

Law on Non-profit Legal Entities

Chapter One

General provisions

Article 1. Purpose of Law

1.1. The purpose of this law is to regulate relations concerning the establishment, reorganization, liquidation, management, organizational structure and such other relations arising from specifics of operation of a non-profit legal entity.

Article 2. Legislation on Non-profit Legal Entities

2.1 Legislation on non-profit legal entities shall comprise of the Constitution, the Civil Code, the Law on State Registration of Legal Entities, relevant tax laws, this law and other legislative acts issued in conformity with them.

2.2 If an international treaty to which Mongolia is a party is inconsistent with this law, then the provisions of the international treaty shall prevail.

Article 3. Framework of this law

3.1 This law shall equally apply only to a non-profit legal entity which has taken the form and organizational structure stipulated in this law and which has been established in the territory of Mongolia.

3.2 Relations concerning the establishment, reorganization, liquidation and management, organizational structure and peculiarity of operation of a political party, its subordinate organization, Trade association, religious organization shall not be regulated by this law.

3.3 Relations concerning the specifics of operation of the Red Cross, the Notary Chamber, the Association of Advocates, the Highest council of apartment owners and the Chamber of Commerce and Industry shall be regulated by the relevant laws, and all other relations shall be subject to this law.

Article 4. Main attributes, Form and Classification of Non-profit Legal Entities

4.1. Non-profit legal entity shall have the following main attributes:

4.1.1. the main objective is not-for-profit;

4.1.2. does not distribute dividends directly or indirectly;

4.2. Non-profit legal entity shall take any of the following forms:

4.2.1. an association;

4.2.2. a foundation.

4.3. "Association" shall mean legal entity with a membership established by one or more persons on voluntary basis for the purpose of attaining their common objective.

4.4. "Foundation" shall mean a non-membership legal entity established by one or more persons for the purpose of attaining their common objectives beneficial to the public.

4.5. An association may operate for the benefit of public or it may operate for the benefit of certain interest groups to serve only their interests.

4.6. Associations may be classified as follows:

4.6.1. Public benefit associations;

4.6.2. Other than public benefit associations.

4.7. The association, the charter of which provides for carrying out one or more types of activities beneficial to the public shall be a "public benefit" association.

4.8. The association, the charter of which provides for carrying out activities for the benefit of certain interest groups shall be "other than public benefit" association.

4.9. A foundation by its objective shall be "public benefit" only.

4.10. The first page of the charter of a foundation and association registered with the state registration shall bear a notice "Public benefit".

4.11. Specific relations pertaining to a foundation and association shall be regulated by chapter five of this law.

Article 5. Persons Authorized to Establish Non-profit Legal Entity

5.1. The following persons shall be entitled to establish non-profit legal entity:

5.1.1. A citizen of Mongolia, or legal entity;

5.1.2. A foreign citizen permanently and legally residing in Mongolia;

5.1.3. an international organization.

Article 6. Name of Non-Profit Legal Entity

6.1. A non-profit legal entity shall have a name in accordance with Article 27.1 of the Civil Code. A foundation shall have a name followed by the word "foundation". A non-profit legal entity in the form of association may use any name (center, club, museum, theatre, radio, television, bureau etc).

6.2. A non-profit legal entity may not have a name that overlaps with the name of other legal entity or the name similar to that of other legal entities, which may lead others to confusion.

6.3. It shall be prohibited to register other legal entity with the same name as the non-profit legal entity, or use the names of associations, foundations without their approval.

Article 7. Place of Residence and Legal Address

7.1. A place of residence shall be the place where the management of legal entity is located.

If there is no permanent general management, the place of residence shall be the place where the managing body is located or the place where the person authorized to represent the legal entity without a power of attorney is residing.

Article 8. Representation

8.1 Unless otherwise provided by the charter, an Executive director shall legally represent the non-profit legal entity, and the charter shall specify persons authorized to represent the non-profit legal entity on the basis of a power of attorney.

8.2. A governing body of non-profit legal entity shall appoint the person who will represent the legal entity in court disputes between its governing and managing bodies and members. The charter may not provide otherwise.

Article 9. Structure, Branch and Representative Office of Non-profit Legal Entity

9.1. A non-profit legal entity shall establish its structure and organization by its charter.

9.2. A non-profit legal entity may establish its branch and representative office in the territory of this country.

9.3. A branch and representative office shall not have a right of legal entity, and their rights and obligations shall be determined by the charter of legal entity.

9.4. A non-profit legal entity shall allocate to its branch, representative office assets needed for normal operation of their activities and shall include in its charter the procedure for their record.

9.5. The management of a branch and representative office shall be appointed by an authorized governing body stipulated in the charter of non-profit legal entity and shall operate on the basis of a power of attorney.

9.6. A branch and representative office shall operate only in the name of a legal entity which has established them.

9.7. In accordance with the Law on Registration of Legal Entities, the state registration of a non-profit legal entity shall include the record about branch and representative offices of the legal entity and in the event that the legal entity decides to change its name it shall have an obligation to notify the Registration Authority.

Article 10. Rights and Obligations of Non-profit Legal Entity

10.1. A non-profit legal entity shall have the following rights:

10.1.1. to open a bank account in accordance with laws;

10.1.2. to have its own budget;

10.1.3. to have assets in their possession, use and ownership;

10.1.4. to acquire immovable property and exercise rights relating to such property;

10.1.5. to establish branch and representative office;

10.1.6. to be entitled to tax privileges and exemption;

10.1.7. to engage in business activities, which comply with requirements of Article 13.1.

