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**SUMMARY OF THE NEWLY APPROVED  
LAW ON SOVEREIGN WEALTH FUND**

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## SUMMARY OF THE NEWLY APPROVED LAW ON SOVEREIGN WEALTH FUND

The amendment to the Constitution of Mongolia, approved by Parliament on November 14, 2019, enshrines several key principles for responsible resource management. First, it mandates a long-term development policy for utilizing natural resources. Second, it guarantees the right to a healthy and safe environment for all present and future generations. Third, it emphasizes that the benefits of subsoil resources should be concentrated in the Sovereign Wealth Fund and distributed equitably and fairly. Finally, it establishes the principle of public ownership over strategic mineral deposits, with a legal framework ensuring majority benefits flow to the people. This commitment to responsible resource use is further solidified by the newly approved Sovereign Wealth Fund Law in April 2024, alongside amendments to existing legislations.

### I. The Law on Sovereign Wealth Fund

On January 9, 2020, following the amendments to Mongolia's Constitution, the Great Khural adopted Resolution No. 02 on "Alignment of Legislation with the Amendments to the Constitution of Mongolia, and Measures to Be Taken Related to It" and approved the draft law on the Sovereign Wealth Fund, guided by the following basic principles:

1. Consolidate revenues from subsoil resources in the Sovereign Wealth Fund. Increase the fund through financially efficient projects, programs, and issuing securities.
2. Promote inclusive economic growth and ensure fair distribution of benefits.
3. Ensure harmony between the Sovereign Wealth Fund Law and the Law on Special Government Funds.

The "Preliminary Research Report on the Needs and Requirements of the Draft Law on the Sovereign Wealth Fund" proposed a three-tiered structure for Mongolia's Sovereign Wealth Fund. The first tier, the Future Heritage Fund, would be dedicated to generating savings from natural resources for future generations. The Savings Fund would focus on distributing resources to benefit citizens. Finally, the Development Fund would channel funds towards financing major development projects. The report further recommended studying best practices from wealth funds in Norway, Kazakhstan, Kuwait, Saudi Arabia, New Mexico, and Alaska. These insights would inform the development of a robust regulatory framework for the Sovereign Wealth Fund. This framework, in turn, would enable the implementation of parallel development policies for both current and future generations through these sub-funds.

*The Law addresses several key issues as follows:*

1. **Structure and Management:** It establishes the principles of the Sovereign Wealth Fund and its sub-funds (Future Heritage Fund, Savings Fund, and Development Fund). This includes specifying how resources will be allocated to each sub-fund, their designated purposes, spending regulations, and the organization responsible for managing the fund's income. Additionally, it outlines provisions to ensure the fund's stability.
2. **Institutional Roles:** It defines the functions and activities of various state institutions related to the Sovereign Wealth Fund. This includes the State Great Khural (Parliament),

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the Government, and central administrative bodies responsible for direct management of this specialized fund.

- 3. Transparency and Accountability:** It establishes regulations for fund reporting, transparency measures, and control mechanisms to ensure responsible use of the fund.

The Law on the Sovereign Wealth Fund aims to ensure the responsible management of Mongolia's underground resources for the benefit of all citizens, both present and future. It achieves this by establishing a Sovereign Wealth Fund, defining its purpose, source of revenue, and ensuring the stability of its assets. Additionally, the law regulates reporting and monitoring activities to promote transparency and accountability. The Law itself is structured into 5 sections with 16 provisions.

## **II. Notable Amendments to the Mineral Law:**

*Following the enactment of the Sovereign Wealth Fund Law, several amendments were made to the Minerals Act:*

To ensure transparency and national interest, the law prohibits any entity, either alone or jointly with affiliated parties (excluding state-owned legal entities or legal entities that entered into an Investment Agreement with the Government of Mongolia) from owning more than 34% of the total issued shares in a legal entity holding a special license for a strategic mineral deposit. And the new definition has been added to the term “strategic mineral deposit” which defines a deposit that affects national security, the state economy, and social development, or that produces or can produce more than 5% of Mongolia's gross domestic product per year.

The amended act mandates state ownership of these strategic deposits at a minimum of 34%, with the option to increase to 50% if exploration was funded by the state budget. Alternatively, the state's ownership share can be determined by the level of its investment. Importantly, the act allows for royalties in lieu of direct state ownership in these strategic deposits.

Its restricted for any entity or affiliated parties from owning more than 34% of the issued shares in a legal entity holding a special license for a strategic mineral deposit. Additionally, companies with such licenses are required to list and trade at least 10% of their shares on the Mongolian Stock Exchange.

## **III. Notable Amendments to the Corporate Income Tax Law:**

The Corporate Income Tax Law was amended to address situations where the ultimate owner of a mining license for a strategic mineral deposit transfers ownership rights (including land rights, exploration/exploitation licenses for minerals, radioactive minerals, and oil) through gifting or inheritance of a legal entity's shares, participation, or voting rights. In such cases, a 30% tax is levied and at a rate of 10% for other cases.

**Source:**

1. Constitution of Mongolia (1992);
2. The Law of Mongolia on Sovereign Wealth Fund (2024);
3. Resolution No. 02 of the Great Khural on "Alignment of Legislation with the Amendments to the Constitution of Mongolia, and Measures to Be Taken Related to It" (2020);
4. The Law of Mongolia on Mineral (2006);
5. Corporate Income Tax Law (2019).

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