



Mongolian Marketing
Consulting Group



САНХҮҮГИЙН
ЗОХИЦУУЛАХ ХОРОО

ANTI-MONEY LAUNDERING AND COMBATING FINANCING OF TERRORISM THE RISK ASSESSMENT OF THE NON-BANK FINANCIAL INSTITUTIONS



Financial Regulatory Commission

**ANTI-MONEY LAUNDERING AND COUNTERING FINANCING OF TERRORISM
THE SECTORAL RISK ASSESSMENT OF THE ENTITIES UNDER THE
JURISDICTION OF FINANCIAL REGULATORY COMMISSION**



FINANCIAL REGULATORY COMMISSION
Government house IV, Baga toiruu street 3, Chingeltei district,
Ulaanbaatar 15160, Mongolia
Tel: (976)-51-262789
Fax: (976)-11-329084
Web: <http://www.frc.mn/>

Table of contents

| | |
|---|-------------------------------------|
| ABBREVIATIONS..... | 6 |
| EXECUTIVE SUMMARY..... | 7 |
| SECTION 1. ML/TF RISK ASSESMENT IN MONGOLIA | 12 |
| SECTION 2. SRA METHODOLOGY..... | 15 |
| SECTION 3. RISK KEY | 20 |
| SECTION 4. RED FLAGS..... | 22 |
| SECTION 5. MONEY LAUNDERING THE PROCEEDS OF CRIME | 23 |
| 5.1 Stages of money laundering | 24 |
| 5.2 Predicate offences and their characteristics | 24 |
| SECTION 6. TERRORISM FINANCING | 27 |
| SECTION 7. HOW TO INTERPRET THE DATA | 32 |
| SECTION 8. SECTOR SPECIFIC RISKS..... | 33 |
| 8.1 Non-bank financial institutions | 34 |
| 8.1.1. NBFIs, providing the loan services | 38 |
| 8.1.2. Factoring services of the NBFIs | 43 |
| 8.1.3. Payment guarantee service provider NBFIs | 46 |
| 8.1.4. Payment service provider NBFIs | 49 |
| 8.1.5. Payment settlement service provider NBFIs | 50 |
| 8.1.6. Foreign currency transaction service provider NBFIs..... | 54 |
| 8.1.7. Trust service provider NBFIs..... | 59 |
| 8.1.8. NBFIs providing ‘Investment into short-term financial instruments’ service..... | 63 |
| 8.1.9. Financial and the investment advisory service provider NBFIs | 66 |
| 8.2 Insurance companies and professional participants..... | Error! Bookmark not defined. |
| 8.2.1. Ordinary insurance company | Error! Bookmark not defined. |
| 8.2.2. Long term insurance company | Error! Bookmark not defined. |
| 8.2.3. Reinsurance companies | Error! Bookmark not defined. |

8.2.4. Insurance mediator companies Error! Bookmark not defined.

8.2.5. Insurance evaluator..... Error! Bookmark not defined.

8.3 Professional institutions at the securities market..... Error! Bookmark not defined.

8.3.1. The securities broker company Error! Bookmark not defined.

8.3.2. The securities dealer company Error! Bookmark not defined.

Description of activities – ML/TF inherent risks Error! Bookmark not defined.

8.3.3. The Securities investment consultancy Error! Bookmark not defined.

8.3.4. Authorization for the securities Error! Bookmark not defined.

8.3.5. Underwriting activity..... Error! Bookmark not defined.

Description of activities – ML/TF inherent risks Error! Bookmark not defined.

8.3.6. Registration of securities ownership rights and securities centralized savingsError!
Bookmark not defined.

8.3.9. Securities Trading activities Error! Bookmark not defined.

8.3.10. Investment Fund..... Error! Bookmark not defined.

8.3.11. The investment management company Error! Bookmark not defined.

Description of activities – ML/TF inherent risk..... Error! Bookmark not defined.

8.3.12. Determining the ranking for financial capabilities..... Error! Bookmark not defined.

8.3.13. Advisory services on aspects of the legislative , the asset assessment and auditing for all
stakeholders at the securities market Error! Bookmark not defined.