10.1.8. to be a shareholder of a for-profit legal entity/partnership, company/ or member, or founder of other non-profit legal entities;

10.1.9. to hire employees on the basis of employment agreement;

10.1.10. to use stamp, letterhead, and have its own symbol registered in accordance with relevant procedures;

10.1.11. other rights provided by law.

10.2. A non-profit legal entity shall have the following obligations:

10.2.1. to comply with laws of Mongolia;

10.2.2. to pay taxes, payments and fees prescribed by law in accordance with established procedures;

10.2.3. to file quarterly and annual financial reports with corresponding financial institutions within prescribed period established by law;

10.2.4. to prepare an activities reports on its operation within prescribed time; with respect to foundations and public interest associations, submit such reports to the Council stipulated in Article 61 of this law;

10.2.5. to compensate for harm caused to others;

10.2.6. other obligations provided by law.

Article 11. State Registration

11.1. A non-profit legal entity shall acquire civil law capacity and obtain the rights of legal entity from the date of its state registration in accordance with Article 5.1 of the Law on State Registration of Legal Entities

11.2. All relations pertaining to state registration of non-profit legal entity and its removal from the state registration shall be regulated by law.

Article 12. Regulation of Tax Matters of Non-profit Legal Entity

12.1. Relations pertaining to tax of non-profit legal entity shall be regulated by tax legislation.

Article 13. Conducting of Business by Non-profit Legal Entity

13.1. A non-profit legal entity may conduct business in order to attain its goals set forth in the charter. However, the following requirements must satisfied:

13.1.1. business activity must not exceed the scope of main activity of the legal entity set forth for in the charter;

13.1.2. must dispose of income earned from conducting a business for the purposes of conducting its main activity;

13.2. In the event that non-profit legal entity conducts a business, it shall include in the charter the course and type of activities and comply with legislation and rules regulating such relations.

Article 14. Income of Non-profit Legal Entity

14.1. Income of a non-profit legal entity shall consist of the following:

14.1.1. income derived from conducting its main activity set forth in the charter;

14.1.2. donation and assistance from others;

14.1.3. income earned from conducting a business;

14.1.4. funds appropriated from the state or local budget pursuant to the contract stipulated in Article 18.3;

14.1.5. financial support from the government for conducting public benefit activities;

- 14.1.6. dividends;
- 14.1.7. membership fees;
- 14.1.8. other sources of income

Article 15. Prohibited Activities of Non-profit Legal Entity

15.1. The following shall be prohibited in the activities of a Non-profit legal entity:

- 15.1.1. direct or indirect distribution of dividends;
- 15.1.2. earning income through fraudulent multi-level marketing or pyramid schemes;
- 15.1.3. engaging in network business;
- 15.1.4. pledging assets to secure other's obligations, issue guarantees and make payments on behalf of others;

Article 16. Activities Report

16.1. A non-profit legal entity shall prepare an activities report on annual basis and submit it to an authorized bodies set forth in the charter.

16.2. an activities report shall include the following:

- 16.2.1. name and classification of the association, foundation;
- 16.2.2. brief information about its activities; major activities of a foundation and public benefit associations;
- 16.2.3. income earned from conducting business;
- 16.2.4. amount of donation from others;
- 16.2.5. amount of inherited assets;
- 16.2.6. donations exceeding 25000000 tugrugs or the name of person who inherited assets;
- 16.2.7. disposition of income earned in the given year.

16.3. In the event that a donor designated the purpose of donation, a non-profit legal entity shall report to such donor of disposition and distribution of donated assets.

16.4. A foundation and public benefit association shall file its activities report within first quarter of the next year to the Council stipulated in Article 61 of this law.

16.5. Activities of a non-profit legal entity shall be open and transparent to the public, and the members, founders, supporters of the legal entity and any interested person may review the activities of the legal entity.

16.6. Activities report shall be kept in accordance with the Law on Archives.

Article 17. Financial Report

17.1. A non-profit legal entity shall maintain accounting books and records and prepare financial statements pursuant to provisions of the Accounting Law.

17.2. A non-profit legal entity shall file its quarterly financial report by 20th of the first month of the following quarter and its annual financial report by 10th of February of the following year.

17.3. Upon receipt of financial report the relevant authorized bodies shall settle all tax, fee payment matters with the associations and foundations.

17.4. The official of a non-profit who has failed to maintain accounting books and financial reports pursuant to established procedures shall be liable in accordance with the Accounting Law.

Article 18. Relations between Government and Non-profit Legal Entity

18.1. A non-profit legal entity shall conduct its activities in accordance with legislation and independently from the state.

18.2. Information other than about the activity of government relating to state or organizational secret shall be available to a non-profit legal entity.

18.3. A non-profit legal entity may cooperate with the state and may perform works and services, on contract basis, that are consistent with its mission stipulated in the charter and financed from state or local budget. A Government shall approve a form of such contract.

18.4. A non-profit legal entity may be allowed to participate in drafting and implementing decisions made by the parliament, state central administrative body, local and self-governing bodies.

18.5. A non-profit legal entity shall have a right to express its official position with respect to decisions made by the parliament, state central administrative body, local and self-governing bodies concerning the main activity of such legal entity.

CHAPTER TWO

Establishment, Reorganization, Liquidation of Non-profit Legal Entity

Article 19. Establishment of a Non-profit Legal Entity

19.1. A non-profit legal entity may be established by adopting a founding documents or by way of reorganization of another registered non-profit legal entity.

Article 20. Founding Documents

20.1. The provision concerning "founding document" of Article 31.4 of the Law on State Registration of Legal Entities shall equally apply to establishment of a non-profit legal entity and the founding documents shall take the following forms depending on type of legal entity to be established.

