

LAW OF MONGOLIA

Ulaanbaatar city

LAW ON PLEDGE OVER MOVABLE AND INTANGIBLE PROPERTY

CHAPTER ONE GENERAL PROVISION

Article 1. Purpose of the law

1.1. The purpose of this law is to protect rights and legal interests of the parties involved in secured transactions and thereby to increase circulation of assets and access to finance.

Article 2. Legislation on pledge over movable and intangible property

2.1. Legislation on pledge over movable and intangible property shall consist of the Constitution, Civil Code and other legislative acts issued in conformity thereof.

2.2. Relations pertaining to pledges over exploration and exploitation licenses for mineral resources shall be regulated by the Law on Minerals.

2.3. Relations pertaining to pledges over securities in a regulated market shall be regulated by the regulation approved by the authorized body to regulate, supervise the securities on the basis of this law.

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

Article 3. Scope of the law

3.1. This law shall apply to contractual pledge rights and pledge rights created on the basis of law over movable and intangible property of individuals and legal entities.

3.2. This law shall apply to the right of a finance lessor, the right of a buyer of accounts receivable, the right of an installment seller to retake property upon default, the right of the seller in a sale and buy-back contract, and the right of a person with a prevailing right to purchase, in the same way it applies to a pledge right, but only for the purposes of registration and determination of priority.

Article 4. Definitions

4.1. The following terms used in this law shall be understood as follows:

4.1.1. "Perfection" [Confirmation] means confirmation of a pledgee's priority ranking and making the pledge right in collateral effective against third parties;

4.1.2. "Income gained from disposing of a pledge item [Proceeds]" means property, money and monetary assets acquired upon sale or otherwise disposing of a pledge item, or insurance payment or other compensation for loss or damage or expropriation of a pledge item;

4.1.3. "Retention right" means the right of person acting on the basis of law to retain possession of the property until the fees for repair, maintenance or enhancement services, or transportation or storage are paid to the person who provided such services, or to the transportation company or storage agent;

4.1.4. "Seller's pledge right" means a pledge right of a creditor in the sold items who gives loan to a buyer to acquire the items or a seller who sold an item to a buyer on credit;

4.1.5. "Pledge right created on the basis of law" means pledge rights in property which arise by operation of the laws regulating enforcement, tax and insolvency relations.

Article 5. Pledge parties

5.1. A pledgee shall be an individual or a legal entity who has taken a security interest in movable or intangible property to secure performance of an obligation in the event the obligor fails to perform its obligation.

5.2. A pledgor shall be an individual or a legal entity who grants security interest in its own movable or intangible property to secure performance of obligations.

5.3. A pledgor may be the obligor or a third party.

Article 6. Secured obligations

6.1. A pledge shall secure one or more basic obligations which can be expressed in monetary form, and unless otherwise stipulated in law or by an agreement, other associated auxiliary obligations.

6.2. Interest loss, other losses and damages, liquidated damages or court related costs caused to a pledgee in connection with the enforcement of a pledge shall be included in auxiliary obligations.

6.3. Amount of a secured obligation may fluctuate if so provided in the pledge agreement.

6.4. A pledge may secure a future obligation or a conditional obligation if so provided in the agreement.

Article 7. Pledge items

7.1. Any existing or future movable assets, all types of shares, securities, claim rights, scientific, artistic and literature works, inventions, utility models, trademarks, industrial design and other movable or intangible property not excluded from civil transactions and transferable to ownership of others may be subject to pledge.

7.2. Movable property which may not be subjected to enforcement under the law and rights not assignable to ownership of others may not be a pledge item.

7.3. Unless stipulated otherwise in the law or a pledge agreement proceeds of a pledge item shall be subject to the pledge.

7.4. Unless stated otherwise in the pledge agreement fruits of the pledge item shall be a pledge item.

7.5. Pledge items and their quantity may change or fluctuate if provided so in the pledge agreement.

Article 8. Creation of a pledge

8.1. A pledge over movable and intangible property may be created on the basis of law (*“a non-consensual creation” for the translation purposes*) or by a pledge agreement between the pledgee and the pledgor (*“a consensual creation” for the translation purposes*).

