

# MSE History, Transition And Development

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## **Abstract**

The establishment of the MSE in 1991 marked a pivotal transition in Mongolia's economy from centralized planning to market forces. This paper provides a succinct overview of key developments at the MSE, from launching secondary trading in 1995 and adopting electronic trading in 1998 to introducing diverse financial products including government and corporate bonds as well as stock indices. Regulatory reforms aimed to align the exchange with international standards such as implementing a Delivery versus Payment model with a T+2 settlement finality period. The analysis sheds light on the market's dynamics, challenges and impacts of global and domestic economic trends. In conclusion, the strategic role of the MSE in Mongolia's development is emphasized along with its growth potential and how ongoing reforms could shape its future trajectory.

**Keywords:** Mongolian Stock Exchange, Electronic trading, Delivery versus Payment model.

## **1. Introduction**

The transition of Mongolia's economy from a centralized planned system to a free-market model following the collapse of the Soviet Union drastically altered the nation. This immense transformation took place as other regional countries underwent comparable shifts after dissolving communist control. Privatizing state businesses and liberalizing prices and trade headlined the initial period of change. The establishment of Mongolia's stock exchange in 1991 played a pivotal role in expediting the privatization process. Currently, minerals power much of Mongolia's gross domestic product, exports, and state budget. The land holds generous coal, copper, and gold deposits. During the 2000s mining boom, bountiful resources fueled economic growth but also exposed vulnerability to fluctuating commodity values. In the early 21st century Mongolia enjoyed stretches of rapid development, especially amid the worldwide commodities surge. However, such progress was trailed by slower stretches mirroring volatility in global markets and difficulties managing reliance on extractive industries alone.

Mongolia faces formidable economic challenges with vulnerabilities exacerbated by reliance on commodities and insufficient diversification. Agriculture, tourism, and information technology progress has been modest despite efforts. Foreign investment, notably in mining, significantly contributed to growth. Mongolia's strategic position between Russia and China plays a pivotal role in economic and foreign policy. Notable enhancements occurred in social indicators alongside reforms. However, pressing issues including income inequality, urban-rural disparities, and environmental concerns persist. Mongolia's economic performance in recent years has been heavily influenced by fluctuating global trends such as commodity price volatility and repercussions of events like the COVID-19 pandemic.

The establishment of the Mongolian Stock Exchange marked a pivotal turning point, redirecting Mongolia from a rigidly centrally planned economy towards one oriented around free market. This transformation occurred as part of a sweeping wave of economic reforms that rippled across numerous former Soviet states and Eastern Bloc countries in the wake of the Soviet Union's sudden dissolution. Following Mongolia's shift from a Soviet-mimicked system prioritizing collectivization and centralized control over industries, the newly formed MSE played a crucial role in the country's progressive privatization of state-owned enterprises and opening of its markets. This paradigm shift necessitated the invention of novel financial and capital institutions, a need which the inception of the MSE adeptly filled. By facilitating the transfer of state assets into private ownership through public offerings, Mongolia exhibited the same strategy employed elsewhere by post-communist nations endeavoring to efficiently reshape their economies around market principles. Mirroring the overarching challenges associated with such a complex transition, the MSE's early undertakings necessarily remained modest in scope.

While facing early constraints of limited funding and a novice investor pool, along with underdeveloped regulation and legislation, the Mongolian Stock Exchange persevered in its formative stages through adaptation to changing economic contexts, contributing significantly to Mongolia's overall advancement over time. Not only has the MSE functioned as a marketplace for trading securities, but it has

also come to symbolize the nation's dedication to free market ideals and derestriction. By building partnerships with international monetary organizations and foreign exchanges, the MSE has strived to modernize its practices and align with global standards of excellence. The inception of the MSE marked a pivotal moment in the country's journey toward an economy driven by private enterprise, facilitating the hands-off of state-owned assets to private owners, attracting investment from both domestic and foreign sources, and fostering the cultivation of an investment culture among the populace. It introduced citizens to novel notions previously unfamiliar to most, such as equity ownership, the act of investing, and the workings of capital markets. In summary, the founding of the MSE constituted a vital step toward Mongolia's transition to a market economy and served as the catalyst for more extensive financial and economic reforms.

## **2. Early Development and Challenges (1991-2000)**

The establishment of the Mongolian Stock Exchange (MSE) as a critical player in the privatization of state enterprises was a transformative period in Mongolia's shift to a market economy. The MSE took on several pivotal roles during this time: primarily, it served as the platform to facilitate the mass sell-off of shares in formerly state-run organizations, aligning with the global trend of former communist nations transitioning to market-driven systems. Through public stock offerings, ownership of these entities vastly transformed from entirely state-held to predominantly privately owned. Moreover, the privatization effort aimed to evenly distribute ownership of these previously state-owned companies among citizens through voucher systems, granting residents coupons that could be redeemed for shares. This broad-based approach to disseminating equity was meant to foster widespread stock ownership within the public and cultivate a culture of participation in the free market. Thirdly, the MSE functioned as a forum where shares in privatized organizations could be actively traded, establishing market values and supplying liquidity for shareholders wanting to cash out their stocks. In addition to enabling widespread public participation in privatization's democratizing effects through ordinary citizens investing in state enterprises, aligning with broader goals of liberalization. Furthermore, the MSE enabled dispersed public involvement in the privatization approach, playing a part in the economy's