8.4 Saving and loan cooperatives..... Error! Bookmark not defined.

8.4.1. Saving and loan activities at the Saving and loan cooperativesError! Bookmark not
defined.

8.5 Real estate broker or mediators Error! Bookmark not defined.

8.5.1. Real estate brokers Error! Bookmark not defined.

8.5.2. Real estate project implementer Error! Bookmark not defined.

ABBREVIATIONS

| | |
|---------|---|
| EO | Economic Organization |
| EE | Economic Entity |
| APG | Asia Pacific Group |
| NBFI | Non-Bank Financial Organization |
| ML | Mmoney Laundering |
| ML/TF | Money Laundering and Terrorism Financing |
| AML/CTF | Countering Money Laundering and Terrorism Financing |
| RE | Reporting Entity |
| VAT | Value Added Tax |
| UN | United Nations |
| UNSC | United Nations Securities Council |
| FI | Financial institution |
| NFBPSP | Non-Financial business and professional service providers |
| STR | Suspicious transaction report |
| FRC | Financial Regulatory Commission |
| FID | Financial Information Department |
| SRA | Sectoral Risk Analysis |
| SOJSC | State Owned Joint Stock Company |
| SOLLC | State Owned Limited Liability Company |
| TF | Terrorism Financing |
| SGK | State Great Khural |
| PEP | Politically Exposed Person |
| NSO | National Statistics Office |
| NRA | National Risk Assessment |
| S | Security |
| SM | Securities Market |
| SC | Securities Company |
| SCD | Centralized Securities Depository |
| REs | Real Estate |
| FATF | Financial Action Task Force |
| FSRBs | FATF-style regional bodies |
| CC | Cooperation Council |
| SCC | Savings and Credit Cooperation |
| IMC | Investment Management Company |
| IF | Investment Fund |
| JSC | Joint Stock Company |
| LLC | Limited Liabilities Company |
| XYT | Mutual Assesment Report |
| RBA | Risk Based Approach |
| STFI | Short Term Financial Instrument |
| FIAS | Financial and Investment Advisory Service provider |

EXECUTIVE SUMMARY

Background: In accordance with Article 19.1 of the Law of Mongolia on Anti Money Laundering and Combating Terrorism Financing (AML/CTF), the Financial Regulatory Commission is obliged supervise and regulate entities stipulated in provisions 4.1.2 through 4.1.7 of the same law. The following entities are supervised and regulated by the Financial Regulatory Commission:

1. Non-Bank Financial Institutions (NBFI) (Article 4.1.2 of the above law);
2. Insurance companies; (Article 4.1.3);
3. Licensed securities market entities; (Article 4.1.5);
4. Savings and credit cooperatives; (Article 4.1.6);
5. Real estate agents. (4.1.7).

Sectoral Risk Assessment (SRI) helps FRC supervised reporting entities (RE's) in understanding the risks of money laundering and terrorism financing (MLTF) of each sector. For the development of this sectoral risk assessment report, we referenced the 2016 National Risk Assessment (NRA) of Mongolia on ML/TF, Mutual Assessment Report 2017 of the Financial Action Task Force (FATF), and the methodologies and reports issued by FATF in relation to the assessments of these sectors.






The Sectoral Risk Assessment was conducted in the following two directions:

- **Inherent risk assessment of the sector.** The assessment of the 'inherent' risks of the sector, depending on the specifics of each sector and regulatory level of the national legislative system; regardless of the scope of activities, size of the sector, and activations of the RE's.
- **Present vulnerability of the sector.** The likelihood of the ML/TF depending on the sectoral scope, size, and activations of the RE's; and the present vulnerability level of the sector articulated by the level of ML/TF impact on the financial, reputational, and trust relations to the entity and sector.

The 'inherent' risk assessment of the sector. Each sector is assigned to one of the following risk scales. The scales are based on the 'inherent' exposure of the sector to the ML/TF. These scales disregard any controls and activities that RE's might have in place.



Depending on the availability of the information, the assessment results pose certain level of limitations; furthermore, by improving the accessibility of the information more detailed results can be produced and conclusion drawn. The following figure illustrates the risk assessment results of five sectors under FRC jurisdiction.

| Sector | Sectoral risk 2019 |
|--|--------------------|
|  Non-Bank Financial Institution | High |
|  Insurance companies and professionals | Medium-Low |
|  Licensed securities market entities | Medium-high |
|  Savings and credit cooperatives | Low |
|  Real estate agents | High |

Present vulnerability of the sector. For the assessment of the present level of the vulnerability, first we identified the likelihood (the threats and vulnerability) of the ML/TF. The likelihood is assessed based on the inherent assessment, size of the sector, the volume of transactions and turnover, and number of active entities, considering the following variables.

