

EITI INTERNATIONAL SECRETARIAT REVIEW OF MONGOLIA, SEPTEMBER 2010

In accordance with the Board decision in April 2010 (see Annex A), this review was prepared by the EITI International Secretariat to supplement the Mongolia Validation Report (February 2010)¹.

1 Introduction

The Government of Mongolia committed to implement the EITI in December 2005. Mongolia was formally admitted as an EITI Candidate on 27 September 2007. The Board established a deadline of 9 March 2010 to complete the Validation process. Mongolia issued its first (disaggregated) EITI Report in February 2008, covering company payments and government receipts from 2006. The second report was completed in 2009 (data from 2007), and a third EITI report was published in April 2010 (data from 2008). Preparations for the fourth and fifth EITI reports have commenced.

Mongolia's validation commenced in November 2009. A final report (endorsed by stakeholders) was submitted to the EITI Board on 5 March 2010. Having reviewed the validator's findings, the EITI Board designated Mongolia as Candidate country as of 15 April 2010. Based on a thorough assessment of the specific circumstances, Mongolia was designated 'close to compliant'. The Board decision is presented at Annex A.

As set out in EITI Policy Note #3, the designation of "close to compliant" applies in cases where the EITI Board considers that "a Candidate country has not only made meaningful process, but can reasonably be expected to achieve Compliance within a very short time". It provides a mechanism whereby the Board can designate a country as Compliant based on a review undertaken by the EITI International Secretariat. The EITI Board decision set out a series of remedial actions needed in order to attain compliance. The Secretariat's assessment of progress is presented in section 3, below.

The EITI International Secretariat conducted its review in Mongolia from 12-15 September, including meetings with key stakeholders and a presentation of findings to the multi-stakeholder working group on 15 September. A list of stakeholders consulted is presented at Annex B.

2 Mongolia's response to the Validator's findings

Following validation and the EITI Board decision in April, the Mongolian government, National Council on EITI, and EITI multi-stakeholder working group (MSWG) undertook a number of actions aimed at strengthening the EITI process.

On 14 May 2010, the (MSWG) agreed a *work plan to accomplish the Board decision in respect to Mongolia EITI Validation and compliance*. The workplan addresses each of the Board's recommendations in turn,

¹ The Mongolia validation report is available here: <http://eiti.org/document/Mongolia-2010-Validation-Report>, and on the Mongolian EITI website: <http://eitimongolia.mn/?dazo=catnews&catid=43>.

noting the necessary activities, timeline, responsible persons and other remarks related to resourcing and technical assistance. The work plan was endorsed by the National Council on 24 June.

On 24 June the EITI National Council also made a series of significant decisions, based on recommendations from the MSWG:

1. Endorsement of the 3rd EITI report, covering data from 2008. The Report was produced by consortium of UK based Hart Nurse Group and Mongolian Ulaanbaatar Audit corporation. The reconciliation covers 46 companies, and identifies discrepancies of ≈ 420 million MNT (approx. USD 300.000), significantly lower than the figure for 2007. The National Audit office was appointed to scrutinize these discrepancies. The report has been published, and a summary report has also been distributed².
2. Approval of a “Mongolia EITI Medium term strategy 2010-2014”. The strategy sets out the following strategic objectives:
 - Clarifying the legislative basis for the EITI, including drafting an EITI law, and amendments to the mining and petroleum laws;
 - Expansion of EITI reporting scope to cover all material payments, including donations, fines and environmental remediation costs;
 - Expansion of EITI to address revenue disbursement, licensing, natural reclamation costs, and contract transparency;
 - Follow-up of discrepancies via the national audit office;
 - Creation of reliable sources of financial support;
 - Increase of EITI political will and engagement of Civil Society;
 - Capacity building.
3. Based on a recommendation from the MSWG, the council formally agreed a definition of materiality for payments and revenues for Mongolia EITI (see Annex C).
4. Commencement of the bidding process for the 2009 report, to cover > 100 companies as per the agreed definition of materiality.