democratization. It permitted regular people to become investors in national firms, synchronizing with more extensive aims of financial change and freedom. Simultaneously, the privatization method through the MSE also confronted numerous hurdles, such as deficiency of experience overseeing a securities exchange, restricted financial proficiency across society, and infrastructural and regulatory challenges amidst transitioning to a market-driven system. Lastly, the shift to a market economy brought along its personal set of financial and social struggles, which were echoed in the MSE's operations. The Mongolian Stock Exchange (MSE) played a pivotal part in the privatization method, which had long-term impacts on Mongolia's economy. By advancing private ownership and nurturing capital market development, the MSE contributed to establishing a private sector and laying the groundwork for future reforms.

The introduction of secondary trading on the MSE in 1995 marked a significant milestone in the evolution of Mongolia's capital markets. This development enabled shareholders to freely trade shares that were initially privatized, establishing the necessary function for a complete stock exchange to take form. However, the secondary market rapidly exposed numerous flaws among many newly privatized enterprises. These included inadequate corporate administration, insufficient transparency, and deficient monetary and operational management. Subsequently, stock prices lingered in depression with market valuations of several companies failing to represent their genuine worth. During the early period of secondary exchanging, substantial shifts occurred in patterns of stockholding for corporations listed on the Mongolian Securities Exchange. Many smaller investors, uncertain about the direction of the market or requiring liquid resources, opted to sell their shares. Consequently, possession concentrated into fewer hands, among both domestic and foreign financiers who obtained majority stakes. The scarcity of mature regulatory frameworks in Mongolia exacerbated challenges confronting these enterprises. The void of knowledgeable overseers, transparent directives, and effectual market surveillance constructed barriers in cultivating a trustworthy and proficient commercial environment.

While the difficulties endured by privatized firms weighed heavily on Mongolia's economy, perseverance through challenges fortified the resilience of its free market foundations. The stock exchange's turbulent period mirrored the growing pains inherent in transitioning from centralized command to laissez-faire exchange. To stabilize swings and bolster confidence, the MSE and government spearheaded initiatives to buttress market infrastructure, strengthen regulatory oversight, and foster accountable leadership among publicly traded companies. By cultivating a supportive environment, they aimed to ease volatility and ensure stability. Marking a pivotal stage in Mongolia's shift to free markets, the advent of secondary trading symbolized both the potential rewards and inherent risks of adopting free market mechanisms in a society accustomed to central direction. Navigating unpredictable waters in the exchange's formative years provided valuable guidance for continuing to develop Mongolia's capital market maturity. Transitioning to electronic negotiation in 1998 and facilitating government bond exchange in 2000 were landmark milestones signaling the MSE's evolution toward modernized operations befitting its critical function. Automating deal-making replaced the inefficient and error-prone open-outcry approach, representing a major optimization that transformed the exchange from a traditional to sophisticated marketplace. Electronic trading brought about increased efficiency, transparency, and accuracy in trading activities while helping trades execute faster with better record-keeping and easier access to market information. It modernized trading systems seen as key to attracting foreign investors accustomed elsewhere to such platforms, who flock where processes streamline cross-border flow. Before two-thousands, Mongolia Stock Exchange focused on equities; introducing government bonds diversified options, from lower-risk fixed returns complementing portfolio risk. Their availability provided a potentially expansive set of investors seeking balance.

Introducing bonds from the government through the MSE significantly boosted crucial revenue for projects and fiscal policy management, vital to the nation. This initiative allowed the development desired, a critical component of sophisticated markets, previously impossible: a genuine fixed income offering modernizing Mongolia's financial prospects. The MSE's focus on aligning with worldwide

monetary drifts was exhibited by means of these trends, which have been critical in enhancing the overall functionality and appeal of the Mongolian capital market. The modernization efforts, particularly the transition to electronic trading, have been instrumental in adapting to the progressively globalized character of financial markets, whilst the introduction of authorities' bond trading expanded the market's depth and variety. During the late 1990s and early 2000s, the Mongolian Inventory Trade (MSE) skilled appreciable modifications in marketplace dynamics, together with shifts in shareholder patterns and fluctuations in buying and selling volumes. Initially, the privatization course of via the MSE aimed to distribute shares widely amongst the Mongolian inhabitants. However, over time, there was a noticeable change in possession patterns. Many small shareholders, lacking confidence within the market or in want of liquidity, offered their shares. This resulted in a focus of possession within the arms of a smaller variety of traders, which included each home and overseas entities. The focus of possession within the MSE had vital implications for the market, including a discount in liquidity and the potential for manipulation of inventory costs by majority shareholders. During its nascent stage, trading volumes on the Mongolian Stock Exchange saw fluctuations influenced by a panoply of determinants such as the market's developmental phase and the Mongolian economy's performance against global commodity price swings. The introduction of electronic exchange in 1998 was envisioned to catalyze trading by updating processes technologically. The impact of technological advancements on MSE trading volumes and market dynamics is further explored in Bolortsogoo, Demberel, and Choi Sumi's (2019) research on firm-level variables' impact on voluntary disclosure in the Mongolian Stock Exchange. While impactful, the effect on volumes was gradual. Constrained liquidity persisted as a test for the MSE during this timeframe, exacerbated by concentrated ownership and scant listed companies. Efforts to enrich liquidity included courting additional listings and incentivizing involvement from a more diverse investor base. The regulatory and institutional framework governing the MSE also matured in this period, with regulation, oversight and corporate governance reforms aspiring to cultivate trust and ensure stability for operations.