20.1.1. In the case of association, a resolution made and the charter adopted by founding meeting;

20.1.2. in the case of foundation, a founding resolution made and the chartered adopted by founders' meeting, founding agreement;

20.2. Provisions included in founding documents shall be binding upon the legal entity, its members and founders.

20.3. In the event that provisions of founding agreement and the charter conflict with each other, such conflict shall be resolved as follows:

20.3.1. an internal dispute among founders and members of the foundation shall be resolved pursuant to a founding agreement;

20.3.2. a dispute arising from dealing of a legal entity with third party shall be resolved as provided by the charter;

Article 21. Reorganization of Legal Entity

21.1. A legal entity may be reorganized by consolidation, merger, division, separation pursuant to resolutions adopted by authorized body stipulated in the charter of such legal entity.

21.2. However, it shall be prohibited to reorganize a non-profit legal entity by changing its main objective /changing it to for-profit/, organizational type and form.

21.3. In the event that a non-profit legal entity violates Article 21.2. of this law, the tax shall be assessed on the income earned from the moment of its registration with the state at rates equal to that of for-profit legal entities and the legal entity shall cease to enjoy and pay back any privileges granted by the state.

21.4. An association may be reorganized into a foundation. However, a foundation may not be reorganized into an association.

Article 22. Liquidation of Non-profit Legal Entity

22.1. A non-profit legal entity shall be liquidated by a resolution of an authorized body stipulated in the charter or upon other grounds provided by law.

22.2. The authorized body who has made a resolution to liquidate a non-profit legal entity shall notify in writing the State Registration Agency of termination of the legal entity within three business days as provided by the Law on State Registration of Legal Entities and shall enclose to such notice a resolution or its notarized copy.

22.3. An authorized body who has made resolution to liquidate a non-profit legal entity shall appoint a liquidation commission and such commission shall be charged with managing the liquidation process.

22.4. Upon appointment of the liquidation commission, the authority of the non-profit legal entity shall be transferred to the liquidation commission.

22.5. The liquidation commission shall represent the legal entity in all court proceedings.

Article 23. Procedure for Liquidation of Non-profit Legal Entity

23.1. The liquidation commission shall publish a public notice of the liquidation of the legal entity through mass media.

23.2. The liquidation commission shall establish time periods for the presentation of claims of creditors in accordance with the Civil Code and publish a public notice of such period together with the condition and procedure for the presentation of claims through mass media.

23.3. During period of the presentation of creditor claims, the liquidation commission shall prepare a financial report reflecting financial condition of the legal entity, and approve the list of creditors.

23.4. If the liquidating legal entity's monetary assets are not sufficient to satisfy the claims of creditors, the other property of the legal entity shall be sold by auction through judicial proceeding to satisfy the claims of creditors. Claims of creditors shall be satisfied in the order of priority specified in Article 32.5 of the Civil Code.

Article 24. Regulation Concerning Assets of Non-profit Legal Entity

24.1. It shall be prohibited to distribute the remaining assets of the legal entity following satisfaction of the claims of creditors.

24.2. In the event that the charter of the legal entity does not provide for a specific purpose for disposition of the remaining assets, such assets shall be transferred to a non-profit legal entity with similar activities or, if no such legal entity exists, for activities consistent with the purpose stipulated in the Charter. Such disposition of assets shall be court ordered.

24.3. Upon registry of the legal entity with the state registration stipulated in Chapter Seven of the Law on State Registration of Legal Entities, a legal entity shall be considered to have been liquidated and terminated its activities.

CHAPTER THREE

Legal Status of Association

Article 25. Specifics for Establishment of Association

25.1. An association shall have 3 or more members and such membership shall be voluntary.

25.2. Persons agreed to establish an association shall convene a meeting for establishment of association (All Members meeting), which will decide the following:

25.2.1. adoption of the founding resolution;

25.2.2. adoption of the charter;

25.2.3. election of bodies stipulated in Article 30 of this Law;

25.3. The association may be established as a result of unification of association and foundation (umbrella institution) or as a result of unification of for-profit legal entities only. This law shall apply to such associations.

25.4. An association shall be considered to have been established once it has made the resolution to establish an association and adopted its charter.

25.5. Once established, membership of the association shall be open equally allowing withdrawal of members.

25.6. Shortage of members of the association to meet the requirements of this law or its charter shall be the basis for liquidation the association. The authorized body of the association shall make a resolution to such effect within three months following the emergence of such condition.

25.7. If the authorized body of the association did not make the resolution within prescribed period, the relevant state registration body shall make the decision to such effect.

Article 26. Charter of Association

26.1. Charter of association must include the following:

26.1.1. name, place of residence, legal address;

26.1.2. statement of purpose, mission and type;

26.1.3. structure of the governing and managing bodies, procedure for their election, terms of power, organizational structure of working groups;

26.1.4. rights and obligations of association members, procedure for their admission and dismissal, grounds for dismissal;

26.1.5. if there will be a Supervisory Body, its structure;

26.1.6. grounds for making amendments to the founding documents;

26.1.7. grounds, and procedures for making decision to liquidate legal entity

26.1.8. rules relating to disposal of assets during liquidation;

26.1.9. rules relating to branch and representative offices;

26.1.10. term of existence

26.2. In the event that the charter does not provide for term of operation, the term of operation of the association shall be perpetual. This provision shall equally apply to a foundation.

26.3. The charter may include items that reflect the specifics of the association that are consistent with legislation. If provisions of the charter conflict with legislation, the provisions of legislation shall prevail.

26.4. Unless otherwise provided by the charter of an association, the authorized body shall make a resolution to amend the charter.

Article 27. Admission and Dismissal of Members

27.1. The charter shall be amended by the decision of an authorized body unless otherwise provided by the charter.

27.2. The charter shall provide for the procedure for admission and the grounds for dismissal of members of the association.