Furthermore, there have been two significant regulatory amendments:

1. On 1 March, the Minister of Finance issued a directive #45 pursuant to Article 9.1 and 15.2.3 of Accounting Law of Mongolia, to a) approve the “Regulation of recording the donations and aids” and b) assign the Accounting Department and Budget Policy Department to oversee the enforcement of this resolution. (See Annex D)
2. On 14 July 2010, the Prime Minister of Mongolia issued a resolution (#19) that a) commits the Government to finance the cost of EITI reports effective fiscal year of 2011 within the budget of the Prime Minister’s Department; b) directs regional and local governments to disclose all taxes, payments, fees, charges and fines paid by the holders of exploration and exploitation licenses as part of the EITI process (see Remedial Action 1, below).

3 Secretariat Review of Remedial Actions and Assessment of Indicators

As set out in Annex A, the EITI Board agreed four remedial actions and tasked the Secretariat with reassessing validation indicators 8, 11, 12, 13, 14 and 15.

² Ref 3rd EITI Report.

3.1 Remedial Action 1

The Mongolian multi-stakeholders working group (MSWG) should: (a) agree a clear definition of "material payments and revenues", (b) incorporate this definition into the reporting templates, and (c) take steps to ensure that all entities that make or receive material payments are included in the reporting process. This should specifically address the question of company donations, any material payments to local government authorities, and ensuring the participation of local government authorities that receive material payments in the reporting process.

3.1.1 Validator's findings

The Validator reported that "there has been no specific, in depth discussion on what constitutes materiality and thus, what material revenues should be included in the templates and reviewed in the reconciliation process" (p15). However, the Validator noted that "a discussion on materiality is necessary to ensure consistency with the issues raised in Indicators 14 and 15" (page 16).

3.1.2 Progress since validation

(A) The third EITI report (2008 data) was published based on templates agreed by the MSWG in 2009. These templates clearly specify which types of payment types must be disclosed. While the MSWG did not explicitly agree a definition of materiality prior to the publication of the third EITI report, it is clear that the MSWG has had detailed discussions regarding what types of company payment and government revenues are significant and important. Furthermore, Government regulations stipulate that all oil, gas and mining companies that made payments to the state (estimated at > 300 companies) are required to complete the EITI company reporting forms. Given the large number of small companies operating in Mongolia (many in the exploration phase), the MSWG agreed in 2009 that the reports from 46 companies making total payments greater than 100 million MNT (about USD 80k) would be subject to reconciliation for the 3rd EITI report. Based on lessons learned from the third report, the MSWG has agreed templates for the fourth report (covering 2009). The MSWG is currently reviewing the templates for the fifth EITI report. Following the Board's decision in April, the MSWG and EITI National Council formalized and clarified the definition of material payments and revenues (see Annex C), with further detail on company donations to local governments (note: these payments are already covered by the reporting templates). The new definition also addresses fines levied by government agencies on companies, which is widely regarded to be risk area for corruption. All stakeholders interviewed by the International Secretariat expressed their satisfaction with the agreed definitions for the third, fourth and fifth reports.

(B) The reporting templates for the fourth (2009) report have been agreed by stakeholders and distributed to companies and government agencies. The reporting templates will be further refined for the fifth (2010) report. Draft templates for the fifth report were presented at the MSWG meeting on 15 September. Finalisation of the templates awaits feedback from stakeholders and a government decision (expected late in 2010) regarding replacing the windfall tax with progressive royalties. All stakeholders interviewed by the International Secretariat expressed their satisfaction with the process for agreeing reporting templates. CSO stakeholders noted the need for the templates to evolve over time, reflecting developments in the extractive industries, e.g., future use of production sharing agreements, uranium exploration and production. CSO stakeholders also hoped that the process could be implemented more quickly in the future, to reduce the delay between payments and the publication of the EITI report.