8.2. Only the provisions of this law related to perfection and priority shall apply to the pledge rights created on the basis of law.

CHAPTER TWO PLEDGE AGREEMENT AND PERFECTION

Article 9. Consensual pledge right

9.1. Consensual pledge right shall be created on the basis of a written pledge agreement between the pledgee and the pledgor.

9.2. Under a consensual pledge, a pledge item may be transferred to the possession of the pledgee.

Article 10. Contents of a pledge agreement

10.1. A pledge agreement shall be concluded in written form in accordance with this law and the common rules of concluding agreements under the Civil Code and shall include the following:

10.1.1.in case of a pledgee and/or a pledgor being individuals, their given name, father's (or mother's, as applicable) name, registration number and place of residence, in case of a legal person, name, address, state registration number for legal entities and the place of business;

10.1.2.secured obligation, amount of the secured obligation value if it is known when the agreement is concluded;

10.1.3.procedure to determine value of the secured obligation if the parties to the pledge agreed to secure a fluctuating amount of debt or a future obligation, other conditions;

10.1.4.description of the pledge item and its specific or general features;

10.1.5.the party that shall retain possession of the pledge item during the term of the pledge agreement;

10.1.6.date of the pledge agreement.

10.2.Information specified in Article 10.1.1 of this law regarding the following persons shall be included in a pledge agreement:

10.2.1.if an obligor is not a pledgor, information about the obligor;

10.2.2.if the pledge item is a common property, information about the owners;

10.2.3.if there are several obligees/pledgees, information about the obligees/pledgees.

10.3.The pledgor and the pledgee, or their respective representatives shall sign the pledge agreement.

10.4.A pledge agreement shall be invalid unless it is concluded in writing.

Article 11.Perfection of pledge

11.1.A consensual pledge shall be perfected when a pledge item is transferred to possession of a pledgee or its representative as specified in the pledge agreement.

11.2.If possession of the pledge item is not transferred to the pledgee, a consensual pledge shall be perfected by registering a notice of the pledge in the electronic database as prescribed in this law.

11.3.Non-consensual pledge shall be perfected by registering a notice of the pledge in the electronic data base.

11.4.Assigning a perfected pledge right to others shall not be considered as a ground for discontinuation of perfection or change in priority ranking of the security interest.

11.5.A pledge right shall be perfected continuously from the time of first perfection if it is first perfected in one manner and later perfected in another manner, without a period when it is not perfected.

Article 12.Means of perfection in special cases.

12.1.If the pledge item is a monetary deposit the pledge right shall be perfected by the pledgee's control of the deposit account.

12.2.Upon disposition of an original pledge item, the pledge right attaches to the proceeds of the item and shall continuously be perfected if the original pledge right was perfected.

12.3.A pledge right in proceeds becomes unperfected 15 days after the pledgor receives the proceeds unless they are identifiable cash proceeds or are described by the pledge item description in the registered notice.

12.4.A pledge in a motor vehicle may be perfected by registering a notice of pledge that includes the unique serial number.

12.5.If notice is registered in accordance with 40.3 of this law a pledge right shall be deemed to be perfected from the time of registration if the pledge right is created.

12.6.Seller's pledge right shall be deemed to be perfected from the time of the transfer of the pledge item to the buyer if a pledge noticed is registered within 10 days after such transfer.

CHAPTER THREE PRINCIPLES OF DETERMINING PRIORITY OF PLEDGE RIGHTS AND PREFERENTIAL RIGHTS OF A PLEDGEE

Article 13. Rules pertaining to the ranking of priority

13.1.Unless otherwise provided in this law, pledgee's priority ranking to satisfy its claim right before other creditors is determined by the time of perfection .

13.2.Perfected pledge right shall have a preferential right (priority) over unperfected pledges irrespective of their time of creation.

13.3.The first created pledge right has priority among pledge rights for which there is no effective registered notice or other form of perfection.

Article 14.Priority in proceeds

14.1.A security interest in proceeds is of the same priority ranking as of the pledge right in the original pledge item.