27.3. A association must keep record of its members and may define requirements and criteria for their admission in the charter.

27.4. Reorganization of a legal entity, which is the member of the association, shall not preclude the legal entity from continuing to be a member of the association.

27.5. A written request must be present for dismissal of member from the association.

Article 28. Dismissal of Member from Association

28.1. If there exist grounds and reasons, a member may be dismissed from the association in accordance with established procedures. The authorized body shall make the decision to such effect.

28.2. If the charter specifically provides for the power of Governing Board to dismiss a member from the association, the decision shall be approved by the governing body.

28.3. A member may be dismissed from the association only upon the grounds provided by law, and when resolving this matter the member shall be allowed to participate in the decision making and be given a decision in written form.

28.4. If the member does not agree with the decision to dismiss the member from the association, he may claim to the court within three months following such decision.

Article 29. Grounds for Termination of Membership

29.1. A membership shall be terminated upon the following grounds:

29.1.1. member is dismissed from the association;

29.1.2. member is deceased or lost full legal capacity, or member legal entity is liquidated;

29.1.3. operation of the association is ceased;

29.1.4. automatic termination of membership;

29.1.5. member voluntarily withdrew from the association.

Article 30. Bodies of Association

30.1. All Members meeting shall be the highest governing body of the association.

If the association has few members (up to 10), it may choose not have an All Members meeting by indicating this in its charter and such powers shall be transferred to the Governing Boards.

30.2. The Governing Board shall be the managing body of the association.

30.3. An association may have an internal Supervisory Body. Article 54 of this Law shall be complied If there will be an internal Supervisory Body.

Article 31. Powers of All Members Meeting

31.1. All members meeting shall exercise the following powers:

31.1.1. make amendments to the charter;

31.1.2. elect members of the Governing Board;

31.1.3. establish the structure of an internal Supervisory Body;

31.1.4. dismiss a member from the association;

31.1.5. to establish and liquidate its branch and representative offices;

31.1.6. decide to become a member or founder, or shareholder of other association, foundation or other non-profit legal entity;

31.1.7. reorganize and liquidate the association;

31.1.8. other powers provided for in the charter and this Law.

31.2. The charter may provide for possibility of delegating the power in Article 31.1.1 to the Governing Board.

31.3. All members meeting may give guidance and directions to other bodies of the association concerning certain matters;

31.4. If it was determined that the resolution of All Members Meeting conflicts with legislation and the charter of the association, an interested person may claim to the court. However, such claim can be made within one year following the adoption of the resolution.

31.5. An interested person may claim to All Members meeting if he considers that the decision made by other bodies of the association violates legislation and provisions of the charter of the association.

31.6. An interested person may claim to the court within one year if it considers that the decision made by All members meeting is groundless.

Article 32. Calling of All members Meeting

32.1. Unless otherwise provided by law, the Governing Board shall call all members meeting once every two years period. The special All Members meeting maybe convened at any time by two thirds of vote of all members of the association.

32.2. The Governing Board shall fix the place, date and time of the meeting and notify members of the association to such effect 30 days prior to the date of the meeting. Such notice shall be in writing and contain the place, date, time, and matters included in the agenda of the meeting.

32.3. The place, date and time of the meeting shall also be announced to members through mass media and the large notice sign shall be placed in front of residence of the governing body of the association. Article 32.2. of this law shall equally apply to such notice.

32.4. All relevant materials relating to the agenda that needed to be reviewed shall be delivered to members together with the notice.

32.5 In the event that a written notice has not been provided to members of the association and interested person considers such act an intentional, he shall be entitled to claim to the court.

In this case, the court shall determine the place, date and time of the meeting and deliver the notices to all members. All expense associated with delivery of notices shall be born by the guilty person.

Article 33. Validity of All Member Meeting Resolution

33.1. The quorum shall exist at All Members Meeting if majority of members participated in the meeting, unless otherwise provided by the charter.

33.2. The resolution of All Members Meeting shall be deemed to be approved upon the majority vote of those members present at the meeting.

33.3. Each member present at the All Members' Meeting shall have one vote for each matter voted.

33.4. The voting right of an association's member may be restricted in the following cases:

33.4.1. an issue related to such member's relative is included in the agenda.

33.4.2. an issue related to the legal entity which is a member of the association, in which such person is included in the management.

33.5. One association member may participate in the All Members' Meeting as a proxy of no more than three members. However, sub-proxy is prohibited.

33.6. A decision of the All Members' Meeting with respect to the issues provided in articles 33.1.1 and 33.1.7 shall be taken by an overwhelming majority of the participants.

33.7. Unless otherwise provided by the charter, an issue not included in the agenda of the All Members' Meeting may not be discussed at the meeting. Any decision made in violation of such procedure is void.

33.8. A decision by the All Members' Meeting shall take the form of resolution to be signed by the presiding person and other presiding members.

33.9. The presiding person shall review the accuracy and correctness of the minutes of a meeting and sign it.

33.10. The minutes of a meeting shall contain the following items:

33.10.1 date and place of the meeting;

33.10.2 name of the president;

33.10.3. agenda of the meeting;

33.10.4. attendance of the meeting;

33.10.5. the number of for and against votes as well as abstained votes, and full formulation of the decision.

33.11. A charter shall specify a person who is to appoint a person to hold the minutes of a meeting, determine obligations and responsibilities of such person, and charge such person with ensuring maintenance and preservation of the resolution and minutes of a meeting and providing with any information on such.