(C) The National Council and MSWG have agreed an approach for ensuring that "all companies will report" (see additional detail at remedial action 2, below). The Prime Minister has also issued a directive that clarifies the obligations of regional and local governments to report donations:

“the governors of aimags, capital city, soum and districts to report and publicize the receipts of taxes, payments, fees, charges and fines paid by the holders of exploration and exploitation licenses to the local and central government budget and cash and in-kind donations made by license holders to Administration of aimags, capital city, soum and districts and other public agencies in accordance with the reporting templates every year” (Resolution of the Prime Minister of Mongolia #19)

Directive #45 issued by the Minister of Finance also addresses the recording the donations (see annex D).

3.1.3 Secretariat's Assessment

The reporting templates have clearly been agreed by the EITI National Council and the MSWG, with appropriate consultation with stakeholders. The templates reflect an agreed approach to defining material payments and revenues. **The EITI International Secretariat's assessment is that the remedial action requested has been taken.**

3.2 Remedial Action 2

As per the Indicator Assessment Tool for Indicator 11, the MSWG should take steps to demonstrate, in the next EITI Report, that all companies that make material payments (as per 1(a), above) are participating in the reporting process.

3.2.1 Validator's findings

The Validator reported that “The MSWG has set the threshold for EITI reporting at 200 million MNT in tax contributions but does not currently have a mechanism to ensure that all companies that meet this threshold comply with EITI reporting. As a result, seven companies failed to produce EITI Reports and significant difficulties were faced in reconciling the EITI Reports. Members of the MSWG and National Council have identified a need for stronger methods for enforcement of company reporting compliance” (page 31).

3.2.2 Progress since validation

The 3rd EITI report covering data from 2008 was published in April. Government regulation stipulates that all oil, gas and mining companies that make payments to the state (estimated at > 300 companies) are required to complete the company reporting forms. Given the large number of small companies operating in Mongolia (many in the exploration phase), the MSWG agreed that the reports from 46 companies making total payments greater than 100 million MNT (about USD 80k) would be subject to reconciliation for the third EITI report.

Of the 46, 38 companies provided reports before the agreed deadline. Two companies subsequently provided reports. Six companies did not file reports. Their non-participation is noted in the report. However, the reconciler was able to contact each company and their payments to government agencies have been clarified. The result is a comprehensive, disaggregated EITI report covering all 46 companies.

Preparations for the 4th and 5th EITI reports are well advanced. New templates have been developed. The reconciliation threshold for the 4th report will be lowered to 50 Million MNT (about USD 40k) for audit by the international reconciler. Companies making payments between 10 and 50 million MNT will be covered by a national reconciliation.

A pilot of sub-national EITI has commenced with support from RWI grant. Discussions with local governments of Hovd province and Hanbogd, Gurvantes, and Tsogttsetsii soums of Umnugovi province to establish multi-stakeholder groups.

3.2.3 Secretariat's Assessment

IAT 11 provides that to give indicator 11 a tick: "the Validator will need to see evidence that the government has done one of the following:

- introduced/amended legislation making it mandatory that companies report as per the EITI Criteria and the agreed reporting templates;
- introduced/amended relevant regulations making it mandatory that companies report as per the EITI Criteria and the agreed reporting templates;
- negotiated agreements (such as Memoranda of Understanding and waiver of confidentiality clauses under production sharing agreements) with all companies to ensure reporting as per the EITI Criteria and the agreed reporting templates;
- where companies are not participating, the government is taking generally recognised (by other stakeholders) steps to ensure that these companies report by an agreed (with stakeholders) date.

The government has issued directives requiring all oil, gas and mining companies to participate in the EITI process. The 3rd EITI report provides comprehensive coverage of all companies making payments greater than the agreed threshold of 100 million MNT. **The EITI International Secretariat's assessment is that Indicator 11 is met.**

3.3 Remedial Action 3

As per the Indicator Assessment Tool for Indicators 12 and 13, the government and MSWG should take steps to ensure that disclosures to the reconciler are based on audited accounts to international standards and agree a strategy for addressing these issues in accordance with the requirements as specified in Validation IATs 12 & 13.

