold sold to the Central Bank of Mongolia, '0' rate surtax royalty shall apply). More specifically, the rates are significantly higher for copper than for other types of minerals; the rates increase as the market prices for the minerals go up; and the rates are lower for processed materials than for unprocessed minerals. The rates of the new surtax royalty vary from 1% to 5% for minerals other than copper. For copper, the surtax royalty rates range between 22% and 30% for ore, between 11% and 15% for concentrates, and between 1% and 5% for final products. No surtax royalty is charged on any minerals below a certain threshold market price, which varies depending on the type of minerals.

6.5 Excise Tax

The Parliament of Mongolia passed the Excise Tax Law (2006) effective from January 1, 2007. As stated in the Article 4 of the law, the following goods shall be subject to excise tax:

- All types of alcoholic beverages;
- All types of tobacco;

- Gasoline and diesel fuel; and
- Automobiles.

In addition, excise tax shall also be levied on physical units of special purpose technical devices and equipment used for betting games and gambling and activities of individuals and legal entities that conduct such activities.

The tax rate varies between US\$ 0.20-80000.0 depending on the product type and classification.

6.6 Immovable Property Tax

All type of legal entities, Mongolian and foreign citizen, stateless person and non-resident person who own immovable property in the territory of Mongolia shall be obliged to pay the immovable property tax set at 0.6-1.0% of immovable property value depending on the size, location and market demand etc. The immovable properties owned by public entities, apartments, public facilities and properties in the industrial park are exempted from the tax.

The value of immovable property shall be determined by the valuation of that property as registered with the immovable property state registry with the exception of land valuation which is subject to the Law on Land Ownership by Mongolian Citizen. If there is no such registration, the insured value is used. And if there is no either registered or insured value, the value shall be established according to the book value in the accounting records.

6.7 Stump Duty

The revised version of the Law on State Stamp Duty (2010) has been in effect since January 1, 2011. As stated in said law, stamp duty is imposed on 44 types of services provided by the government authorities, and the amount of duty varies according to the type, value, etc. of the services and transactions involved.

6.8 Tax Audit and Appeal Procedures

It is the tax payer's obligation to accurately and duly assess, impose and pay own taxes in accordance with the relevant laws and regulations of Mongolia. However, the tax authority shall, at their discretion, conduct periodic tax audit on imposition and payment of taxes by a particular company. A planned or full tax audit shall be made on each tax payer once in a 5 years period, according to the Regulation # 192 (2008) approved by the Head of General Taxation Department.

In the event when a tax payer objects to a decision made by the tax inspectors who conducted the tax assessment/audit, a complaint shall, within 30 days of receiving the decision, be made to the head of the tax office which the inspectors are affiliated with. If the complaint is still not resolved, the tax payer may file a complaint to the Capital City or Provincial Tax Tribunals, and complaints re the resolutions of Capital City and Provincial Tax Tribunals shall be filed to the Tax Tribunal under the General Department of Taxation or to the Administrative Court within 30 days.

6.9 Tax Treaties

To avoid double taxation, Mongolia uses the “tax sparing method”. In this case, the amount of foreign tax paid is allowed as a credit against the Mongolian tax payable on the same income or capital. However, the amount of such tax credits should not exceed the amount of tax payable on the same amount of income in Mongolia.

The chart below shows the withholding tax rates (in per cent) on Mongolian source dividends, interest and royalties paid to residents of other contracting states having Double Tax Treaties with Mongolia.