Article 15. Preferential Right of Seller's Pledge Right

15.1.A seller's pledge right in equipment and motor vehicles has priority over a conflicting perfected pledge if the seller's pledge right is perfected when the buyer receives possession of the equipment or within 10 days thereafter.

Article 16. Priority of pledge rights in livestock and domestic animals

15.1.A perfected pledge right in livestock and domestic animals given for value for food or medicine for the livestock and domestic animals has priority over any other perfected pledge rights in the livestock and domestic animals, or their proceeds, except for a seller's pledge right.

Article 17. Priority of pledge rights in crops

17.1.A perfected pledge right in crops growing on the land possessed by a pledger in accordance with the law has priority over conflicting interests of the owner or mortgagee of the land.

17.2.A perfected pledge right and crops, given for value to secure the costs of production or harvest of the crops while the crops were growing or during the 6 month period before the crops were planted has priority over any other pledge rights in the same pledge item.

Article 18. Retention right

18.1.A person with the right of retention pursuant to Articles 354, 392, 422.3.8 and 429.17 of the Civil Code shall have a higher priority ranking than other pledgees with perfected pledge rights over the same pledge item.

Article 19. Pledge right over movable property which became nonessential parts to immovable property

19.1. Unless otherwise provided in the pledge agreement, a pledge right shall continue in the pledge item that becomes nonessential part to an immovable property.

19.2.A perfected pledge right in a movable property that becomes fixture to an immovable property has priority over a conflicting right in the immovable property except when the conflicting right arose after the movable property became affixed to the immovable property and is registered with the state registration office in accordance with relevant law prior to the perfection of the pledge right in the movable property that becomes a fixture to the immovable property.

19.3.A pledge right in a movable property shall be terminated if the movable property becomes essential part (undetachable) of the immovable property.

Article 20. Pledge Right in Property Incorporated into Another Property

20.1.A pledge right in movable property that is incorporated into another item which is a major property continues after it is incorporated into the major property.

20.2.If the pledge right stipulated in article 20.1 of this law is perfected when the property is incorporated into the major property, the pledge right remains perfected in the incorporated property.

20.3.With respect to the incorporated property, the perfected pledge right in the incorporated property has priority over a pledge right in the major property.

Article 21.Pledge right in fungible commingled goods

21.1.If a fungible movable property in which a pledge right exists becomes commingled, the pledge right attaches to the product or mass.

21.2.If a pledge right is perfected before the movable property becomes commingled, the pledge right continues to be perfected in the product or mass.

21.3. The priority of the pledge right in the product or mass is measured from the time of perfection of the pledge right in the movable property that became commingled, except as limited by Article 19.4, below.

21.4.If more than one pledge right exists in the product or mass, the following rules determine priority:

21.4.1.a pledge right that is perfected has priority over a pledge right that is unperfected at the time the movable property becomes commingled goods;

21.4.2.the first pledge right to exist in the product or mass has priority among unperfected pledge rights; and

21.4.3.if more than one pledge right is perfected, the perfected pledge rights rank equally in proportion to the value of the movable property at the time it became commingled.

Article 22.Subordination

22.1.A pledgee may subordinate its priority ranking at any time by a written agreement with another pledgee.

Article 23. Transfer of the pledge item's ownership

23.1.Unless otherwise provided in the pledge agreement a pledgee shall notify to the pledgor for the ownership of the pledge item to be transferred by way of selling, trading or gifting.

23.2.Pledgee's notification described in Article 23.1 above shall not be required for the seller selling the pledge item in the ordinary course of business.

23.3. The sale of movable property which is a pledged item by a person who regularly deals, for profit-making purpose, in the kind of property sold shall mean ordinary course of business described in Article 23.2.

Article 24. Continuity of a pledge right in the disposed pledge item

24.1. Unless otherwise provided in the law or the pledge agreement, if an owner of a pledge item is changed by way of selling, trading and otherwise disposing the pledge item, the pledge right shall continue in the pledge item.

24.2. A buyer of a movable property in the pledgor's ordinary course of business takes it free of a pledge right, even if the pledge right is perfected or the buyer knows of its existence.