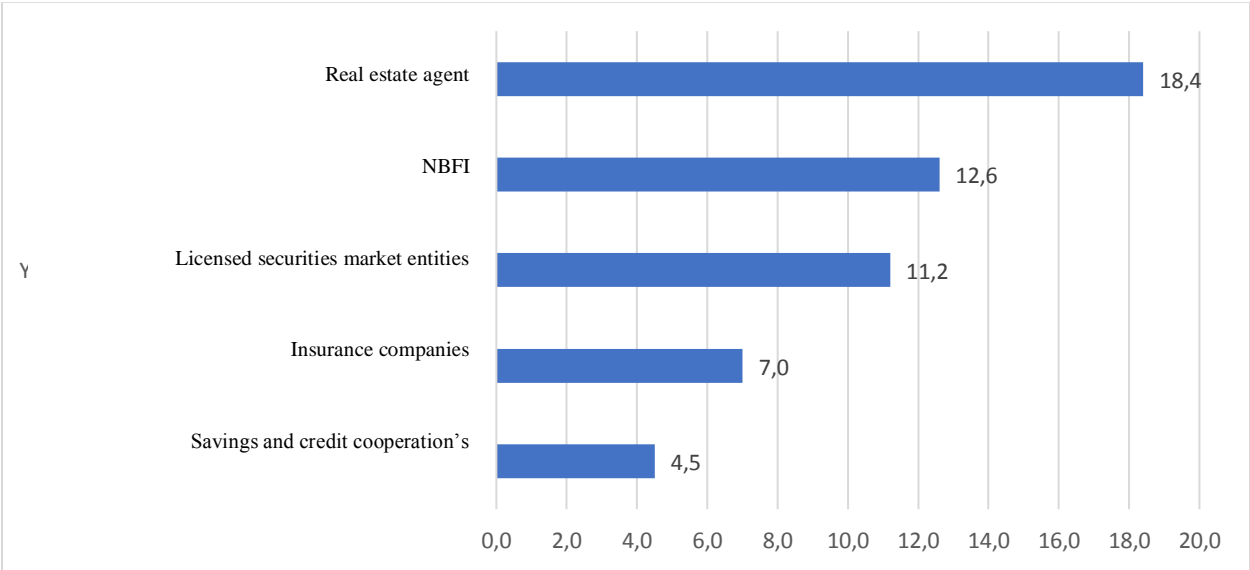
| Risk variable | High probability (5) | Low probability (1) |
|--------------------|--|--|
| Size of the sector | There are numerous entities that operate in high risk countries and cooperates with many organizations | A few or small-scale entities, the companies operate within the country only. |
| Products /services | There are number of cash-based products and services, high complexity products and the source of fund is always undefined. | Limited number of cash-based products and services, limited number of transactions or few or simple products, and the source of fund is defined. |
| Transactions | Large volume of transactions and high number of transactions to the high-risk countries. | The low volume of transactions and transactions are within country only |
| Customer types | Numerous wealthy and foreign customers, and many customers with complex structure | Domestic customers only |
| Delivery channel | Never face the customer in person | Directly communicates with customer |

Next, the potential impact of the ML/TF risks (from 1- ‘low-impact’ to 5 ‘high-impact’) to the financial, reputational, and trust relations to the sector was evaluated.

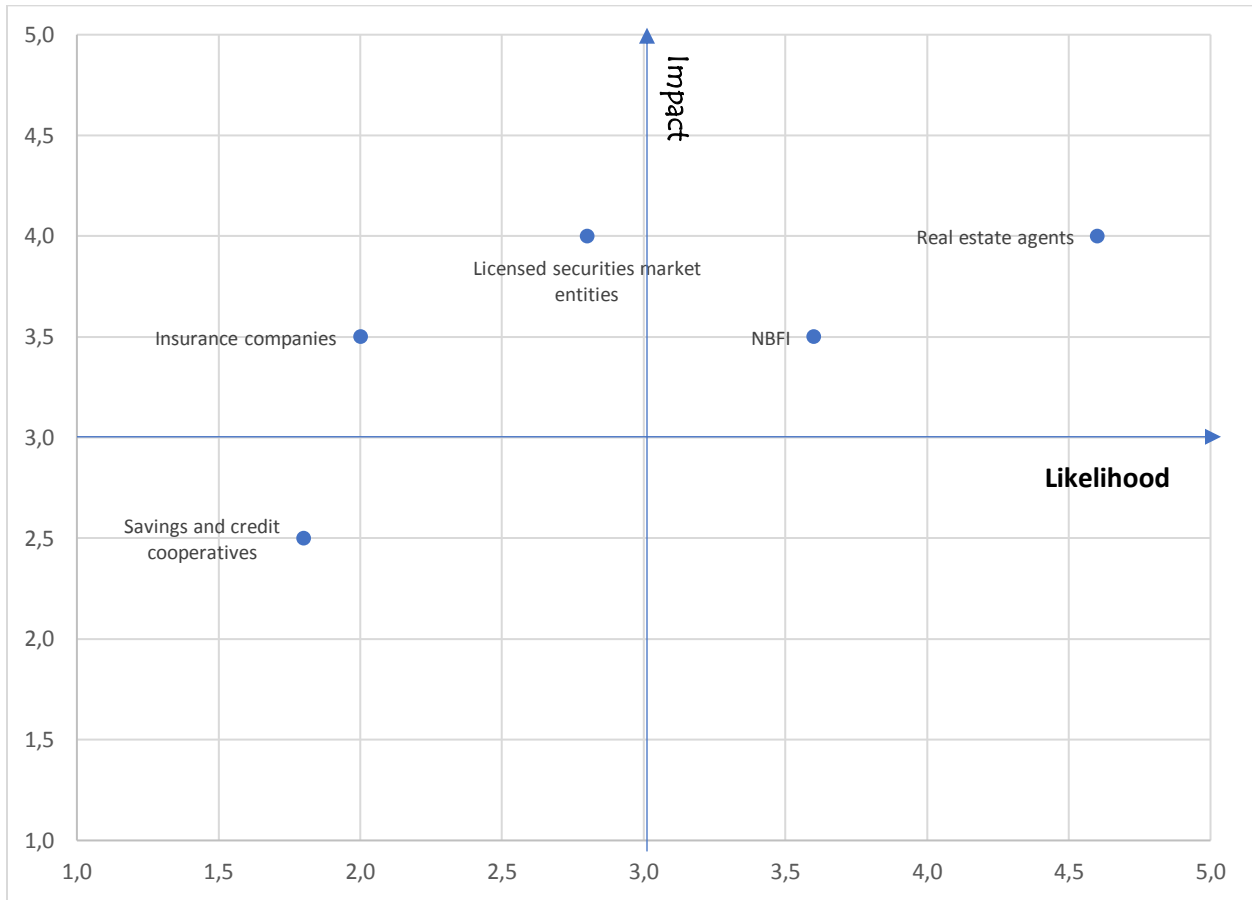
The risk vulnerability scale is identified as a multiplication of likelihood of the operational risk occurrence and the risk impact.