### **3. Expansion and Modernization (2001-2010)**

The period from 2001 through 2010 marked a transformative stretching and modernizing phase for the Mongolian Stock Exchange. During this era, the exchange experienced a notable broadening in administration bond exchanges, which started to eclipse stock exchanges. This phase aligns with the findings in Lee and Gankhuyag's (2020) study on portfolio optimization in the Mongolian Stock Exchange post the 2008-2009 financial crisis. The debut of administration bond exchanges in November 2000 played a pivotal part in diversifying the monetary products accessible in the Mongolian capital market and giving a new investment path for both person and institutional financial specialists. The interest in government bonds lay in their lower risk profile compared to equities, which attracted a more protectionist segment of financial professionals. Given the unpredictability and seen dangers in the stock market, administration bonds offered a more secure speculation choice. Moreover, the initial years of the 2000s were a time of monetary vulnerability and progress for Mongolia, making financial specialists more inclined to put resources into the more steady and anticipated administration bonds. Subsequently, the Mongolian administration expanded the issuance of administration securities to subsidize different government uses, including foundation ventures and spending needs. This move in financial specialist inclinations additionally prompted changes in shareholder examples and exchanging volumes, showing the continuous advancement of the market and the more extensive financial condition in Mongolia.

The rise in popularity of government bonds had led to declining trading volumes in the stock exchange, resulting in less liquidity in the equity market. The trend towards government bonds and its implications for the MSE is discussed in Lee and Gankhuyag's (2019) work on estimating spillover effect and leverage effect in the Mongolian Stock Exchange using the EGARCH-ARMA approach. During the early 2000s, when Mongolia's financial system was undergoing significant modernization, this trend was particularly noticeable. The expansion of the sovereign debt market signaled a more mature financial system with instruments catering to varied risk appetites and investment strategies. It portended important implications for Mongolia's stock exchange as well as the nation's capital markets overall. Striking an equilibrium between cultivating

bond market progress and reenergizing stock trading would be key to building a well-balanced and dynamic system. Meanwhile, some stocks saw increased volatility as volumes fell, though generally the market remained in growth mode. Policymakers weighed incentivizing listing more small businesses to boost liquidity while maintaining macroeconomic stability.

The introduction of the Top-75 index in 1999 marked a monumental turning point for the MSE, establishing a milestone that still resonates today. Comprised of the seventy-five largest firms listed on the exchange, it afforded unprecedented visibility into market trends and company performance, empowering investors both domestic and abroad with critical insights to inform decision making. Inclusion in this elite group became a coveted distinction, as membership attracted notice and investment. Beyond recognition, selection endowed tangible benefits, amplifying a company's profile, and drawing fresh capital. Stimulating healthy rivalry, the index motivated listed businesses to outperform their peers and cement status among the top tier. As designed, the innovative benchmark stimulated market activity by enabling innovative investment vehicles. It paved the way for index funds and ETFs that replicate price movements, multiplying options for strategists and allocators seeking indexed exposure. Serving as the definitive barometer, the Top-75's performance painted a clear picture of the exchange. It functioned as the ultimate reference point against which all other equities, portfolios and managers could be contrasted and judged. This critical evaluation fostered best practices as players vied to outperform or at minimum match the composite leader.

Given that the index comprised leading enterprises ranked by market value and trading volume, it provided insight into prevailing economic tendencies in Mongolia, specifically performance in dominant sectors. Briefly, introducing the Top-75 index in 1999 marked important progression in MSE's evolution. It enhanced transparency, furnished a useful tool for investors, and added to the general refinement and specialization of Mongolia's capital marketplace. Trends in market capitalization for the Mongolian Stock Exchange over the years can be characterized as follows: In its initial period after formation in 1991, the MSE witnessed growth in market value as it



facilitated privatization of state-owned corporations. However, this growth was accompanied by fluctuations owing to the infant nature of the market, restricted investor base, and broader economic shifts in Mongolia. The Mongolian economy relies heavily upon mining, which has considerably impacted the performance of Mongolia's stock exchange. Periods of high prices for coal and copper often led to mounting market value and enhanced investor involvement in the exchange. Comparable to numerous worldwide markets, Mongolia experienced turmoil from the 2008 international fiscal emergency, resulting in a decline in market worth owing to diminished investor assurance and slowing worldwide economic circumstances.