24.3. A transferee of a movable property or intangible property takes it free of a pledge right if the pledgee's consent is given.

24.4. A transferee takes movable property free of a pledge right if the transferee gives value and accepts delivery of the property without knowledge of the existence of the pledge right, had no way of knowing it, and before the pledge right is perfected in accordance with this law.

24.5. A buyer of a motor vehicle takes it free of a pledge right if the buyer does not know of the pledge right and the pledge right is not perfected in accordance with Article 12.4 of this law.

24.6. Proceeds of a pledge item acquired upon its disposal pursuant to Articles 24.2, 24.3, 24.4, 24.5 of this law shall be subject to the pledge right in accordance with 12.3 of this law.

Article 25. Specifics of a pledge right in accounts receivable

25.1. A pledge over accounts receivable shall be perfected by registering a pledge notice in accordance with this law.

25.2. When accounts receivable are pledged, the pledgee shall not have any obligation to notify the account debtor of the grounds of creation or perfection of the pledge right.

25.3. If the pledgee of accounts receivable has not notified the account debtor of the pledge creation and a default by the pledgor, the account debtor may make his payment to the pledgor, and such payments shall be applied to extinguishment of the account debt.

25.4. If the pledgee of account receivable has notified the account debtor of the pledge and a default by the pledgor, and if the pledgee has directed the account debtor

to pay his debts to the pledgee instead of the pledgor, payments made by the account debtor to the pledgee shall be applied to the extinguishment of the account debt. Payments made by the account debtors to the pledgor after they have received a notice from the pledgee shall not be applied to the extinguishment of the account debt.

25.5. The notice specified in Article 25.4 of this law shall be made in writing and shall include the following:

- 25.5.1. name of pledgee;
- 25.5.2. amount, validity duration of the account receivable, conditions and procedure for due performance;
- 25.5.3. instructions concerning the person to whom the payment shall be made;
- 25.5.4. proof of a pledge right in the account receivable.

CHAPTER FOUR RIGHTS AND OBLIGATIONS OF PARTIES WITH REGARD TO THE PLEDGE ITEM

Article 26. Use of a pledge item

26.1. Unless otherwise provided in the pledge agreement, the pledgor of non-possessory pledge shall be entitled to use the pledge item pursuant to its designated purpose.

26.2. The pledgor of non-possessory pledge shall be entitled to retain revenue and fruits of the pledged item and, unless otherwise stated in the pledge agreement, the pledgee shall not have any rights in connection to the revenues and fruits of the pledge item.

Article 27. Repair and maintenance of a pledge item

27.1. Unless otherwise provided in the pledge agreement, the pledgor of non-possessory pledge shall take care of the pledge item until termination of pledge right and shall be responsible for the costs of routine maintenance of the pledge item within the time specified by law and/or in the pledge agreement or within an appropriate period of time if no specific term is provided.

27.2. Unless otherwise provided in the pledge agreement, the pledgee of a possessory pledge shall take care of the pledge item and be responsible for its repairs and maintenance.

Article 28. Insurance of a pledge item

28.1. The pledge item may be covered by insurance if the parties to the pledge agree so.

28.2. In case of an insurance event, the pledgee shall be entitled to get its secured interest satisfied from the insurance compensation on a priority basis.

Article 29. Consequences of expropriation of a pledge item

29.1. If a pledge item was expropriated as specified by law and a relevant compensation or price was paid out, the pledgee shall be entitled to get its claim satisfied from such compensation on a priority basis.

Article 30. Prevention of destruction and damage to pledge item

30.1. Party retaining the pledge item in its possession shall be obliged to ensure that the pledge item is kept free from legal and physical deficiency and to take the measures provided by the law and the pledge agreement for protecting the pledge item from illegal intrusion or sudden hazards or to take the usual necessary measures if such measures are not specifically provided for in the law or the pledge agreement.

30.2. If the pledge item encounters an actual hazard of destruction or damage, the party retaining the pledge item in its possession shall be obliged to notify the other party of such situation immediately.