The present risk vulnerability of the sectors



The sectoral risk landscapes



Purpose of the SRA: The objective of the SRA is to identify and communicate the ML/TF risks they may face to the REs in the five sectors supervised by the FRC. Identifying the risks is the first step towards combating ML/TF. This step is integral to implementing a risk-based approach (RBA) in place, adhering the laws and regulations, and allocating resources effectively. The following parties shall be considered in SRA:

1. **RE's:** RE's should review and consider this SRA when they prepare or update their risk assessments.
2. **FRC:** Assessing the risks within each supervised sector enables efficient allocation of limited resources.
3. **National council, Financial Information Department, and other law enforcement organizations:** To generate information and conclusion for the National Risk Assessment (NRA) and supply information source to the Bank of Mongolia and other entities.
4. **Other organisations:** Countries must establish adequate anti-money laundering and countering financing of terrorism supervision in place, as recommended by the FATF, and this SRA contributes towards meeting these obligations.

The features of this SRA: For the first time, FRC is producing the sectoral ML/TF risk assessment of the RE's, stipulated in provisions 4.1.2 through 4.1.7 of the Law of Mongolia on AML/CTF. For identification of risk assessment of each sector, we referenced the National Risk Assessment (NRA) 2016 of Mongolia on ML/TF, Mutual Assessment Report 2017 of the Financial Action Task Force (FATF), and the methodologies and reports issued by FATF and statistical datas of the sectors in 2019 as well as 2019 in relation to the assessments of these sectors.

How REs should use the SRA:

- Review sections 1 to 7
- Review the section assessing your sector
- Review and update own risk assessment.

By reviewing the sections 1 to 7, you will understand the scope of the SRA, its limitations and methods of further reference to this SRA.

Section 8, comprises the dedicated assessment of each sector, covering specific risks, red flags, and sector characteristics. The report provides the list of common red flags that apply to all sectors and specific red flags of each sector.

Individual RE's will vary from the sector average, nevertheless a number of factors which play a part in lowering or raising the risks for the entities in specific areas. This would assist in your understanding of higher risk areas, identified by the FRC. Please refer to Section 7 of this report, titled '*How to interpret the data*'.

If you operate in more than one sector, you should review and apply all relevant risk assessments. The overall risk will depend on a number of factors such as the ML/TF risk present and how much activity is carried out in each category.

RE's recommended to review and update your own risk assessment with a view to incorporating any new risks identified in this SRA. This can be incorporated into the annual review of the risk assessment or carried out as a standalone activity.

Within the FRC monitoring, SRA content will be considered, and then factored it into your ML/TF risk-based approach, as required by Article 4.3 of the Law on AML/CTF. The RE's shall match its policies, procedures and controls examining the potential ML/TFs are managed adequately.

SECTION 1. ML/TF RISK ASSESMENT IN MONGOLIA

The Law of Mongolia on Anti-money laundering and terrorism financing (AML/CTF) was approved on July 8, 2006 by the Parliament of Mongolia. This law was amended on May 31, 2013, renewed on April 26, 2018, and new amendment was made on October 10, 2019.

In provision 19.1 of Article 19 of the law on AML/CTF, it states ‘the Financial Regulatory Commission shall supervise and regulate entities stipulated in provisions 4.1.2 through 4.1.8 of this law...supervise in risk-based approach’.

In Article 2 of the law of AML/CTF, it established the cooperation requirements of the RE’s for the prevention of ML/TF their relation to the State Entities, and Article 3 defined the roles and directions of the authorized entities. As stated in provision 19.2 of the law, FRC is obliged to conduct the sectoral risk assessment of RE’s in its jurisdiction, supervise, regulate, and consult the sectoral RE’s.

Based on the FATF recommendations and international practice, the ML/TF has three levels of risk assessment, which review these risks from different perspectives. Together, the three assessment inform government, authorized entities, and REs of potential risks to help combat ML/TF. The three risk assessments combined provide a picture of the ML/TF risks faced to the country. The following figure shows how these risk assessments provide data to each others (Figure 1). The three levels of the risk assessments are:

National Risk Assessment (NRA)

The NRA reviews ML/TF issues affecting the whole of Mongolia. It is based on information from suspicious transaction reports (STRs) and proceeds of crime records. Information from government organizations, both domestic and international, also contribute to the NRA, and it provides a comprehensive overview of threats and crime trends. The RE’s shall use the NRA to be informed of emerging threats and trends. The public relations officers of the FRC and other authorized entities are recommended to share relevant case studies and predicate offences in staff anti-money laundering and countering financing of terrorism in training and campaigns. Based on the international practice, it is identified that the personnel well understood the nature of the ML/TF crimes demonstrate higher motivations of revealing and combatting the ML/TF actions.