3.3.1 Validator's findings

Regarding indicator 12, the validator noted that:

"...completed company self-assessment forms clearly show that some companies reporting on the EITI in Mongolia are not audited to international standards, a finding confirmed by the Ministry of Finance. To date, the MSWG has not addressed the issue of international accounting standards in company reports and has generally considered it outside the scope of EITIM" (page 31).

With respect to indicator 13, the validator noted that

"The reporting guidelines introduced by the National Auditing Office are not being enforced across government departments. Not all data on material payments or contributions at local government level are captured at national level. There is an urgent need for systematic reporting of all forms of revenue received by the government and a more integrated approach to information sharing across all layers of government to close this gap. In addition, Mongolia should consider instituting an independent body such as the NAO to oversee the government reporting process and ensure accuracy and compliance". (page 31)

3.3.2 Progress since validation

The MSWG and National Council reviewed the validator findings and agreed a number of measures to address these issues. Firstly, the government agreed to amend the legislation regarding financial reporting (company and public) to require the application of international standards (see box 1)

Box 1 – Accounting laws in Mongolia

Accounting Law was revised and modified on 13 December 2001, subsequently amended several times, the last amendment being on 24 June 2010. Currently it consists of 5 chapters and 24 articles. Regarding the EITI related clauses, Article 4.1.1 states financial reports of legal entities shall comply with international standards. According to the last amendment made on 24 June 2010, the Article 10.1 states "Business and organizations shall produce their reports complying with International Standards on Financial Reporting and public agencies complying with International Standard of Public Sector Accounting".

The last amendment also added the clause "In the case that the business and organizations fails in submitting their financial reports, the corresponding financial organization shall inform the public about this failure".

Article 16 of the law also states "Accounting operation shall comply with the International Accounting Standard."

The legislation came into effect on 1 April 2002 and the amendments are enforced right after they were approved by the Parliament and published on "State Info" bulletin.

The 3rd (2008) Report includes 'declarations' from companies certifying their disclosures to the reconciler. While not all companies have complied with this requirement, the MSGWG has agreed to continue this practice and has discussed a similar approach for government agencies. The Ministry of Finance has confirmed that it is establishing a process whereby a senior official will be required to certify data provided as part of the EITI reporting process.

The National Council has requested that the NAO investigates discrepancies in the 3rd report, and collaborates with the MoF to improve compliance with the (recently modified) legislation. The MSGWG has also reviewed the current practices and capacity constraints, and interviews with the MoF indicate that efforts are underway to address training and capacity building needs.

All stakeholders interviewed by the EITI International Secretariat were satisfied with this approach.

3.3.3 Secretariat's Assessment

As noted by the validator, it is clear that not all company and government reports to the reconciler are based on audited accounts to international standards. However, the EITI rules states that "where figures submitted for reconciliation are not to audited standards, the [MSGWG] is content with the agreed way of addressing this. The EITI International Secretariat's view is that the National Council and MSGWG have taken appropriate steps to address this issue. It is also clear the MSGWG fully supports the agreed way of addressing these issues. **The EITI International Secretariat's assessment is that Indicators 12 and 13 are met.**

3.4 Remedial Action 4

At indicator #14 and #15, and based on the clear definition of "material payments and revenues" (as per #1(a) above), the government and MSGWG should take steps to demonstrate, in the next EITI Report, that all material oil, gas and mining payments by companies (indicator 14) and all material oil, gas and mining revenues received by the government (indicator 15) have been disclosed to the organisation contracted to reconcile figures and produce the EITI Report.

3.4.1 Validator's findings

The validator concluded that "Not all material contributions are currently being captured, and it is generally recognised that companies underreport payments to local governments or report them as costs. The most recent meeting of the National Council indicates there will be a concerted effort to develop a more systematic way for donations to be received and reported at the local and national level government in the future".