Article 31. Inspection of pledge item

31.1. A party not retaining the pledge item in its possession shall be entitled to inspect the actual state, maintenance and protection of the pledge item upon giving notice to the pledgor.

31.2. The party exercising the right in Article 31.1 of this law shall not interfere with possession and use of pledge item by the party unless it is necessary.

Article 32. Transferring the secured obligation

32.1. Unless otherwise provided in the agreement, upon transfer of the secured obligation a pledge right shall be deemed transferred along with the secured obligation.

Article 33. Insolvency and bankruptcy of a pledgor

33.1. Priority ranking of perfected pledge rights shall not be changed by bankruptcy or insolvency.

33.2. A pledge right shall be valid even if insolvency proceedings are commenced against the pledgor, and the liquidator in an insolvency proceeding shall satisfy the secured obligation from the proceeds of disposition of the pledge item on a preferred basis and any amount remaining after satisfaction of the secured claim shall be deemed as an obligor's asset to be distributed.

33.3. In case of a pledgor deemed bankrupt or insolvent, if the amount of secured claim exceeds the proceeds of disposition of the collateral, the amount exceeding the proceeds shall be deemed as a regular ranking claim.

CHAPTER FIVE REGISTRATION OF PLEDGE NOTICE

Article 34. Registration agency

34.1. The state administrative body in charge of registration affairs shall be responsible for the registration of notices of the pledges over movable and intangible property in electronic data base and issuance of registration numbers in accordance with procedures set forth in this law.

34.2. The purpose of registration of a notice specified in this law is to publicize creation of a pledge right in certain person's movable or intangible property and to determine the priority ranking of the pledge right. An interested person may request clarification about the content of the pledge agreement from the pledgee or the pledgor.

Article 35. Electronic database

35.1. The registration agency shall have an electronic database for registering notices of pledges over movable and intangible property (hereinafter referred to as "electronic database").

35.2. The registration agency shall be responsible for creation of the electronic database at the national level, and ensure uninterrupted activity, storage, protection and reliability.

35.3. The registration agency shall prepare monthly, quarterly and annual reports on statistical data of registered pledge notices at the national level and deliver the reports to the competent authority.

35.4. The electronic database stipulated in Article 35.1 of this law shall be open and unified at the national level.

Article 36. Regulations pertaining to the operation of electronic database

36.1. Regulations on procedures related to forming the electronic database and processing, referencing and exchanging data, registering and issuing registration numbers for pledge notices and to define data to be open for public purpose and data for statistical purpose shall be approved by the Cabinet member in charge of state

registration affairs upon proposal from the head of the state administrative body in charge of registration.

Article 37. Searching in electronic database

37.1. Electronic database shall be open to the public for the purpose of searching and obtaining information on pledges.

37.2. Reference may be obtained from the registration agency.

Article 38. Service fees

38.1. No service fee shall be paid for registration of a notice of lien or a termination notice or searching in electronic database.

38.2. The stamp duty specified in the Law on State stamp duty shall be paid for registering an initial, an amendment and a continuation notice and for reference .

Article 39. Notice of pledge

39.1. A pledge notice shall include the following:

39.1.1. if the pledgor is an individual citizen of Mongolia, his/her given name, father's or mother's name (as applicable), family name and the registration number /if the individual is not a citizen of Mongolia, passport number or number of a similar identification document/, the address; if the pledgor is a legal entity, its name, registration number and the address;

39.1.2. if the pledgee is an individual his/her given name, father's or mother's name (as applicable), family name, and place of residence; if the pledgee is a legal entity, its name, registration number and the place of business;

39.1.3. a specific or general description of the pledge item;

39.1.4. term of the secured obligation.

39.2. If there are more than one pledgees and/or pledgors, the information specified in Articles 39.1.1, 39.1.2 of this law shall be included for each relevant person.

Article 40. Registration of a notice

40.1 Registration of a pledge notice shall be made in an electronic form by the pledgee or his representative.

40.2. The pledgee shall obtain the pledgor's written consent to register the pledge notice, which consent may be in the pledge agreement or in a separate document.

