



Technical Assistance Report

Project Number: 41202
August 2008

Mongolia: Capital Markets Development

CURRENCY EQUIVALENTS

(as of 6 August 2008)

Currency Unit	–	togrog (MNT)
MNT1.00	=	\$0.000866
\$1.00	=	MNT1,154.20

ABBREVIATIONS

ADB	–	Asian Development Bank
BOM	–	Bank of Mongolia
FRC	–	Financial Regulatory Commission
ITMIS	–	information technology management information system
MSE	–	Mongolian Stock Exchange
NBFI	–	nonbank financial institution
SCHCD	–	Securities Clearing House and Central Depository
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sector	–	Finance
Subsector	–	Capital markets and funds
Themes	–	Sustainable economic growth, governance, capacity development
Subthemes	–	Promoting economic efficiency and enabling markets, financial and economic governance, institutional development

NOTE

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. The Government of Mongolia requested the Asian Development Bank (ADB) for technical assistance (TA) for capital markets development. The Fact-Finding Mission visited Ulaanbaatar during 25–29 February 2008.¹ Following the discussions, an understanding was reached on the objectives, scope, and implementation arrangement of the TA.² The recent development of the nonbank financial sector, including capital markets in Mongolia and the successful establishment of the Financial Regulatory Commission (FRC) in particular, have been significantly supported by previous and current ADB-funded TA projects and program loans.

II. ISSUES

2. An efficiently functioning financial sector is key to achieving a market-based economy for promoting rapid economic development with the private sector as the engine of growth. The Mongolian financial system has been growing rapidly but remains dominated by commercial banks, which hold more than 90% of the financial sector assets, and is underdeveloped in other aspects.

3. While the banking sector has stabilized and strengthened since the banking crises of the 1990s and the Government has started to build the basic foundation for the nonbank financial sector, the financial sector's role in promoting economic growth is still limited. Although improving in recent years, the nonbank financial sector—including capital markets—has been hampered by weaknesses in the legal, regulatory, supervisory, and governance framework, and low investor confidence. Nonbank financial institutions remain small and account for only 3.7% of total financial sector assets (August 2007).

4. The FRC—the consolidated nonbank financial markets regulator—was established in early 2006 with significant support from ADB under the ongoing loan.³ The FRC has undertaken several initiatives to improve the legal, regulatory, and supervisory environment of the nonbank financial sector, but is severely constrained by limited resources in terms of physical infrastructure, management and staff capacity, and knowledge.⁴ In particular, adequate information technology management information systems (ITMIS) need to be established and maintained in order to improve the quality of supervision, better manage financial sector risks, and more generally enable the FRC to meet its mandate of promoting financial sector stability and development. Limited financial resources are provided by the government budget, thus there is considerable need for development partner assistance for capacity and institutional development. Increasing the FRC's independence as a regulatory body by making it partly or wholly funded by a levy on the firms it regulates—and thus less dependent on the government budget—has clear advantages.

¹ The Mission met with senior officers from the Ministry of Finance, the Bank of Mongolia, Financial Regulatory Commission (FRC), Mongolian Bankers Association, the World Bank, and the International Monetary Fund.

² The TA first appeared in the business opportunities section of ADB's website on 6 June 2008.

³ ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to Mongolia for the Financial Regulation and Governance Program*. Manila (Loan 2218-MON[SF]).

⁴ In addition to establishing its own internal management and procedures and integrating staff from different organizations with different corporate cultures, the FRC has made important efforts in drafting laws and regulations (for instance, the Law on Cooperatives, the Securities Market Law, and insurance regulations), licensing saving and credit cooperatives, and inspecting listed companies in cooperation with the Mongolian Stock Exchange.

5. The Mongolian Stock Exchange (MSE) was launched in February 1992 to help implement the Government's privatization program. ADB's assistance was instrumental in providing policy and technical advice, and in financing basic computer equipment early on. However, the MSE has still not genuinely transformed from a venue for state-owned enterprise privatization to a modern stock exchange where private companies and financial institutions can raise long-term capital. Stock market capitalization has grown and trading activity started to revive in 2007 after a long decline since the late 1990s. However, a few stocks account for nearly all of the market capitalization and active trading and, since 2005, there have been only eight initial public offerings. Private companies and financial institutions currently use the MSE only to a very limited extent to raise new capital. Mongolian banks are so far not participating in capital market activities to the same extent as in many other countries, and there is virtually no secondary market for government and corporate bonds as nearly all bonds are bought by banks and held to maturity. There are no institutional investors operating in Mongolia which could invest in the securities markets, and there is no local rating agency. The MSE is planning to implement a \$5 million project supported by the Korean Stock Exchange to improve the information technology infrastructure for trading systems and build capacity.