3.4.2 Progress since validation

As noted above, there have been a number of significant developments in recent months to ensure that the EITI reporting process is comprehensive:

- The third EITI report (2008 data) was published based on templates agreed by the MSWG in 2009. These templates are comprehensive and clearly specify which types of payment must be disclosed. Government regulation stipulates that all oil, gas and mining companies that make payments to the state (estimated at > 300 companies) are required to complete the company reporting forms. Given the large number of small companies operating in Mongolia (many in the exploration phase), the MSWG agreed that the reports from 46 companies making total payments greater than 100 million MNT (about USD 80k) would be subject to reconciliation for the 3rd EITI report. Of the 46, 38 companies provided reports before the agreed deadline. Two companies subsequently provided reports. Six companies did not file reports. Their non-participation is noted in the report. However, the reconciler was able to contact each company and their payments to government agencies have been clarified. The result is a comprehensive, disaggregated EITI report covering all 46 companies.
- For the fourth report (2009 data), the MSWG agreed to further modify the reporting templates based on lesson learned from the third report. Further refinements are planned for the fifth EITI report (2010 data). The reconciliation threshold for the 4th report will be lowered to 50 Million MNT (about USD 40k) for audit by the international reconciler. Companies making payments between 10 and 50 million MNT will be covered by a national reconciliation. The MSWG is planning to review the effectiveness of this approach before agreeing a threshold for the fifth report.
- The National Council and the MSWG have taken steps to formalise and clarify the definition of "material" payments and revenues, and taken steps to clarify and strengthen the process for disclosing the payment and receipt of donations by companies to local governments;
- The National Audit Office has been appointed by the National Committee to investigate the discrepancies;
- The Government has clarified the requirement for companies and public sector agencies to prepare accounts in accordance with international standards, with oversight of the national audit office and MoF for public sector accounts;
- The MSWG has modified the reporting templates for the 4th and 5th EITI reports.

Secretariat's Assessment

In light of the above, **the EITI International Secretariat's assessment is that Indicators 14 and 15 are met.**

3.2 Implementation progress and removal of barriers

The Board's decision on Mongolia noted that the National Council and MSWG recently agreed a work plan for 2010 and proposed an EITI Law and strategy to move beyond the core EITI requirements (licensing, contract, natural reclamation costs and physical audit). In conducting its review, the Board instructs the EITI International Secretariat to review progress with these initiatives, in particular with regard to removing any outstanding obstacles to EITI implementation (i.e., to reassess Validation indicator 8).

3.4.3 Secretariat's Assessment

Following validation and the EITI Board decision in April, the Mongolian government, National Council on EITI, and EITI multi-stakeholder working group (MSWG) undertook a number of actions aimed at strengthening the EITI process (see section 2). As outlined above, the government, national council and MSWG have demonstrated a strong commitment to addressing barriers to effective EITI implementation.

The EITI International Secretariat's assessment is that Indicator 8 is met.

4 Conclusion

The EITI International Secretariat is satisfied that Mongolia has met all of the validation indicators and undertaken all the remedial actions requested by the Board.

Annex A - EITI Board Decision on Mongolia Validation, 15 April 2010

The EITI Board agreed the following statement:

The Board designates Mongolia as Candidate country as of 15 April 2010.

Based on a thorough assessment of the specific circumstances, Mongolia is 'close to compliant'.

The Board congratulates the government, companies and civil society organisations in Mongolia for the impressive progress made in implementing the EITI.

As set out in EITI Policy Note #3, the designation of "close to compliant" applies in cases where the EITI Board considers that a Candidate country has not only made meaningful process, but can reasonably be expected to achieve Compliance within a very short time³. Based on the Validator's findings, the Board recommends a number of remedial actions:

- 1. The Mongolian multi-stakeholders working group (MSWG) should: (a) agree a clear definition of "material payments and revenues", (b) incorporate this definition into the reporting templates, and (c) take steps to ensure that all entities that make or receive material payments are included in the reporting process. This should specifically address the question of company donations, any material payments to local government authorities, and ensuring the participation of local government authorities that receive material payments in the reporting process.*
- 2. As per the Indicator Assessment Tool for Indicator 11, the MSWG should take steps to demonstrate, in the next EITI Report, that all companies that make material payments (as per 1(a), above) are participating in the reporting process.*
- 3. As per the Indicator Assessment Tool for Indicators 12 and 13, the government and MSWG should take steps to ensure that disclosures to the reconciler are based on audited accounts to international standards and agree a strategy for addressing these issues in accordance with the requirements as specified in Validation IATs 12 & 13.*
- 4. At indicator #14 and #15, and based on the clear definition of "material payments and revenues" (as per #1(a) above), the government and MSWG should take steps to demonstrate, in the next EITI Report, that all material oil, gas and mining payments by companies (indicator 14) and all material oil, gas and mining revenues received by the government (indicator 15) have been disclosed to the organisation contracted to reconcile figures and produce the EITI Report.*