40.3.If the pledgee and the pledgor agreed in writing a pledge notice may be registered before the pledge agreement is concluded or becomes effective.

40.4.A notice of a non-consensual pledge may be registered by a pledgee without the consent of the pledgor. A notice of a non-consensual pledge on a property of an insolvent person in accordance with bankruptcy legislation may be registered by a liquidator appointed by the court. A notice of a non-consensual pledge on a property of a judgment debtor may be registered by the court enforcement agency and, a notice of a lien arising pursuant to tax legislation may be registered by the relevant tax authority.

40.5.If the pledge agreement is amended in writing with regard to the information specified in Article 39 of this law, the pledgee shall register a notice of amendment in electronic database.

40.6.If the term of the pledge agreement is extended, the pledgee shall register a continuation notice in electronic database.

Article 41.Effectiveness of pledge notice

41.1.A registered notice shall be effective from the time it is discoverable on the records of the registry.

41.2.A notice is effective for 3 years unless a continuation notice is registered before the period lapses.

41.3.Upon lapse, the pledge that was perfected by the notice shall become unperfected unless it is perfected by another means.

Article 42.Amending the registration of pledge notice

42.1.An amendment notice shall include the following:

42.1.1.registration number of the initial notice;

42.1.2.information on the pledgee specified in Article 39.1.2 of this law, who authorizes the amendment;

42.1.3.other information required for a pledge notice.

42.2.An amendment notice that adds pledge items or adds pledgors or pledgees shall be authorized by the added party by signing the new pledge agreement or by other written consent.

42.3.An amendment notice is effective only as to pledgees who consented to it.

Article 43.Extending the term of pledge registration

43.1.A notice to extend the term of pledge notice (continuation notice) shall include the following:

43.1.1.registration number of the initial notice;

43.1.2.information on the pledgee who authorizes the continuation notice, specified in Article 39.1.2 of this law.

43.2.A continuation notice shall be registered within six months before the expiration of the effective period of the initial notice.

43.3.Upon registration of a continuation notice, the effectiveness of the initial notice is extended for 3 years as to each authorizing pledgee.

Article 44. Termination of pledge notice

44.1.A termination notice shall include the following:

44.1.1.registration number of the initial notice;

44.1.2.information on the pledgee who authorizes the termination, specified in Article 36.1.2 of this law;

44.1.3.a note that indicates that the initial notice is no longer effective with respect to each pledgee who authorized the termination notice.

44.2.The pledgee shall register a termination notice within 3 days after he receives a written demand by the debtor or pledgor, if:

44.2.1.there is no more outstanding secured obligation;

44.2.2.the debtor or the pledgor did not authorize registration of initial notice.

44.3. If the pledgee fails to register termination notice within the period specified in Article 44.2 of this law, the pledgee shall be liable for loss and damages incurred to the pledgor and liquidated damages if so provided in an agreement.

44.4. A pledgee of a non-consensual pledge shall register a termination notice within 10 days after receiving a written demand from the pledgor if full payment of the secured obligation has been made.

44.5.A termination notice terminates effectiveness of the initial notice as to each authorizing pledgee or a pledgee.

Article 45.Adding comments in pledge notice

45.1.The debtor or the pledgor named in a registered notice may register additional comments to object to or clarify any information in the electronic database.

45.2.Registration of the additional comments referred to in Article 45.1 of this law shall not be a grounds to invalidate the effectiveness of the pledge notice.

45.3. Any person who registers a notice in the electronic database shall be obliged to provide correct and accurate information, and shall be liable for loss incurred by others due to the violation of this duty.

Article 46.Refusal to register a notice

46.1.The electronic database shall refuse to register a notice first time if it is not included following information:

- 46.1.1.the register number of a pledgor;
- 46.1.2.the name and address of a pledgee;
- 46.1.3.discreption of the pledged item.

46.2.The electronic database shall refuse to register an amendment notice if the registration number of an initial notice is invalid or the period of initial notice is expired or terminated in addition to following information is not included:

- 46.2.1.the register number of an initial notice;
- 46.2.2.the registration number of pledger;
- 46.2.3.the name and address of a pledgee.