33.12. The All Members' Meeting shall adopt own procedure.

Article 34. Governing Board

34.1 The Governing Board shall be formed from among the members of an association.

34.2. A person who represents a member legal entity shall be an individual and does not need to be a member of the association.

34.3. A person to represent a member legal entity in the Governing Board shall be appointed by an authorized body/person specified in the charter of such legal entity. This provision shall equally apply to all persons who represent member legal entities in the All Members' Meeting.

34.4. The Governing Board shall consist of no less than five members.

34.5. Unless otherwise provided in the charter, the term of a member of the Governing Board shall be four years. The association shall specify in its charter whether such term is renewable or not.

34.6. The Governing Board shall elect the Chairman from among the Governing Board members. The Chairman shall manage the activities of the Governing Board.

Article 35. Powers of the Governing Board

35.1. The Board shall exercise the following powers:

35.1.1. adopt an annual budget of the association and consider, evaluate financial and activities reports;

35.1.2. make decision on disposal of the association's assets within its competence provided by the Charter;

35.1.3. adopt the platform and program (plan) of the principal activities to be conducted by the association;

35.1.4. establish membership fees;

35.1.5. appoint and discharge as well as conclude a contract with the Executive Director;

35.1.6. make decisions on issues other than within the competence of the All Members' Meeting and other bodies of the association;

35.1.7. other powers specified in this Law and the charter.

Article 36. Governing Board Meeting

36.1. A regular meeting of the Board (hereinafter referred to as the Board Meeting) shall be called at least four times a year and called by the Chairman of the Board. However the Governing Board Meeting may be called any time upon the initiative of a one third of the Governing Board members.

36.2. The Chairman of the Board shall set the place, date and time of the meeting within seven days after the initiative of the Board members to call a meeting. If the Chairman of the Board does not set the place, date and time of the meeting within seven days, any concerned Board member may call the meeting.

36.3 Unless otherwise provided by the Charter, the Chairman of the Board shall preside at the Governing Board Meeting. In his absence, the Board members shall elect the person who will preside at the meeting from among the Board members.

36.4. If any member of the Governing Board is not able to be present at the meeting in person, such member may participate using any other means (telephone, telegram etc).

36.5 Unless otherwise provided by this Law, the quorum for the Governing Board Meeting shall be present upon participation of an overwhelming majority of the Board members and decisions of the Board meeting shall be adopted by a majority of the votes of the participating members.

36.6. With respect to the issues mentioned in Articles 35.1.2 and 35.1.3 of this Law, decisions by the Board Meeting shall require an overwhelming majority of the Board members to take effect.

36.7. The Charter may provide a different percentage of votes needed for adoption of decisions mentioned in Articles 36.5 and 36.6 of this Law to take effect.

36.8. The Governing Board shall consist of few (up to five) members and the members may adopt a decision on a certain issue without calling a meeting provided the members agreed in writing that they have no principle controversies on such issue.

Article 37. Executive Director

37.1 An association shall have an Executive Director to manage its day-to-day activities.

37.2. Rights and obligations, limits of liabilities, grounds and procedure for exempting from liabilities, salary, remuneration and working conditions (means of transport, communication etc) of the Executive Director shall be regulated by a contract concluded with the Governing Board.

The Chairman of the Governing Board shall conclude the contract with the Executive Director on behalf of the Board.

CHAPTER FOUR

LEGAL STATUS OF A FOUNDATION

Article 38. Establishment of a Foundation

38.1. Person who have agreed to establish a foundation shall convene a Founding Meeting and consider and decide on the following issues:

38.1.1. adopting a decision on establishment of the foundation;

38.1.2. concluding and signing of the agreement specified in Article 39.

38.1.3. adopting a charter of the foundation;

38.1.4. electing bodies of the foundation specified in Article 47.

38.2 In the event that single person establishes a foundation Article 38.1 of this Law shall not apply.

38.3. A foundation may be established on the basis of the inheritance from a deceased.

38.4 The provisions of this law relating to foundations shall not apply to special purpose foundations established on the basis of state property.

38.5. A foundation shall be deemed to be established upon adoption of the decision from the Founding Meeting to establish the foundation, signing of the Founding Agreement and adoption of the charter of the foundation.

38.6. The charter of a foundation shall provide on the issues specified to be included in the charter of an association under Article 26.1 of this Law except for Article 26.1.4.

Article 39. Founding Agreement of Foundation

39.1. In order to establish a foundation, founders must conclude an agreement which shall specify the following:

39.1.1. amount of funds of foundation to be formed;

39.1.2. assets (monetary and valued non-monetary assets) to be contributed by each founder and the date of contribution.

39.1.3. the period for formation of the foundation;

39.1.4. grounds and procedure for imposing liability on any founder who has not performed its obligations under the agreement;

39.1.5. full name, passport and citizen's identification number of each founder, but in the event that founder is a foreign citizen, his identification number of an equivalent document and address.

39.2. The agreement shall enter into force upon signing of the agreement by each founder and must be notarized.

39.3. The period for formation of foundation shall not exceed six months and amount of the foundation shall not be less than 10,000,000.

Article 40. Founder of a Foundation

40.1. A "founder" shall mean a person who has agreed to establish a foundation and concluded an agreement to such effect.

40.2 In the event that a single person establishes a foundation, such person shall be deemed to be a founder of that foundation and the decision and agreements provided in Articles 38.1.1 and 38.1.2 of this Law shall not apply. In such case the items to be provided in the decisions and agreement shall be included in the charter.

40.3. Once the formation of assets of the foundation is completed, no other persons who donated, contributed or assisted subsequently shall be deemed founders.

40.4 No rights and obligations of a founder provided in the Founding Agreement and the charter may be transferred to such founder's successors or other persons.