No	Countries	Signed in	In force	Dividends (%)	Interest (%)	Royalties (%)
1	Austria	2003.07.03	2005.01.01	5-10	10	5-10
2	Belgium	1995.09.26	1999.01.01	10	10	5
3	Bulgaria	2000.02.28	2002.01.01	10	10	10
4	Canada	2002.05.27	2003.01.01	10-15	10	5-10
5	China (P.R.C)	1991.08.26	1993.01.01	5	10	10
6	Czech Republic	1997.02.27	1999.01.01	10	10	10
7	France	1996.03.18	1999.01.01	5-15	10	5
8	Germany	1994.08.22	1997.01.01	5-10	10	10
9	Hungary	1994.09.13	1997.01.01	5	10	5
10	India	1994.02.22	1994.01.01	15	15	15
11	Indonesia	1996.07.02	1998.01.01	10	10	10
12	Kazakhstan	1998.03.16	2000.01.01	10	10	10
13	Korea (R.O.K)	1992.04.17	1993.01.01	5	5	10
14	Kyrgyzstan	1999.06.20	2000.01.01	10	10	10
15	Kuwait	1998.03.18	1999.01.01	5	5	5
16	Malaysia	1995.07.27	1997.01.01	10	10	10
17	North Korea (DPRK)	2002.10.03	2005.01.01	10	10	10
18	Poland	1997.04.18	2002.01.01	10	10	5
19	Russia	1995.04.05	1998.01.01	10	10	By national laws
20	Singapore	2001.08.16	2005.01.01	10	10	5
21	Switzerland	1999.09.20	2002.01.01	5-15	10	5
22	Turkey	1995.09.12	1997.01.01	5-15	10	10
23	Ukraine	2002.07.01	2003.01.01	10	10	10
24	United Arab Emirates	2001.02.21	2003.01.01	By national laws	By national laws	10
25	United Kingdom	1996.04.23	1997.01.01	5-15	10	5
26	Vietnam	1996.05.09	1997.01.01	10	10	10

Double Tax Treaties with Netherlands and Luxembourg have been terminated as of January 1, 2014, while the Treaties with UAE and Kuwait are subject to termination effective from January 1, 2015 and April 1, 2015 respectively, at the discretion of the Government of Mongolia.

7. SECURITIES LAW AND REGULATIONS¹

On 24 May 2013, the Parliament of Mongolia approved an amended version of the Securities Market Law ("Revised Securities Law") effective from January 1, 2014. The Revised Securities Law aims to create a legal framework which develops local capital market in line with international standards, enhances regulation of

¹ Extracted from E-Newsletter, Mongolian Stock Exchange, Special Edition, August 2013

market participants, increases market transparency, protects investors' rights and interests, increases state authority in regulating, monitoring, and ensuring the sound operation of the securities market.

Key Features

Over-the-counter ("OTC") trading of securities is permitted. "Over-the-counter market" means the market in which licensed persons enter into agreements relating to directly buying and selling of financial instruments which are not otherwise prohibited by laws and regulations and which such persons either themselves own or are authorized by the owner to trade.

In accordance with shifting to post payment system for securities, the Law provides detailed provisions for such payment system. It states that trade settlements shall be made within three /3/ business days of the relevant trade. In other words, this provides an opportunity for trade participants to fund their trades 3 business days after the trade is executed and the ownership rights of securities shall be transferred provided the payment obligation for the securities trade is discharged in full.

Custodial services: Securities custodial services shall mean the deposit of securities, and providing services connected with exercising other rights of ownership evidenced by the securities. The Bank of Mongolia and the Financial Regulatory Commission of Mongolia shall jointly approve the procedures for conducting custodial services.

The Law provides a legal framework for further development of local capital market in a conventional way. Sophisticated investors are deemed to be the main players of the market, they include pension funds, investment funds /closed end, open end/, insurance funds, investment banks etc. Investment fund activities and types have been determined by the Law - detailed regulations will be regulated by the respective laws.

The Revised Securities Law specifically allows for the dual-listing of Mongolian-listed companies abroad as well as the listing of foreign-listed companies in Mongolia.

Supervision and inspection of the securities market

Under the Revised Securities Law, the key regulator is the Financial Regulatory Commission of Mongolia ("FRC"), who is authorized to exercise the state authority in regulating, monitoring, and ensuring the sound operation of the securities market. The FRC may, in exercising its authority or in accordance with a request from a competent regulatory body of a foreign jurisdiction, demand in writing from regulated entities, securities issuers, their connected persons or any other relevant person, confirmation and submission of information of the form and type it considers necessary within a prescribed period. The FRC shall undertake regular supervision to determine whether a regulated entity is in compliance with the provisions of this Law, the rules and regulations issued by the FRC in accordance there with, and the conditions and requirements of its license.

8. INTELLECTUAL PROPERTY

Updating...

9. COMPETITION LAW & CONSUMER PROTECTION

Updating...

10. LABOR REGULATION

10.1 General

Labor Law of Mongolia (1999) mainly regulates the matters concerning the labor relationships between employers and employees including the rights and obligations of employers and employees, basic terms required to be set forth in the employment contracts, the terms and conditions of employment termination, working hours, salary and compensation regulations, female workers, labor dispute resolution etc., while the Law on Labor Health and Safety (2008) addresses health and safety standards and requirements and obligations of the parties involved in this regard.

