

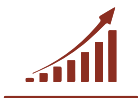


# ANNUAL REPORT 2018

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## KEY INDICATORS



SECURITIES	
Market capitalisation (MNT, billions) .....	2,512
Trading (MNT, billions) .....	246
Top-20 index .....	21,467
Mongolian Agricultural Commodity Exchange trading (MNT, billions) .....	711
Asset-backed securities (MNT, billions) .....	3,779
Joint stock companies (number) .....	305
Professionals (number) .....	54
Investment management companies (number) .....	17
Investment funds, private (number) .....	12
Audit companies (number) .....	56
Assessment firms (number) .....	23
Law firms (number) .....	26



INSURANCE	
Total assets (MNT, billions) .....	332
Insurance premiums income (MNT, billions) .....	179
Damage ratio (%) .....	55.2
Insurance indemnity (MNT, billions) .....	58
Total net profit (MNT, billions) .....	18
Reinsurance companies (number) .....	2
Long term insurance companies (number) .....	1
Insurance companies (number) .....	15
Insurance loss-adjusters (number) .....	27
Insurance intermediaries (number) .....	49
Insurance agents (number) .....	2,430
Audit companies (number) .....	43



NON-BANK FINANCIAL INSTITUTIONS	
Total assets (MNT, billions) .....	1,285
Total loans (MNT, billions) .....	869
Total net profit (MNT, billions) .....	101
Annual weighted average interest rate (%) .....	3.2
Non-bank financial institutions (number) .....	539
Branches and representative offices (number) .....	230



SAVINGS AND CREDIT COOPERATIVES	
Total assets (MNT, billions) .....	200
Total loans (MNT, billions) .....	134
Total net profit (MNT, billions) .....	5.3
Total savings (MNT, billions) .....	1412
Savings and credit cooperatives (number) .....	279
Branches (number) .....	27
Members (number) .....	62,556

## ABBREVIATIONS

<b>ADB</b>	Asian Development Bank
<b>AFI</b>	Alliance for Financial Inclusion
<b>AMLCFT</b>	Anti-Money Laundering and Combating Financing of Terrorism
<b>ANBFI</b>	Association of Non-Bank Financial Institutions
<b>BaFin</b>	Federal Financial Supervisory Authority of Germany
<b>BoM</b>	Bank of Mongolia
<b>CGF</b>	Credit Guarantee Fund
<b>EBRD</b>	European Bank for Reconstruction and Development
<b>ESC</b>	Economic Standing Committee
<b>FRC</b>	Financial Regulatory Commission (of Mongolia)
<b>FSA</b>	Financial Services Agency (of Japan)
<b>FSS</b>	Financial Supervisory Services (of South Korea)
<b>GAL</b>	General Administrative Law
<b>GDP</b>	Gross Domestic Product
<b>GIZ</b>	German International Cooperation Agency
<b>GPO</b>	General Prosecutor's Office
<b>IIB</b>	International Investment Bank
<b>IMF</b>	International Monetary Fund
<b>IPO</b>	Initial Public Offering
<b>JICA</b>	Japan International Cooperation Agency
<b>JSC</b>	Joint Stock Company
<b>MACE</b>	Mongolian Agricultural Commodity Exchange
<b>MCSD</b>	Mongolian Central Securities Depository
<b>MECSS</b>	Ministry of Education, Culture, Science and Sports
<b>MEFIN</b>	Mutual Exchange Forum on Inclusive Insurance
<b>MICPA</b>	Mongolian Institute of Certified Public Accountants
<b>MJDA</b>	Ministry of Justice and Domestic Affairs
<b>MNCCI</b>	Mongolian National Chamber of Commerce and Industry
<b>MNT</b>	Mongolian Tugrug
<b>MoF</b>	Ministry of Finance
<b>MoFALI</b>	Ministry of Food, Agriculture and Light Industry
<b>MoU</b>	Memorandum of Understanding
<b>MSE</b>	Mongolian Stock Exchange
<b>MSX</b>	Mongolian Securities Exchange
<b>NBFI</b>	Non-bank Financial Institution
<b>ROA</b>	Return on Assets
<b>ROE</b>	Return on Equity
<b>SCC</b>	Savings and Credit Cooperative
<b>SCD</b>	Securities Central Depository LLC
<b>WB</b>	World Bank

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## FOREWORD

One of the important tasks of the FRC in 2018 was the adoption and implementation of its Medium-term Strategic Plan; 2018–2021. The Plan's development was based on a multi-stakeholder policy – aimed at promoting market growth and sustainability – implementing effective and sound regulation. The Plan provided for fostering growth of the sector by building a more integrated financial system. The FRC developed and approved the policy documents, thanks to the continuous effort and close collaboration of the FRC team. The Medium-term Strategic Plan; 2018–2021 was based on global financial market development trends, defined FRC's vision (as well as short- and medium-term goals/objectives), and identified measurable outcomes.

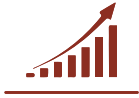
Mongolia's economic growth in 2018 was double the global average. Statistics show that growth in exports and investment were key factors contributing to the increasing domestic demand, which had a positive impact on the economy. In 2018, Mongolia recorded reduced government debt and increased foreign exchange reserves. The FRC accomplished significant success as a result of enhanced regulation, and policies in place supporting the stability and sustainability of financial markets; with an all-time high market capitalisation of the securities market. Total assets of the capital market, insurance, non-bank financial institutions (NBFIs) and savings and credit cooperatives (SCCs) increased by 33% compared to 2017. Financial market regulation was geared towards more international financial services; where FinTech and other technologically enhanced regulatory solutions were in the forefront of relentless globalisation. The FRC kept up with the latest industry trends; supporting the development of FinTech-based products and services, conducting research on regulation of the new technologies, and reviewing recommendations of international organisations and the best practices of countries with similar macroeconomic environments. Consequently, the FRC expects the costs of products and services to decline overtime, in the face of increasing market competition and financial inclusion.

In addition to conducting on-site and off-site inspections of about 2,500 entities, the FRC undertook Mongolia's first risk assessment of money laundering of financial and real estate intermediaries. This was part of the implementation and enforcement of 23 items of legislation, and 160 rules and regulations. In accordance with the legislation, FRC took necessary measures to protect the rights of consumers and investors alike; examining violations – or unlawful acts – identified during inspection and assessments. Furthermore, a number of tasks/activities were completed towards implementing risk-based supervision across all regulated sectors.

The FRC will continue to focus on improving the professional skills and capabilities of market participants, to facilitate successful implementation of its strategy and policies; aligning activities with international standards (and best practices) and promoting market stability.

Davaasuren Sodnomdarjaa,  
Chairman, FRC.

## STRATEGY



### VISION

To create diversified, sustainable and inclusive financial markets where fair competition is promoted and consumer protection is secured towards fostering economic growth and development.



### MISSION

To develop diversified and sustainable financial markets that ensure the rights of consumers – and trust, in the marketplace – through implementation of sound financial policies, regulation, and establishment of an effective supervision system.



### VALUES

Are primarily focused on FRC's workforce; the backbone of the institution and whose role is critical in safeguarding the financial well-being of consumers in Mongolia's financial markets. FRC's vital role in regulating and shaping the financial markets requires staff to work lawfully, and demonstrate high ethical and professional standards. Accordingly, in exercising its authority, the FRC promotes:

- **Integrity.** The quality of being compassionate, loyal, honest and trustworthy; and having high ethical and moral principles;
- **Accountability.** The quality of being responsible, dutiful, dedicated and well-organised; with strong organisational skills;
- **Professionalism.** The quality of being skilled, competent and having strong ethics and good judgment;
- **Independence.** To act lawfully and free from conflict of interest, and external control or influence;
- **Leadership and Initiative.** The quality of being creative, proactive and innovative;
- **Teamwork.** The ability to work in a team and contribute equally to achieve a common goal by exchanging knowledge and experience; listening to team members and colleagues, and showing respect and support.

According to International Monetary Fund (IMF) forecasts, global economic growth was estimated to have been 3.9% for the first quarter of 2018; but was projected to decline to 3.7% towards the end of the year, back to its 2017 level.

Slowing growth of exports, rising energy prices, and political uncertainty, adversely affected advanced economies, notably in the EU. US tax policy changes were expected to stimulate activity, with favourable impact on the economy driven by private sector growth. Rapidly expanding Asian economies had been gaining momentum as domestic demand accelerated. Likewise, the rise in crude oil prices supported the economies of Sub-Saharan Africa and the Middle East, while recovery in Latin American countries continued.

According to the *World Economic Outlook*, global growth was projected to decline to 3.5% in 2019 before picking up slightly to 3.6% in 2020. The downward predictions reflected – in part – *the negative effects of tariff increases enacted in the United States and China<sup>1</sup>, were expected to extend into early 2019. Also involved were the effects of the introduction of new automobile fuel emission standards in Germany, and concerns about sovereign and financial risks on domestic demand in Italy.*

Mongolia's economy picked up rapidly in 2017 and continued to strengthen throughout 2018; reaching 6.9% at the end of the year. Growth in exports and increasing investment – which continued to accelerate domestic demand – contributed to Mongolia's economic growth. Growth of the service industry and the mining, constituted 18.1% and 16.2% respectively, while net tax revenue growth accounted for 28.4% of Mongolia's economic growth.

Mongolia's long-term credit rating was lifted from 'B-' to 'B' in November 2018 by Standard & Poor's (an international credit rating agency). The revised assessment took into consideration several factors including the country's strong recovery driven by declining government debt and increasing foreign exchange reserves. According to IMF forecasts, Mongolia's economy is projected to grow to 6.3% in 2019

and 4.9% in 2020; while the Asian Development Bank (ADB) estimates a growth of 6.1% in 2019 for Mongolia.

Financial markets continue to expand rapidly as favourable macro-economic conditions, and effective policies implemented by regulating authorities, help to restore market confidence and stimulate capital market activities. For example, Mongolia's capital market recorded an historic, high securities trading (by value) in 2018, with a market capitalisation of MNT2.5 trillion (7.8% of nominal gross domestic product). The combined assets of insurance companies, NBFIs and SCCs increased by 32.9%, totalling MNT1.8 trillion. The non-banking sector currently constitutes 13.5% of gross domestic product (GDP).

Market capitalisation and stock trade volume increased significantly in 2018 – compared to 2017 – and reflected, in part, the growing market confidence and investors' confidence alike. During the fiscal year, six companies successfully traded their shares on the primary market; a record high number of companies in a given year. Of the six companies, five raised MNT26.7 billion worth of capital (combined). In addition, the Mongolian Securities Exchange (MSX) – Mongolia's first private equity exchange – traded its first bond.

While key indicators of the insurance sector in Mongolia have been increasing steadily in recent years, insurance penetration and insurance density remain below international averages. Thus, enhancing public financial literacy and financial inclusion, and developing new insurance products and services remain vital development goals.

As of year-end 2018, the total assets of NBFIs reached MNT1.3trillion; as the minimum capital requirement imposed on NBFIs was re-established (resulting in a subsequent decision to gradually increase their share capital). Following the decision, the capital adequacy of market participants and the supply of financial services increased, and loan and credit rates declined as credit supply increased. The weighted average credit/loan rate, which stood at 3.4% in 2017, declined to 3.2% in 2018.

<sup>1</sup> People's Republic of China.

Total assets of SCCs increased 30.7% – driven primarily by the increase in total savings deposits – while profitability indices of the sector improved.

A key component of globalisations is the revolution the existing trend of financial inclusion; prompted in part by implementing better regulatory practices and policies aimed at providing affordable and inclusive financial services. It also involves developing policies that support new technological developments, providing a sound regulatory framework that supports stable and inclusive financial markets, delivering financial services to low and middle income individuals while protecting consumer rights, and conducting research and analysis.

The FRC implemented and enforced 23 items of legislation as part of its regulatory and supervisory function across the non-bank sector. The Commission also carried out regular on-site and off-site supervision of the capital and financial adequacy of 2,347 entities that are subject to the FRC's prudential requirements. The FRC also undertook enforcement measures, when necessary, in order to ensure the rights of investors and consumers alike, and to establish risk-based supervision across all regulated sectors.

## OVERVIEW OF THE NON-BANK FINANCIAL SECTOR

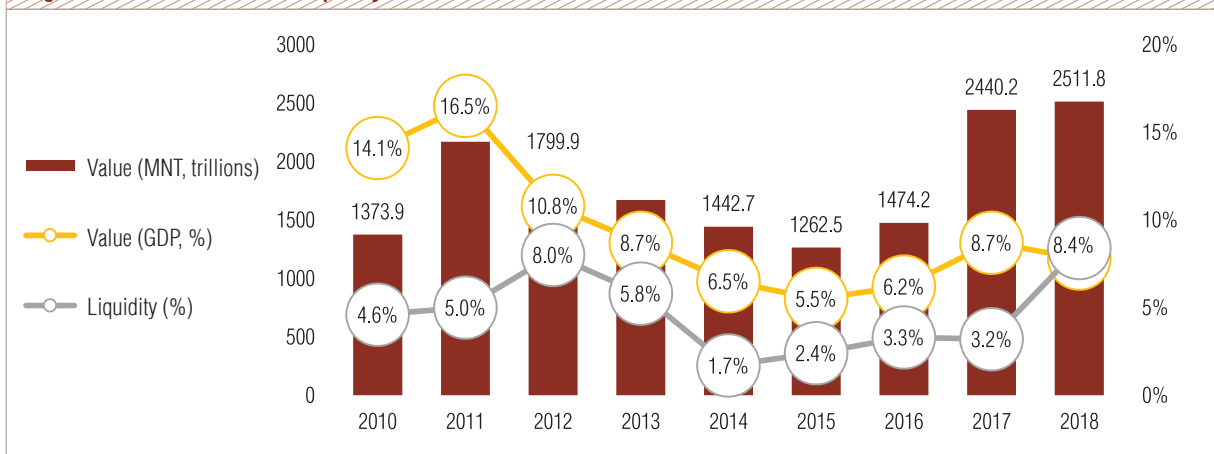
### 1.1. SECURITIES

**Market capitalisation.** At the end of 2018, the securities market capitalisation reached MNT2.5 trillion; an increase of MNT71.5 billion or 2.9% compared to the same period of the previous year. During the reporting period, the trading value of shares reached MNT210.3 billion and liquidity level 8.4% respectively. This was an increase of 5.2 percentage

points compared to the same period of the previous year.

At the end of 2018, the market capitalisation accounted for 7.8% of the nominal GDP; a 0.9 percentage points decrease on the same period in 2017. The growth of GDP was a major contributor to the change.

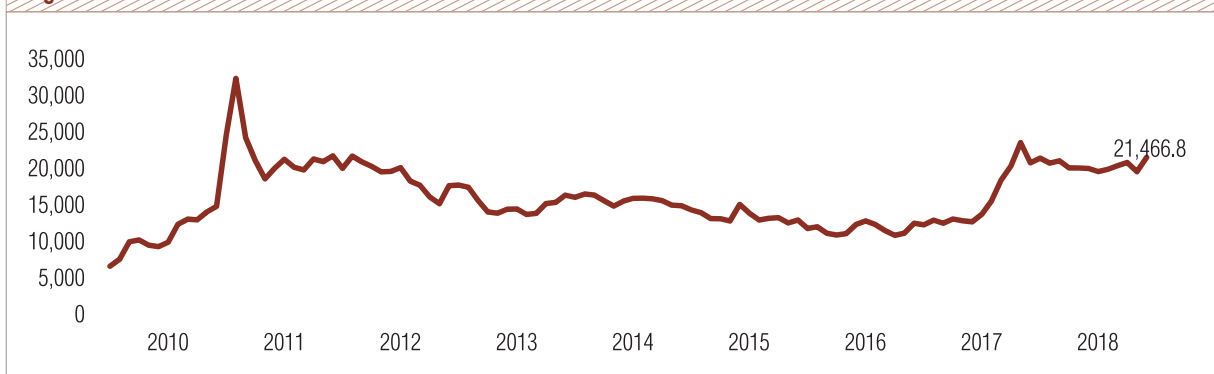
**Figure 1. Market Value and Liquidity.**



**Stock index.** The TOP-20 index increased by 729.8 points (3.5%) to 21,466.8 units. The highest the index reached was

21,737.7 units, the lowest 18,861.4, while the average was 20,157.0 units.

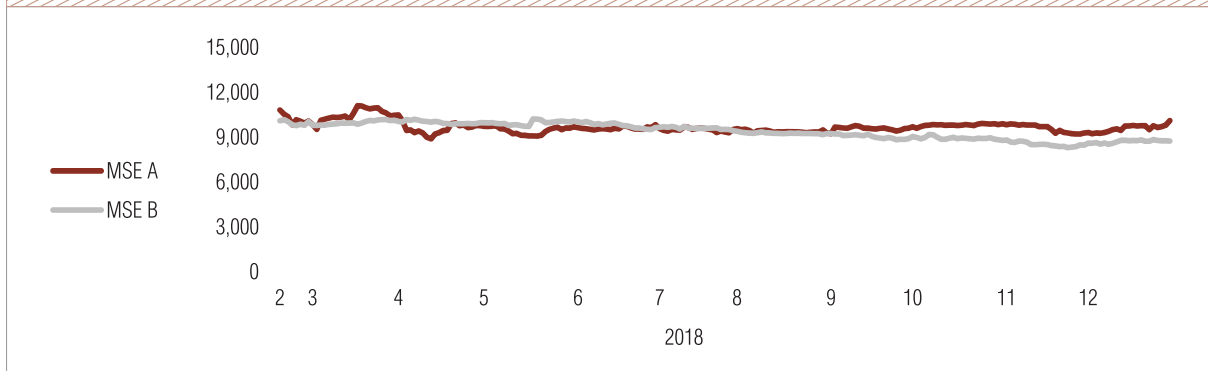
**Figure 2. TOP 20 Index.**



Mongolian Stock Exchange; MSE A and MSE B. The MSE approved the revised regulation of *Index Computation* and (from February) computation of the MSE A and MSE B indices was based on the market capitalisation of companies listed in 'Category I' and 'Category II' (MEE A, and MSE B).