40.5. Assets contributed by founders to form the foundation shall be the assets of the foundation and their ownership right shall be transferred to the foundation.

40.6. No founder may have any ownership right to the property of the foundation.

Article 41. Establishment of Foundation upon Will

41.1. A foundation may be established on the basis of inherited assets of a deceased. However, a testament should include the items to be specified contract provided for in Article 39 of this Law and be notarized.

41.2 In the event that the testament does not designate an administrator, a proxy with the same obligations shall be appointed by court.

41.3. If the testament does not meet the requirements of Article 41.1 of this Law, the administrator of the testament or the proxy appointed by court shall determine the items not provided by such testament and develop the charter of the foundation.

41.4. The administrator or the proxy appointed by court shall be entitled to reimbursements from the foundation for expenses incurred by them for performance of their duties and remunerations. The Governing Board or the court shall determine the amount of remuneration.

41.5 Rights and obligations of the administrator or the proxy appointed by court shall be terminated upon registration of the foundation in the state registration or establishment of no grounds for such registration according to the relevant laws.

Article 42. Procedure for Formation of Foundation

42.1 In the event that a founder agreed to contribute immovable property to form a foundation, such property shall be transferred to the foundation ownership within the period specified in the agreement and registered in the immovable property state registration pursuant to the relevant laws. The immovable property thereafter shall be deemed an asset of the foundation.

42.2. In the event that a founder is to contribute a movable property to form a foundation, such property shall be transferred to the ownership of the foundation and the relevant parties shall execute a receipt evidencing such transfer by signing it.

42.3. A foundation shall have a bank account in its name to place monetary deposits to the foundation and register the assets specified in Articles 42.1 and 42.2 of this Law.

42.4. In the event that the registration authority refuses to register the foundation in the state registration, the court shall resolve the issue of disposition of money in the bank account and other registered property upon the request of the founders and other concerned persons.

Article 43. Transactions Concluded prior to State Registration of Foundation and their Consequences

43.1. No transactions may be concluded with others in the name of the foundation prior to the state registration of foundation except for those relating to formation of the foundation.

43.2. In the event that transaction was concluded prior to the state registration of the foundation on any issue other than the exception specified in Article 43.1 of this Law, the individual who concluded such transaction shall be liable for the consequences thereof and, if several persons entered into a transaction such persons shall be liable collectively.

Article 44. Types of Foundation

44.1. A foundation can be of two following types:

44.1.1. a private foundation;

44.1.2. a public foundation.

Article 45. Private Foundation

45.1. "Private foundation" shall mean a foundation formed from assets of an individual or several members of the same family.

45.2. Sources of a private foundation shall consist of the following:

45.2.1. one-time or permanent contribution of the property of one individual or several members of the same family;

45.2.2. assets received on inheritance;

45.2.3 other sources provided by this Law.

Article 46. Public Foundations

46.1. "Public foundation" shall mean a foundation formed from the joint property of several individuals (not from the same family) or legal entities.

46.2. Sources of a public foundation shall be the following:

46.2.1. one-time or permanent contribution of the property of such individuals or legal entities;

46.2.2. other assets provided by this Law.

Article 47. Bodies of Foundation

47.1. The Governing Board shall be the governing body of a foundation.

47.2. A foundation must have a Supervisory Body.

Article 48. Establishment of Governing Board

48.1. The Governing Board shall be established by the decision of the founders and each member of the Board shall serve for a term of four years.

48.2. Unless otherwise provided by the Charter, the Governing Board shall have no more than three members.

48.3. Persons who work in the Supervisory Body and other persons having conflict-of-interest may not be the members of the Governing Board. The Charter may specify other persons who may not serve as the members of the Governing Board.

48.4. A majority of the Board members should be permanent residents of Mongolia.

48.5. The Governing Board shall elect its Chairman, who shall manage the activities of the Board, from among its members

48.6. Criteria for election of members of the Governing Board and the procedure for their dismissal prior to expiration of their powers shall be specifically provided by the Charter.

48.7. If the Charter does not provide for the item in Article 48.6 of this Law, interested person(s) may claim to the court.

48.8. A court may dismiss a member of the Governing Board or appoint a new member if the Board member has not duly performed his duties or is not able to permanently participate in the activities of the Governing Board or has committed an act against the interests of the foundation or attempted to cause a false bankruptcy of the foundation.

48.9. During its proceedings, a court may rule to suspend the powers of the member of the Governing Board or replace such member.

48.10. A member of the Board who was withdrawn by court decision may not be elected as a member of the Board or the Executive Director within five years following such decision.

Article 49. Powers of the Board

49.1. The Board shall exercise the following powers:

49.1.1. amending the Charter;

49.1.2. reorganization and dissolution of the foundation;

49.1.3. adoption of the annual budget of the Association

49.1.4. consideration, evaluation and conclusion to the financial and activities reports;

49.1.5. appointment and discharge of as well as concluding a contract with the Executive Director;

49.1.6. determination of the work organizational structure of the foundation;

49.1.7. making decision on disposal of the foundation's assets within its competence provided by the Charter;

49.1.8. other powers provided by law.

Article 50. Governing Board Meeting

50.1. A regular meeting of the Board (hereinafter referred to as the Board Meeting) shall be called once in every quarter. However a special meeting may be called any time by demand of any of the Board members or Supervisory Body.

50.2. The Chairman of the Governing Board shall call the Board Meeting.

50.3 Unless otherwise provided by the Charter, the quorum for the Board Meeting shall be constituted upon participation of an overwhelming majority of all Board members.

50.4. The Chairman of the Governing Board shall preside at the Governing Board Meeting. In his absence, the Board members shall elect the person who will preside at the meeting from among the Board members.