46.3.The electronic database shall refuse to register a continuation notice if the registration number of an initial notice is invalid or the period of initial notice is expired or terminated in addition to following information is not included:

- 46.3.1.the register number of an initial notice;
- 46.3.2.the term to extend.

46.4. If the initial pledge register number is not included or the register number is invalid, or the term of the notice is expired or terminated when applying for terminating pledge registration the termination of pledge notice shall be refused.

46.5.Failure to pay a service fee shall be a ground to refuse to register a notice.

CHAPTER SIX ENFORCEMENT OF A PLEDGE RIGHT

Article 47.Grounds for enforcement of a pledge right

47.1.Unless otherwise provided in the pledge agreement, if an obligor fails to perform its secured obligation the pledgee shall be entitled to exercise its pledge right.

Article 48.Notice to enforce a pledge right

48.1.If there is a grounds to enforce a pledge right, the pledgee shall give a written notice to the pledgor and the obligor and such notice shall include:

48.1.1.information about the pledge agreement;

48.1.2.a note that the enforcement of the pledge right is about to commence and that conditions for enforcement have been fulfilled;

48.1.3.measures that may be taken by the pledgor to satisfy the pledge claim;

48.1.4.the deadline to take the above measures.

Article 49.Term to satisfy secured claim

49.1.Unless otherwise provided in the notice to enforce a pledge right the deadline for the pledgor to satisfy the secured obligation shall be 14 days after delivery of the notice to enforce a pledge right.

Article 50.Registering the notice to enforce a pledge right and notifying other pledgees

50.1.The deadline to satisfy the secured claim is expired, the pledgee may enforce its right of pledge.

50.2.If the pledge is perfected by registration, the commencement of enforcement shall be registered in the electronic database.

50.3.A pledgee who commenced enforcement shall send notification to other pledgees perfected by registration at least 10 days prior to the sale of the pledge item at their addresses mentioned in the registration. The notification in this Article shall include information about the pledgee, the pledgor, the pledge item, envisaged method of disposition, date and location to sell the pledged item.

Article 51.Making a claim to the Court to enforce a pledge right

51.1.Upon registration of notice to enforce a pledge right the pledgee shall be entitled to take possession of the pledge item.

51.2.If the pledgee is unable to exercise his right to take possession of the pledge item, he may make a claim to the court.

51.3.When making a claim to the court in accordance with 51.2 of this law the pledgee may make a request to take possession of the pledge item to the court in the scope of taking measures to confirm executions of decisions to be issued by the court in accordance with 69.1.5 of Law on Civil procedure.

51.4. The judge shall make a ruling to transfer the pledge item to the possession of the pledgee within 7 days after receipt of the pledgee's request if the court finds that the conditions for enforcement in the pledge agreement have been met.

51.5. If the pledge item is not rare, unique and unlikely to be replaceable the court may give authorization to sell the pledge item together with the ruling to transfer the pledge item to the possession of the pledgee.

51.6. The pledgee shall be obliged to keep the proceeds of the disposition of the pledge item stipulated in Articles 51.4, 51.5 of this law until the final decision of the court for the claim aroused in accordance with Article 51.2 of this law is made.

Article 52. Prohibition of hindrance to the enforcement of the pledge right

52.1. A pledgor shall be forbidden to cause hindrance to the legal actions taken by the pledgee as specified in this law for the purpose of exercising its right of pledge.

Article 53. Method of disposing of the pledge item

53.1. When disposing of a pledge item the pledgee shall be obliged to select the most cost effective, fair and optimal method of disposition by taking into account specifics of the particular pledge item and selecting the method most suitable for the given circumstances, including appointing a third party to sell the pledge item.

53.2. The pledge claim shall be satisfied by disposing of the pledge item by the following methods and forms:

53.2.1. sale of the pledge item directly by the pledgee or its representative;

53.2.2. sale of the pledge item through an open auction conducted by an independent person to conduct auctions;

53.2.3. sale of the pledge item on the exchanges or markets for similar types of assets.