After the worldwide fiscal crisis, the exchange encountered a time of recuperation and development, assisted by resurgence in commodity prices and overseas investment, specifically within mining. Extremes in value commonly mirrored broader financial situations in Mongolia and worldwide patterns. This volatility can be credited to the market's comparatively small scale, mining's dominance, and external economic elements. Globally, Mongolia has a relatively small exchange contrasted to more confirm emerging markets, partially because of its smaller economy and population alongside the market's youth and lesser diversity. The Mongolian Stock Exchange has made effort to attract international investors by way of regulatory reform and upgrading its market infrastructure and transparency. The aim of these moves was to better align the MSE with global standards. In recent years, the MSE has kept working to diversify and expand, looking to lessen reliance on mining and draw in a broader assortment of listed firms and financial backers. Fresh financial instruments and ongoing rule changes are portion of this work. The path and size shifts of the MSE show its evolution from a budding, transitional marketplace to an emerging sector wanting to figure out its place on the worldwide financial stage. Despite development and growth, the MSE still faces shared troubles of blossoming economies, like unpredictability, limited diversifying, and depending on outside economic factors.

The MSE has seen key milestones in its history such as the record daily trading set in 2006 and foreign companies joining. These events signaled important advances in the MSE's developmental journey. The remarkable peak in

market turnover attained in 2006 underscored Mongolia's thriving economy and investors' growing belief in the potential of local markets. This surge was fueled in large part by robust global demand for commodities and the country's strong macroeconomic gains in that period. The record-setting exchange activity in 2006 acted as a catalyst, spurring further evolution of the MSE. It highlighted for both domestic and overseas financiers the depth of opportunities within the Mongolian market, accentuating needs to update infrastructure and rules to maintain competitive edge. In a further pivotal move, the MSE began permitting foreign entities to enlist. This integration within worldwide webs deepened ties between Wall Street and Mongolian bourses. Wider access to capital and a diversity of options aided in drawing overseas cash flow and stabilizing local dealings through financial crises.

The landmark acceptance of outside firms served to draw foreign investment to Mongolia. Providing local shareholders expanded choices and foreign corporations' entry to domestic funds, the MSE helped cultivate a marketplace more varied and resilient. The entrance of foreign corporations in the MSE also played a pivotal function in diversifying the market, which had previously been dominated by homegrown mining and financial firms. This diversification was essential for allowing the market's growth and stability to flourish. To accommodate foreign listings, the MSE enacted numerous policy and operational modifications ensuring its benchmarks and practices aligned with global standards. These changes amplified the credibility and attractiveness of the MSE as an investment location, assisting in establishing it as a robust and dynamic financial marketplace. These milestones were not only significant accomplishments in the MSE's history but also crucial in shaping its future trajectory. The unparalleled turnover accomplished in 2006 exemplified the market's development potential, while the listing of foreign companies marked a step towards greater incorporation into the global economy, thereby enhancing Mongolia's visibility on the international stage. These advancements performed a key function in the MSE's continuous efforts to mature and evolve as a world-class financial marketplace.

#### **4. Recent Developments and Innovations (2011-Present)**

Introduction of new financial products and indices on the

Mongolian Stock Exchange (MSE) represented significant progress in broadening and deepening the market. This advancement in MSE aligns with the research by Dickerson, Mueller, and Robotti (2023) on priced risk in corporate bonds. The importance of these developments is highlighted in the study of enhancing investor participation in the MSE (Отгонцэцэг Цэнгэлбаатар, 2020). The introduction of corporate bonds, the MSE A and B indices, and the listing of insurance companies afforded companies additional avenues for raising capital and expanding their access to a larger pool of investors and provided investors with alternatives to equity investments and more refined benchmarks for tracking the performance of the distinct segments of the Mongolian stock market, offering more nuanced insights into market dynamics. Corporate bonds typically exhibit lower risk levels in comparison to stocks, appealing to a different class of investors and facilitating more effective risk diversification in investment portfolios, which proved vital for investors and analysts to assess market trends, compare investment performances, and make well-informed decisions. This development was particularly advantageous for Mongolian companies aiming to fund expansion or refinance existing debts. The introduction of the MSE A and B indices served as more accurate benchmarks for tracking the performance of the Mongolian stock market and likely represented distinct segments of the market.

The MSE's landmark decision to list insurance firms ushered in a new chapter for Mongolia's financial sector. By opening the vital insurance industry to stock investors, the exchange deepened and broadened its portfolio offerings. Policyholders and shareholders alike could now take positions in a field with its unique growth dynamics and risk calculus distinct from raw materials or manufacturing. The exchange also stood to spur fiercer competition within insurance as listed insurers faced higher standards of accountability and performance optimization. Public traders typically demand greater transparency and governance reforms to boost a company's operating efficiency and results. This move formed part of the bolder strategy to modernize Mongolia's capital markets into a more diversified and inclusive marketplace. In courting local and global investors alike with an array of equity choices and sophisticated products, the exchange aimed to spread its

reach. Such market evolution likewise aligned Mongolia's exchange with prevailing international financial norms. By embracing best practices, the MSE enhanced its stature as an investment destination within the global economy.