Sector Risk Assessment (SRA)

The authorized entities of AML/CTF produce the sectoral risk assessment of their jurisdiction. The purpose of the sectoral risk assessments produced by these entities are to improve the understandings of the sectoral RE’s, and inform them of the risk indicators, trends and emerging issues. This SRA issued by the FRC analyses the sectoral ML/TF risks covering five sectors defined in provisions 4.1.2 through 4.1.7 of the Law of Mongolia on AML/CTF.

Risk assessments by REs (RA by RE’s)

The RE’s risk assessments are carried out in the following two types:

1. The RE’s self-risk assessment of ML/TF within the framework of ML/TF prevention;

2. The periodic ML/TF risk assessment of the authorized entities of each RE for the enforcement and monitoring of RE's legal obligations.

The RE's self risk assessment of ML/TF: REs must carry out a risk assessment of ML/TF in their business. In provision 4.3 of the law of Mongolia on AML/CTF requires the RE's to implement the risk-based AML/CTF actions, and realistically evaluate their risks based on the following risks, in relation to the characteristics of their business operations and scope:

1. Customer dependent risks;
2. Product and services related risks;
3. Risks related to the methods and channels of delivery;
4. Risks due to geographical locations.

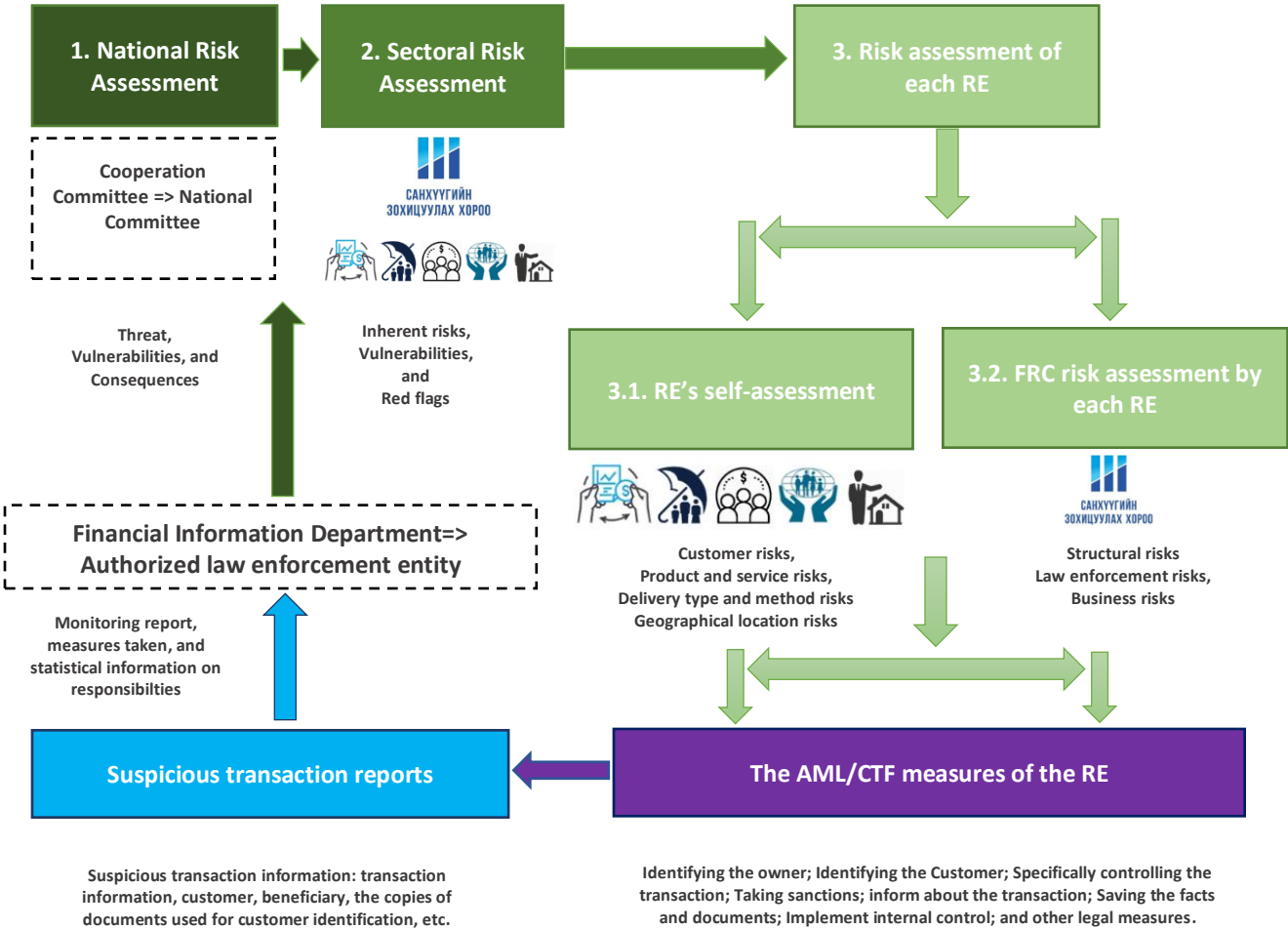
In provision 5.14 of the law, it states the Governor of the Bank of Mongolia shall approve the procedure of the ML/TF prevention; accordingly by the resolution A-26, of Governor of the Bank of Mongolia, dated January 21, 2019 the 'The regulation of preventive measures on anti-money laundering and combating financing of terrorism' was approved. When implementing the preventive measures, the sectoral RE's shall adhere the provisions of above-mentioned law and regulations.