During the reporting period, the highest level reached in the MSE A index was 11,091.79 units, the lowest was 8,873 units, while the average was 9,662 units. The highest reached in the MSE B index was 10,203 units, the lowest was 8,284 units, while the average was 9,389 units.

**Figure 3. Stock Exchange Indices; 2018.**



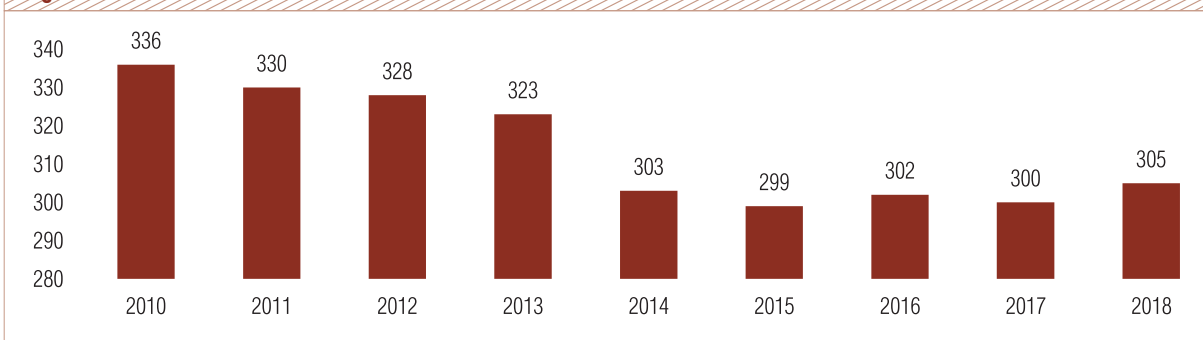
**Market participants.** The following types of licensed legal entities operated in the Mongolian securities market.

Item	2017	2018	Change
	Participants		
Securities trading	2	2	–
Securities settlement	1	1	–
Securities depository	1	1	–
Investment management	17	17	–
Investment fund (private)	9	12	3
Custodian bank	3	3	–
Underwriter bank	1	2	1
Professional participants:	52	54	2
Broker	50	53	3
Dealer	47	41	(6)
Underwriter	22	25	3
Investment advisor	14	14	–
<b>Total</b>	<b>85</b>	<b>90</b>	<b>5</b>
MACE	1	1	–
Agricultural commodity brokers	16	12	(4)
Audit companies	49	56	7
Assessment firms	21	23	2
Law firms	21	26	5

Listed companies; joint stock companies (JSCs). During the reporting period, 305 companies were registered with the FRC, and conducting operations. In 2018, six companies

were granted permission to launch initial public offerings (IPOs), and five of them offered their shares in the primary market.

**Figure 4. MSE-Listed JSCs.**



The share structure of companies listed with the FRC, Mongolian Stock Exchange (MSE), Mongolian Securities Exchange (MSX) and Mongolian Central Securities Depository (MCSD) was as follows.

**Table 2. Listed Securities Issuers; by Equity Structure.**

Item	FRC	MSE/MSX	MCSD
State-owned	31	18	21
Partially state-owned	19	11	23
Private	255	188	284
<b>Total</b>	<b>305</b>	<b>217</b>	<b>328</b>

The discrepancy in the number of registered companies and companies with trading rights, was due to the fact that according to the *Securities Market Law*, companies with trading rights are required to develop a listing regulation for approval by the FRC and determine registration criteria in accordance with the regulation, thus delist companies that did not meet the set requirements.

In accordance with the *Law of Legal Status of the Financial Regulatory Commission* (FRC), the *Securities Market Law*, the FRC cannot delist from its register, companies which had already been deregistered from the MSE's register. In order for FRC to delist such companies, it needs to ensure settlement of cash value per shares based on asset valuation and address minority shareholders' rights violations and complaints prior to delisting securities approved for public offering.

**Securities trading (MSE).** As of 31 December 2018,

- 667 million shares (of 136 companies) worth MNT210

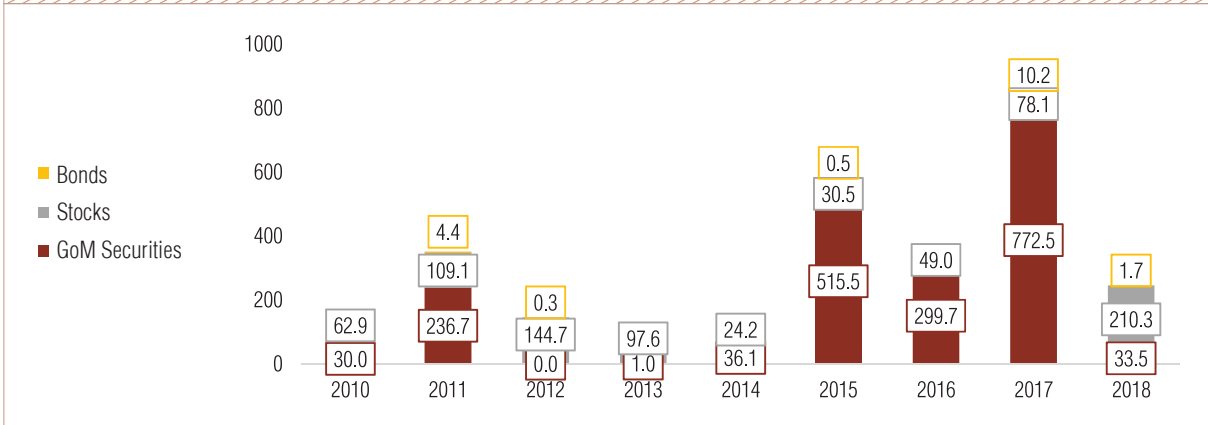
billion were traded;

- 332,800 shares worth MNT33.5 billion were traded on the secondary market of government bonds;
- 6,300 shares of corporate bonds worth of MNT631.6 million were traded on the secondary market of corporate bonds;
- Overall, a total of MNT244.1 billion worth of trades were executed.

**Mongolian Securities Exchange (MSX).** During the reporting period, 100,000 shares of corporate bonds worth MNT1.0 billion were traded in the primary market. In addition, 6,600 shares of corporate bonds worth MNT66.0 million, and 6.4 million shares worth total of MNT292.1 million were traded in the secondary market.

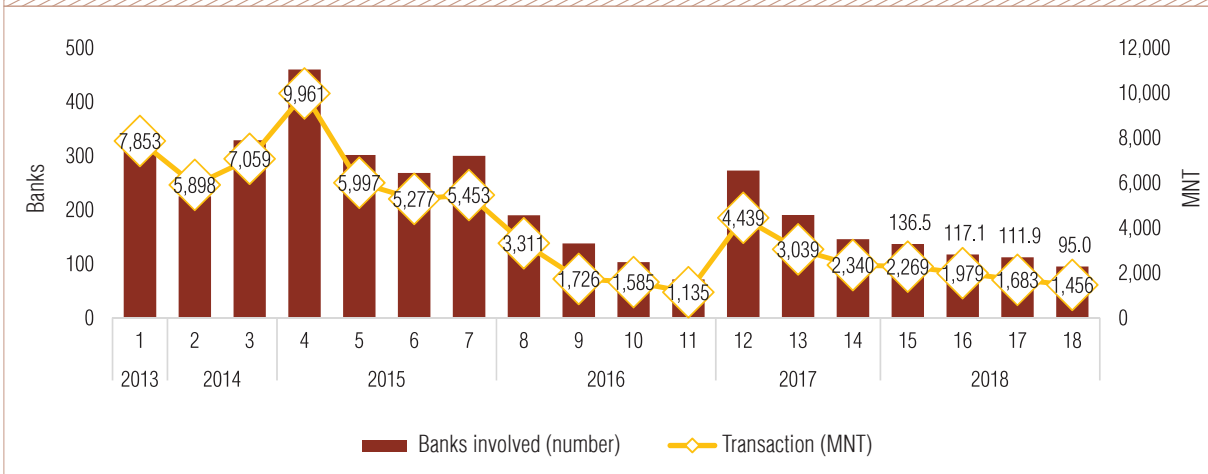
A total of MNT245.5 billion worth of trades were executed on the MSE and MSX; a decrease of MNT615.3 billion compared to the same period in 2017 (when 89.8% of transactions consisted of government bonds).

**Figure 5. Exchanges Trading; by Product Category.**

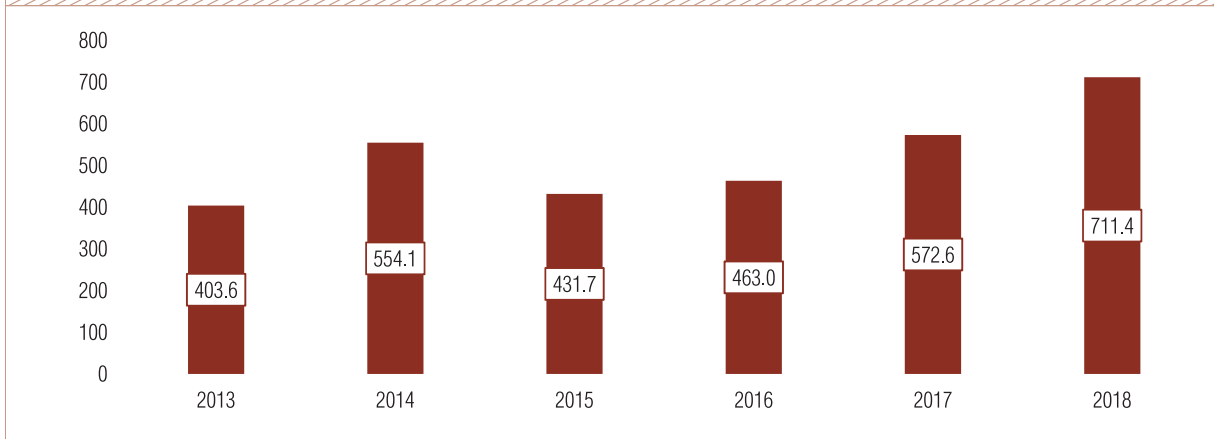


Asset-backed securities. In 2018, the *MIK Asset SPC 15-18* was licensed and its securities were registered.

**Figure 6. Residential Mortgage-Backed Securities.**

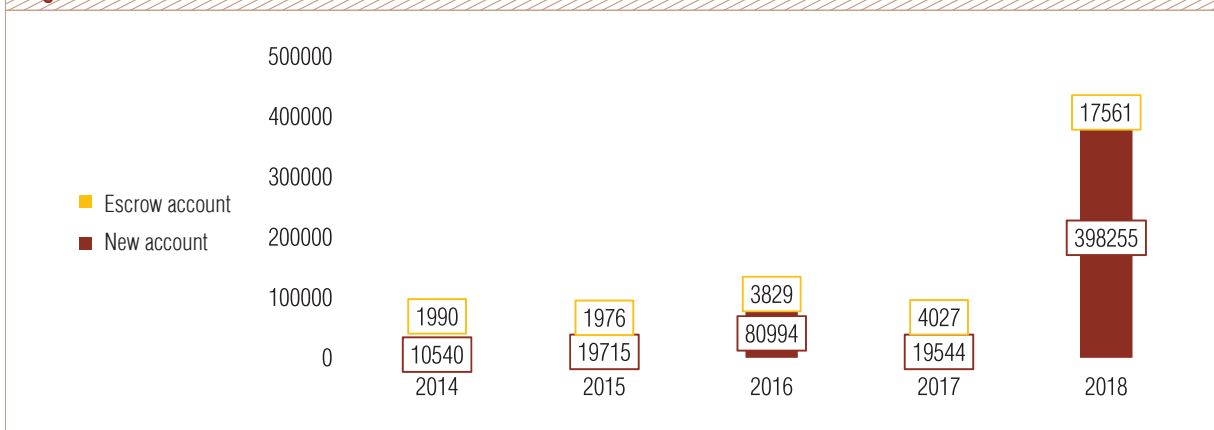


Mongolian Agricultural Commodity Exchange (MACE). At the end of 2018, MNT711.4 billion worth of trades had been executed at the exchange; an increase of MNT164.2 billion (30.0%) compared to the same period in the previous year.

**Figure 7. MACE; Value of Trading (MNT, billion).**

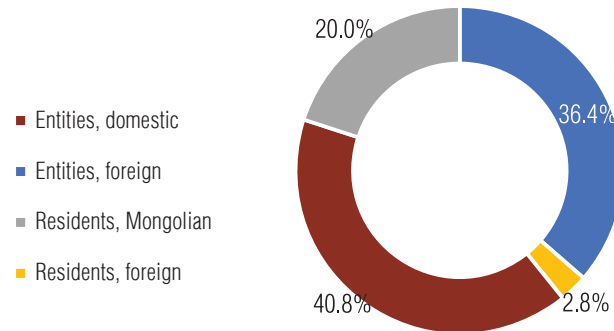
**Investors and accounts.** Since the inception of the secondary market, a total of 1,304,371 accounts and 160,805 escrow accounts have been opened. The former consisted of 1,299,268 accounts of domestic and 2,198 foreign investors, 2,712 domestic enterprises and 193 foreign enterprises respectively.

During the reporting period, 398,255 accounts were opened in the MCSD) and the accounts consisted of 398,081 accounts of domestic and 80 foreign investors, 88 domestic and six foreign enterprises respectively. In addition, 17,561 escrow accounts had been opened.

**Figure 8. New Accounts.**

**Share of investors in trading.** At the end of 2018, domestic investors (mainly enterprises) accounted for the bulk (60.8%) of all trading of shares, government securities

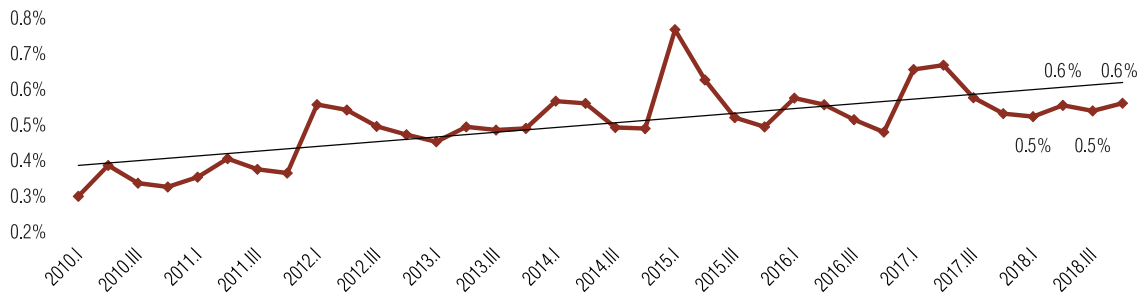
and corporate bonds, in the secondary market. Among the balance of 39.2% – accounted for by foreign investors – enterprises again predominated.

**Figure 9. Trading; by Type of Investor.**

## 1.2. INSURANCE

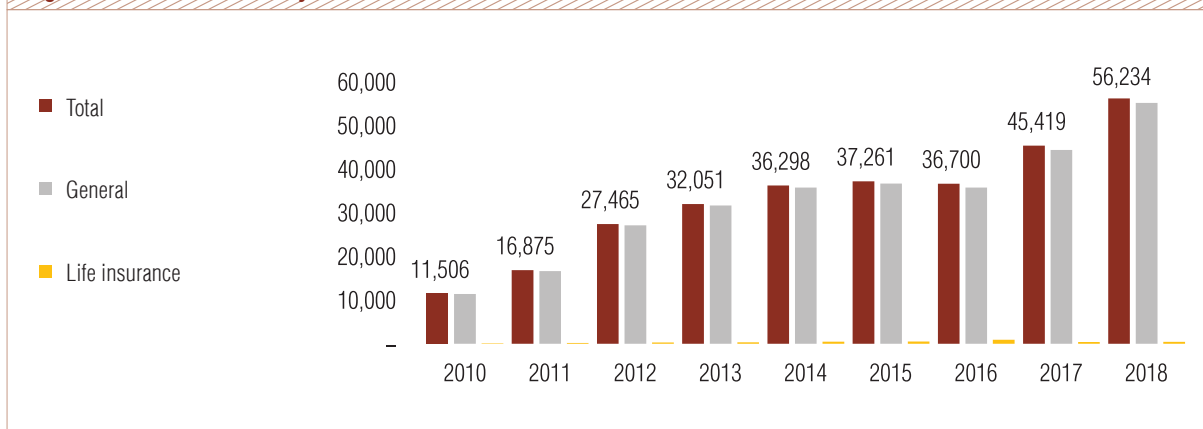
Although general indicators of the insurance sector had been growing in previous years, the key indicator of the sector's development – insurance penetration, the amount of

insurance premium income of GDP – was lower than other countries. At the end of 2018, the insurance penetration was 0.56%, an increase of 0.03 percentage points from 2017.