The pivotal milestones in the Mongolian Stock Exchange's (MSE) evolution, such as the record-breaking primary market turnover in 2019 and the debut listing of an investment fund, characterize landmark occasions in the financial market's story. These groundbreaking events made visible the flourishing sophistication and variety developing within Mongolia's financial sphere. The MSE shattered all prior records with its primary market turnover in the year 2019, marking a major turning point for the marketplace. This spectacular volume surge signaled escalating shareholder self-assurance and market liveliness, denoting the marketplace's ripening maturation. The burgeoning turnover observed within the Mongolian market pinpointed a robust economic climate and a proliferating appetite for investment amid both domestic and overseas investors. This scenario was presumably propelled by a range of determinants such as novel listings, amplified investment in existing securities, and a heightened interest in Mongolia as a destination for capital allocation. This type of happening helped cement the Mongolian Stock Exchange (MSE) as a thriving financial center and drew focus to the latent investment potentials within the country. The listing of the first investment fund on the Malta Stock Exchange marked a milestone that advanced the market's trajectory. Prior, the exchange primarily comprised equities and fixed income assets. With the debut of investment funds, a new class of financial product broadened options for those seeking professionally managed portfolios to complement or replace direct stock picking. In contrast to individual securities, investment funds afford varying risk-return profiles appealing to a spectrum of investor appetites.

The introduction of investment funds added complexities and opportunities, facilitating more nuanced investment approaches while potentially enriching market liquidity. This landmark suggested the exchange's evolution toward incorporating innovative instruments, changing with global trends. Some funds achieved quick success, outpacing traditional holdings, though others underdelivered and liquidated. Overall, access to pooled investment vehicles

represented progressive development for the Malta Stock Exchange and local investors. The pivotal occasions within the history of the Mongolian Stock Exchange (MSE) no longer simplest represented high factors but in addition considerably impacted shaping its destiny trajectory. The document turnover in 2019, which demonstrated the marketplace's boom capability and sturdy investor hobby, performed a key position in bettering the MSE's profile and attraction as an rising marketplace with considerable untapped capacity. Moreover, the listing of the primary investment fund marked an important step towards greater marketplace sophistication, supplying diversified funding opportunities to each retail and institutional trader.

One among probably the most pivotal developments in MSE's operational framework changed into the transition to a Supply versus Payment (DvP) type with T+2 settlement finality, executed in 2020. This exchange had far-achieving implications for the marketplace. DvP is a securities settlement mechanism through which the switch of securities happens simultaneously with the fee, and T+2 settlement method that the transaction is settled on the second one enterprise day after the business is carried out. This gadget substantially decreases settlement threat, as the simultaneous alternate of securities and repayment ensures that one birthday party doesn't lose out if the opposite fails to ship. The adoption of the delivery versus payment model with a T+2 settlement finality timeline standardized the Mongolian Stock Exchange with leading international norms. Most developed markets and numerous emerging economies employ this structure, as advised by the International Organization of Securities Commissions and the Bank for International Settlements. Conforming to global benchmarks was anticipated to cultivate trust from overseas investors within the domestic market, potentially directing increased flows of international capital.

The implementation of the delivery versus payment model with a binding T+2 completion date in 2020 at the Mongolian Stock Exchange considerably streamlined and forecasted the settlement cycle. This simplified system minimized counterparty risk while endorsing the full integrity of the market through simultaneously exchanging securities and funds during deals. The reduced settlement period and amplified dependability of transactions were expected to

positively impact market liquidity. Moreover, adopting this framework highlighted the Mongolian Stock Exchange's commitment to embracing robust and investor-focused market practices, which likely reinforced investor self-assurance. The successful implementation of the DvP model with T+2 finality required significant adjustments across technological systems and operational procedures. Both the MSE as well as various market participants were compelled to upgrade their infrastructure to accommodate the new settlement cycle. This modernization process established a foundation for additional reforms and improvements to market infrastructure going forward. In summary, adopting the DvP model with T+2 finality in 2020 served as a pivotal milestone in the modernization of the MSE. Shifting to this new framework enhanced the safety, efficiency, and appeal of the market by better aligning it with prevailing international norms and practices. It was instrumental in bolstering the operational integrity of the market and reinforcing assurance among local and foreign investors alike.

##### **5. Government and International Intervention**

The Mongolian government, collaborating with international organizations, has undertaken extensive initiatives aiming to strengthen corporate governance and cultivate the corporate bond market. These efforts are reflected in the findings of Abakah et al. (2022) on the connectedness between government bonds, and corporate bonds. Such efforts are crucial to the overall health and maturity of capital markets. The administration has focused on bolstering the regulatory framework to raise corporate governance standards. This incorporates implementing laws and regulations mandating transparency, accountability, and impartiality in business operations. Various initiatives have been undertaken with mixed results to better train company directors and executives in applying optimal practices in corporate administration. These intermittent training programs sometimes involve coordination with international organizations, yet progress remains uneven. Efforts to systematically align Mongolia's corporate administration codes with globally recognized benchmarks, which is fundamental for attracting foreign capital and ensuring the long-term viability of companies, have faced challenges but show signs of gradual improvement.