The title/position of the employee, the job description, the salary and the level of labor condition must be specified in the employment contract. Employment contract could be signed for indefinite term or fixed term if the both parties agree on. It should be noted that the wrongful termination accounts a significant portion in the labor disputes between the employers and employees at the court. Therefore, relevant clauses must be clearly defined by the employment contracts and internal labor regulations in line with the Labor Law together with proper documentation during hiring and termination procedures.

10.2 Leave and Holidays

Employees are entitled to an annual vacation. An employee, who has not taken his or her annual vacation due to an unavoidable work need, may be paid a monetary remuneration instead. The basic period for an annual vacation of an employee is 15 working days with the options of additional days of 3-14 working days if an employee has been engaged under the employment contract (s) and paid social security premiums more than 6 years.

A mother shall be granted maternity leave for a period of 120 days, and a mother with a child under three years of age is allowed to have a child care leave. A father with a child under three years of age may as well take a child care leave, if he so wishes.

The Labor Law specifies the Public Holidays in Mongolia as follows:

- New Year's Day – January 1st;
- White Moon Days (3 days) – the beginning of the first spring month according to the lunar calendar;
- International Women's Day- March 8th;
- Children's Day – June 1st;
- National Naadam Holiday/Anniversary of the Mongolian People's Revolution – July 11th, 12th and 13th;
- Great Chinggis Khan's Day - the first day of the first winter month according to the lunar calendar
- National Independence Day – December 29th

10.3 Severance Pay

Employer is required to pay to an employee, whose labor agreement is terminated when (i) the employee has been called to active military service; (ii) liquidation of the employer's business entity or organization, branch or unit thereof, abolition of the job or position within it, or reducing the number of employees; (iii) it

has been determined that the employee fails to meet the requirements of the job or position due to the lack of professional qualifications or skill, or health reasons; or (iv) the employee has attained 60 years of age and is eligible to receive a pension, a severance pay in the amount equal to at least one month's average salary.

10.4 Other Regulations

Standard working hours in a day are 8 hours, or five working days total of 40 hours a week, with special provisions for seasonal shift work, such as the extractive industries, construction or agriculture. Work in excess of these hours is paid overtime. Saturday and Sunday are public days of rest. The period from 10pm to 6am are considered night hours.

The Government of Mongolia establishes the minimum wage limits to be adhered within the territory of Mongolia. As of January 1, 2014, the minimum monthly wage is set at MNT 192,000.

The State Inspection Agency is the government organization to monitor and ensure the proper implementation of the Labor Law and relevant regulations by legal entities in Mongolia, while employees have right to appeal to the court if they consider their rights are violated.

11. IMMIGRATION, VISAS AND WORK PERMITS

11.1 Visas

There are mainly three types of visas for foreigners coming to Mongolia for a business purpose, namely Investor Visa (T visa), Business Visa (B visa) and Employment Visa (HG visa).

Investor Visa - Individual (not corporate) shareholders or Chief Executive Officers of foreign invested companies are permitted to apply for 'T' type visa and do not need work permits in order to work in Mongolia. These categories of expats qualify for Investor's Card issued by the General Authority for State Registration of Mongolia and the accompanying T-type visa and a long term residence permit. Holders of a T-visa are exempt from paying the work place fee.

Business Visa – if a foreign individual is visiting Mongolia constantly for short-business trips, he or she may be better to apply for multiple entry/exit 'B' type visa (duration of stay-30 days, overall – less than 180 days a year). The visa should be obtained from a Mongolian consulate overseas upon receiving the visa permission from the Immigration Office of Mongolia.

Employment Visa – 'HG' type visa is for foreign expats who is engaging in formal employment in Mongolia.

11.2 Employment Visa & Work Permits

HG visa application is quite different from B visa application and some additional documents are required from the company engaging the foreign expat. The following steps should be taken:

Step One. Application for work permit invitation permit

Step Two. Once the permit is issued, the company will apply for visa permission to the Immigration Office

Step Three. Application for visa (single-entry)

Step Four. After the arrival of the expat the company needs to apply to the Labor Department again for the work permit card.

Step Five. A. Within 7 days from the expat's arrival, registration with the Immigration office should be made. B. Within 21 days from the expat's arrival, the company needs to apply for residence permit and multiple entry HG visa.