**Figure 10. Insurance; Penetration.**

The indicator of insurance density (or ratio of insurance premium per person) represents the sector's access and demand. At the end of 2018, the average insurance premium

per person reached MNT56, 234; a 19.2 percentage points increase from 2017.

**Figure 11. Insurance Density.**

**General Indicators.** By the end of 2018, the entities licensed by the Commission<sup>2</sup> included the following.

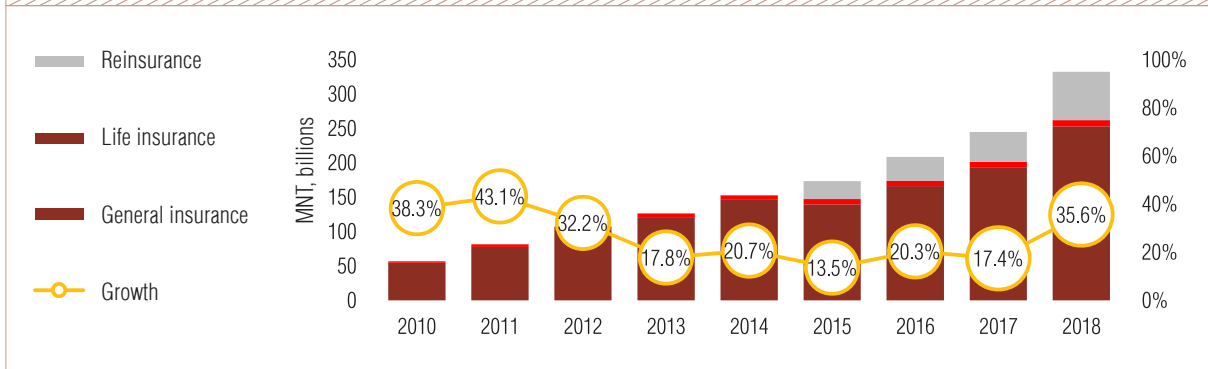
**Table 3. Licenced Insurance Entities.**

Item	Number		Change
	2017	2018	Number
General	15	15	–
Life	1	1	–
Reinsurance	1	2	1
Insurance representatives	2893	2430	(463)
Insurance intermediaries	42	49	7
Loss-adjuster	29	27	(2)
Actuary	21	28	7
Auditor	130	141	11
Audit companies	42	43	1

**Insurers' assets.** Total assets of the insurance market reached MNT331.9 billion; an increase of 35.6% from 2017 (and 1.3% on the previous year's final quarter in particular). Assets of reinsurance companies accounted for 21.2% of the total assets – an increase of 61.8% compared to the previous year – and reached MNT70.2 billion. Assets of

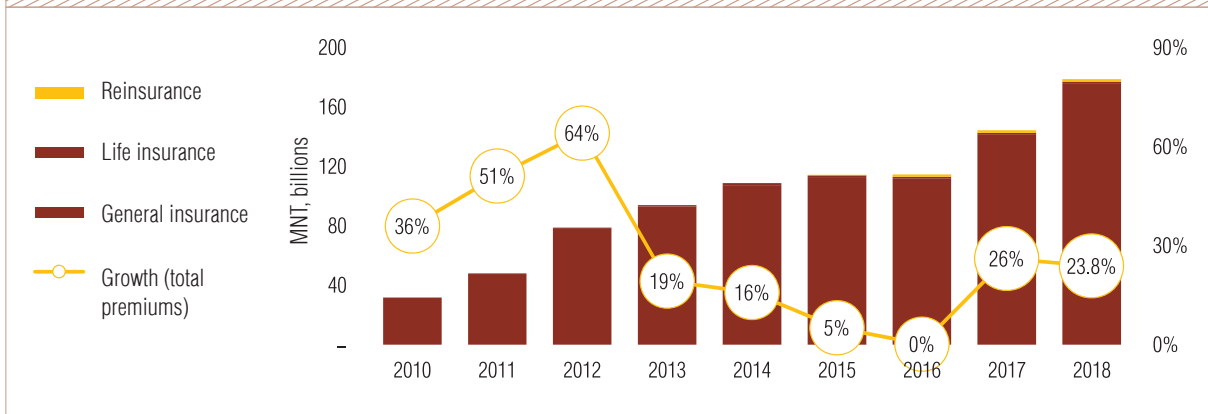
general insurance companies increased by 30.6% (from 2017) to reach MNT252.9 billion, and accounted for 76.2% of all assets. Similarly, assets of long-term insurance companies increased by 14.3% to reach MNT8.9 billion, and accounted for 2.7% of the total assets.

<sup>2</sup> Financial Regulatory Commission of Mongolia.

**Figure 12. Insurance Companies Total Assets.**

Total insurance premium income reached MNT178.7 billion at the end of 2018; with premium income of general insurance companies accounting for MNT175.5 billion, long-term insurance companies MNT1.4 billion, and reinsurance

companies reached MNT1.7 billion, respectively. In 2018, the increase in premium income amounted to 23.8% with respect to the previous year.

**Figure 13. Insurance Companies Income and Reinsurance Premiums.**

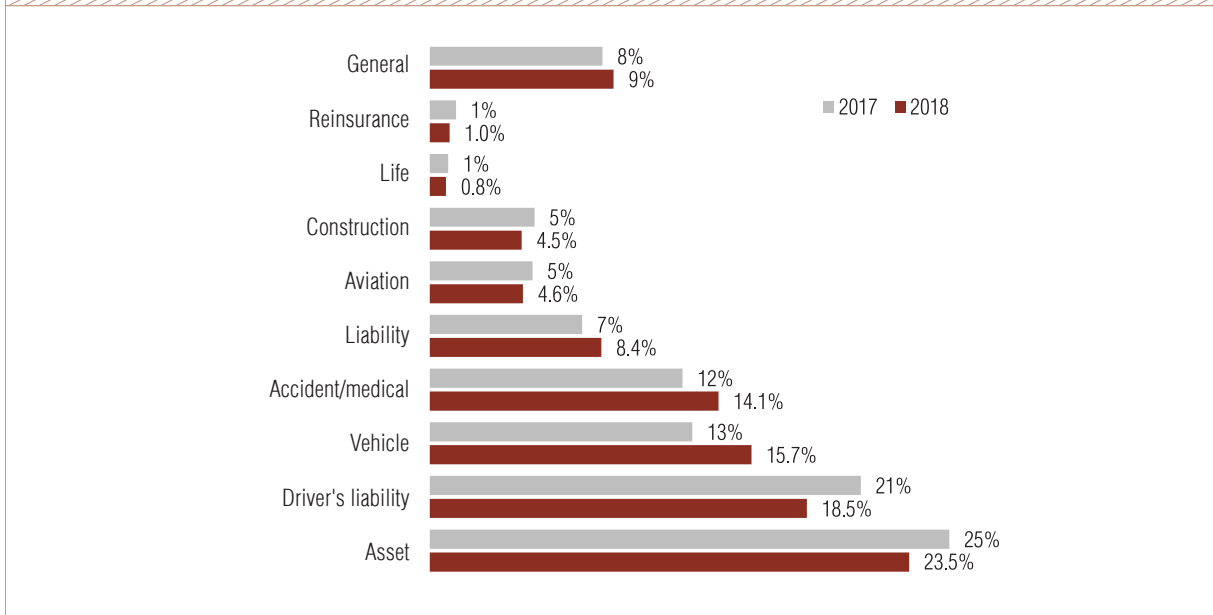
Total insurance indemnity amounted to MNT58.2 billion during the year which accounted for 32.6% of total premium income. Indemnity payments increased by 28.7% compared to the previous year and 98.1% were made by general insurance companies.

During the reporting period, insurance companies paid MNT55.3 billion in reinsurance premiums, an increase of 18.7% from 2017, and 31% of total premium income. Of the reinsurance, general insurance companies spent MNT54.5 billion, reinsurance companies MNT825.3 million, and long-term insurance companies MNT22.4 million respectively.

There were 23 types of insurance products (including

general, long-term and reinsurance) being sold in the insurance market. All types of insurance – except driver's liability insurance – were voluntary.

During the reporting period, insurance companies earned MNT178.7 billion in premiums income. Further disaggregation of the revenues indicated that MNT175.5 billion (98.8%) were collected by general insurance companies, and MNT1.4 billion (0.8%) were collected by long-term insurance companies. More than 70% of insurance premium revenues consisted of property insurance, driver's liability insurance, motor vehicle insurance, accident and medical insurance.

**Figure 14. Insurance Premiums Income (by Type).**

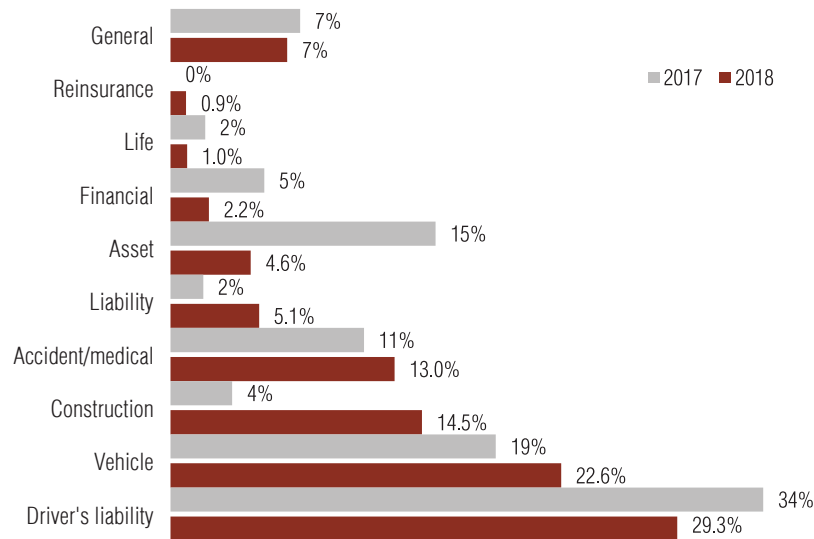
Insurance intermediaries and insurance representatives collected MNT39.8 billion (22.3%) and MNT36.9 billion (20.6%) of insurance premium income, respectively.

The insurance premium income from driver's liability insurance accounted for 28.9% and 31% of the premium income of insurance intermediaries and insurance representatives, respectively.

**Insurance indemnity.** MNT57.1 billion (98.1%) of indemnity payments were made by general insurance; MNT559.3

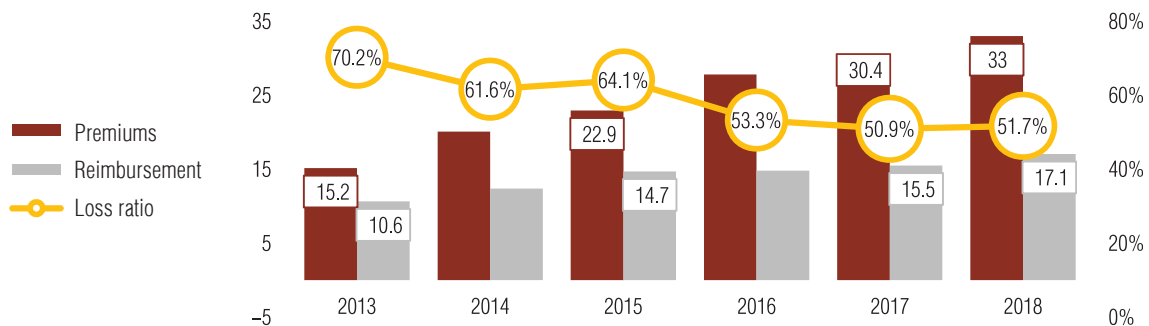
million (1.0%) long-term insurance, and MNT521.9 million (0.9%) of indemnity payments were made by reinsurance. In terms of total insurance indemnity, the four types of insurance comprised about 80% of total indemnity. For example, property insurance constituted the largest percentage of total insurance premium income and driver's liability insurance consisted the largest percentage of total indemnity. Further, during the reporting period, the construction insurance indemnity payments – just 4.0% in 2017 – increased to 14.5% in 2018.

Figure 15. Insurance Indemnity.



Compulsory Insurance. Driver's liability insurance started to be enforced in 2012.

Figure 16. Driver's Liability (Compulsory) Insurance; Fees and Compensation (%).



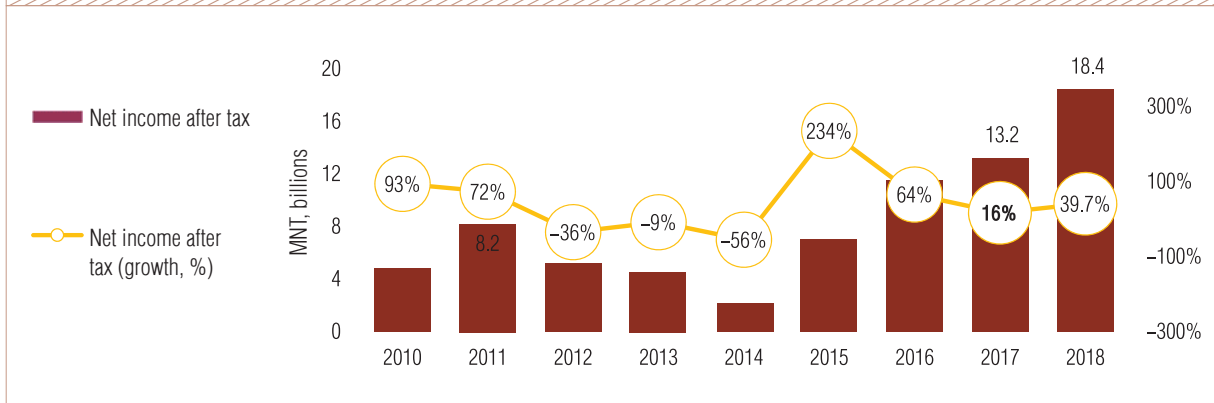
The driver's liability insurance premium income – which increased by 9.5% in 2017 – increased by 8.3% in 2018, to reach MNT33 billion. The insurance indemnity payments increased by 4.7% and 10.3% in 2017 and 2018 respectively. In 2018, the indemnity payments reached MNT17.1 billion; which amounted to 29.3% of all market indemnity payment.

Since 2016, the ratio of insurance product's indemnity and premium income has started to stabilise and the average percentage of the previous five years was 56.0%. There was a slight decrease to 51.7% in the reporting period. Net profit

of the insurance companies grew by MNT5.2 billion (39.7%) to reach MNT18.4 billion.

According to the net profit (after tax) of insurance companies, there were eight insurance companies with negative growth (net profit decreased), five companies with up to 50% of growth, one insurance company with a growth rate between 50% and 100%, and three insurance companies with more than 100% growth. Profit after tax, of all insurance companies, increased by a factor of 1.9, on average.

Figure 17. Net Profit.

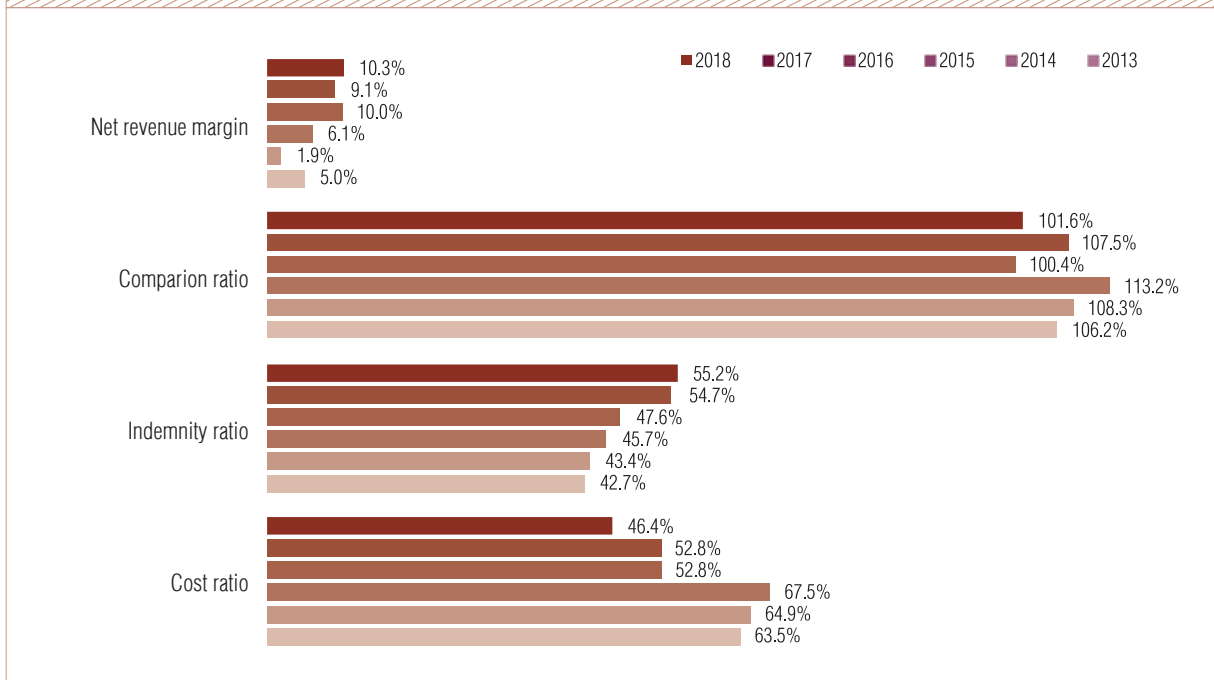


The loss ratio in 2018 was slightly higher than in 2017. There was an increase of 28.7% in total insurance indemnity and 27.5% in income. In other words, the increase in income was lower than the increase in the cost of insurance indemnity. The ratio of the combination cost in the insurance sector, indemnity and operating expenses, were equal to 101.6% of

total income. The ratio of the combination cost increased in 2017 and decreased in 2018. The net marginal profit ratio in the insurance sector increased in 2018.

