

LEGISLATIVE UPDATE: MONGOLIA INTRODUCES NEW GOVERNANCE FRAMEWORK FOR STATE-OWNED COMPANIES



On 2 July 2026, Mongolia enacted the Law on Governance of State and Local Government-Owned Companies ("**SOE Governance Law**"), establishing a dedicated legal framework governing the establishment, ownership, governance, management, financing, oversight and disclosure of state and local government-owned companies.

The law will enter into force on 1 January 2027.

The SOE Governance Law forms part of Mongolia's broader reform of the state-owned enterprise ("**SOE**") sector. Strengthening SOE governance, efficiency and transparency, while facilitating access to domestic and international capital markets, has been a longstanding policy objective reflected in key national development policies, including Vision 2050, the Mongolia Long-Term Development Policy 2030 and the Government Action Plan for 2024–2028.

While much of the SOE Governance Law consolidates and codifies requirements previously dispersed across the State Property Law, Company Law and sector-specific legislation, it introduces a more coherent framework for SOE governance. Key changes include clarifying the state's role as owner, strengthening board independence and accountability, imposing greater restrictions on the establishment of new SOEs, enhancing transparency and disclosure, and promoting commercial discipline, competitive neutrality and managerial autonomy.

The new framework operates alongside, rather than replacing, the State Property Law. The SOE Governance Law specifically governs the ownership and corporate governance of state and local government-owned companies, while the State Property Law continues to regulate broader matters relating to state and local government property and other state-owned entities outside the scope of the SOE Governance Law.

We highlight below the key changes introduced by the SOE Governance Law.

1. SCOPE AND CLASSIFICATION OF STATE-OWNED COMPANIES

The SOE Governance Law revises classification framework for state and local government-owned companies based on the level of government ownership.

Under the amended State Property Law, state-owned entities continue to comprise public organisations, public service entities, educational institutions, and state or local government-owned companies. However, the SOE Governance Law applies specifically to state and local government-owned companies established for commercial purposes. Other categories of state-owned entities such as the public service entities or public educational institutions remain principally governed by the State Property Law.

For the purposes of the SOE Governance Law:

- (a) a state-owned company is a company in which the state holds 100% of the issued ordinary shares;
- (b) a state-involved company is a company in which the state holds at least one-third (33.3%) of the issued ordinary shares;
- (c) a local government-owned company is a company wholly held by a local government; and
- (d) a local government-involved company is a company in which a local government holds at least one-third (33.3%) of the issued ordinary shares.

Accordingly, companies in which the state or a local government holds at least one-third of the issued ordinary shares will generally fall within the scope of the SOE Governance Law.

2. STATUTORY PRINCIPLES GOVERNING SOE OPERATIONS

A significant feature of the SOE Governance Law is the express codification of core governance principles applicable to state and local government-owned companies. These include:

- (a) transparency and openness;
- (b) operational efficiency;
- (c) fair competition in the marketplace;
- (d) prohibition on abusing monopoly or dominant market positions;
- (e) independence of management;
- (f) freedom from political influence;
- (g) clear separation of corporate and governmental liabilities;
- (h) support for sustainable development; and
- (i) adoption of innovation and technology.

The SOE Governance Law further establishes the principle of competitive neutrality, providing that state ownership should not, in itself, confer an unfair competitive advantage on an SOE. Subject to specific statutory exceptions, SOEs should not receive preferential treatment by reason of their government ownership in areas such as taxation, public procurement, licensing, access to state assets or insolvency proceedings.

These principles mark a clearer shift towards commercially oriented SOE governance and competitive neutrality. They may be particularly relevant in sectors where SOEs compete directly with private-sector businesses and where government ownership has historically carried regulatory, fiscal or other advantages.

3. GOVERNMENT OWNERSHIP POLICY BECOMES A LEGAL REQUIREMENT

The SOE Governance Law requires the state to adopt and maintain a formal ownership policy governing its participation in state-owned companies. The policy is to be approved by Parliament upon submission by the Government and must address, among other matters:

- (a) the rationale and objectives of state ownership;
- (b) the state-owned company portfolio;
- (c) the roles and responsibilities of relevant governance bodies and stakeholders;
- (d) performance indicators and evaluation criteria;
- (e) restructuring and privatization plans;

- (f) strategies for the establishment and dissolution of state-owned companies; and
- (g) plans for the disposal of state shareholdings.

The Government will also be required to periodically assess the implementation of the ownership policy and publish annual reports on its execution.

By placing the ownership policy on statutory footing, the SOE Governance Law introduces a more structured and transparent framework for defining the purpose, scope and objectives of state ownership and for managing the SOE portfolio. Once adopted, the policy should provide greater visibility regarding the Government's approach to the governance, restructuring, privatization and potential divestment of state-owned companies.

The ownership policy may also have broader significance beyond traditional SOEs. In particular, it could serve as a foundation for the governance of national investment funds, sovereign wealth-related structures and other strategically important state assets. Given the ongoing policy discussions regarding the management and oversight of such assets, the introduction of a statutory ownership policy may help establish clearer principles concerning state ownership, control and long-term stewardship.

4. NEW STRICTER RULES FOR ESTABLISHING NEW SOES

The SOE Governance Law introduces significantly stricter requirements for the establishment of new SOEs. The reform responds to longstanding concerns regarding the size, efficiency and financial performance of the current SOE sector. According to the concept paper accompanying the SOE Governance Law, Mongolia has 472 state-owned entities, of which 123 operate on a commercial basis. Only 57% of these entities are profitable, while five companies account for approximately 92% of total SOE profits. Against this backdrop, policymakers have increasingly focused on improving efficiency and governance and limiting the creation of new SOEs absent a clear public-interest or strategic rationale.