6. To meet the International Organization of Securities Commissions principles of securities regulation, the MSE needs to improve its trading rules and create an effective surveillance system for trading activities in order to monitor unusual price or volume movements and detect possible insider trading, manipulation, or other improper trading activity. In 2003, the MSE's functions were divided, with the MSE made responsible for securities trading, and a separate state-owned limited liability company (the Securities Clearing House and Central Depository [SCHCD]) given responsibility for securities clearing, settlement, and depository functions.

7. Improved governance and implementation of international accounting and auditing standards in the corporate sector are necessary to increase public confidence in the operations of the nonbank financial and capital market sectors, and thus are essential preconditions for the successful development of domestic capital markets. In particular, listed companies need to prepare their financial statements accurately and on time, with full accountability and transparency, and have them published regularly. Assisting the FRC and the Bank of Mongolia (BOM) in corporate governance issues was a major input of the Capacity Building for Financial Sector Reforms TA⁵ and resulted in, among other things, the adoption by the FRC of the new National Corporate Governance Code for Listed Companies on 28 December 2007.

8. Insufficient development of the financial sector is a key constraint to stable and broad-based economic growth in Mongolia.⁶ ADB has actively supported Mongolia's capital markets

⁵ TA 4737-MON is attached to ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to Mongolia for the Financial Regulation and Governance Program*. Manila (Loan 2218-MON[SF]).

⁶ ADB. 2005. *Country Strategy and Program (2006–2008): Mongolia*. Manila.

through a number of financial sector program loans as well as TA projects.⁷ Key achievements of previous and ongoing ADB loans and TA projects for financial sector reform include restructuring and privatization of state-owned banks, development of an interbank market, further strengthening of banking legislation and regulations, and, in particular, development of a basic framework and infrastructure for the nonbank financial sector. Building on progress achieved under previous program loans, the currently implemented loan (footnote 3) and attached TA (footnote 5), use a comprehensive approach in addressing the remaining legal, regulatory, institutional, and policy weaknesses, focusing on the nonbank financial sector.

9. Developing a well-functioning and broad-based financial system is a gradual process, especially in transition economies with limited market-based institutions and human resources, and the Government of Mongolia has requested ADB for continued support for capital markets development. The recently concluded Financial Sector Assessment Program⁸ delivered by the International Monetary Fund and the World Bank⁹ highlights the legal framework, financial infrastructure, accounting and auditing standards, and corporate governance as areas in need of particular strengthening. While a coherent and comprehensive financial sector development strategy which facilitates implementation, sequencing, and prioritization of various reform measures is currently not in place in Mongolia, the FRC has recently prepared and approved the Program for Development of the Capital Markets in Mongolia for 2008–2011. The program, which will be further developed and strengthened through dialogue and support from ADB, calls for an increased role of the capital markets through strengthening the legal and regulatory environment, investing in market and supervisory infrastructure, and adopting international best practices in all related areas to improve transparency, efficiency, competitiveness, and protection of investors' rights.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

10. The impact of the TA is the establishment of more efficient, transparent, and robust capital markets.

11. The expected outcome is a deepening of capital market reforms through improved supervisory capacity, an improved legal and regulatory framework, strengthened securities markets, and increased investor confidence.

⁷ Strengthening the Supervisory and Restructuring Capacity of the Bank of Mongolia (TA 2720-MON, for \$1 million) and Upgrading Skills and Systems of Commercial Banks (Loan 1510-MON[SF], for \$3 million) are attached to ADB. 1996. *Report and Recommendation of the President to the Board of Directors on Proposed Loans and Technical Assistance Grant to Mongolia for the Financial Sector Program*. Manila (Loan 1509-MON[SF], for \$35 million, approved on 19 December). Strengthening Financial Sector Development (TA 3459-MON, for \$600,000) is attached to ADB. 2000. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Mongolia for the Second Financial Sector Program*. Manila (Loan 1743-MON[SF], for \$15.8 million, approved on 22 June). Capacity Building for Financial Sector Reforms (TA 4737-MON, for \$900,000) is attached to ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Program Loan and Technical Assistance Grant to Mongolia for the Financial Regulation and Governance Program*. Manila. (Loan 2218-MON[SF], for \$9.9 million, approved on 15 December).