Net profit dropped by 10.0% and 9.1% in 2016 and 2017 respectively, while in the reporting year it rebounded to 10.3%.

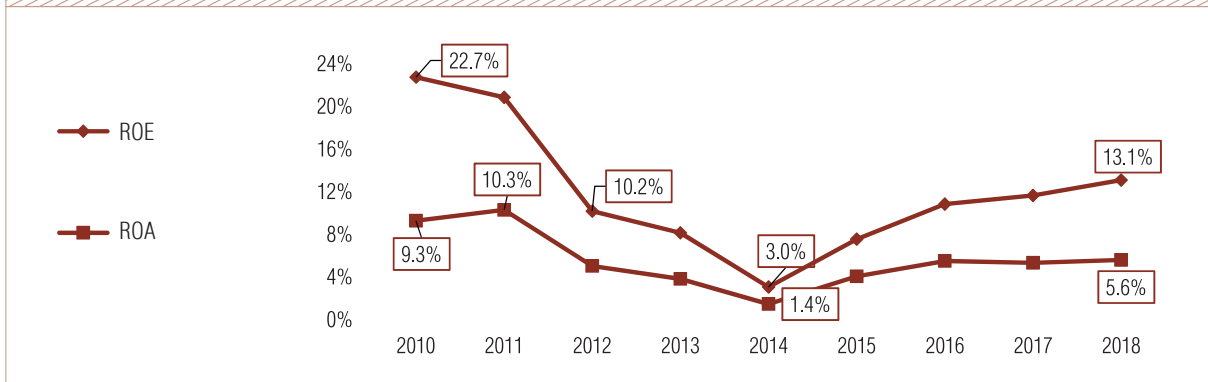
Figure 18. Net Revenue Margin and Combined Ratio.



The insurance sector's return on equity (ROE) as high 22.7% in 2010 – though dropped to 3.0% in 2014 and increasing since 2014 – reached 13.1% in 2018. The same pattern was observed in the trend of the return on total assets. From

2014, the total return on assets rose from 1.4% to 5.3% in 2017 and by another 0.3 percentage points to reach 5.6% in 2018.

**Figure 19. Return on Total Assets and Current Assets.**



### 1.3. NON-BANK FINANCIAL INSTITUTIONS

**Overview of the sector.** The number of NBFIs holding licenses issued by the FRC reached 539 at the end of 2018; an increase of 0.9% compared to the previous year. With some overlap in the numbers, the variety of services provided by NBFIs included:

- lending, (492);
- foreign currency trading, (457);
- investment and financial consultancy and/or information, (31);
- trustee service, (30);
- remittances, (25);
- factoring services, (22);
- guarantees, (18); and
- Investment in short-term financial instruments and guarantees to MSMEs or issuing payment instrument respectively, (9).

Key statistical indicators were as follow.

Item	2017	2018	Change (%)
Total number of NBFIs	534	539	0.9
In rural areas	70	73	4.3
Number of clients	1,471,099	1,601,749	8.9
Number of shareholders	1,039	4,875	369.2
Number of employees	2,473	2,784	12.6
Number of branches	164	230	40.2
In Ulaanbaatar	114	161	41.2
In rural areas	50	69	38
Representative office	4	5	25
Total assets (MNT, billions)	969.2	1,284.9	32.6
vs. banking sector (%)	3.4%	3.9%	0.5
Outstanding loan (MNT, billions)	638.0	869.2	36.2

vs. banking sector (%)	4.8%	5.4%	0.6
Total equity (MNT, billions)	758.2	977.4	28.9
vs. banking sector (%)	24.1%	30.0%	5.9
Total share capital (MNT, billions)	595.4	740.8	24.4
vs. banking sector (%)	81.7%	83.8%	2.1

\* = percentage points

Total assets of NBFIs reached MNT1.3 trillion; equivalent to 3.9% of the total assets of the banking sector. Debt liability balance amounted to MNT869.2 billion (5.4% of the banking sector) and owner's equity reached MNT977.4 billion (30.0% of the total banking sector). Share capital of NBFIs totalled MNT740.8 billion (83.8% of total share capital in the banking sector).

The number of shareholders increased rapidly – by 369.2% – after an NBFi had launched an IPO to become a publicly traded entity for the first time in the non-bank financial

sector. During the year, 44 NBFIs (28.0%) holding foreign currency trading licenses, carried out the activity alone.

**Total assets.** Total assets of the sector reached MNT1,284.9 billion, an increase of MNT315.7 billion (32.6%) compared to 2017. Growth impacted on owner's equity which increased by MNT219.3 billion (32.6%), of which share capital increased by MNT145.4 billion (24.4%). Most (96.1%) of the total assets were comprised of current assets, of which 67.6% were loans and 24.5% were cash.

**Table 5. Assets; by Type (MNT, billions).**

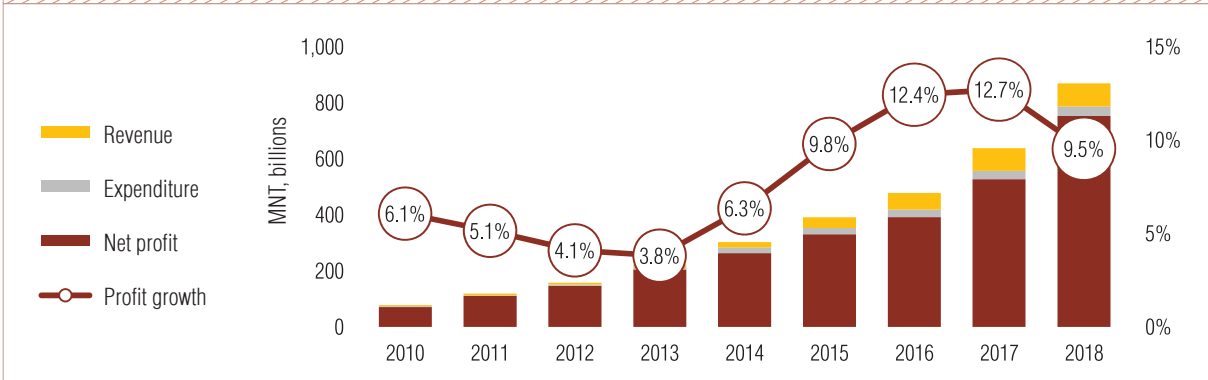
Item	2017		2018		Change	
	MNT	%	MNT	%	MNT	%
Current assets	932.7	96.2	1234.7	96.1	302.0	32.4
Cash assets	264.1	27.3	315.1	24.5	51.0	19.3
Short-term investment (net)	2.7	0.3	1.8	0.1	(0.9)	(33.3)
Total loans	638.0	65.8	869.2	67.6	231.2	36.2
Credit risk fund	-56.0	-5.8	-64.5	5.02	(8.5)	15.2
Account receivable of total factoring	0.1	0.0	7.3	0.57	7.2	7200
Factoring receivable risk fund	-	0.0	0.0	0.0	-	-
Real estate, and others	8.1	0.8	10.2	0.8	2.1	25.9
Other assets	75.7	7.8	95.5	7.4	19.8	26.2
Non-current Assets	36.5	3.8	50.2	3.9	13.7	37.5
Fixed and intangible assets	45.5	4.7	61.5	4.8	16.0	35.2
Accumulated depreciation	9.0	0.9	11.3	0.9	2.3	25.6
<b>Total</b>	<b>969.2</b>	<b>100</b>	<b>1284.9</b>	<b>100</b>	<b>315.7</b>	<b>32.6</b>

Compared to the previous year, NBFIs' total debt balance rose by MNT231.2 billion (36.2%) reaching MNT869.2 billion. Of all loans, those issued in foreign currency decreased by MNT2.1 billion (6.4%), whereas loans issued in the local currency increased by MNT233.3 billion (38.5%) compared to the previous year. During the reporting period, loans were

issued to a total of 234,080 creditors.

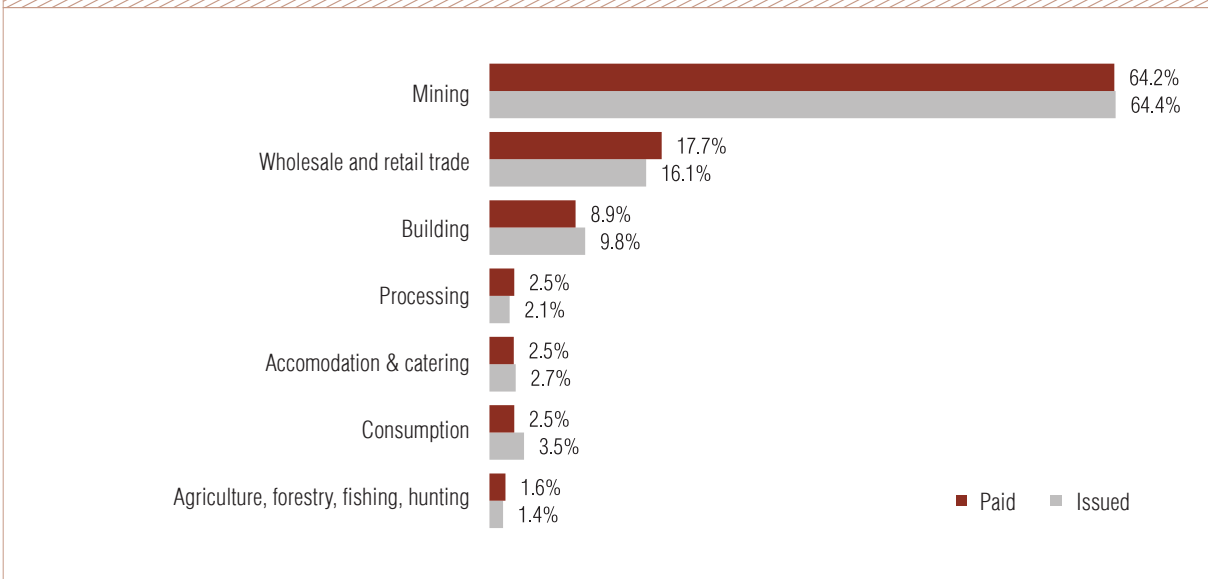
Total debt liability balance was made up of loans (86.6%), outstanding loans (3.8%), and non-performing loans (9.5%). The total of non-performing loans decreased by 3.2 percentage points.

**Figure 20. Quality of Loan Portfolio.**



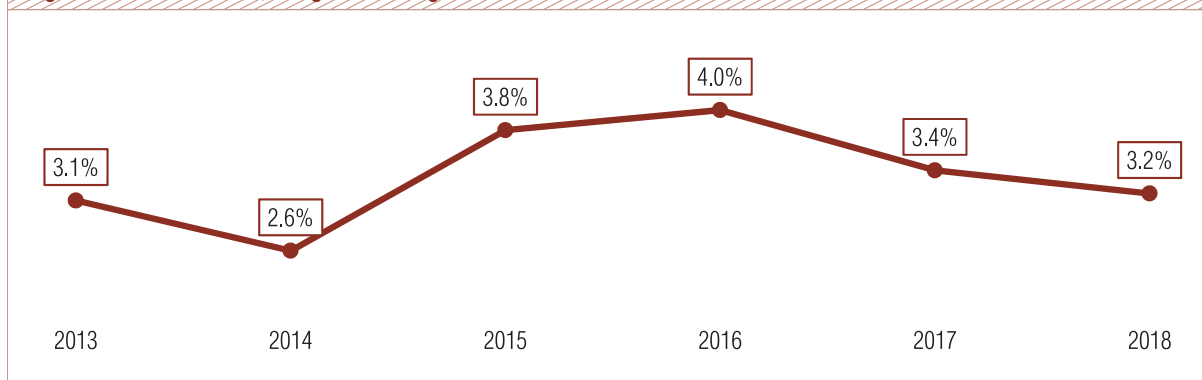
The following figure show the share of total loans issued and paid in various sectors of the economy.

**Figure 21. Loans Issued and Paid; by Category.**



Monthly weighted average percentage rate of loans – provided by 482 licensed NBFIs – decreased by 0.4 percentage points to 3.2%.

Figure 22. Loan Interest; Weighted Average.



**Total liabilities.** Total liabilities increased by MNT315.7 billion (32.6%) compared to that of the previous year. This consisted of MNT307.4 billion (23.9%) of total debt liabilities and MNT97.4 billion (76.1%) of owner's equity. It was also composed of share capital (57.7%), accumulated

profit (17.5%), loans from banks and financial institutions (11.8%), trust service debt (4.5%), and other liabilities. The increase of both share capital by MNT145.4 billion (24.4%) and retained earnings by MNT69.5 billion (44.8%) impacted on the increase of owner's equity by MNT219.2 (28.9%).

Table 6. Liabilities Structure (MNT, billions).

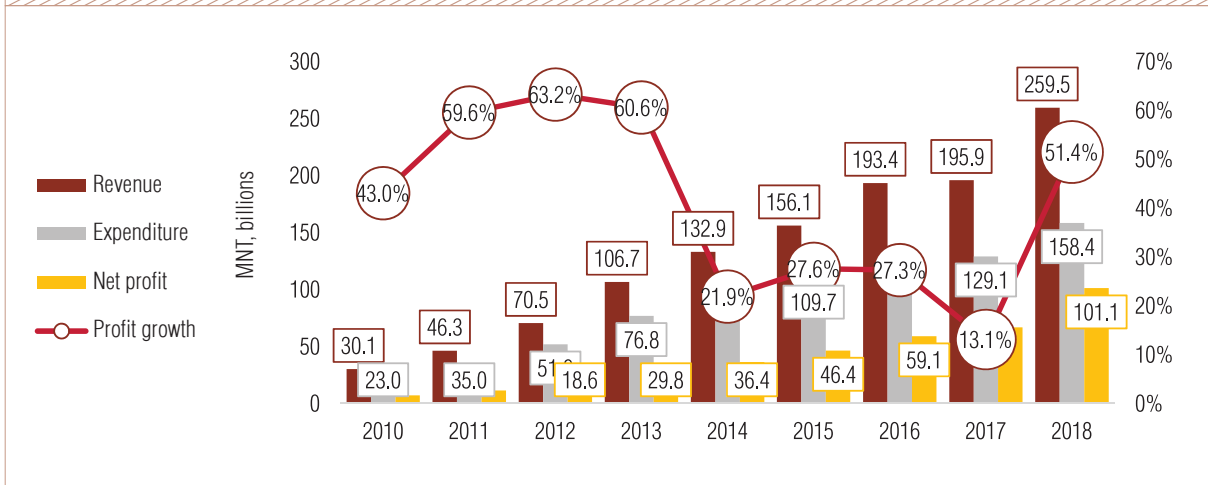
Liabilities and stockholders' equity	2017		2018		Change	
	MNT	%	MNT	%	MNT	%
Liabilities	211.0	21.8	307.4	23.9	96.4	45.7
Trust service payable	39.2	4.0	57.6	4.5	18.4	46.9
Payable to banks & institutions	112.8	11.6	151.0	11.8	38.2	33.9
Other sources	6.7	0.7	15.7	1.2	9.0	134.3
Bonds issued by NBFIs	6.9	0.7	23.5	1.8	16.6	240.6
Project loan financing	14.8	1.5	17.8	1.4	3.0	20.3
Other Liabilities	30.6	3.2	41.8	3.3	11.2	36.6
Equity	758.2	78.2	977.4	76.1	219.2	28.9
Shared capital	595.4	61.4	740.8	57.7	145.4	24.4
Other assets	6.6	0.7	10.6	0.8	4.0	60.6
Funds	0.4	0.0	0.5	0.0	0.1	25
Accumulated profit/loss	155.1	16.0	224.6	17.5	69.5	44.8
Secondary payable	0.7	0.1	1.0	0.1	0.3	42.9
<b>Total (Liabilities and Equity)</b>	<b>969.2</b>	<b>100</b>	<b>1284.9</b>	<b>100</b>	<b>315.7</b>	<b>32.6</b>

Total income of the sector reached MNT359.5 billion, an increase of 32.5% by the end of the 2018. Total income was made up of interest income (83.8%), non-interest income (12.9%) and non-operating income (3.3%).

Total expenses reached MNT158.4 billion, an increase of

22.7% from the previous year; interest expenses increased by 44.7%, non-interest expenses by 21.1%, and income tax expenses by 55.1% respectively. Risk expenses decreased by 1.8% from those of 2017. During the reporting period, net profit reached MNT101.1 billion, an increase of MNT34.3 billion (51.4%) compared to that of the previous year.

Figure 23. Profit Performance.