When the MSWG considers that the outstanding issues have been addressed, the EITI International Secretariat will reassess Mongolia's compliance. The Secretariat review will reassess the "unmet" indicators 11-15 in accordance with the requirements as set out in the Validation guide and associated indicator assessment tools. In addition, the Board notes that the National Council and MSWG recently agreed a work plan for 2010 and proposed an EITI Law and strategy to move beyond the core EITI requirements (licensing, contract, natural reclamation costs and physical audit). In conducting its review, the Board instructs the EITI International Secretariat to review progress with these initiatives, in particular with regard to removing any outstanding obstacles to EITI implementation (i.e., to reassess Validation indicator 8).

³ The Board agreed that "close to compliant" is not the default option for countries that have not achieved compliance. The Board agreed that in assessing whether a country can be designated as close to compliant, the Board will: (1) Undertake a detailed assessment of the final Validation report and agree specific remedial actions that need to be undertaken in order to achieve compliance; (2) Assess whether the remedial actions can be fully addressed and implemented quickly; (3) Set a deadline for the submission of the Secretariat's review (endorsed by the MSG) to the EITI Board. The Board will not extend this deadline.

The EITI International Secretariat should consult widely with stakeholders during the review. The MSWG should be given an opportunity to comment on the Secretariat's findings. The Secretariat's review will be a public document - supplementing the Validation Report - thereby ensuring that the basis for the Board's decision regarding compliance is clear to all stakeholders.

The Secretariat should submit its report to the Board via the Validation Committee. If the Board is satisfied that remaining requirements have been met, the country will be designated as EITI Compliant. In the interim, Mongolia will retain its Candidate status. The Board retains the right to require a new Validation if the remedial steps and Secretariat review are not completed within 6 months (i.e. by 15 October 2010).

Annex B – Stakeholders Consulted

Government

- Dr ARIUNSAN Baldanjav. Vice Minister. Ministry of Mineral Resources and Energy
- SUMIYA Enebish. Government Principal Officer, Cabinet Secretariat.
- Sh TSOLMON – EITI National Coordinator
- Suren MYAGMARDASH, Director, Accounting Policy Department, Ministry of Finance.
- ARVINBAYAR Baatar – National Development and Innovation Committee, Govt of Mongolia

Civil Society Organisations

- N. Bayarsaikhan – Steps without Borders
- Nanzad Badamkhand – Mongolian Assoc. For Conservation of Nature and the Environment
- Arvinbayar Baatar – Technology and Innovation Young Scientists Association
- Chagnaadorj. G – “Ariun Subarga” Civil Movement
- E. Byambajav – Irkutsk Economic University Alumni Association, Finance Consulting “IKH TUSCH” LLC, (Former Minister of Finance).
- D. Tserenjav – Transparency Foundation
- P. Batpurev – Inforum Center NGO
- Ms. Ganchimeg – Responsible Mining Initiative for Sustainable Development (NGO)

Companies

- N. ALGAA. Executive Director. Mongolia National Mining Association.
- BAASANKHAND Jamiyandagva. Head of Ulaanbaatar Representative Office. Erdenet Mining Corporation
- Dr. Ivshin IDESH. Senior Manager, Ulaanbaatar Representative Office. Erdenet Mining Corporation