⁸ International Monetary Fund and World Bank. 2007. *Financial Sector Assessment Program Aide-Memoire*. Washington, DC.

⁹ The World Bank is currently not implementing any financial sector program in Mongolia.

B. Methodology and Key Activities

12. The TA will contribute to (i) an improved regulatory and supervisory capacity of the FRC, (ii) development of capital markets, and (iii) increased efficiency of the stock market.

1. Improved Regulatory and Supervisory Capacity of the Financial Regulatory Commission

13. In order to improve sustainability as well as the regulatory and supervisory capacity of the FRC, the following areas for support by the TA have been identified as priorities:

- (i) **Financial sustainability.** Preparation of a policy paper for major governmental stakeholders and high-level decision makers on recommendations (based on international best practices) of options for the FRC to become less dependent on the government budget by being partly or wholly funded by a levy on the firms it regulates.
- (ii) **Information technology development.** Assist in the implementation of the ITMIS recommendations of TA (footnote 5) in terms of hardware investment, software development, and training.
- (iii) **Training.** Preparation of training modules for selected areas covered by the FRC, as well as for investor education programs.
- (iv) **Capacity building.** Short-term assignments as requested by the FRC.

2. Development of Capital Markets

14. Development of capital markets is particularly important in the current period of strong economic growth and liquidity. The following areas of support for strengthening and development of the capital markets have been identified:

- (i) **Improved legal and regulatory framework.** Development of implementation regulations for a revised Securities Market Law, and further streamlining of the legal and regulatory frameworks for NBFIs.
- (ii) **Support for creation of institutional investors.** Facilitation of the development and operations of institutional investors, such as investment funds and life insurance companies.
- (iii) **Strengthened corporate bond market.** Assistance in the development of a corporate bond market and its supporting infrastructure, such as credit rating agencies.

3. Increased Efficiency of the Stock Market

15. The following areas of support for the stock market were identified:

- (i) **Privatization of the MSE.** Development of options for privatizing the stock exchange aimed at strengthening the efficiency and effectiveness of securities markets.
- (ii) **Improved trading rules and surveillance.** Improvement of the MSE's trading rules in line with international standards, and support for the establishment of a real-time surveillance system for the FRC's trade monitoring function to detect irregularities.
- (iii) **Improved clearing and settlement.** Investigation of the need to increase processing capacity and risk management capability of the SCHCD.

- (iv) **Improved corporate governance standards.** Enhanced implementation of corporate governance guidelines and encouragement of listed companies to improve their social responsibility by establishing a social responsibility index.

16. The TA will also identify lending and nonlending opportunities that could be supported by ADB. These could include (i) certain components of the ITMIS for the FRC in line with the recommendations of the TA (footnote 5); (ii) trading, payment, and settlement systems of the stock exchange and clearing company; and (iii) investment opportunities aimed at strengthening the efficiency and competitiveness of securities exchanges.

17. The main risk lies in significantly delayed introduction of new legislation and legal amendments and/or inadequate design due to the Parliament's likely crowded post-election agenda in 2008.

C. Cost and Financing

18. The total cost of the TA is estimated at \$600,000 equivalent. The Government has requested ADB to finance \$500,000 equivalent. The TA will be financed on a grant basis by ADB's TA funding program. The Government will provide the remaining \$100,000 of local currency costs in-kind, to cover office accommodation, counterpart staff, transportation, and other related services. The TA will provide a combination of policy and technical advice.

D. Implementation Arrangements

19. The TA will be implemented over a period of 12 months, commencing in October 2008. The TA will require 11 person-months of international consulting services and 14 person-months of national consulting services. The international consultants include a capital market supervision and institutional investor specialist and a capital market financial infrastructure and information system specialist. Two national consultants with expertise in the above areas will be contracted for about the same length of time. Considering that all four assignments will be small and on an intermittent basis, hiring using the individual consultants method is considered appropriate. The consultants will be engaged by ADB in accordance with the *Guidelines on the Use of Consultants* (2007, as amended from time to time). The terms of reference for the consultants are outlined in Appendix 3. The equipment budgeted under the proposed TA consists of a strictly limited number of computers and other electronic equipment that will be procured by ADB in accordance with its *Procurement Guidelines* (2007, as amended from time to time). The equipment will be transferred to the FRC upon completion of the TA.