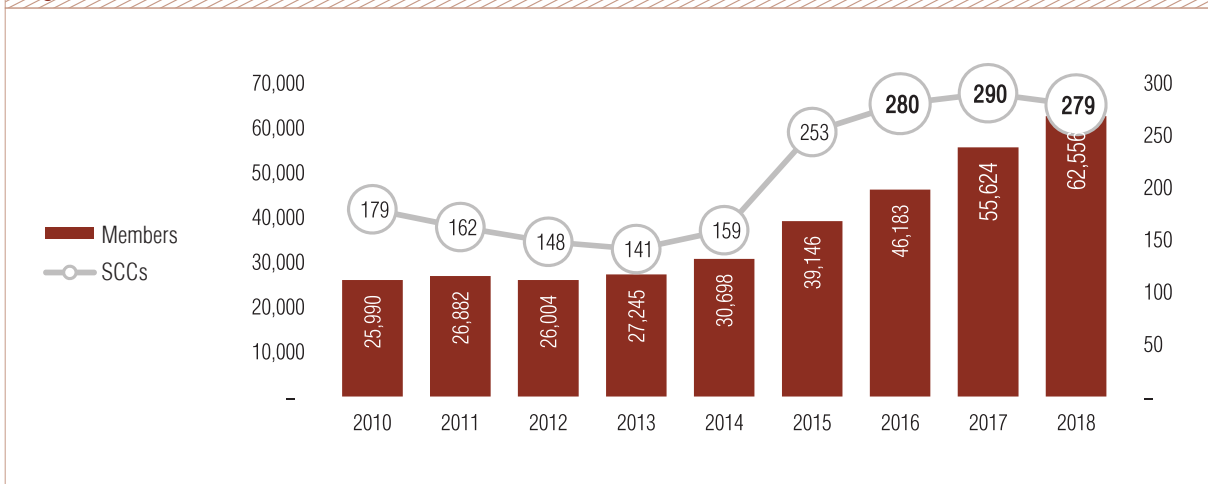


#### 1.4. SAVINGS AND CREDIT COOPERATIVES

**Members.** By the end of 2018, the number of SCCs had decreased by 3.8% compared to the previous year. There were 279 licensed SCCs of which 176 operated in Ulaanbaatar and 103 were in the provinces. SCCs provided

their members with additional authorisation and regulatory services, such as project financed on-lending (113), leasing (3) and insurance (3).

Figure 24. SCCs and Members.



A third (37.9%) of SCCs were located in Western region, 9.7% in Eastern region, 29.1% in Mountain region and the remaining 23.3% in Central region. Of the 176 SCCs

operating in Ulaanbaatar, 91.5% were in six districts and 8.5% in the three 'remote' districts.

**Table 7. SCCs Distribution; by Region.**

Region	Number		Difference	
	2017	2018	Number	%
Western	32	39	7	21.9
Eastern	13	10	-3	-23.1
Mountain	29	30	1	3.4
Central	24	24	-	-
Ulaanbaatar	177	161	-16	-9.0
Isolated districts	15	15	-	-
<b>Total</b>	<b>290</b>	<b>279</b>	<b>-11</b>	<b>-3.8</b>

Compared to 2017, membership of SCCs increased by 6,932 (12.5%) to reach 62,556; and 55.9% were females. The number of branches increased by five, to reach 27, and there was a 33.0% growth in the number of branches in the provinces.

**Table 8. SCCs and Members; by Location and Gender.**

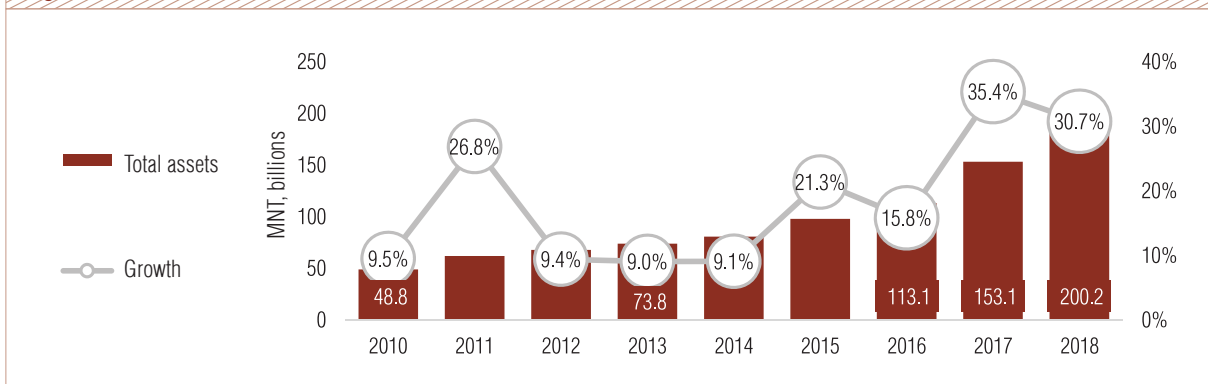
Item	2017	2018	Change
Total SCCs	290	279	(11)
In rural areas	98	103	5
Total members	55,624	62,556	6,932
Female members	31,968	34,984	3,016
Male members	23,235	27,450	4,215
Legal entities	421	122	(299)
Total employees	745	796	44
Female employees	541	603	62
Branches	22	27	5
Ulaanbaatar branches	7	7	-
Rural areas branches	15	20	5

**Table 9. SCCs; Geographical Distribution.**

Province	Number	Province	Number
Arkhangai	5	Khovd	3
Bayankhongor	5	Khuvsgul	4
Bayan-Ulgii	12	Orkhon	12
Bulgan	3	Selenge	1
Darkhan-Uul	2	Sukhbaatar	1
Dornod	6	Tuv	5
Dornogovi	5	Umnugovi	4
Dundgovi	6	Uvs	7
Govi-Altai	7	Uvurkhangai	1
Govisumber	1	Zavkhan	10
Khentii	3	Ulaanbaatar	176
Total			279

**Indicator of assets.** In the reporting year, SCCs had total assets of MNT200.2 billion, an increase of 30.7% compared

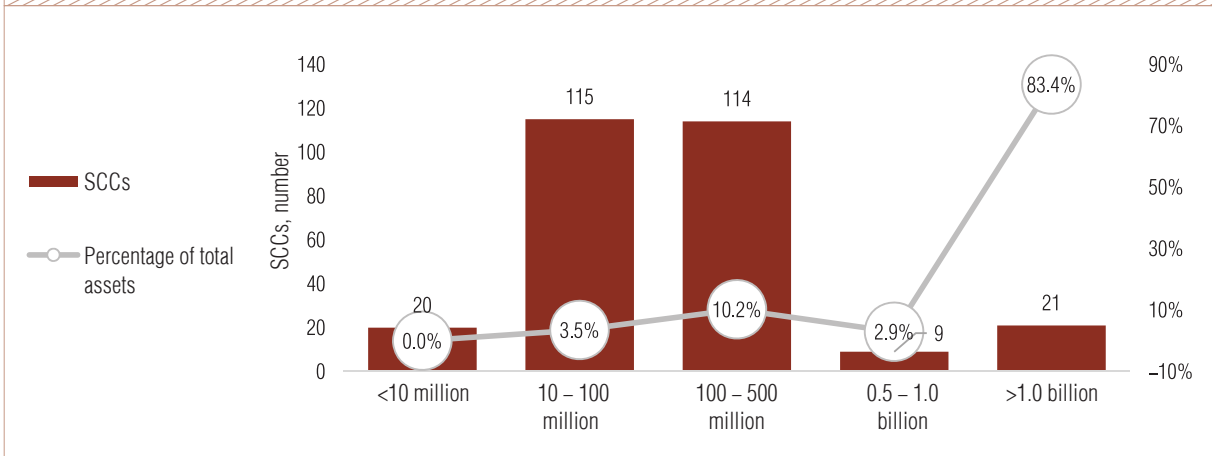
to 2017; with 60.6% of the increase attributable loan increases.

**Figure 25. SCCs; Total Assets and Growth.**

According to the general classification of total assets, 21 (83.3%) of all SCCs had assets of more than MNT1 billion, 123 (13.1%) of SCCs had between MNT100 million and

MNT1 billion, and the remaining 135 (3.5%) of SCCs had assets of less than MNT100 million.

Figure 26. Total Assets in SCC (%).

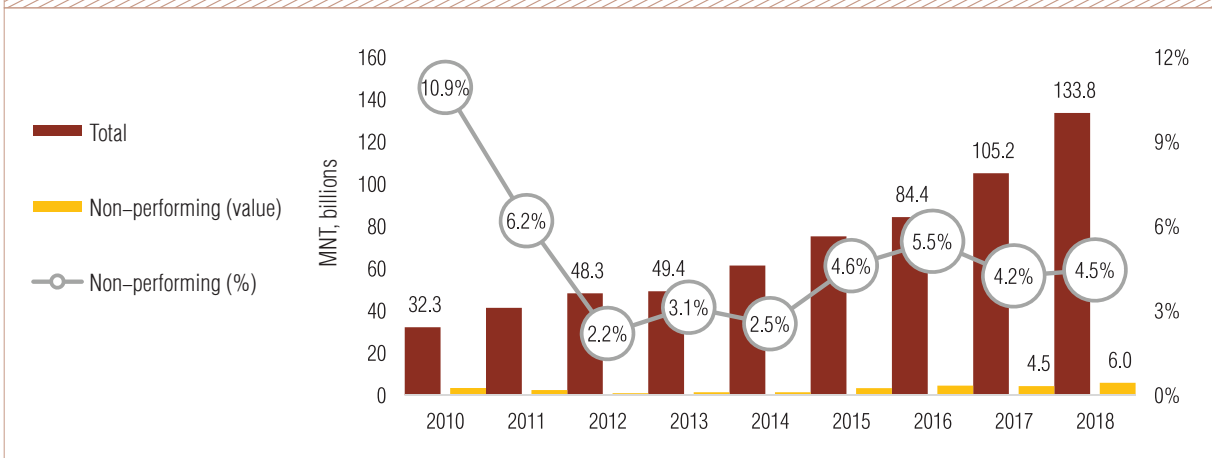


**Indicator of Loans.** A MNT3.6 billion credit risk fund was created and total net loans amounted to MNT130.2 billion. The total of non-performing loans increased by 0.3 percentage points (from 2017) to reach 4.5% and the total

non-performing loans amounted to MNT6.0 billion.

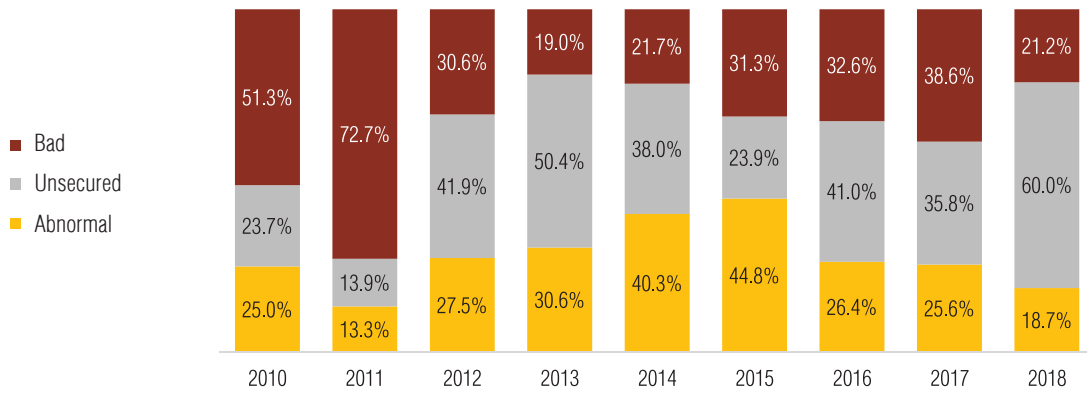
Total outstanding loans increased by MNT28.6 billion (27.2%) to reach MNT133.8 billion compared to 2017.

Figure 27. Loans.

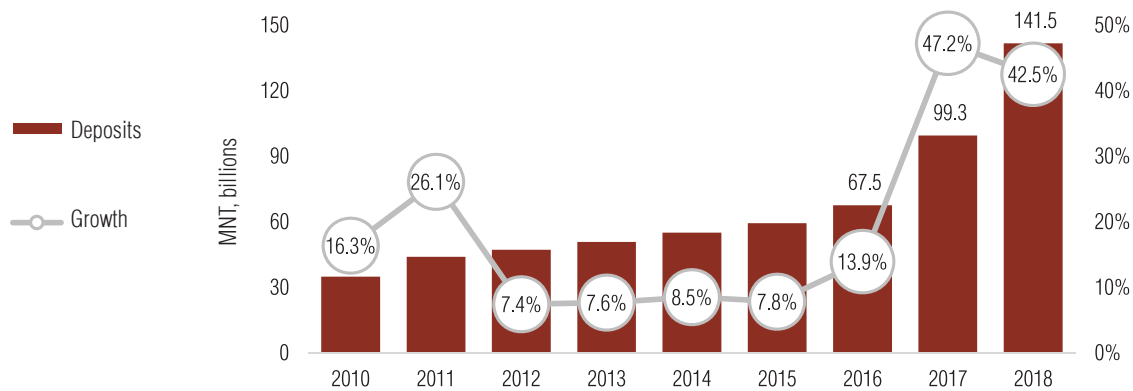


The standard loans rose by MNT27.7 billion (28.9%) reaching MNT123.4 billion compared to 2017. The bad loan in the non-performing loan category decreased by 17.4 percentage points, to reach 21.2% in 2018. However,

the non-standard loan in total of non-performing loans decreased by 6.8 percentage points, to reach 18.7%, while the proportion of doubtful loans increased by 24.2 percentage points, to 60.0%.

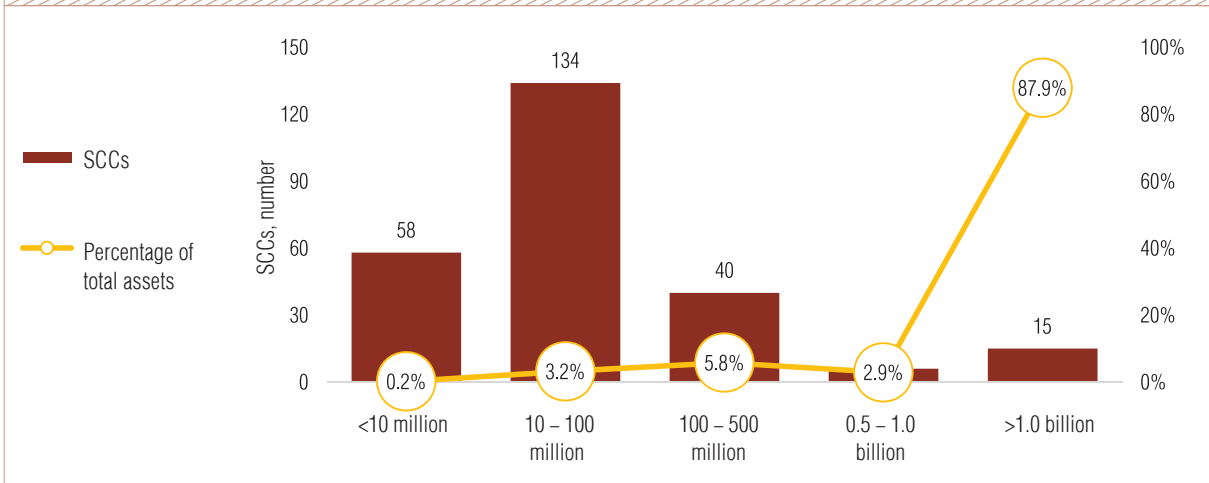
**Figure 28. Indicator of Non-Performing Loans.**

**Indicator of Savings.** Total savings in the sector grew by 42.5% compared to previous year, with 98.3% fixed-term deposit and 1.7% non-fixed deposits.

**Figure 29. SCCs; Total Deposits and Growth.**

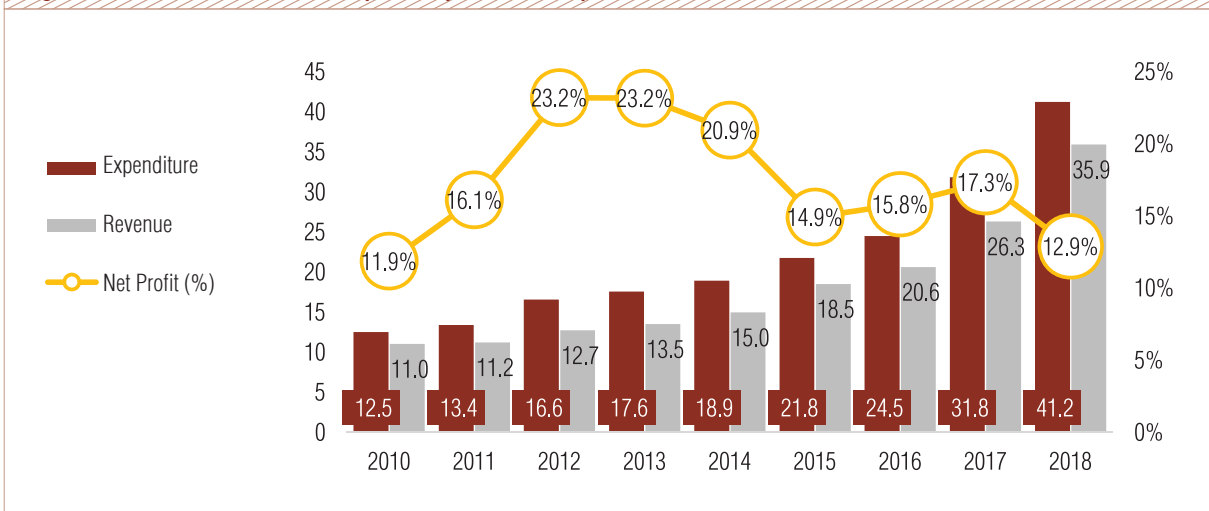
In the reporting year, 253 (90.7%) of SCCs accounted for savings of MNT141.5 billion, and the remaining 26 (9.3%) of SCCs had zero savings. Additionally, 15 SCCs had savings of more than MNT1 billion (87.9% of total savings in the sector) with total savings of MNT124 billion; 46 SCCs

had savings from MNT100 million to MNT1 billion (8.7% of total savings in the sector) with total savings of MNT12.4 billion. There were 134 SCCs with savings of MNT10 million to MNT100 million, which accounted for 3.2% in the sector.