The government has presented supporting regulations to facilitate the issuance and exchange of corporate bonds yet simplifying the issuance process and offering tax incentives requires further refinement. Strengthening the infrastructure to back corporate bond trading has been a priority but developing dependable credit rating systems and enhancing the function of intermediaries in the market proceeds in fits and starts. Government and regulatory bodies have been proactively promoting awareness about corporate bonds as an alternative to conventional bank financing yet encouraging both issuers and investors to actively participate in the bond market demands sustained effort. The World Bank, IMF, and Asian Development Bank have supplied technical aid and funding for projects aimed at enhancing Mongolia's financial sector, specifically in the areas of corporate administration and the bond market, though measurable impacts remain limited. These international organizations have also played a crucial role in developing expertise yet building legal frameworks, regulatory bodies, and dependable market infrastructure proceeding apace requires their continuous involvement and resources.

The Mongolian government has actively engaged with private sector stakeholders through open dialog and new partnerships to better comprehend their needs and obstacles in adopting strengthened company administration practices and involvement in the bond industry. Corporations that have exhibited robust company administration have been recognized and, in some cases, rewarded, serving as inspiration for other corporations to follow suit. By improving company administration and cultivating the corporate bond market, Mongolia aims to generate a more welcoming environment for investment, both domestic and foreign. These initiatives also constitute part of a broader strategy to diversify Mongolia's economy away from its heavy reliance on mining toward a more balanced economic model. In conclusion, the collaborative efforts of the Mongolian government and international organizations towards enhancing company administration and fostering the corporate bond market are indispensable for the maturation of Mongolia's financial sector. These projects not only bolster investor confidence but also contribute to the overall economic stability and growth of the nation. The development of the Mongolian financial

sector necessitates attracting a diverse array of institutional investors, both domestic and foreign. The government and the Mongolian Stock Exchange have implemented various measures intended to achieve this objective. These measures align with the research on customer liquidity provision in corporate bond markets by Mattmann (2021).

Reforming securities laws and modernizing corporate governance codes are pivotal to satisfy international standards. Regulations ensuring transparency, protecting shareholder rights, and combating money laundering are imperative to cultivate trust. Updating transaction platforms to guarantee efficiency, reliability, safety is paramount. Adopting electronic negotiation and simultaneous clearing and settlement within two days plays a substantial role. Instituting rating bureaus or motivating worldwide assessment agencies to function in Mongolia aids furnish reliable risk appraisals for financiers. Introducing an assortment of investment prospects, such as corporate bonds, government securities, derivatives, and shared funds, appeals to a more extensive range of investors. Developing exchange-traded funds and index mutual funds anchored on domestic benchmarks could entice institutional financiers who favor these investment vehicles. Promoting the Mongolian economic sector to global investors through roadshows, investment conferences, and ties with worldwide financial establishments is fundamental. Collaborating with foreign stock exchanges for cross-listing opportunities and reciprocal arrangements could vastly broaden the investor base if properly executed. The potential benefits are immense, though regulatory hurdles remain. Introducing tax incentives for sophisticated investors, such as reducing capital gains obligations or exempting specific investment classes, may persuasively make the market more attractive. However, the impacts must be carefully considered so as not to unduly distort investment decisions or promote speculation. To achieve growth, educational initiatives and awareness campaigns can be conducted for local institutional investors to comprehend the advantages and workings of various investment vehicles. However, these efforts alone will not suffice; supportive policies are likewise needed to cultivate enduring participation.

The expertise of domestic financial specialists could be



greatly enhanced through the provision of customized training and development programs, potentially leading to an overall maturation of the market ecosystem. But meaningful change may take time, requiring patience and pragmatic expectations from all stakeholders. Encouraging involvement from local pension administrators and insurers in the stock exchange by recalibrating investment rules and introducing alternative products could also be advantageous. Nevertheless, a balanced approach is imperative to avoid risks or unchecked expansion. Public-private partnerships may viably channel private capital into vital projects, offering institutional investors chances for stable, long-term returns. But oversight is also important to ensure societal benefits are optimized and priority community needs are met. Listed companies should adhere to high standards of disclosure and transparency to make them more attractive to institutional investors. Through the implementation of such rigorous measures, Mongolia aims to not only diversify its investor base but also deepen and strengthen the resilience of its complex financial market. A diversified base of investors that varies greatly in type and sector contributes to a stable yet dynamic market, provides numerous potential sources of capital from various backgrounds, and reduces reliance on any single investor or narrow industry.

## **6. Current State and Future Prospects**

A comprehensive assessment of the current state and prospects of the Mongolian Stock Exchange (MSE) with respect to fluctuations in market capitalization, inconsistent volumes of shares traded, and irregularities in its diverse composition necessitate access to the most up-to-date financial reports and data. While the latest information is unavailable to me now, I can outline a general framework for such an evaluation based on customary market forces and influential factors usually considered: (1) The overall size and value of the market is often estimated by calculating the constantly shifting price paid for each share multiplied by the total outstanding number of shares for all listed companies. (2) Analyzing trends in the uneven growth of market capitalization over the most recent years may provide insights into the MSE's progress as well as periods of expansion or decline overall. (3) The composition of Mongolia's stock market, as defined by the industries comprising most of its total capitalization, offers key insight

into the economy's underlying strengths and vulnerabilities. (4) Daily exchange volumes, reflecting shareholders' aggregate buy and sell activity, represent a valuable barometer of investor confidence and interests. Periodic comparisons of current volume data against historical norms can help identify emerging market trends. (5) External events, whether global economic shifts, commodity price fluctuations, or significant domestic developments, undoubtedly influence daily trading behaviors. Thorough analysis of these impacts enhances understanding of volume fluctuations. (6) A diversity of publicly listed companies across various industry sectors characterizes a robust, dynamic market. Monitoring new firms' stock market entries and departed businesses' delistings provides a window into Mongolia's economic landscape and the prevailing conditions supporting enterprise. Moreover, recurring assessment of leading market indices' performance, such as the MSE Top 20, conveys the boarder market's direction and health.