20. The team leader will coordinate the input of all other consultants. The consultants will submit (i) an inception report 3 weeks after start of services, (ii) an interim progress report 5 months after start of services, (iii) a draft final report 11 months after start of services, and (iv) a final TA report 2 weeks after receiving comments from the FRC (the executing agency) and ADB. A taskforce will be formed comprising officials from Ministry of Finance, BOM, and FRC to serve as a coordination mechanism.

IV. THE PRESIDENT'S DECISION

21. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$500,000 on a grant basis to the Government of Mongolia for Capital Markets Development, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
<p>Impact More efficient, transparent, and robust capital markets established</p>	<ul style="list-style-type: none"> • Increased frequency of initial public offerings (eight by early 2008) and issuance of shares by end of 2010 • Increased issuance of corporate bonds (12 by early 2008) by end of 2010 	<ul style="list-style-type: none"> • Economic reports and official statistics from BOM and IMF 	<p>Assumption</p> <ul style="list-style-type: none"> • New Government is formed expeditiously following Parliamentary elections <p>Risks</p> <ul style="list-style-type: none"> • High dependence on a narrow range of commodity exports of the Mongolian economy creates a boom-bust cycle (for example fall in international commodity prices) • Overly expansionary fiscal policy creates overheating, high inflation, overvalued currency and financial instability
<p>Outcome Capital markets reforms deepened through improved supervisory capacity, legal and regulatory framework, strengthened securities markets, and increased investor confidence</p>	<ul style="list-style-type: none"> • Increased stock market turnover from 40% of GDP in 2007 by end of 2010 • Increased fixed income market turnover (17% of GDP in 2006), particularly corporate bonds (3% of GDP in 2006) by end of 2010 	<ul style="list-style-type: none"> • Economic reports and official statistics from BOM, FRC, MSE, and MOF 	<p>Assumption</p> <ul style="list-style-type: none"> • New government remains committed to reforms in financial sector <p>Risk</p> <ul style="list-style-type: none"> • Introduction of new legislation and legal amendments for NBF and capital markets significantly delayed due to Parliament's likely crowded post-election agenda and/or the Government not fully meeting program objectives.
<p>Outputs</p> <ol style="list-style-type: none"> 1. Improved regulatory and supervisory capacity of FRC 2. Better developed capital markets through improved legal and regulatory framework, support for creation of institutional investors, and strengthened corporate bond 	<ul style="list-style-type: none"> • Procurement of ITMIS hardware and software investments prepared and staff trained by December 2008 • Selected training modules for FRC's training center prepared by March 2009 • Policy paper on increasing FRC's independence by making it partly or wholly funded by a levy on the firms it regulates prepared by September 2009 • Securities Market Law and Company Law submitted to Parliament, and regulations for Securities Market Law approved, by mid 2009 • Report on proposals for creation of institutional investors and strengthened corporate 	<ul style="list-style-type: none"> • Reports and official statistics from BOM, FRC, MSE, and MOF • Official copies of laws, regulations, and codes • Dialogue with government and nongovernment organizations and development partners 	<p>Assumptions</p> <ul style="list-style-type: none"> • Institutional capacity of FRC sufficient to effectively implement TA recommendations • Effective cooperation and coordination between relevant government agencies, including MOF, BOM, MSE, and FRC • Responsiveness of board of MSE to reform initiatives • Qualified consultants engaged on time • Effective monitoring by ADB <p>Risks</p> <ul style="list-style-type: none"> • Expected results and objectives of legal and regulatory reforms not fully met because of lack of understanding or political consensus • Significant problems in engagement with MSE board • Insufficient government budget allocated to FRC and FIU