**Figure 30. Total Deposits.**

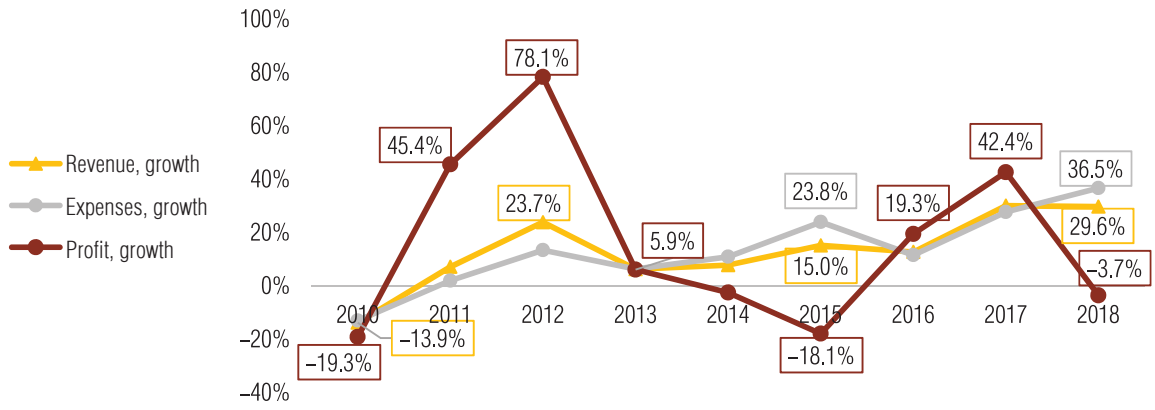
**Profitability.** In 2018, SCCs earned revenues of MNT41.2 billion, costs of MNT35.9 billion, and net income of MNT5.3 billion. The net profit decreased by 4.4 percentage points in total revenue compared to 2018 and reached 12.9%. Out of

279 SCCs operating in the sector, 198 SCCs had a net profit of MNT5.6 billion and 73 SCCs had a deficit of MNT0.3 billion while 8 SCCs have carried out any activity in 2018.

**Figure 31. SCCs' Revenues and Expenses (MNT, billions).**

Total revenue reached MNT41.2 billion, an increase of 29.6%, while total expenditure increased by 36.5%, and reached MNT35.9 billion. Total net profit of the sector reached MNT5.3 billion, a drop of 3.7% compared to 2017. The decrease in net profit was mainly due to total expenses;

including an increase of 2.6 times in the lease expenses, 1.7 times increase in risk fund expenses, 11.4 times increase in indemnity cost to the employees, and 7.2 times increase in penalty cost.

**Figure 32. SCGs' Profit Performance.**

## IMPLEMENTATION AND ENFORCEMENT OF LEGISLATION

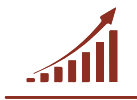
According to the organisational structure which was approved by the FRC Resolution No.261 of 2016, departments worked to support sustainable development of regulated entities and improve the standards within authorised policies regulation, and the registration authority.

### 2.1. POLICY AND LEGISLATION

The FRC implemented and enforced 23 laws, and 160 regulations in the financial sector throughout Mongolia; including: the securities market, insurance market, NBFIs, and SCCs.

In the reporting period, the FRC approved, revised, drafted and/or revoked related regulations, procedures, guidance and forms, in compliance with the *General Administrative Law* (GAL), and registered legal acts with the Ministry of Justice and Domestic Affairs (MJDA).

With respect to the rapid development of advanced technology in the financial sector, stakeholders worked to enhance sustainable policies and the regulatory approaches to the introduction of a new business models.



#### SECURITIES MARKET

FRC provided comments and provisions to amendments, and revisions to the laws and regulations; and cooperated with relevant organisations; such as:

- Decree No. A-295 of 2017, issued by the Governor of the Bank of Mongolia (BoM) in 2017, setting up a working group to develop a draft law to regulate relations concerning stabilisation of the banking system and support capital adequacy in order to ensure implementation within the IMF's *Extended Fund Facility Programme*;
- With regard to the draft law on corporate income tax and law on personal income tax, the FRC developed proposals to support the supply of capital markets, exempting taxes from legal entities that issued securities in the market and became JSCs (from the date of registration of shares), debt instruments in the stock exchange, and issuing exemption from tax dividend on corporate debt (bond) of the company traded on the capital market;
- Engaged in the working group developing draft laws on investment banking and currency regulation; studied international standards and developed relevant proposals;
- With regards to the draft law on amendments to asset valuation law, FRC developed proposals associated with setting up and enforcing consolidated supervision and regulation in the financial sector.

FRC also, within the framework of increasing the number of new products and services in the securities market (increasing the participation of foreign and domestic investors, and developing an appropriate and efficient policy and regulatory environment) conducted relevant work related

with developing the presentation and preparing the relevant draft regulations. It was also engaged in organising relevant discussion among market participants, studying proposals that arose from the discussions; and thereby, developing, approving and registering revised draft regulations, including:

- Draft of securities pledging regulation was developed in accordance with Article 2.3 of *Law on Movable and intangible property pledges*, which was approved by the State Great Khural (Parliament) of Mongolia on 2 July 2015. The law states '*Relations related with pledging securities in a regulated market shall be based on this law and regulated by the regulation of the securities regulatory and supervisory organisation*'. The securities pledging regulation was approved by the FRC's Resolution No.382 of 2018, and submitted for registration in consolidated database to the MJDA in accordance with the GAL;
- According to Article 26.1 of the *Securities Market Law*, states that '*Matters related to undertaking regulated activities in the securities market shall be regulated by a set of regulations to be approved by the FRC*'. And, according to article 26.2 of the law, a set of regulations shall be comprised of 14 rules, regulations, methodologies and instructions. Therefore, within the framework of developing the set of regulations, the regulation has been constituted.

The FRC also undertook functions associated with registering and approving the regulation of trading (clearing and securities depository) organisations, in accordance with the *Regulation on registering and approving rules and regulations of self-regulatory organisations and regulated entities*. This was approved by the FRC's Resolution No. 373 of 2014, and examples included:

- *Trading regulation, Securities index computation regulation, and Listing regulation of the Mongolian Stock Exchange*, as approved by the Chairman's decree No. 68 of 2018;
- *Membership regulation of the MSE*, as approved by the Chairman's decree No. 452 of 2018;
- *Membership regulation, Trading regulation, Clearing regulation, Listing regulation of the MSX*, as approved by the Chairman's decree No. 456 of 2018;
- *Rules of the Mongolian Association of Securities Dealers, Regulation on preventing from the activities prohibited in the securities market, Regulation on the membership of the Mongolian Association of Securities Dealers, Code of conduct and professional performance standards adhered by professionals who received a license to conduct professional activities in the Mongolian securities market, Regulation associated with the Mongolian Association of Securities Dealers management, organisation and operational procedures, Regulation for monitoring member's activities and reviewing complaints and disputes, and Regulation for organising professional training, retraining and certificating professionals of the Mongolian Association of Securities Dealers* were all approved by the Chairman's decree No. 619 of 2018;
- *Regulation on primary securities market of the MSE* was approved by the Chairman's decree No. 649 of 2018.



## INSURANCE MARKET

The FRC introduced *Overview, Strategy and Challenges in the insurance sector issues* at the Financial Stability Council meeting, on 9 February 2018. At the meeting, it was decided to establish a joint working group to draft amendments to the *Law on Insurance*, the *Law on Insurance Intermediaries* and the *Law on Driver's Liability Insurance*; all under the implementation work of the *National Programme to Develop Mongolia's Financial until 2025*.

A working group, with representatives of the related professional organisations, was established by Joint Resolution No.86/313 of the Minister of Finance and the Chairman of the FRC. The working group conducted a needs assessment and drafted a concept paper of the *Law on Insurance*, the *Law on Insurance Intermediaries* and the *Law on Driver's Liability Insurance*.

To draft the *Law on Private Pension Insurance*, parties such as the ADB, Ministry of Finance (MoF), Ministry of Labour and Social Protection and the FRC signed a memorandum of understanding (MoU).

The following seven regulations (guides and forms) in the non-banking financial sector were approved by the Chairman of the FRC, and registered as legal acts with the MJDA in accordance with requirements in the GAL:

- *Voluntary insurance form* approved by the FRC Resolution No.207 of 2018;
- *Guidance on the identification of appropriate persons* approved by FRC Resolution No.208 of 2018;
- *Regulation on mortgage insurance* approved by FRC Resolution No.210 of 2018;
- *Regulation on use of coefficient to calculate driver's insurance premium* approved by FRC Resolution No.211 of 2018;
- *Application form, contract standard and template for the driver's liability insurance* approved by FRC Resolution No.212 of 2018;
- *Regulation on funding the driver's insurance fund, placing the account, transferring and expending the fund's assets* approved by FRC Resolution No.213 of 2018;
- *Regulation on distributing drivers to insurers who have not signed insurance contract on driver's liability* approved by FRC Resolution No.271 of 2018.

Drafts of the insurance regulations were developed, and discussions organised with the insurance market's stakeholders and participants, professional associations and the public; to receive comments and suggestions in accordance with the GAL. The draft was submitted to discuss at the meeting of the FRC.

*Methodology on risk based capital assessment, Regulation on risk based supervision and control procedures for insurance companies, and Guidelines for assessing risk and payment capacity* were drafted – within the framework of introduction of risk based supervision – and approved by Resolution No.290 of 2018 (of the Chief of Secretariat of the FRC).



## NBFI

The FRC cooperated with relevant organisations; providing comments and recommendations to the following laws that were being drafted and/or amended.

- The FRC provided comments and recommendations (and joined working groups) to revise and amend the following: *Banking Law, Law on Currency Regulation, Postal Law*, and the *Financial Leasing Law*. Amendments to the *Banking Law* were submitted to Parliament, and the draft law on currency settlements provided for discussion by Parliament;
- The FRC drafted a revised version of the *Non-Bank Financial Activities Law*, developed the concept paper of the draft law, and conducted relevant studies such as impact assessment and a costs study. The introduction of the draft law reflecting comments and recommendations

of the World Bank (WB) local consultants was finalised. Within the framework of technical assistance from European Bank of Reconstruction and Development (EBRD), the FRC agreed to choose an international consultant to help with the revised draft law, and proceeded to select one.

In order to enhance the regulatory framework of the sector, the FRC developed the following draft regulations, reflecting comments and recommendations of relevant stakeholders:

- The regulation for non-bank financial institutions – that exclusively provide foreign exchange services – was drafted; while the draft foreign exchange regulation was revised after amendments to the *Foreign exchange regulation law* were passed;
- The FRC drafted the *Regulation on Operation and Supervision of the Credit Guarantee Fund (CGF)*, developed introductory materials, conducted relevant studies, and incorporated comments and recommendations from MoF and Ministry of Food, Agriculture and Light Industry (MoFALI). A draft regulation on operation and supervision of the CGF was introduced to the management, during a discussion organised for provision of comments and recommendations. The draft regulation is being prepared for submission to the FRC;
- The FRC developed the ethical code of conduct of financial industry participants. In accordance with the training programme designed for financial industry participants, the FRC studied international practices on ethical code of conduct of the microfinance sector, drafted the *Ethical Code of Conduct of Non-Bank Financial Sector Participants* which was approved at the “2018 Financial Sector Compliance Forum”, and added a session on “Ethics of NBFIs Staff” as part of the “Certified Training for NBFIs Executives”.

Within the scope of the plan to develop, submit and register relevant regulations to the relevant authorities, the FRC conducted an impact study on the following four resolutions – and registered them with the MJDA – in compliance with the GAL; namely:

- Resolution No.271 of 2016, on setting a revised minimum amount of share capital for NBFIs;
- Resolution No.27 of 2017, on progressively increasing the minimum amount of share capital of NBFIs;
- Resolutions No.90 and 91 of 2017 *Amendment to the resolution*.



## SAVINGS AND CREDIT COOPERATIVES SECTOR

In order to introduce stabilisation fund operation, deposit insurance system and risk based supervision in the SCC sector, as indicated in the *National Programme to Develop Mongolia's Financial until 2025*, the following measures were implemented:

- A draft regulation on off-site supervision of the SCCs was developed, to introduce a risk-based supervision system. Based on the regulation of off-site supervision of the SCCs, the 2017 year-end financial statements/reports of SCCs were tested in 2018. Based on the prudential ratios of risk calculation, SCCs were divided into five categories by risk level, and the action plans of SCCs with the highest risk were approved, and FRC facilitated their implementation. The risk assessment will be repeated, based on the financial statements/reports of the SCCs as of 2018, which are expected to take into account potential risks and to measure risk over on-site supervision;
- Compatibility with prudential requirement for the SCCs were assessed, based on quantitative

data from the previous 12 quarters;

- A savings survey was conducted, to determine the SCCs' loan fees and optimum levels of depositors' insurable savings;
- The working group consisted of representatives from the SCCs sector revised and drafted the Law on SCCs, developed the concept paper, conducted a needs assessment, cost estimation, impact assessment, and other related studies in accordance with the *Law on Legislation*. The draft law contains provisions including establishment of an intermediary financial institution that supports sector development; establishment of a security system that ensures proper functioning of the stabilisation fund and protection of savings of members; and protection of consumer rights.

A draft proposal was developed to continue the work of the *Supporting SCCs sector sustainable development project*, implemented by the ADB. The FRC signed an MoU with the ADB supporting the microfinance sector in the second phase of the project (in 2019).

In relation to the discussion of the draft tax laws, a proposal was submitted to the MoF to exempt (from corporate income tax and savings interest income tax up to MNT5 million) members of the SCCs, as a non-profit organisations.

Registrations of the SCCs at the General Authority for State Registration were verified with the FRC's registration. As a result, 183 legal entities were identified with offences, including: no license from the FRC, failing to meet requirements set forth by the legislation, incomplete registration as a legal entity, etc.

Accordingly, FRC prepared a claim for the court to dissolve or amend the legal status of those entities without licenses to operate. In order to apply the technology-based, new financial products and services in the SCCs, research work was conducted on the KAYA platform (as introduced to Thailand and the Philippines) supported by the Association of Asia Confederation Credit Union.

In accordance with the assessment methodology (an appendix of the *Regulation of off-site and on-site supervision for personnel other than banks for enforcing the legislation for combating money laundering and terrorist financing*, approved by the Resolution No.339 of the FRC – nine SCCs' activities related to combating money laundering and terrorist financing were assessed by the FRC. Two of them were rated low risk, four medium and 3 were high risk.

## 2.2. REGISTRATION AND LICENSING

*Law on the Legal Status of FRC* mandates the FRC to authorise, deny, renew, and suspend licenses based on joint decisions of Commissioners. The following are the Commissioners' approved decisions related to licensing in the reporting year:

### Securities market.

- Issued four asset-backed securities;
- Issued licenses for five broker, dealer and underwriting services;
- Issued license of investment management company;
- Issued seven IPOs;
- Issued one ordinary shares;
- Issued one Public Debt Instrument;
- Issued one privately placed security;
- Issued licenses of three private investment fund;
- Changes in five security's registrations;
- Changes in one company's charter;
- Extended licenses of two commodities stock exchange brokers.

**Table 10. Authorisations; Securities Market.**

Change	Number
Name	4
Equity, and/or composition of share holders	18
Designated officials	13
Branch approval	2

### Insurance market.

- Issued licenses for eight Intermediary companies and revoked two;
- Issued license for one insurance loss-adjuster company and revoked two;
- Issued licenses for 52 Insurance representatives and revoked 514.

**Table 11. Authorisations and Licenses; Insurance Market.**

Item	Number
Name change	3
Equity, and composition of shareholders change	19
Branch permit	98
Authorisation (official permission) of company design officer	54
Actuary's rights	8
Insurance product registration	102
Registration of address	23
Registration of authorized intermediaries	20

**NBFIs.**

- Issued licenses for 15;
- Revoked licenses for 11;
- Suspended licenses for 22;
- Extended licenses for seven.

<b>Table 12. Authorisations; NBFIs.</b>	
<b>Item</b>	<b>Number</b>
Name change	10
Additional license	27
Permission to open branch	32
Close the branch	1
Authorising a representative office	1
Change of address	89
Change of equity, and/or composition of shareholders	372
Change of CEO Designation off	93

**SCCs.**

- Issued licenses for 18;
- Suspended licenses of 19;
- Reissued license for seven;
- Revoked licenses of 29;
- Extended licenses of 100.