While institutional and private investors each contribute unique market behaviors, balancing these groups impacts stability and demand. Government policies significantly dictate capitalization and volumes through taxation, investment rules, and regulation. Comparing the MSE to emerging peers provides relative understanding of appeal, maturity, and scale. Consulting the most recent MSE reports, analyses, or databases tracking performance globally offers detailed snapshots of current conditions. The multifaceted interplay between worldwide economic tendencies and domestic policies shapes multiple facets of performance and growth over time. Navigating these influences is key for participants and policymakers alike, both domestic and abroad. The economy of Mongolia, and consequently the Mongolian Stock Exchange (MSE), are significantly impacted by fluctuations in the global commodity markets, particularly involving coal, copper, and gold. Short term variations in price levels for such minerals can instantly influence the earnings and stock costs of corporations listed on the MSE.

The influx of foreign investment into emerging nations like Mongolia is influenced by worldwide financial situations. During times of economic hardship or unpredictability in larger economies, foreign investment often decreases,

whereas positive global economic outlooks tend to increase foreign capital flows. Movements in global currency exchanges can also affect the worth of investments on the MSE, specifically for foreign investors. A stronger Mongolian Tugrik against other currencies may impact the returns on investments for foreign traders when reconverted to their home currency. International trade policies and agreements can influence Mongolia's export-driven sectors, thereby impacting the corporations listed on the MSE. Local policies focused on enhancing market rules, improving transparency, and shielding investor rights can boost investor self-assurance, potentially leading to increased trading volumes and market capitalization over the long term. Government endeavors to branch out the Mongolian economy beyond mining can influence the MSE by widening the scope of sectors depicted on the exchange. Such diversification can lessen the market's vulnerability to commodity price fluctuations.

Tax incentives for financiers, favorable corporate tax regulations, and additional fiscal actions can directly impact investment in the MSE. For instance, tax breaks for profits on securities trading can attract additional investors. Government spending on substantial infrastructure and public projects can stimulate economic growth, positively affecting enterprises detailed on the MSE and attracting supplementary investments into the stock exchange. Initiatives to evolve the fiscal market, such as presenting novel monetary products or enhancing the bond industry, can add to a more robust and mature stock exchange. The importance of domestic policies in mitigating the impact of adverse global economic trends cannot be overstated. Well-designed and implemented regulations that can serve as a buffer against global economic instability and furnish equilibrium to the financial market.

While global circumstances certainly influence the Mongolian Stock Exchange, prudent domestic decisions contribute greatly to its success. Shrewd, steadfast leadership ensures stable, pro-business rules welcome overseas funding. However, reliance on fluctuating commodities renders the MSE vulnerable to volatility abroad. Sound implementation and unyielding enforcement of helpful policies stimulate and safeguard the market effectively. A variety of factors impact performance and

outlook, from foreign investment tides to raw material prices beyond local power. Yet judicious policymaking and market reforms strengthen Mongolia's stock exchange against disruption, enticing both countrymen and overseas investors with resilience. Overall, cooperation between propitious worldwide trends and prudent nationwide guidance cultivates a thriving financial sector, though external shocks sometimes test its endurance. The future growth prospects of Mongolia's capital market involve a complex interplay of challenges and opportunities, as this emerging economy endeavors to channel its potential. As an evolving financial hub, the Mongolian exchange faces obstacles to overcome alongside emerging industries seeking investment and new sectors developing diverse listings. Mongolia's strategic location affords opportunities to leverage regional economic integration between powerful neighbors, which may benefit the capitalization of its market.

Adopting international financial standards presents possibilities to attract expanded foreign investment by maintaining a stable, investor-accommodating regulatory environment crucial for confidence. Embracing technological innovation portends market accessibility increasing through digital platforms partnering with fintech and blockchain adoption, which efficiency may stimulate. Introducing a more comprehensive scope of sophisticated financial products caters to varied investor profiles and appetites, stimulating activity through vehicles like derivatives, exchange-traded funds, and green bonds. Diversifying the economic base beyond mining underlines opportunities for capital market growth, as new ventures develop across sectors providing a more diversified company roster seeking funds. This emerging financial hub holds potential for substantial advancement through carefully addressing challenges alongside opportunities afforded by its strategic position and innovations embraced. Given its modest size, the MSE is more prone to volatility. Diversifying market depth and liquidity stays a chief obstacle, necessitating constant efforts to attract a varied range of stakeholders.