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
markets 3. More efficient stock market through privatization of stock exchange, improved trading rules and surveillance, risk management, and corporate governance standards	bond market prepared by September 2009 <ul style="list-style-type: none"> • Report on options for privatization of stock exchange prepared by March 2009 • Improved trading rules and surveillance system for trading by end of 2009 • Report on processing capacity and risk management capability of SCHCD • Increased transparency and accountability of listed companies by end of 2010 		
Activities with Milestones 1.1 Assist in implementation of the ITMIS recommendations of the Capacity Building for Financial Sector Reforms TA in terms of hardware investment, software development, and training (by December 2008). 1.2 Preparation of training modules for selected areas covered by FRC, as well as for investor education programs (by March 2009). 1.3 Preparation of a policy paper for major government stakeholders and high-level decision makers on recommendations, based on international best practices, of options for FRC to become less dependent on the government budget by being partly or wholly funded by a levy on the firms it regulates (by September 2009). 1.4 Other short-term assignments related to capacity building as requested by FRC (by September 2009). 2.1 Contribution to the development of implementation regulations for a revised Securities Market Law and further streamlining of the legal and regulatory frameworks for NBFIs (by September 2009). 2.2 Facilitation of the development and operations of institutional investors, e.g. investment funds and life insurance companies (by September 2009). 2.3 Assistance in the development of a corporate bond market and its supporting infrastructure such as credit rating agencies (by September 2009). 3.1 Development of options for privatizing the stock exchange aimed at strengthening the efficiency and effectiveness of securities markets (by March 2009). 3.2 Improvement of MSE's trading rules in line with international standards, and support for the establishment of a real-time surveillance system for FRC's trade monitoring function to detect irregularities (by March 2009). 3.3 Investigation of the need to increase processing capacity and risk management capability of the Securities Clearing House and Central Depository (by March 2009). 3.4 Enhanced implementation of corporate governance guidelines and encouragement of listed companies to improve their social responsibility by establishing a social responsibility index (by September 2009). 4.1. Identify lending and nonlending opportunities that could be supported by ADB (by September 2009).			Inputs <ul style="list-style-type: none"> • ADB: TA grant of \$500,000 • Government contribution (in-kind) of \$100,000

ADB = Asian Development Bank, BOM = Bank of Mongolia, FIU = Financial Intelligence Unit, FRC = Financial Regulatory Commission, GDP = gross domestic product, IMF = International Monetary Fund, ITMIS = information technology management information system, MOF = Ministry of Finance, MSE = Mongolian Stock Exchange, NBFi = nonbank financial institution, SCHCD = Securities Clearing House and Central Depository, TA = technical assistance.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total Cost
A. Asian Development Bank (ADB) Financing^a	
1. Consultants	
a. Remuneration and Per Diem	
i. International Consultants	315.0 ^b
ii. National Consultants	45.0 ^c
b. International and Local Travel	50.0
c. Reports and Communications ^d	10.0
2. Equipment	10.0
3. Training, Seminars, and Conferences	
a. Facilitators	10.0
b. Training Program	10.0
4. Miscellaneous Administration and Support Costs ^d	5.0
5. Contingencies	45.0
Subtotal (A)	500.0
B. Government Financing	
1. Office Accommodation and Transport	50.0
2. Remuneration and Per Diem of Counterpart Staff	40.0
3. Others	10.0
Subtotal (B)	100.0
Total	600.0

^a Financed by ADB's technical assistance funding program.

^b Includes \$15,000 for an international resource person.

^c Includes \$5,000 for a national resource person.

^d Includes expenditure for knowledge product creation and dissemination.

Source: ADB estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. International Consultants (11 person-months)

1. Team Leader and Capital Market Supervision and Institutional Investor Specialist (8 person-months)

1. The specialist will be responsible for the overall management of technical assistance (TA) implementation, timely delivery of quality reports, and recruitment and management of local consultants and resource persons. As the capital market supervision and institutional investor specialist, he or she will be responsible for improving the regulatory and supervisory capacity of the Financial Regulatory Commission (FRC) by providing technical and policy guidance, and conducting training activities. In addition, the specialist will be responsible for facilitating the development and operations of institutional investors and assisting in the development of a corporate bond market and its supporting infrastructure such as credit rating agencies. The specialist must have sufficient knowledge and practical experience (at least 10 years) in capital markets development—in particular financial laws and regulations, supervision, institutional investors, and fixed-income securities—and in advising financial supervisory authorities in emerging and/or transition economies. Specifically, the responsibilities of the specialist will include the following:

- (i) Contribute to the preparation of training modules for selected areas covered by the FRC, as well as for investor education programs.
- (ii) In cooperation with other consultants and agencies, provide on-request training to FRC staff and regulated financial institutions in various areas related to the FRC.
- (iii) Prepare a policy paper on recommendations, based on international best practices, of options for the FRC to become less dependent on the government budget by being partly or wholly funded by a levy on the firms it regulates.
- (iv) Assist the FRC to develop regulations to the amended Securities Market Law.
- (v) Review draft laws and regulations currently under preparation and existing laws with relevance to the capital market from the viewpoint of consistency and advise the FRC on necessary changes to ensure consistency.
- (vi) In cooperation with the capital market financial infrastructure and information system specialist, improve the Mongolian Stock Exchange's (MSE's) trading rules and assist the FRC to develop a real-time surveillance system for FRC's trade monitoring function.
- (vii) Support the enhanced implementation of corporate governance guidelines.
- (viii) Consider encouragement of listed companies to improve their social responsibility by establishing a social responsibility index.
- (ix) Assess the depth of Mongolian capital markets, the potential of further development of securities markets (and impediments to their development), and the potential scope for national and international institutional investors (such as life insurance and pension funds).
- (x) Review the infrastructure for capital markets development, including but not limited to rating agencies, clearing and settlement facilities, and credit enhancement mechanisms.
- (xi) Assist in the development of the corporate bond market and advise on the potential for introducing new debt instruments.

- (xii) Identify investment opportunities in cooperation with the executing agency (EA) and the Government of Mongolia regarding systems aimed at strengthening the efficiency and competitiveness of securities exchanges.
- (xiii) Supervise and coordinate the activities of other team members.
- (xiv) Help recruit the local consultants in his or her area of expertise by drafting terms of reference, and identifying and short-listing potential candidates.
- (xv) Other short-term assignments related to capacity building as requested by the FRC.

2. Capital Market Financial Infrastructure and Information System Specialist
(3 person-months)

2. The specialist will be primarily responsible for improving the MSE's surveillance and payment and settlement system in line with international standards. In addition, he or she will be responsible for advice on establishing and implementing the information technology management information system (ITMIS) in the FRC which has been developed under the Capacity Building for Financial Sector Reforms TA.¹ The specialist must have sufficient knowledge and practical experience of the operations, management, and financial infrastructure of securities exchanges as well as in ITMIS, preferably in emerging and/or transition economies. Specifically, the responsibilities of the specialist will include the following:

- (i) In cooperation with the FRC and the capital market supervision and institutional investor specialist, assist the MSE to develop a real-time surveillance system for the FRC's trade monitoring function.
- (ii) Contribute to the investigation of the need to increase the processing capacity and risk management capability of the payment and settlement system of the Securities Clearing House and Central Depository (SCHCD).
- (iii) Review and advise on procurement and implementation of the ITMIS recommendations of TA (footnote 1) in terms of hardware investment, software development, and training for the FRC and for regulated financial intermediaries, paying particular attention to the design so that it
 - (a) reflects factors conditioning the flow of information between financial institutions and the FRC and within the financial institutions,
 - (b) minimizes the regulatory burden on financial institutions to the extent possible,
 - (c) secures the safety of confidential information,
 - (d) reflects the hardware, software, and training requirements for the system,
 - (e) includes cost-effective options for meeting these requirements, and
 - (f) includes necessary actions for the maintenance and better functioning of the systems.
- (iv) Advise on practical solutions on computer networking of the FRC, the MSE, and the Bank of Mongolia.
- (v) Identify investment opportunities in cooperation with the EA and the Government of Mongolia, which might include trading systems for the MSE, payment and settlement systems for the SCHCD, and certain components of an ITMIS for the FRC.

¹ Capacity Building for Financial Sector Reforms (TA 4737-MON) is attached to ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to Mongolia for the Financial Regulation and Governance Program*. Manila (Loan 2218-MON[SF]).

B. National Consultants (14 person-months)

3. Two additional national consultants will be recruited to work closely with the two international consultants. The national consultants must be fluent in English and have strong expertise in areas including capital markets regulation and supervision, financial infrastructure of securities markets, and fixed income securities. The precise allocation across the areas will be decided at a later stage by the concerned international experts. Specifically, the national consultants will help the international consultants by

- (i) providing background information and translating documents into English;
- (ii) helping prepare and conduct training and workshops;
- (iii) advising the international consultants on the major constraints on the implementation of the laws and regulations;
- (iv) advising the international consultants on whether their recommendations are appropriate from the viewpoint of (a) the capacities of executing and implementing agencies; (b) legal and institutional structures in Mongolia; (c) the capacities of regulated agencies and the public and their understanding of the issues related to the recommendations; and (d) the communication tools and other infrastructure available for the regulators, regulated entities, and the public; and
- (v) communicating ideas between the consultant team and relevant government officials to ensure that the recommendations of the international consultants and responses from the Government are fully understood.