50.5. The Chairman of the Governing Board or, if so specifically provided by the Charter, all members of the Governing Board, shall appoint a person charged with reviewing the accuracy and correctness of the minutes of a meeting, signing them and taking minutes at the a meeting, determine obligations and responsibilities of such a person, and be in charge of ensuring maintenance and preservation of the minutes of a meeting and provide with any information on such.

This provision shall also apply to the Board Meeting of an association as provided in Article 36 of this Law.

Article 51. Decision of Governing Board Meeting

51.1. Unless otherwise provided by the Charter, decisions of the Governing Board meeting shall be adopted by a majority of the votes of the participating members.

51.2. In the event that the votes of the Governing Board members are tied, a decision of the Governing Board meeting shall come into force by the vote of the Chairman of the Board. This provision shall equally apply to the Governing Board of an association.

51.3. Each member of the Governing Board shall have one vote. No member of the Governing Board may refuse or abstain to vote.

51.4. The Board members may adopt a decision on a certain issue without calling a meeting provided the members mutually agreed in writing that they have no controversies on such issue.

Article 52. Remuneration of Board Members

52.1. Unless otherwise provided by the Charter, members of the Governing Board may receive remuneration in conformity with the economic and financial capability of the foundation for due performance of his duties. The Charter shall provide for the procedure of remuneration of the Governing Board members.

Article 53. Liabilities of Governing Board

53.1. In the event that losses are incurred to a foundation due to the non-performance or undue performance by the Governing Board of its duties or its negligence or violation of laws, the losses shall be remedied collectively by the members of the Board in the name of the foundation.

53.2. In the event that harm is caused to others due to the non-performance or undue performance by the Governing Board of its duties or its negligence or violation of laws, the losses shall be remedied collectively by the members of the Board in the name of the foundation.

53.3. Any claims against the Board shall be raised within three years following the occurrence of the breach.

53.4. In the event that the member of Board had a different vote, such member may be exempted from the liability provided the minutes of the Governing Board meeting prove so.

Article 54. Internal Supervision

54.1. Each foundation shall have an internal Supervisory Body.

54.2. The Charter of a foundation shall provide for the structure and composition of the Supervisory Body, procedure for election and appointment of its members, duration of their powers and their rights and obligations.

54.3. The Supervisory Body may have one or more inspectors provided one of them is the internal inspector of accounting records. If the Charter provides for one inspector, he shall be the internal accountant.

54.4. The internal inspector of accounting shall be an accountant qualified as certified public accountant pursuant to procedures under the law.

54.5. A member of the Board, Executive Director, an officer of the management of the foundation and any other person who has a conflict-of-interest may not be included the Supervisory Body of the foundation.

Article 55. Rights and Obligations of the Supervisory Body

55.1 The Supervisory Body shall have the following rights and obligations:

55.1.1. supervising if activities of the foundation are carried out in conformity with the Charter;

55.1.2. supervising the conformity of the decisions of the Governing Board with legislation and the Charter and implementation of such decisions;

55.1.3. making conclusions on activities of the Executive Director and the financial activities of the foundation for submission to the Board;

55.1.4. inspecting financial and business activities of the foundation based on the proposals and requests of the founders and other interested persons, present the results of the inspection to the authorities and take appropriate measures.

55.2. Other rights and obligations of the Supervisory Body shall be determined by the Charter in accordance with foundation's specifics.

Article 56. Auditing of Financial Activities

56.1. A foundation must have its annual financial report audited by an auditing organization.

56.12. In having its financial reports audited by and receiving other auditing services from an auditing organization, a foundation shall conclude a contract with such organization as provided by Article 10 of the Law on Audit.

Article 57. Special Inspection

57.1. An interested person may submit a request to court for inspection of the activities of the Board and of the financial activities of the foundation.

If the court finds the request to be reasonable, it shall appoint a special person to inspect the issue.

57.2. The person appointed by the court shall be an auditor licensed by relevant authorities according to laws. The court shall determine the amount and procedure of remuneration to the auditor.

57.3. A relevant person of the foundation is obliged to timely and freely release to the auditor carrying out special inspection any reports, information and other documents and materials necessary for the inspection.

The auditor carrying out special inspection is obliged to keep confidentiality of the foundation activities.

57.4. The court shall determine if the expenses related to the special inspection are to be borne by the interested person who submitted the request or the foundation.

57.5. If the court decides that the request for special inspection does not have good grounds or has been deliberately made without any ground, the person who submitted the request shall bear expenses; if several persons, to bear collectively.

The auditor who carried out special inspection shall prepare a report for submission to the court.

57.6. Based on the results of the special inspection, the court shall decide on the measures to be taken in order to bring the activities of the foundation in conformity with the purpose of the foundation.

Article 58. Transparency of the Foundation's Activities

58.1. Any person receiving grants from a foundation and any person with legal interests shall have a right to demand access to the information on the expenditures of the foundation's income from its activities, reports on financial and operational activities, the Charter of the foundation and audit reports.

If the foundation does not satisfy such demand, the interested person may file its complaint to court.

58.2. Unless any extent or category is defined as to the grantees under the Charter of the foundation, the provisions of Article 58.1 shall apply to all interested persons.

CHAPTER FIVE

REGULATION OF PUBLIC-BENEFIT NON-PROFIT LEGAL ENTITIES

Article 59. Public Benefit Activities

59.1. The following activities shall be public-benefit activities:

59.1.1. health, medical aid, public welfare and public care;

59.1.2. promotion of public (unofficial) education;

59.1.3. promotion of human development;

59.1.4. development and promotion of culture, arts, physical culture and sports;

59.1.5. promotion of natural protection and of struggle with natural disasters;

59.1.6. promotion of ensuring public order;

59.1.7. promotion of human rights' protection;

59.1.8. support of living of children, youth and elders;

59.1.9. promotion of science and technology development;

59.1.10. promotion of consumers' rights protection;

59.1.11. providing legal consultation and assistance to citizens;

59.1.12. support and assistance to the poor;

59.1.13. other activities so defined by the Council to Support Public Benefit Activities.