When developing the operational procedures of AML/CTF, the RE's shall use the corresponding SRA, and guidance and recommendations developed by the international organizations, especially the ones issued by the FATF and APG.

The periodic ML/TF risk assessment of the FRC on each RE: As stated in provision 19.2 of the law on AML/CTF, the FRC is obliged to supervise and regulate RE's to ensure compliance, control remotely, and obtain the documents, evidences, reports, information, and explanation for the execution of direct control. According to this provision, based on the information submitted to the FRC, the FRC shall take conduct periodic ML/TF risk assessment, and take following measures based on the results of the risk assessment.

1. Obtain the explanation and clarification regarding the factors affected the high-risk evaluations of the ML/TF risk assessment;
2. Provide guidance and recommendations to the RE's regarding the control of ML/TF risk factors;
3. When necessary issue notices and instructions and take mandatory measures. Specifically, conduct on-site direct control of the RE and take measures depending on the results of the control activities.

Figure 1: Interdependence of the ML/TF risk assessments



SECTION 2. SRA METHODOLOGY

Background of SRA: The following information were used for the development of the SRA report:

- The National Risk Assessment of Mongolia and Mutual Assessment Report;
- The registry of the license holders of Financial Regulatory commission, their monthly and quarterly reports and information;
- The reports of the monitoring actions held by the Financial Regulatory Commission at the entities under its jurisdiction;
- The action report of the National committee and Cooperation Committee;
- Statistical information issued by the Financial Information Department;
- The methodological guidance of risk-based assessment, typology reports and sectoral reports issued by the FATF and APG;
- The other assessment reports and information published prior to this report;
- The other research and reports issued by the other entities.

According to provision 4.3 of Article 4 of the law of Mongolia on AML/CTF and other relevant provisions each sector was assessed by the following factors:

- Customer and the situation due to customer;
- Product and services;
- The methods and types of service and product delivery;
- Geographical location;
- The number of entities of the sector, the number of entities conducting particular activities, and the type and structure of the entity;
- The number of rules and regulations of the sector, and their scope;
- The level of law enforcement of the entities in the sector, the number and types of the breaches identified through monitoring, etc.

Scope: This Sectoral Risk Assessment report covers the sectoral ML/TF risk impacts on the RE's of following 5 sectors defined in provisions 4.1.2 through 4.1.7 of the Law of Mongolia on AML/CTF according to the provision 19.1 of Article 19 of the law on AML/CTF:

1. Non-Bank Financial Institutions (NBFI);
2. Insurance companies and professionals;
3. Investment funds and investment management entities and licensed securities market entities. Identified as 'Licensed securities market entities' together;
4. Savings and credit cooperatives;
5. Real estate agents.

NBFI: The Law of Mongolia on Non-Bank Financial Activities establishes the legal foundations for non-bank financial activities and regulates relations concerning management, organization, licensing, and suspension or revocation of licenses of entities conducting non-bank financial activities. In provision 4.1.1 of Article 4 of the Law on non-bank financial activities is states "' Nonbank financial activities"' shall mean

services stated in Article 7.1 of the current Law, conducted by the business entity, which has obtained the license from the Financial Regulatory Commission’

In provision 7.1 of Article 7 of the Law, it stated the nonbank financial activities shall include the following:

- Lending;
- Factoring;
- Issuing guarantee;
- Issuing payment instrument;
- Electronic payment instruments;
- Foreign currency exchange;
- Trust service;
- Investment into short-term financial instruments;
- Provision of investment and financial and investment advisory services;

Within the framework of the risk assessment the NBFIs identified based on the ‘Non-bank financial institutions’ referred in provision 4.1.2 of Article 4 of the Law on AML/CTF of Mongolia, defined in accordance with provision 4.1.1 of Article 4 of the Law on non-bank financial activities, where is stated “Nonbank financial activities” shall mean services stated in Article 7.1 of the current Law, conducted by the business entity, which has obtained the license from the Financial Regulatory Commission”. Although, the ‘Issuance of the payment instrument’ license is regulated by the Bank of Mongolia in accordance with the Law of Mongolia on National Payment System 2017, its associated risks are covered within the sectoral risk assessment. Hence, no NBFIs has been awarded with the special permit to operate ‘Financial intermediation activities related to the real estate collateralization’, the corresponding assessment was not reflected in this SRA.

Insurance companies: The Law of Mongolia on Insurance defines the legal framework for conducting insurance activities within the territory of Mongolia; and regulates the control and monitoring relations of authorized state entities, issuance of new licenses, and protection of the rights of insured. In provision 4.1.1 of Article 4 of this Law, it states “insurance” shall mean the operation where an insurer under the insurance contract is obliged to pay insurance compensation or the amount equivalent to the loss or damage caused due to an insurance event to the certain party’.