11.3 Labor Quotas

The Government of Mongolia sets foreign worker quotas, for both locally-owned and foreign-owned companies operating in Mongolia. Depending on the sector, the quota ranges from 5% to 75% of total workforce of a company. The total amount of investment and total number of employees of a company influence its quota. General requirement for visa limit is that the number of expats which is up to 5% of total local employee number in the company can be accepted. However, there is a Government approved Quota which provides number limits of expats in companies depending on the scope of work, share capital and number of local employees of the company. The quota is revised and approved by the Government every year. If a company wants to apply for greater number of foreign employees (more than permitted) for major/big/significant projects, such as construction workers, a separate resolution can be issued by the Minister of Labor (up to 30 expats) or the Government of Mongolia (more than 30 expats) based on company request.

12. IMPORTING AND EXPORTING

12.1 Import Controls

Importing of goods into Mongolia is not subject to restrictions with the exception of non-tariff restrictions and import prohibitions on certain products and goods. Pursuant to the Resolution No. 5 (1998) of the Parliament of Mongolia, narcotics, related equipment and all type of spirits are prohibited to be imported into Mongolia.

There are list of goods and products that are subject to special import permits/licenses and/or approvals by the relevant government organizations including toxic and dangerous chemical substances, explosive substances, guns and weapons, alcoholic beverages, cigarettes, all type of petroleum, livestock and human medicines, veterinary and medical facilities, narcotic drugs, disease causing microbes, human blood and organs.

12.2 Export Controls

Exporting of goods from Mongolia is not subject to restrictions with the exception of non-tariff restrictions and export prohibitions on certain products and goods. Pursuant to above Resolution No. 5 (1998), narcotics, related equipment and scrap metals are prohibited to be exported from Mongolia.

There are list of goods and products that are subject to special export permits/licenses and/or approvals by the relevant government organizations including toxic and dangerous chemical substances, explosive substances, guns and weapons, narcotic drugs, disease causing microbes, human blood and organs, uranium ore and concentrate, historical, cultural and archeological items, animals etc.

12.3 Exchange Regulation

According to the Joint-Decrees of the Central Bank of Mongolia and the Ministry of Finance of Mongolia, the foreign exchange rate used in the custom clearance shall be the official rate announced by the Central Bank on the day of custom declaration of the goods. The regulation replaced previous regulation of using the exchange rate of each Monday as of April 15, 2014.

The Parliament of Mongolia passed the Law on Conducting Settlement in National Currency effective from July 9, 2009. Under the Clause 4.1 of the law, price of goods, work and services shall be expressed and settlement shall be conducted only in national currency in territory of Mongolia.

12.4 Customs Duty

Most imported goods are subject to 5% ad valorem Customs duty while a seasonal import duty rate of 15% is applied on flour between July 1st and April 1st. There are, however, certain goods and items including pure breeding horses, cows, pigs, sheep, goats, information dissemination equipment and its spare parts, other machines for information development, transistor diodes and similar transistors, electronic microcircuit and various medical equipment taxed at 0% on importing.

The Customs Law (2008) provides the list of items to be exempted from the import duty as follows:

- Appliances, artificial organs and spare parts thereof for special use by the disabled person;
- Special vehicles manufactured or equipped for disabled person;
- Goods for humanitarian assistance and similar donations;
- Mongolian national currency manufactured in foreign countries;
- Travellers' personal items;
- Blood, blood products, body and organs to be used for medical purposes;
- Gas fuel, designated containers, equipment, special machinery, facilities and equipment;
- Civil aviation aircrafts and accompanying spare parts;
- Goods for official use by foreign diplomatic missions, consulates, the United Nations and its specialized agencies;
- Personal items for use by the head of the foreign diplomatic missions, diplomatic, technical and service staff and their family members deemed necessary to move in to the host country;
- Wood, timber and not prohibited wood seeds; and
- Raw materials and substances not produced in the country and required for manufacturing new products and goods under the innovation projects.

Mongolia has imposed export tax on a few particular goods listed, such as some animal products (unprocessed wools) and woods, etc. whereas no export duty applied on other goods and products.

The Parliament of Mongolia also approves the list of particular goods to be exempted from import duty and VAT on ad-hoc basis.

13. REAL ESTATE

13.1 Land Title

Land tenure in Mongolia is divided into: (i) land ownership right; (ii) land possession right; and (iii) land use right. Only Mongolian citizens can own land. Otherwise, land ownership is vested to the state.