MULTI-STAKEHOLDERS’ WORKING GROUP MEETING, September 15, 2010

Nº	Official Position	Names	Attendance
1	Head of Working Group, Senior Adviser to Prime Minister	B.Dolgor	-
2	Chairman of Mongolian General Taxation Administration	Ts.Oyunbaatar	Purevee (Head of Department) Attended
3	Chairman of Mineral Resources Authorities	D.Bathuyag	Attended
4	Chairman of Petroleum Authorities	D.Amarsaikhan	Oyun (Senior Officer) Attended
5	Head of Accounting Policy Department, Ministry of Finance	S.Myagmardash	Attended
6	Head of Geology, Mining and Heavy Industries Department, Ministry of Mineral Resources and Energy	D.Batkhuu	Attended
7	Head of Natural Resources Department, Ministry of Environment	D.Enkhbat	-
8	Head of Enlightenment and Prevention Department, Independent Authorities Against Corruption	D.Dulamsuren	-
9	General Director of Mongolrostsvetment LLC	O.Erdenee	-

10	General Director of Baganuur LLC	D.Dambapeljee	-
11	General Director of Boroo Gold LLC	J.Kazakov	Lhagva-Ovhir (Tax Accountant) Attended
12	President of MAK LLC	B.Nyamtaishir	
13	General Director of PetroChina Dachin Tamsag LLC	S.Mergensod	Delgerbayar(CEO) Attended
14	Executive Director Mongolian National Mining Association	N.Algaa	Attended
15	Head of Coal Association	L.Davaatsedev	Attended
16	Mining Manager of Open Society Forum	N.Dorjdari	Attended
17	Executive director of Inform Center	A.Batpurev	Attended
18	Head of Transparency Foundation	Ts.Ganbold	Tserenjav Attended
19	Head of Movement of Ongi River Residential	Ts.Munkhbayar	-
20	Executive Director of Movement of My Mongolia Soil	B.Boldbaatar	-
21	Head of Association of Mongolian National Manufacturers	N.Dashzeveg	-
22	President of Mongolian Association of Environment NGOs	J.Batbold	-
23	Executive Director of Mongolian Employers Federation	Kh.Ganbaatar	-
24	President of Mongolian Institute of Certified Public accountants	D.Enkhamgalan	-
25	Secretary of Working group, Senior Officer, Government of Mongolia	E.Sumiya	Attended

Mongolia EITI Secretariat

1	Coordinator	Sh.Tsolmon	Attended
2	Finance Officer/Administrative Assistant	B.Delgermaa	Attended

Annex C – National Council and MSWG’s agreed definition of materiality

Extract from *Progress report on implementation of actions to achieve the decision of EITI board dated April 15, 2010*, approved by the MSWG.

Decision: 1. The material payment and revenue shall include the following tax, payment, fee, charge and donations:

1.1. All tax except individual income tax, namely, corporate income tax, real estate tax, tax on sale of tangible assets, VAT, windfall tax (valid only for 2010), customs tax, excise tax for importation of petroleum and lubricants, tax on automobile gasoline, diesel fuel, tax on non-movable assets, tax on vehicle and self moving mechanisms, stamp fee on licensing of construction, modification, renovation, decommissioning of nuclear equipment, stamp fee on licensing of possession, utilization, sale, import, export, transport of nuclear substance, dumping treatment after utilization, stamp fee for licensing import, export, transport of nuclear minerals, dumping and reclamation of nature after utilization, stamp fee for licensing possess, utilization, sale, montage, place, rent, produce, decommission, demontage, store, transport, import, export of nuclear generator, dump treatment, deactivate and other related activities, and revenues.

1.2. All payments set by the law, namely royalties for mineral resources, license fee for exploration and exploitation of mineral recourses, payment for deposit, exploration of which was carried out by the Government, payment for land, water, forestry and firewoods, royalties for minerals of common spread, payment for recruiting foreign experts and workers, and revenues.

1.3. The fees collected under existing legislation, namely customs service fees, stamp fees and service paid to all level State administrative organs.

1.4. Social insurance and health insurance charges paid by economic entities,

1.5. Payments and revenues as of the entitlement under Production Sharing Contract to Government, revenues, including royalties and other payment under agreement, deposit, incentives (bonus after signing contract, bonus for commencement of production, bonus for training, field deposit, administration and service charge, fee for supporting field office, local community support).