The new framework also clarifies the authority responsible for establishing SOEs. Under the amended State Property Law, state-owned companies are established by the Government,

while local government-owned companies are established by the relevant Citizens' Representative Khural.

Article 8.1 of the SOE Governance Law limits the establishment of SOEs to specified circumstances, including where an SOE is required to:

- (a) perform public-service obligations that the private sector cannot perform independently or on a financially viable basis;
- (b) utilise natural resources forming part of the state's public property to safeguard national economic interests;
- (c) conduct activities constituting a lawful monopoly;
- (d) perform national security-related functions, including defence, border protection, communications, law enforcement and enforcement of court decisions; or
- (e) operate where otherwise expressly provided by law.

The law expressly prohibits the establishment of SOEs on any other grounds. In addition, any proposal to establish an SOE must be supported by research and assessment addressing, among other matters, the necessity for the proposed company, its consistency with the state ownership policy, proposed sources of funding, expected financing requirements, operational objectives, infrastructure needs and intended duration.

Taking together, these requirements establish a more disciplined framework for the creation of SOEs and are intended to ensure that new state ownership is supported by clear public-interest, strategic or national-interest rationale.

5. ENHANCED CORPORATE GOVERNANCE REQUIREMENTS

The SOE Governance Law introduces a more structured corporate governance framework aimed at strengthening professional oversight, board accountability and management independence, while reducing the scope for political interference:

- (a) **Shareholder rights:** The Government will exercise the state's shareholder rights in SOEs and retain decision-making authority over key matters, including the establishment, restructuring and dissolution of SOEs, capital market transactions,

strategic shareholdings and significant disposals of SOE assets.

- (b) **Board of directors:** The SOE Governance Law establishes more detailed requirements governing board composition, independence and eligibility. Directors must meet specified professional and integrity requirements and are subject to conflict-of-interest rules and restrictions relating to recent holders of political office. Directors are to be appointed through an open and competitive selection process.

Each board must comprise between five and nine directors, including two to four independent directors. Directors may not simultaneously serve as members of the executive management of the relevant SOE. The law also expressly provides for director liability where a breach of duty causes loss to the company.

Generally, these requirements represent a shift towards more professionalised and accountable SOE governance, with greater emphasis on board independence, merit-based appointments and directors' fiduciary responsibilities.

6. SOE ASSETS AND FINANCIAL TERMS

The SOE Governance Law introduces specific requirements governing the financing, distribution of profits and audit of SOEs. Key requirements include:

- **Debt financing:** SOEs may incur debt or issue debt instruments subject to the approval of the Ministry of Finance, except where the relevant obligation is to be repaid within the same financial year. The law also prohibits SOEs from providing guarantees for the obligations of third parties.
- **Dividend policy:** SOEs must adopt a formal dividend policy and are generally required to distribute at least 30% of annual profits as dividends, subject to exceptions based on factors such as investment requirements, financial condition and existing debt obligations.
- **Independent audit:** In addition to audits conducted by the National State Audit Office, SOEs may engage independent external auditors, which was not entirely clear in the previous laws. This provides flexibility in financial oversight and is intended to strengthen the transparency and reliability of SOE financial reporting.

7. OTHER NOTABLE CHANGES

- (a) **Increased Transparency:** The SOE Governance Law significantly expands the disclosure obligations applicable to SOEs. SOEs must publish and regularly update key corporate, financial and operational information, including financial statements, business plans, procurement activities, investment projects, material contracts, governance documents, executive performance information, taxes paid and State support received. These requirements are intended to strengthen transparency, accountability and public oversight of SOE activities.
- (b) **Golden Share:** The SOE Governance Law preserves the existing golden share mechanism, allowing the state to retain certain special shareholder rights when disposing of shares in strategically important companies. These rights may include veto or approval rights over matters relating to national security, strategic assets, natural resources, major restructurings, liquidation and transfers of ownership interests. As a result, the state may continue to exercise influence over key strategic decisions even where its ownership interest is reduced through privatization, capital market transactions or other share transfers.
- (c) **Reduced Political Influence:** The SOE Governance Law places particular emphasis on limiting political interference in SOE management. Its governance principles require greater separation between the state's ownership and governmental functions, management independence and decision-making based on commercial and performance considerations rather than political interests.

The effectiveness of these reforms will ultimately depend on their implementation and enforcement. Nevertheless, the SOE Governance Law establishes a significantly more structured framework for transparency,

accountability and professional SOE governance.

8. CONCLUSION

The SOE Governance Law does not establish an entirely new regulatory regime or introduce a wholly new body of substantive rules for state-owned enterprises. Rather, it consolidates and modernises requirements previously dispersed across the State Property Law, Company Law and sector-specific legislation, while introducing a number of significant governance reforms. By establishing a dedicated framework for state and local government-owned companies, the law provides a clearer clarity around ownership, governance and oversight responsibilities and strengthens requirements relating to board independence, accountability, transparency and disclosure.

The practical impact of the law will depend on its implementation, the adoption of supporting regulations and the development of the state ownership policy. Nevertheless, the SOE Governance Law intends to introduce a significant development in Mongolia's SOE governance framework, with greater emphasis on transparency, accountability, professional management, managerial independence and commercial discipline, while seeking to reduce political influence over corporate decision-making.

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We trust this is helpful. For further inquiries, please contact the following lawyers or those with whom you usually deal:

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