Article 60. Public-Benefit Associations

60.1. Associations which meet the following requirements shall be public-benefit associations:

60.1.1. their Charter provides for one or more activities specified in Article 59.1 of this Law; and

60.1.2. received a certificate under the procedure defined by the Council specified in Article 61 of this Law.

60.2. The following criteria shall be considered in determining if an association primarily conducts public-benefit activities:

60.2.1. the activities are designed for the public and purported to create values significant for the public;

60.2.2. activities, work and services by the association are free of charge or charges less than market price;

60.2.3. meets other conditions determined by the Council specified in Article 61 of this Law.

Article 61. Council to Support Public Benefit Activities

61.1. The Council to Support Public Benefit Activities (hereinafter referred to as Council) shall develop policies to support activities of foundations and public-benefit associations, propose to authorities for solution of relevant issues, and implement state

supervision and examination on activities of legal entities which belong to such category.

61.2. Each Aimag and the Capital city shall have such Council which shall work on non-staff basis.

61.3. The Aimag Council shall consist of three and the Capital city Council shall consist of five members.

61.4. Local departments of the Ministry of Finance, the Ministry of Justice and Home Affairs and the Aimag's Citizens' Khural shall nominate one person respectively for the Aimag Council.

61.5. The Government, the Ministry of Finance, the Ministry of Justice and Home Affairs, the National Commission on Human Rights and the Capital's Citizens' Khural shall nominate one person respectively for the Capital city Council.

61.6. The Chairman of the Aimag Council shall be the person nominated from the Aimag's Citizens' Khural and the Chairman of the Capital city Council shall be the person nominated from the Capital 's Citizen's Khural.

61.7. Day to day operations of the Council shall be carried out by its working office. The office shall be supplementary to the Aimag and Capital's Citizens' Khurals.

Article 62. Rights and Obligations of Council

62.1 The Council shall have the following rights and obligations:

62.1.1. with respect to associations, determining if they carry out public benefit activities on the basis of the requirements and criteria provided by Articles 60.1.1 and 60.2.

62.1.2. granting certificates to foundations and public-benefit associations certifying them as such;

62.1.3. considering reports on the activities of foundations and public-benefit and supervising and examining as well as making conclusions on whether such activities are really public-benefit;

62.1.4. submitting to a court a proposal on changing the public-benefit category of an association or liquidation of a foundation, if it considers necessary, on the basis of inspection, examination and conclusions;

62.1.5. developing a policy on financial and other support to foundations and public-benefit associations and submit the issue to relevant authorities for consideration.

62.2. The Council shall exercise general supervision on whether foundations and public-benefit associations carry out activities prohibited by Article 15.1 of this Law and take prompt measures to stop such activities.

62.3. The Council shall determine own procedure for operations in accordance with this Law to be approved by the Chairman.

Article 63. Issuance, Suspension and Invalidation of Certificates

63.1 A foundation or an association which desires to be categorized as public-benefit shall file an application to the Council before state registration. The application shall attach:

63.1.1. a notarized copy of a founding document;

63.1.2. true and correct information on its type of activities which have no relevance to any activities prohibited by this Law.

63.2. After reviewing the application, the Council shall issue a certificate within 15 days.

63.3. The Council may refuse to issue a certificate on the following grounds:

63.3.1. the application and attached documents do not meet requirements set in Article 63.1 of this Law or incomplete;

63.3.2. with respect to an association, it does not meet the requirements and criteria set in Articles 60.1.1 and 60.2 of this Law;

63.3.3. several violations or a serious violation of laws by such association may not lead to conclusion that it carries out public benefit activities.

63.4. The Council may suspend a certificate of a foundation or a public-benefit association which conducted any activity prohibited by this Law or does not duly perform its duties up to 60 days.

63.5. The Council may invalidate a certificate on the following grounds:

63.5.1. a foundation or a public-benefit association is liquidated;

63.5.2. several violations or a serious violation of laws as determined by a relevant authority or person;

63.5.3. it still does not perform duly its duties upon the expiration of the period specified in Article 63.4 of this Law.

63.6. A legal person who objects the decisions on suspension or invalidation may file a complaint to the Administrative court.

63.7. Any association other than public-benefit ones which desire to change its category shall apply to the Council under the procedures set in this Law.

Article 64. Other Provisions Related to Foundations and Public-Benefit Associations

64.1. Foundations and public-benefit associations shall enjoy tax exemptions and incentives provided by laws and may be afforded financial and other support from the state.

64.2 The amount of the state financial support to foundations and public-benefit associations shall be one percent of the personal income tax of the relevant year.

64.3. Foundations and associations may use no more than 30 percent of their annual income for administrative expenses.

64.4. A foundation or a public-benefit association may provide in its charter that no more than one child of the employees of the foundation or association shall be paid for tuition from the administrative expenses.

64.5. Foundations and public-benefit associations shall have a right to freely express own views, organize peaceful demonstrations and participate in state organizations' tenders.

64.6. Foundations and public-benefit associations shall be prohibited to present any things and donate to parties and their candidates in the parliamentary and local elections as well as participate in their campaigns.

CHAPTER SIX
MISCELLANEOUS

Article 65. Effective Date of the Law

65.1. This Law shall enter into force on _____.

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