1.6. Payments and revenues of dividends of state and local property.

1.7. Deposit at rate of 50% to Environmental protection costs account

1.8. Payment and revenue of fines, issued by authorised officers (Governors of soum, districts, bag and horoo, and state inspector)

1.9. Payment and revenues of donations in monetary and material form given to all level state administrative organs (Ministry, agency, aimag, capital city, soum and district) with value over the size of minimum wage established by the Government.

2. The secretary of National Council and head of Working group Ms. B. Dolgor, Mongolia EITI Secretariat (Mr. Sh. Tsolmon) are instructed to update EITI reporting templates and include all definitions of material payment and revenues of tax, payment, fee, charge, fines and donations to templates. The templates are attached.

3. The reporting threshold of material payment and revenues of tax, payment, fee, charge and donations is 10.000 MNT per each, (for stamp fee for registration of entities, granting certificate under Registraion law article 5.8 and 13.1 equals 10.000 MNT).4. Those donations in monetary and material form given to all level state administrative organs (Ministry, agency, aimag, capital city, soum and district) are over minimum wage size, and revenues of which must be verified by auditors.

5. The each fine levied by administrative enforcement organs to economic entities at rate of 50.000 MNT, which is considered as minimum size of fine by law, and revenues of which must be verified by auditors.
6. It was decided that companies, whose sum- up of all material payments more than 50 million MNT will be selected for reconciliation with participation of international auditors.
7. It was decided that companies, whose sum- up of all material payments from 10 million to 50 million MNT will be selected for reconciliation by domestic auditors.
8. Definition of materiality and standard of international accounting standard (financial reporting) will be guideline for establishing materiality of payment and revenue during processing of EITI reporting templates, its guidelines and when companies and state administrative bodies are reporting.
9. The materiality of payments for further reconciliation, which will be carried out by auditor firm will be defined in accordance with international audit standard, and its domestic charter and guidelines through informing the Working group.
10. Mr. Zorigt, Minister for Mineral resources and Energy, deputy chairman of National Council is instructed to follow up the progress of work for work out of EIT law and its concept, set plan that the draft bill will be debated at the Parliament during autumn session.

Annex D – Resolution of Minister of Finance, Mongolia

Resolution of Minister of Finance, Mongolia

Date: 1 March 2010

45

Venue: Ulaanbaatar

Pursuant to Article 9.1 and 15.2.3 of Accounting Law of Mongolia and for its enforcement, it is ordered:

One. To approve the "Regulation of recording the donations and aids" as stated in Annex,

Two. To assign the Accounting Department (S.Myagmardash) and Budget Policy Department (B.Batjargal) to oversee the enforcement of this resolution throughout their operations.

Minister

(Signed and sealed)

(S.Bayartsogt)

Annex to Resolution of Minister of Finance #45 of 1 March 2010

Regulation of recording donations and aids

One. General

1.1. The purpose of this regulation aims at coordinating the overall activities related to recording of donations and aids in the accounting rendered to public agencies by the foreign and domestic businesses.

1.2. In implementing this regulation, "Rules on accounts" and "Financial reporting and adjustment template", approved by the resolution #388 of Minister of Finance on 27 November 2007 shall be complied with.

Two. Recording donations and aids

2.1. Public administrative agencies shall record the donations and aids in their

a. Recording cash

Assets- Cash

Liabilities- Donation and aid income

b. For recording in-kind donation, either use the market price or the contract price of the items given as donation.

Assets- Inventory

Liabilities- Donation and aid income

2.2. All public agencies shall report their receipt of cash and in-kind donations and aids received from extractive companies in accordance with reporting templates of EITI within the stipulated deadline.

2.3. Public administrative agencies shall make the donation and aid related adjustments in their financial reports in compliance with International Public Sector Accounting Standard.

2.4. Donations and aids provided by companies and their expenditure shall be disclosed and publicized as stated in other regulations.