Article 54. Distribution of the proceeds of disposition of the pledge item

54.1. After paying the costs related to sale of the pledge item pursuant to the methods specified in Article 53 of this law the pledgee shall satisfy its own secured claim as well as pledge claims of other pledgees in accordance with the priority rule as specified in this law and return the remaining balance to the pledgor.

54.2. At least 10 days before distribution of the proceeds of disposition pursuant to this Article, the pledgee shall give a notice of the proposed distribution to the persons specified in Article 50.3 of this law. The notice shall include information about the place and the date on which distribution will occur and the address to which the claims for distribution and proof of the claims must be presented. The notice of proposed distribution may be included in the notification specified in Article 50.3 or provided separately.

54.3.The pledgee shall distribute the proceeds of disposition in the following order pursuant to Article 54.1 of this law :

54.3.1.the actual costs incurred by the pledgee related to the taking of possession, holding and disposing of the pledged property;

54.3.2.the satisfaction of obligations secured by senior ranking claims as specified in this law;

54.3.3.the satisfaction of the obligation secured by the pledge right of the enforcing pledgee;

54.3.4.the satisfaction of obligations secured by the pledge rights of other pledgees that submitted proof and notification of their claims as specified in Article 54.2 of this law before the distribution of the proceeds of disposition of the pledge item.

Article 55.Pledgor's right to take back the pledged item

55.1.At any stage prior to disposition of the pledge item, a pledgor shall be entitled to satisfy fully all secured claims and cease the enforcement procedure.

55.2.In the case specified in Article 55.1 of this law, the pledgor shall compensate all the costs and loss incurred by the pledgee in connection with satisfaction of its pledge right.

Article 56.Ownership transfer of pledged item to a buyer or other pledgees

56.1.A buyer who purchased the pledged property pursuant to a disposition procedure specified in this law shall receive the pledge item in its ownership free of pledge rights.

56.2.The pledgee may take all or part of the pledge item in satisfaction of his secured claims entirely or partially upon obtaining written consents of the pledgor, the obligor and other pledgees with registered pledge right.

Article 57.Satisfaction of pledge claims in accounts receivable

57.1.If the pledge item is a accounts receivable and the term of performance of obligations has expired, the pledgee shall be entitled to get its pledge claim satisfied directly by way of demanding it from the obligor.

57.2.If performance of obligations exceeds the pledge claim when the pledged account receivables are paid, the pledgee shall deduct its costs related to satisfaction of its pledge claim and transfer the remaining balance back to the pledgor.

57.3.If the pledged accounts receivable are paid at the time of enforcement of the pledge right, though the term of the debt pursuant to account receivable agreement had

not matured, the pledgee may keep the payment until the due date of payment upon properly notifying the obligor of the satisfaction of the secured obligation.

57.4.If the pledge item is a **bearer** security retained in the pledgee's possession, and the term of performance of the secured obligation has expired, the pledgee shall be entitled to have its claim satisfied directly by way of exercising the right expressed by the pledge item.

57.5.If the pledge item is a cash deposit in a bank account, a pledgee-bank shall be entitled to have its claim satisfied from the cash deposit on the unconditional basis. If a pledgee is a person other than a bank, a person who takes the account under its control, shall be entitled to have the secured claim satisfied directly from the cash deposit.

CHAPTER SEVEN MISCELLANEOUS

Article 58.Grounds for Termination of Right of Pledge

58.1.Unless otherwise provided in the law, a right of pledge shall be terminated based on the following grounds:

- 58.1.1.by mutual agreement of the parties to the pledge agreement;
- 58.1.2.the secured obligation is satisfied, or the obligation is terminated;
- 58.1.3.the pledge item is destroyed;
- 58.1.4.the pledge item is transferred to the pledgee's ownership;
- 58.1.5.the secured obligation is assigned separately from pledge rights;
- 58.1.6.the pledge item is sold or transferred to others as specified in this

law.

Article 59. Coming into force

59.1. This Law shall become effective from the date of September 1st of 2016.

CHAIRMAN OF THE STATE GREAT HURAL

Z.ENHBOLD