<b>Table 13. Permits; SCCs.</b>	
<b>Permits</b>	<b>Number</b>
To contract project financing services	1
Authorize financial leasing service	1
For branches to open	5
Change of address	25
To register the CEO and elected members	68

**2.3. SUPERVISION**

In 2018, the FRC carried out the supervision activities according to plan, in line with its mandate of conducting on–inspection and off–site supervision of the prudential ratios of regulated entities; taking corrective measures in case of violations, and protecting consumers and investors rights. A total of 2,347 entities were supervised during the period, including:

- 539 NBFIs;
- 305 JSCs;
- 279 SCCs;
- 54 securities companies;
- 49 insurance intermediaries;
- 27 loss–adjuster companies;
- 26 legal firms;
- 23 assessment companies;
- 18 special purpose entity;
- 15 general insurance companies;
- 12 investment funds;

- 3 custodian banks;
- 3 trust companies;
- 2 self-regulatory organisations (MSE and MSX);
- 2 reinsurance companies;
- 1 commodities stock exchange;
- 1 payment and settlement organisation;
- 1 central depository;
- 1 life insurance company.

In total, 9,314 monthly and quarterly off-site monitoring activities were carried out, while 1,089 regulated entities were subject of on-inspection supervision.

During the supervisory operations, inspectors took corrective measures after identifying the following violations and misconduct:

- Conducting operations at an unregistered address and/or without notifying the FRC of the address change;
- NBFIs operating without accounting software;
- NBFIs not complying with general and additional requirements;
- Inappropriate use of FRC's reserve requirements;
- Insurance representatives making payments to unlicensed intermediaries;

- Reducing insurance remuneration through breach of contract and by neglecting loss-adjuster valuations;
- NBFIs and SCCs with deficient prudential ratios;
- Insufficient credit-risk funds;
- Violations of *Credit Law* information and non-cooperation with the Credit Information Bureau.

Proceeds of fees and fines collected from regulated entities were deposited with the State Budget, while being monitored throughout the process.

**Off-site supervision.** A total of 9,314 monthly and quarterly financial reports of regulated entities were subject to off-site supervision; which monitored: operations, finances, prudential ratios, and overall compliance with licensing conditions.

In terms of protecting investor rights, board meeting reports of 124 JSC were reviewed and provided with feedback. The FRC released on its website information on 55 JSC whose mandate were expired and that did not hold shareholder's meeting of the Board of Directors.

State inspectors warranted a total of 54 corrective measures and actions, as a result of violations and misconducts identified from financial statement submission of regulated entities during the off-site monitoring activities.

**On-site supervision.** A total of 1,089 entities were subject to on-site supervision, out of which 1,018 were specialised, 54 partial, and 17 comprehensive supervisions.

Regulated	2017	2018
Regulated person with securities market	37	79
Insurance organisation	67	212
NBFIs and legal entity	110	557
SCCs	29	241
<b>Total</b>	<b>243</b>	<b>1,089</b>

The number of regulated entities undergoing off-site supervision increased by 4.5 fold, from the previous year, due to the implementation of the new *Anti-Money Laundering and Combating the Financing of Terrorism (AMLCFT)* Law.

**Securities supervision.** On-site supervision was conducted on the three JSCs that raised funds through the launch of IPOs.

**Insurance supervision.** Comprehensive on-site inspections were conducted on the operations of six insurance companies.

**NBFI supervision.** Two comprehensive and four partial on-site inspection took place during the reporting period.

**SCC supervision.** A total of six comprehensive on-site inspection activities were carried out on SCCs in the capital and rural areas, whereas ten SCCs were the subject of partial on-site inspections.

**Resolution of violations.** After identifying violations based on tips and complaints – in accordance with the *Law on Infringement* – 18 regulated entities were imposed with a penalty of MNT365.5 million. Of which MNT144.9 million was compensated, and the rest of the cases are currently pending in court.

**License.** In cases where violations were identified during on-site inspections and off-site supervisions, regulated entities were obliged to take corrective measures within the required timeframe. The following is a list of actions undertaken by the FRC (as decided by the Commissioners):

- 52 license suspended due to non-compliance;
- 22 licenses reissued after implementing corrective measures as required;
- 57 licenses revoked;
- 2 securities issued to JSCs;
- 1 license extended.

## 2.4. ANTI-MONEY LAUNDERING AND COMBATING FINANCING OF TERRORISM

The FRC completed the following tasks and operations in accordance with *Law on AMLCFT*, Government's Resolution 143 of 2017, *National AMLCFT Programme*, Resolution 327 *Action Plan of implementing Asia Pacific Group's Recommendations*, and *Financial Action Task Force 40 Recommendations on AMLCFT*.

### Improving the legal environment.

- FRC collaborated with, and participated in the working group assigned to revise and amend the *Law on AMLCFT*;
- Approved the *Regulation on on-site inspection and off-site supervision of non-bank regulated entities in the area of AMLCFT* (Commission's Resolution 339, 2018);
- Incorporated AMLCFT-related provisions – based sector specific qualities – in legislation of various sectors;

- Regulation on licensing of operations in the securities market;
- Insurance package regulations;
- Guidance on identifying fit and proper persons;
- Terms and conditions of operation of SCCs;
- Following legislations were approved by the Commission's Resolution 627, 2018;
- Report template for regulated entities for quarterly reporting in the area of AMLCFT;
- AMLCFT risk assessment methodology;
- Template for collecting AMLCFT data from regulated entities;
- Assessment of regulated entities compliance;
- Assessment matrix of regulated entities AMLCFT operations;
- With the approval of FRC Chairman's Decree 640, 2018, two working groups were established to develop legislation on regulating the operations of real estate intermediaries. The working groups consist of representatives from the BoM, MoF, MJDA, Financial Information Unit, State Registration Authority, General Customs Administration, General Intelligence Agency, and National Countering Terrorism Coordination Council.

### Preventive actions.

**Training.** In line with implementation of AMLCFT projects with ADB and the International Investment Bank (IIB), the FRC developed a training programme, which was used in training conducted for over 1,000 staff of regulated entities in over 30 training sessions around the country



**Public campaign to raise awareness of AMLCFT.** AMLCFT manuals were developed and disseminated to regulated entities. The manual consisted of following sections: a general understanding of money laundering and terrorism–financing crimes, legal environment, compliance operations, customer due diligence, reporting suspicious transactions, risk management and other relevant information. Additionally, posters and pamphlets promoting the new *Law on AMLCFT* were also disseminated to the general public in Ulaanbaatar and rural areas. The AMLCFT section of the FRC website was updated with current news and information. Moreover, the section includes the United Nations Security Council Consolidated List, information on politically exposed persons, and recommendations on AMLCFT.

#### **Supervision in the area of AMLCFT.**

**Risk–based supervision.** AMLCFT risk–based assessment of regulated entities was conducted during on–site inspection activities. Methodologies and questionnaires developed by the IMF were incorporated in the risk–based assessment exercise. The results of the assessment were published in the *Risk assessment report of money laundering in the non–bank financial sector – 2018*.

The approval and implementation of the new *Law on AMLCFT* required real estate intermediaries to be considered as regulated entities. As a result of this addition to the regulatory framework, Mongolia conducted its first *AMLCFT risk assessment of real estate intermediaries*.

**On–site inspection.** Within the framework of implementing the *Law on AMLCFT*, FRC conducted on–site inspections on total of 1,108 entities, including:

- 485 NBFIs;
- 225 SCCs;
- 54 securities companies;
- 30 insurance intermediaries;
- 26 international postal service entities;
- 23 loss–adjusters (and seven branches);
- 17 investment management companies;
- 17 insurance companies (and 129 insurance branches);
- 5 commodities stock exchange brokers.

**Table 15. Number of Inspected Entities.**

Regulated	2018
Regulated person with securities market	76
Insurance organisation	206
NBFIs and legal entity	511
SCCs	225
<b>Total</b>	<b>1,018</b>

Violations that were identified during the on–site inspection of the regulated entities and were subject to corrective measures included: absence of internal AMLCFT policies and compliance officer monitoring internal operation, and cash transactions (of MNT20 million and above, and cross–border transactions) un–reported to the FIU.

In cooperation with the Police Agency and Communication Regulatory Commission of Mongolia, the FRC conducted on–site inspection of 26 entities (licensed to operate cross–border postal services) to identify illicit money remittance activities. The authorities did not find any violations, nor activities related to money remittance.

### Financial Sector Compliance Forum 2018

The FRC hosted the *Financial Sector Compliance Forum 2018* within its AMLCFT action plan, on 11 December 2018. The event was attended by professional associations of regulated sectors, and the association of real estate agents and its members. WB, IMF, ADB and total of 250 guests and stakeholders also attended. Panel and roundtable discussions were organised amongst the participants to address AMLCFT-related challenges arising in each sector, and opportunities to tackle these challenges.



The Forum produced mutual recommendations, among sector representatives, which included: improvement of the legal environment, coordination with professional associations, building capacity of AMLCFT professionals, establishment of a centralised database, and enhanced software and infrastructure.

## FINANCIAL MARKET STABILITY

### 3.1. ENHANCE FINANCIAL INCLUSION

Development of financial inclusion policies – which had become a staple goal in the day's global approach in financial markets – which might be implemented by:

- Creating a favourable environment for providing low-cost financial services;
- Lowering the cost of financial services;
- Developing policies promoting the use of innovative technology;
- Establishing a stable, sustainable, and inclusive financial sector;
- Protecting consumers, within low and middle income groups;
- Collecting and analysing information to improve the landscape of financial inclusion.

#### 3.1.1. Improving public's financial education

In collaboration with the BoM, MoF, Ministry of Education, Culture, Science and Sports (MECSS) and WB, the FRC developed the *Medium-term programme for improving public's financial literacy*. Through the programme, *Train the Trainees of financial education programmes for the public*, training sessions for professional training institutes in the capital and rural regions of the country were undertaken.



**Securities Market.** Trainings, seminars, forums and events that were hosted – with relevant organisations – to promote developments in the capital market, included the following:

- The first annual *FRC Plus Investment* competition was organised to raise the public's awareness and increase involvement in the capital market, as well as promote the development (benefits, and risks) of innovative financial products and services emerging in the market. The event would continue to be hosted by the FRC;
- The *IPO Conference 2018* was hosted jointly by the Mongolian International Capital Corporation and Mongolian National Chamber of Commerce and Industry (MNCCI). The event aimed to promote and support the possibilities of the Top 100 companies becoming public companies. It was also to familiarize companies with the general requirements, conditions and various benefits of public companies; and the opportunities to network with professional financial firms;
- The Corporate Governance Development Centre and the FRC co-hosted the *10<sup>th</sup> Annual Corporate Governance Conference* – an event attended by regulated entities in the capital market;
- The annual *Training for lawyers and auditors who provide services to the securities market participants* was organised by FRC jointly with Mongolian Institute of Certified Public Accountants (MICPA);
- *Certification training for professional participants of the securities market* was organised by the FRC and Mongolian Association of Securities Dealers.

**Insurance market.** The FRC signed an MoU with the Mongolian Insurers Association, Mongolian Bank Association, and Mongolia Insurance Intermediaries Association to conduct training for participants of the market. The training was to build capacity of insurance service providers (and their staff) with professional expertise of associations and FRC's oversight. The training programme was conducted twice

in Ulaanbaatar, while total of 42 sessions were organised throughout the 21 provinces.

Specialised training on auditing of insurance firms, and loss-adjuster certification, was organised in collaboration with the MICPA and Professional Association Loss Adjuster and Property Companies respectively.

Under the German International Cooperation Agency (GIZ's) Mutual Exchange Forum on Inclusive Insurance (MEFIN) Initiative, training on *Financial education for disaster risk management and inclusive insurance* was organised for 60 staff of insurance companies. In coordination with the MJDA, the General Prosecutor's Office (GPO), and the BoM, the FRC organised training on the *Law on Infringement* for 81 professionals and staff of insurance companies.

**NBFI.** Within provision indicated in Section 2.11 of *Regulation on operation of NBFI*, management staff of licensed NBFIs must attend trainings organised by NBFI associations (for certification) within six months of receiving an NBFI license. The FRC hosted three training programmes for a total of 60 NBFI management level staff; jointly with Association of Non-bank Financial Institutions (ANBFI) of Mongolia.

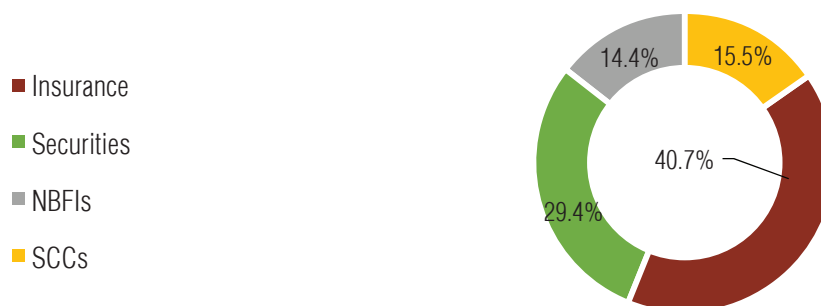
**SCC.** In cooperation with the Capital City Labour Office (on 8 May 2018) training on capacity building was provided for SCCs executives and Supervisory Board directors taking part in the *Micro-Business Support and Poverty Reduction Programme*. It provided information and insights on the legal framework, management and structure, and internal control of SCCs.

On 7 June 2018, in collaboration with the Association of SCCs, the FRC hosted a training programme on the implementation of the new *Law on AMLCFT*. The training included information on relevant rules and regulations, international standards, risks prevention and effective methods identifying crimes related to money laundering and terrorism financing.

### 3.1.2. Protection of the Rights of Consumers and Investors

The number of complaints presented to the FRC – against various entities – from investors and clients (of securities market, insurance market, NBFIs, and the SCCs' market) numbered 367 in 2018; a 20.6% increase on 2017.

**Figure 33. Petitions and Complaints; by Sector.**



The total number of complaints during the reporting period increased by 61.2% in the securities market. 57.6% in NBFI's sector and 8.9% in the insurance market; while the number of complaints in the SCCs market decreased by 194.4%.

**Complaints; securities market.** The number of complaints related to entities in the securities market reached 108 in 2018.

**Figure 34. Petitions and Complaints; Securities Market.**

Stock trading without shareholders' permission represented 27.8% of complaints related to the securities market, of which more than 30.0% (7 brokers and dealers) were carried out by brokers whose licenses were revoked by 2006. The number of complaints decreased by 41.2% compared to 2017.

A total of 30 shareholders' stocks were traded without shareholders' permission. Of those, Ulaanbaatar carpenter

JSC, Takhi Ko JSC, Material Impex JSC, APU JSC, Darkhan Nekhii JSC stocks were resettled. The FRC delivered five orders consisting of issuance of dividends of APU JSC and Darkhan Nekhii JSC stocks from 2005 onward to the relevant security firm. 1 individual's share was resettled and 15 shareholders' complaints were transferred to corresponding police authority.

**Complaints; insurance market.** Investors and entities filed 150 complaints.

**Figure 35. Petitions and Complaints; Insurance Market.**

Complaints submitted to FRC were addressed promptly, and a decision was made to make insurance indemnity equal to MNT490.6 million for 30 investors and legal entities. Among these, MNT164.1 million of insurance indemnity was provided for 18 investors and entities.

'Reasonable' rejection of insurance indemnity, represented 60% of total complaints, and was increased over the previous year.

Driver's liability insurance, vehicle insurance, mortgage lenders insurance and other insurance cases' accounted

for 74% of total insurance complaints. Compared to the previous year, complaints on driver's liability insurance decreased by 49% and complaints on mortgage lenders insurance decreased by 29%. However, complaints on vehicle insurance increased by 35.4%.

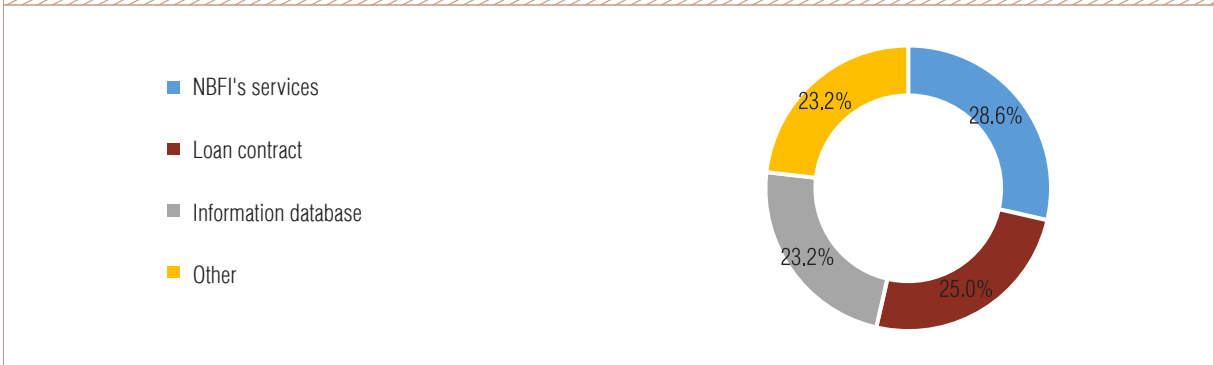
Complaints submitted to the FRC were addressed promptly, and a decision was made to make insurance indemnity equal to MNT622.3 million for 29 individuals and legal entities. Among these, MNT33.2 million of insurance indemnity was provided for 11 individuals and entities and rest of them at

the trial stage.