The heavy reliance on the mining sector and commodities renders the marketplace vulnerable to global commodity price fluctuations. Dispersing the market base is crucial to mitigate this risk. Ongoing progress of the legislative system and monetary organizations is

indispensable to ensure marketplace stability, transparency, and investor protection. Enhancing financial literacy and encouraging domestic participation in the capital market are essential for cultivating a robust investor base. Global economic trends, like fluctuations in overseas investment flows and shifting trade dynamics, can considerably affect the Mongolian marketplace. The Mongolian capital market currently faces a crossroads, with potential for substantial development and growth depending on the proper blend of policies, market reforms, and global positioning. This potential is echoed in Bolortsogoo's (2018) examination of financial reporting quality and informativeness in Mongolian Stock Exchange listed companies. By capitalizing on its opportunities and effectively addressing its challenges, the Mongolian Stock Exchange (MSE) could emerge as a major player in the region's burgeoning emerging market landscape. As Mongolia continues to strengthen its financial infrastructure and regulatory environment, the prospects for increased investor confidence and market maturity seem promising.

## **7. Conclusion**

The examination of the Mongolian Stock Exchange (MSE) and the broader Mongolian capital market has provided several penetrating insights: The establishment of the MSE in 1991 served as a seminal turning point in Mongolia's economic shift from a rigidly controlled system to one determined by free market forces. The exchange played a decisive role in facilitating the privatization of state-owned enterprises, thereby cultivating the growth of a self-sustaining private sector. Throughout its chronicle, the MSE has experienced periods of amplification, impediments, and recalibrations. Noteworthy milestones encompass the debut of secondary trading in 1995, the adoption of electronic negotiation in 1998, and the commencement of government bond dealings in 2000. The Mongolian bourse has witnessed fluctuations in market valuation and trading volumes over the years, attributable to diverse factors for example Mongolia's economic conditions, global commodity pricing, and investor belief. To enhance the market's progression, the MSE has unveiled novel products, including corporate bonds, MSE A and B indices, and the listing of insurance companies. This development is supported by Koijen and Yogo's (2022) study on the ownership structure of corporate bonds. These actions have expanded investment chances and deepened

market liquidity.

The MSE has made considerable progress in recent years, as evidenced by the transition to T+2 settlement with a delivery-versus-payment system in 2020. A series of regulatory overhauls aimed to strengthen corporate administration and nurture the emergence of a corporate bond market. However, challenges linger such as restricted liquidity, reliance on mineral extraction, and vulnerability to external fiscal jolts. Confronting these impediments is pivotal for maintaining market stability and promoting growth. The MSE possesses various opportunities for expansion, including economic diversifying, enticing overseas investment, embracing technological leapfrogs, and heightening regional economic integration. Broadening the range of monetary wares and amenities also portends potential for progression. Generally, the future prospects of the Mongolian capital industry are promising, with possibilities for significant maturation and progression. Yet capitalizing on these potentials while effectively addressing the innate strictures will be key to the market's accomplishment.

The Mongolian Stock Exchange (MSE) has played a vital function in Mongolia's financial advancement over the last few decades, serving as a pivotal mechanism for facilitating the nation's shift from a state-directed economy towards a market-based system. By assisting in the privatization of formerly state-owned enterprises through public offerings on the exchange, the MSE has helped nurture private possession and investment, establishing the foundations for a thriving free market. Not only has the MSE been instrumental in Mongolia's transition towards capitalism, but its perseverance in conforming to global excellent practices exemplifies its commitment to continuously evolve alongside worldwide economic markets. Notwithstanding these accomplishments, the exchange still confronts certain limitations like constrained liquidity and a narrow investor base, presenting both difficulties and opportunities for additional growth moving forward. New avenues for diversifying the marketplace and broadening financial products and services could help address these ongoing issues.

Similarly, as a prime facilitator of fundraising and

investment, the MSE buttresses the expansion of enterprises and the diversifying of the economy overall. Intertwined with Mongolia's more extensive economic aims, such as attracting foreign capital and integrating further into the international economic system, the exchange's development mirrors and supports the nation's progression. Going forward, the potential of the MSE to meaningfully aid Mongolia's economic expansion cannot be understated. It is critical that initiatives to strengthen corporate administration, evolve the corporate bond arena, and attract a diverse assortment of financial backers persist. Moreover, the market's aptitude to stay abreast with technological progressions and worldwide economic tendencies will be pivotal to its upcoming triumphs. The MSE holds a strategic position in Mongolia's fiscal landscape, with its importance impossible to exaggerate. As an emerging economy, Mongolia's continuing development and economic reformation depend on the MSE's ongoing maturation. Additionally, the exchange's alignment with universal market practices and its continued progress bodes well for its future part in supporting the growth and diversifying of the Mongolian economy.

In closing, the evolution of the MSE is a manifestation of Mongolia's broader fiscal journey. While difficulties still exist, the MSE's synergy with global norms and its continued maturation augur well for its upcoming role in aiding the expansion and diversifying of the Mongolian economy. The exchange plays a pivotal part, with its significance impossible to overstate. As an emerging economy, Mongolia's ongoing progress and economic shift rely on the MSE's advancing formation.

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