According to provision 4.1.2 of Article 4 of the Law of Mongolia on Insurance, ‘the “insurer” means the company that obtains a license to conduct insurance activities in the territory of Mongolia in conformity with current law’, and in provision 3.3 it states ‘the legal statuses of the insurance mediator, insurance agent, and insurance loss evaluator shall be regulated in accordance with the Law on professional insurance participation’. Accordingly, as stated in provision 4.1.3 of Law on AML/CTF ‘the insurance companies and professional participants’ are considered for the framework of the sectoral ML/TF risk assessment.

Within the framework of the ML/TF risk assessment of the insurance sector, the insurance companies, mediators, and loss evaluators are covered in accordance with Law on Insurance and Law on professional insurance participation.

Licensed securities market entities: The Law of Mongolia on Securities Market regulates the relations of participants operations, control and monitoring and protection of the investor’s rights. In provision 4.1.1 of Article 4 of this law, it states “Securities market” is the regulated market and non-exchange market

relations related to the public offering of securities, registration, trading, depository arrangements, and transfer of the rights evidenced by the securities’.

In provision 4.1.16 of Article 4 of the Law of Mongolia on Securities Market, “Professionals operating on the securities markets” are the legal entities licensed by the Commission as professional organizations to conduct professional activities and services in the securities market’ and those are covered for this sectoral assessment under provision 4.1.5 of Article 4 of the Law on AML/CTF, ‘Licensed securities market entities’. The other participants of the securities market the issuers of the securities are considered as customers of the Licensed securities market entities.

Moreover, in provision 4.1.32 “investment fund” means fund raised from the public or by way of closed subscription under the direction of an investment management company for the purpose of engaging in the activities described in Article 4.1.18 of this Law’; and in provision 4.1.33 “investment management company” means a licensed and regulated legal entity in the securities market that manages the assets of an investment fund on the basis of a contract entered into with such investment fund’, which are considered as ‘Investment funds and investment management entities’ stated in provision 4.1.5 of the Law on AML/CTF of Mongolia and covered within the sectoral risk assessment of the Licensed securities market entities.

According to provision 24.2 of Article 24 of the Law on Securities Market of Mongolia, ‘The activities specified in Articles 24.1.1 - 24.1.14 and in Article 24.1.18 of this Law shall only be undertaken on the basis of a license issued by the FRC’ and in provision 24.3, where it states ‘The activities specified in Articles 24.1.15 - 24.1.17 of the same law shall be undertaken by a legal entity authorized to undertake concerned activities on the basis of having fulfilled the conditions and requirements set down by, and having registered with, the FRC’ the professional regulated entities are covered in the risk assessment of the sector.

Although, no entity has been issued with the license according to provision 24.4, where it states ‘A license to undertake the activity specified in Article 24.1.14 of this Law shall be issued by the FRC in consultation with the Bank of Mongolia’, the present SRA covers the assessment of ‘credit rating services’ activities.

Savings and credit cooperatives: The Law of Mongolia on Savings and credit cooperatives defines the legislative foundations of the Savings and Credit Cooperatives (SCC) and regulates the relations arisen due to its activities. In provision 3.1.1 of Article 3 of the Law on savings and credit cooperatives is states, the ‘Savings and credit cooperative means a non-profit legal entity established by individuals for the provision of savings and credit services to satisfy their social and cultural needs, governed and supervised in a democratic and collective manner and conducts its business based on the issued license’.

In provision 13.4 of Article 13, ‘The Savings and credit cooperation shall operate monetary savings and credit activities based on the license issued by the FRC’; and in provision 13.5 it states ‘the Savings and credit cooperation may operate the other legally permitted financial operations and services approved by the FRC’. Accordingly, for the purpose of the ML/TF risk assessment, the monetary savings, credit services, and other legally permitted and FRC licensed operations and services of the SCC are considered under provision 4.1.6 of Article 4 of the Law of Mongolia of AML/CTF.

Real estate agents: In provision 4.1.7 of Article 4 of law on AML/CTF, ‘Real estate agents if conducted sales and purchase activities representing their clients’ are considered as RE. However, the real estate business is relatively underdeveloped in Mongolia, the real estate agents do not directly receive cash from the Customers and do not manage the Customer’s assets; moreover, the construction companies conduct their sales without involving the real estate agents. However, the following participants of the real estate

market are covered within the framework of this sector, for they are able to conduct the sales and purchase activities on behalf of their customers:

1. Real estate agent – the entity which mediates between seller and buyer or landlord and tenant, and regulate the sales and purchase agreement negotiating the agreement on behalf of the participants;
2. Real estate developer - the entity, which manages all relevant activities related to the real estate development from allocating the land plot, the land acquisition and settlement, and construction and commissioning, financing, and sales of the real estate. The project developed may have implemented all the project phases itself or may have outsources its phases to contractors.

Limitations: For consistency, when comparing sectors, we aimed to determine the likely inherent ML/TF risk. The risks faced by individual REs will vary from the sector average due to business specific characteristics of individual REs.