**Complaints; NBFIs.** 56 complaints were made against NBFIs; an increase of 57.6% compared to 2017.

23.2% complaints related to the dismissal of updated credit history to the Credit Bureau Database (BoM) and it was a six fold increase since the previous year.

**Figure 36. Petitions and Complaints; NBFIs.**



**Complaints; SCCs.** Fifty-three complaints were related to the operation of SCCs. Compared to the previous year, complaints were filed with a simplified registration of non-refundable petition. However, there were no complaints

related to SCC's service quality. Complaints were processed according to the legislation, and necessary measures and information were provided.

**Figure 37. Petitions and Complaints; SCCs.**



367 complaints were filed within the supervision department during the year.

**Figure 38. Average Duration of Complaints Procedures.**



The time required to resolve complaints varied and the average was 22 days; five days more than in 2017. The increase is largely due to the fact that the majority of requests and complaints were related to the professional skills and

work experience of people, as well as more complicated disputes between the parties were involved, besides violation cases which required additional registration and decision of prosecuting authority.

### 3.2. SECTOR'S LEGAL ENVIRONMENT AND ITS IMPROVEMENT

Within the non-bank financial sector, the FRC's mandate included the enforcement, monitoring and implementation of 23 laws. Over 160 regulations, guidelines and manuals were approved by the FRC to oversee activities, registration, licenses, permits and authorisations of regulated entities. After approval of the GAL – which took effect of 1 July 2016

– the FRC formed a working group (under the Chairman's Resolution No.402) to incorporate provisions of the new law with relevant legislation. Fourteen newly-adopted norms were developed in accordance with the GAL, approved by the FRC's meeting and registered in the *Consolidated Database of Administrative Norms*.

**Table 16. Administrative Norms.**

Name of Administrative Norms	Date of national database registration of Administrative Norms
Regulation on the registration of securities to be issued to a foreign legal entity registered in Mongolia by a legal entity registered in a foreign commercial organisation	19 January 2018
Procedures for submitting and monitoring information from regulated market capitalists	17 April 2018
Requirements for National Union of Savings and Credit Cooperatives	21 May 2018
Volunteer Insurance Type	5 June 2018
Guidelines for Defining Proper Person	25 June 2018
Regulation on mortgage insurance	25 June 2018
Regulation on the use of credits for calculating the drivers insurance premium	6 June 2018
Driver's liability insurance formal application form. contract standard and model	25 June 2018
Procedure for placing account of driver's insurance fund. centralising financing and transferring fund assets	25 June 2018
Conditions and Requirements for the Savings and Credit Cooperative	10 July 2018
Criteria for Prudential Ratio of Savings and Credit Cooperatives	10 July 2018
Procedure for distributing drivers to insurers who fail to comply with the contractual obligations of the drivers liability	10 July 2018
Procedures on distance and on-site inspection of persons responsible for reporting money laundering and terrorist financing	29 November 2018
Procedure for announcing the announcement of shareholders meeting of a joint stock company	26 December 2018

In 2018, *Guidelines to Define the Right Entity* was amended by the FRC's resolution and registered in the *Consolidated Database of Administrative Norms*. Regulation on *Grating special license, licensing, and registration by the FRC* was revised.

FRC's activities also include: implementing its policy on the growth and sustainability of the financial market,

ensuring compliance with the relevant laws and regulations, and protecting investors and customers' right. In order to facilitate the implementation of this, the FRC developed a strategic plan that defines global financial development trends, its vision, long and short-term goals and objectives. Furthermore, by the FRC's Resolution No.310 of 2018, *The Financial Regulatory Commission's Strategies and Plans*

(2018–2021) is being approved and implemented.

Within the scope of refining the legal environment of the financial market, the FRC cooperated with the working group of the *Strengthening Fiscal and Financial Stability* Project (funded by the WB Group) in revising the *Law on Legal*

*Status of FRC*. The working group evaluated implementation of the *Law on Legal Status of FRC* and its functions. The FRC was also part of the working group of the draft *Law on Licensing* and draft *Law on Approving List of Licenses*.

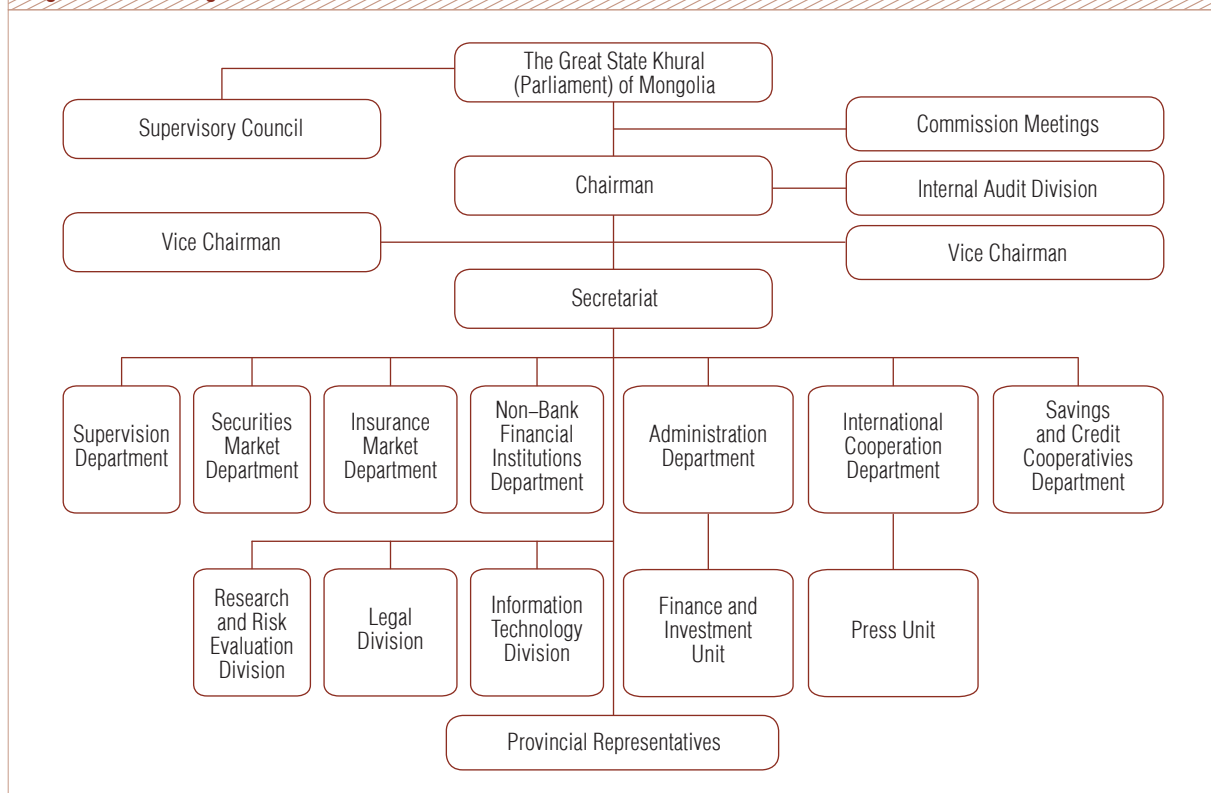
## OPERATIONS

The FRC is mandated to provide for stable and sound financial markets, regulating financial services, monitoring the fulfilment of relevant legislation, and protecting the rights of investors and clients.

### 4.1. ORGANISATIONAL STRUCTURE

In 2018, the FRC consisted of seven departments, four divisions, and two units; with a staff of 139. There were also a total of 63 local representatives – charged with supervisory duties, to maintain records of regulated institutions, and enforce and promote FRC's decisions – operating across all 21 provinces of the country and the nine districts of the capital.

**Figure 39. FRC Organisational Structure.**



### 4.2. INTERNAL OPERATIONS

#### **Implementation and enforcement of FRC's work plan, resolutions and management's decisions.**

During the year, FRC commissioners participated in 18 bi-monthly meetings; during which 356 issues were discussed

and 382 decisions made. For example, the FRC approved seven new regulations, one application guideline, one requirement, one standard contract form, one criterion and three amended regulations. The decisions related to:

enabling the development of new financial products and services, raising the requirements imposed on market participants, protecting the interests of investors and consumers, mitigating risks, and enabling a favourable environment for attracting foreign and domestic investors.

- Enforcements of 125 provisions of eleven policy documents related to financial market activity were ensured and reported to corresponding organisations;
- The FRC enforced 162 laws (including revise and amended law of Mongolia), 86 resolutions issued by Parliament, 2 resolutions issued by the Parliament's Economic Standing Committee (ESC), 3 resolutions issued by the Government, and received 1 task from the Government and 1 aide-memoire of the Government's meeting;
- During the reporting year, 668 decrees were issued by the Chairman; 329 by the Chief of Secretariat, and 2 by State Inspectors. Two orders were issued by the Chairman;
- FRC's 2017 Annual Report was presented to the Parliament. The report and review of the non-bank sector were released publicly and to corresponding organisations.

A Policy Council was established in 2018 consisting of 12 members of professional associations (organisations, scientists and researchers) and met twice; to discuss activities of the non-bank financial market and other issues of the financial market.

The Monitoring Committee, Asset Protection Council, and Ethics Committee (working under the FRC's Secretariat) successfully monitored archives and documents, they also took relevant measures to protect the property of individuals, and their own staff, from the threat of misconduct within the workplace.

In addition, the FRC participated in six working groups (consisting of members of Parliament, the Government, and government organisations) related to implementing recommendations on state financial policy, drafting of legislation, and the conduct of research.

**Records of archives:** In accordance with the *General Guidance on Public Records. National Standard on Documents* and *General Instruction on Archives of Public Institutions*. 13,449 official documents and 402 requests were received. Similarly 1,920 requests were monitored (to ensure timely responses) and 4,966 letters were sent. The total circulation of documents stood at 18,817 with a daily turnover rate of 75.

The archive increased by 1,836 documents and 15,594 accounts from 2006–2017 are currently archived. 5,372 copies of documents were issued to third parties upon request of individuals and corporations.

During the year, the circulation of documents increased by 8.3 basis point and reached at 18.3%.

Requests for copies of documents (by corporations and individuals) that had decreased in 2017, increased by 73.9% in 2018.

**Table 17. Turnover of Documents (number).**

Item	Year	Number
Total turnover	2017	15,900
	2018	18,817
Daily turnover (average)	2017	66.2
	2018	75
Documents in the archive	2017	13,758
	2018	15,594
Copies provided	2017	3,089
	2018	5,372

### 4.3. INTERNATIONAL COOPERATION

As a member institution, the FRC contributed to the initiatives of Alliance for Financial Inclusion (AFI) and actively engaged in its working group, and participated in organised seminars and conferences to promote leadership and share experience with AFI member countries. As part of enhancing cooperation with AFI, Dr Davaasuren S., Board Member of AFI's Central Asia region, took part in discussions to establish the *Eastern Europe and Central Asia Policy Initiative* which was officially launched during the 10<sup>th</sup> AFI Global Policy Forum in Sochi, Russia, on 7 September 2018. Founded by eight AFI member institutions, the Initiative aims to resolve regional challenges and elevate the voices of the Eastern and Central Asia region on key financial inclusion policy.



Likewise, cooperation with the Financial Services Agency (FSA) of Japan was enhanced through active participation in seminars, conferences and knowledge sharing experiences. As part of the cooperation, four FRC staff were invited to attend short and long-term securities and insurance supervision training at FSA's Global Financial Partnership Centre.

The FRC participated in the *Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia* programme implemented by GIZ during 2016–2018. Within the Programme, the FRC was able to examine activities related to inclusive insurance (and corresponding requirements), conduct an assessment of the regulatory framework of inclusive insurance and research products and services to promote inclusive insurance in Mongolia. Dr

Davaasuren was appointed Chair of the Regional Steering Committee of MEFIN, and promoted the development of inclusive insurance in Mongolia and regionally, and closer cooperation between the public and private sector.

Mongolia was selected as a beneficiary of the *Inclusive Insurance Innovation Laboratory* project – co-implemented by the GIZ, Global Leadership Academy, and the Access to Insurance Initiative (A2ii) – during November 2017 to December 2018. With the help of this project, FRC was able to introduce innovative regulatory solutions, based on international best practices, that enable access to affordable and tailored insurance products and services in Mongolia.

FRC strengthened its co-operation with the EBRD and collaborated on a number of sector-wide projects to improve the regulatory framework of the non-bank sector in Mongolia. For example, FRC acted as a key counterpart on the implementation of *Delivery versus Payment (dvp) and T+2/3 Settlement System* project as part of the technical cooperation project *Money and Capital Market Development Strategy for Mongolia* implemented by EBRD. The follow-up project sought to improve the post-trade environment of the capital market in line with international best practice, and to provide necessary recommendations and solutions for establishing the Delivery versus Payment/T+2 settlement mechanism and default risk management framework. In support of FRC's legal reform of NBFIs, EBRD extended its technical assistance to provide recommendations on the *Law on Non-Bank Financial Institutions Activities* for developing an improved legal and regulatory framework for NBFIs.

Cooperation with foreign regulatory authorities, including the Financial Supervisory Services (FSS) of Korea<sup>3</sup> and the Federal Financial Supervisory Authority (BaFin) brought FRC new opportunities. The FRC established a cooperation agreement with BaFin to strengthen the capacity of FRC's personnel. An agreement was reached, between the FRC and BaFin to sign (in the near future) an MoU concerning exchange of cross-border financial supervision and market oversight. Also, the FRC and the FSS signed a cooperation agreement, under which the FSS provided on-the-job training for 13 FRC staff as part of the *Financial Supervisory Partnership Programme*.

FRC cooperated with international donor organisations (development agencies, international standard setting bodies, and foreign regulatory authorities) to assist

<sup>3</sup> Republic of Korea.

Mongolia's financial sector development, accelerate (and contribute to) regional financial integration, and strengthen FRC's institutional capacity. FRC continued to strengthen cooperation with the ADB, EBRD, GIZ and the Japan International Cooperation Agency (JICA). In the process, it negotiated an increase of funding on existing projects; and agreements on new project initiatives.

Among other things, the FRC discussed establishment of closer cooperation with BaFin, FSS, and the International Organisation of Securities Commissions; to enhance FRC's leadership and role in standard-setting organisations and policy dialogues, and to reinforce relations with other institutions.

With the help of international organisations and partners, the FRC actively promoted AMLCFT issues, and a number of initiatives have been launched to raise public awareness. The FRC signed a MoU with the IIB on cooperation in the field AMLCFT on 6 December 2017. Funded by the Government of the Slovak Republic and implemented by Ernst & Young, the technical assistance aimed to improve Mongolia's AMLCFT legal framework and raise public awareness in Mongolia. Key deliverables included development of the *Regulation on Conducting On-site and Off-site Supervision* and provision of AMLCFT trainings for different categories of stakeholders.

As part of the ADB project *Developing AMLCFT Approaches, Methodologies, and Controls*, the AMLCFT Unit's Operational Manual *Customer Due Diligence Guidelines* have been developed. In addition to training on organising capacity building for FRC staff. FRC collaborated closely with the BoM, the National Association of Realtors of Mongolia, PricewaterhouseCoopers, and corresponding agencies, on matters related to improving national AMLCFT activities, assessing Mongolia's current AMLCFT position, and policies and measures to be implemented within the real estate sector. Consequently, AMLCFT challenges have been addressed concerning authorities and institutions for tackling AMLCFT issues; and the roles of relevant parties in drafting the legislation on real estate have been completed.

#### 4.4. BUDGET, FINANCE

According to the *Budget Law*, MNT3.8 billion was approved in the budget package of the Chairman of the FRC. Investments and loans of foreign projects and grants were not included. The FRC planned to finance 78.6% (MNT3 billion) of its operations from the state budget, and 21.4% (MNT0.8 billion) from income of regulatory services. Overall, MNT2 billion was allocated from the state budget. At the end of the reporting period, MNT2.1 billion had been allocated from the income of regulatory services which increased by 159% (MNT1.3 billion).

Revenues from FRC's regulatory service fees consisted of:

- MNT890 million. 41.7%, from NBFIs;
- MNT651 million. 30.5%, from the securities market;
- MNT560 million. 26.3%, from the insurance market;
- MNT22.9 million. 1.07%, from the SCC sector; and
- MNT3.5 million from other income.

In addition, MNT145 million was generated from fines; and stamp duty of MNT54.5 million was collected for the state budget. Some expenditures were not funded – according to Parliamentary decree – however the operations were undertaken by making efficient use of the approved budget.

The FRC received a grant of MNT130.6 million from the AFI, and financed overseas missions, including AFI's working meetings, seminars and other events.

A total of MNT19.5 million was generated from training fees in 2018, and this was used for training costs. MNT7.2 million was generated from the training fees of insurance intermediaries and representatives, and certified training for loss adjusters. Another MNT12.3 million was generated from training fees of auditors, lawyers and analysts providing services to securities market participants.

In the 2018 fiscal year, debts were fully settled, and there were no unpaid receivables and unpaid debts.



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