Mongolian citizens, organizations and legal entities that are not deemed to be a business entity with foreign investment (“BEFI”) are entitled to possess land, which entitles them to pledge their interest and to transfer and/or lease it, all subject to approval by relevant authorities. BEFIs may only acquire use rights over land, which may not be transferred, pledged or leased. To this extent, a land possessor shall have greater ability to dispose the land than a land user in terms of legal rights entitled to them. Under the Land Law of Mongolia enacted on June 7, 2002 and effective from January 1, 2003, BEFIs, foreign countries, citizens and diplomatic missions, international organizations and Mongolian nationals may enjoy the right to use the land.

Land possession rights are, subject to annual land fees payable per hectare, granted to Mongolian citizens, entities and organizations for more than fifteen (15) and less than sixty (60) years with possible extensions of up to forty (40) years each, while Mongolians could be entitled to use the land for up to five (5) years with possible renewals for a period up to five (5) years.

Newly approved Investment law provides that investors including domestic and foreign may enjoy non-tax benefit of entitling to land possession or use rights for a period of up to sixty (60) years with one possible extension of up to forty (40) years. However, such provisions will be in effect once relevant amendments are made to the Land Law.

Land possession and land use rights are subject to revocation by the issuing authority if the holder fails to comply with i) applicable provisions of the Land Law, ii) the terms of the relevant Land Use Certificate (most notably failure to make timely payment of recurring land fees) or iii) applicable environmental protection obligations or if the holder fails to use land for the intended purposes for two consecutive years.

13.2 Foreign Ownership of Condominiums

The law of Mongolia does not prevent foreign citizens or entities to own apartments in Mongolia. The ownership shall be subject to the state registration with the Property Right Registration Department of relevant district and justified by an immovable property certificate issued by the authority.

14. DISPUTE RESOLUTION

14.1 Litigation

Under the Mongolian laws, contracting parties are free to negotiate and agree on dispute resolution methods and the governing law. In case the parties agreed to resolve the dispute at the court in Mongolia, the plaintiff, a party who considers his/her lawful rights and interest are violated, may file a lawsuit against defaulting party to the relevant first instance court where the defaulting party conducts its business operation or is registered or to the court where the property is located in case the dispute involves immovable property.

During the court process, the parties are required to prepare and submit own supporting evidences in accordance with the law, and the proceedings shall be conducted in Mongolian language. In addition, a stamp duty calculated in proportion to the amount of the claim is required to be paid by the plaintiff and later reimbursed by the defaulting party once the case is resolved by the court.

Plaintiffs are entitled to reject their lawsuits and dismiss the case by concluding a conciliation agreement with the defaulting parties while the dispute is pending for resolution at the court.

In consideration of the legally required timeframes under the Law on Civil Proceedings (2002), the dispute resolution period from the receipt of a lawsuit by a first instance court through the resolution by the Supreme Court shall take approximately 170 days. In practice, however, it may take 1-2 years in general or even several years in case the higher level courts return the case to the first instance court for re-investigation.

14.2 Arbitration

Contracting parties may choose arbitration in Mongolia or abroad. The Mongolian International and National Arbitration Center at the Mongolian National Chamber of Commerce is the only internationally accepted permanent arbitration in Mongolia that has branches in 21 provinces of the country.

Once the Arbitration Court accepts the case, it reviews and resolves the case operatively. There are no first or appeal or review instances. Arbitration award is final and legally binding to the parties. The award is acceptable and enforceable in 155 countries of the world pursuant to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards. It is available to enforce to perform the award of the Arbitration.

Arbitration tribunal consists of lawyers, economists and professionals of certain fields of high moral competence who are citizens of Mongolia and foreign citizens.

Information regarding the arbitration proceeding are confidential, the sessions are held close, and it is possible to reach conciliation at any level of the proceeding, participation of representatives and attorneys, appointment of experts, etc.

14.3 Recognition and Enforcement of Foreign Judgment

Under the UN Convention on the Recognition and Enforcement of Foreign Arbitral Award (1958) and the Arbitration Law of Mongolia (2003), foreign arbitral award could be recognized and enforced in Mongolia if a request for enforcement is submitted to the competent court of Mongolia within 3 years from the effective date of a foreign arbitral award.

Regarding the recognition and enforcement of the decisions by foreign courts, it is possible to be enforced in Mongolia in case there are bilateral agreements on legal assistance between Mongolia and the foreign countries and such agreements have specified relevant provisions on the enforcement.