Risk scale: . We applied the risk scale below to all risk variables of the sector. We have not included a ‘medium’ risk category to ensure a clear position on the risk rating. For each sector we have rated the ML/TF risk as:



‘Inherent’ risk: The risk that an activity would pose if no controls or other mitigating factors were in place. The SRA evaluates inherent ML/TF risks. Inherent risk disregards any controls a RE might have in place. This is deliberate as these will vary significantly from RE to RE, and depend on their available resources and their commitment to reducing ML/TF risks.

Vulnerability: This is described as a weakness that can be exploited for the purposes of ML/TF. It considers key vulnerabilities across the supervised sectors. This helps identify the sector risk(s). These are:

- Complexity;
- Liquidity;
- Anonymity.

To identify ML/TF risk levels, each sector is assessed against the variables defined in 4.3 of the Law of Mongolia on AML/CTF. The excessive number of vulnerable results, especially highly vulnerable assessments would lead Mongolia to be considered under high-risk classification.

For the analysis, first the likelihood (threat and vulnerability) of ML/TF risks were identified. For the likelihood evaluation the factors such as inherent risk evaluation, size of sector, the volume of transaction and turnover, and number of entities were considered for the following variables.

| Risk variable | High probability (5) | Low probability (1) |
|--------------------|---|---|
| Size of the sector | There are numerous entities that operate in high risk countries and cooperates with many organizations | A few or small-scale entities, the companies operate within the country only. |
| Products /services | There are number of cash-based products and services, high complexity products, and the source of fund is always undefined. | Limited number of cash-based products and services, limited number of transactions or few or simple products, and the source of fund is identifiable. |

| | | |
|------------------|---|---|
| Transactions | Large volume of transactions, and high number of transactions to high-risk countries. | The low volume of transactions and transactions are within country only |
| Customer types | Numerous wealthy and foreign customers, and many customers with complex structure | Domestic customers only |
| Delivery channel | Never face the customer in person | Directly face to face communication with customer |






Next, the potential impact of the ML/TF risks (from 1- ‘low-impact’ to 5 ‘high-impact’) to the financial, reputational, and trust relations to the sector was evaluated.

The risk vulnerability scale is identified as a multiplication of likelihood of the operational risk occurrence and the risk impact.





SECTION 3. RISK KEY

The risk keys described below would help in determining the main ML/TF vulnerability. The vulnerabilities are grouped into factors that may either increase or decrease a particular risk. This helps REs to determine if their risk is higher or lower than the overall risk estimate in their sector. REs need to keep this risk key on top of mind when they review the individual sectors outlined in sector risk in Section 8.

| Vulnerability Variable | What increases the risk? | What reduces the risk? |
|--|---|--|
|  <p>Customer</p> | <ul style="list-style-type: none"> • High net worth individuals • Foreign citizens, legal entities, and domestic citizens dominate • Complicated to identify the customer • Large base of customers • Numerous professional customers • Do not require membership, or unstable customer base | <ul style="list-style-type: none"> • Low-income customers • Mostly local legal entities • Possible to directly identify the customer • Small and clear customers • Simple customers • With a strict membership rule or clear and constant customer base |
|  <p>Product, and Services</p> | <ul style="list-style-type: none"> • High value, fluctuating transactions • Relatively high benefit level, regardless the high fee • Highly liquid products/services • Requires multiple phases and participants- complex • Cash based transaction • Short-term • Commission-based selling, leading to conflicts of interest | <ul style="list-style-type: none"> • Low value, constant or pre-defined transactions • Low cost, no reimbursement and repayments • Low liquidity, strict conditions • Involves one participant only • Long term • No commission offered based on selling |
|  <p>Methods and types of delivery</p> | <ul style="list-style-type: none"> • Enables the customer anonymity • No face-to-face identity verification • No direct customer interaction • Due diligence carried out by other institutions • Transactions carried out remotely. | <ul style="list-style-type: none"> • Regular face-to-face contact • Directly contacts customer • RE carries out customer due diligence itself. |
|  <p>Geographical location</p> | <ul style="list-style-type: none"> • Customers based in other jurisdictions • Customers operate through the branch and representative offices • Operate in the free-economic or border region, or low monitoring and based in high risk locations | <ul style="list-style-type: none"> • Customers based in the same country and region of the jurisdiction • Do not have branch or representative offices |
|  <p>Structure and organization</p> | <ul style="list-style-type: none"> • The direct and other owners of the RE are composed of PEPs (Politically Exposed Persons) or other risk prone owners нь • No limitation on number and requirements on direct owners, complex to identify the direct owners • High volume and necessity of the statutory fund | <ul style="list-style-type: none"> • No PEPs or high-risk persons amongst the RE owners • There is limitation for the number and requirements of the direct owners and the owners are easily identified • The necessity and volume of the statutory fund is low |

SECTORAL RISK ASSESSMENT

| | | |
|---|---|---|
| | <ul style="list-style-type: none"> • High ‘inherent’ risk of the RE • Highly competitive and active marketing campaigns • High-risk companies within the financial group • Large organizations, may face difficulties in implementing the AML/CTF activities • Small entities may have loose understanding of ML/TF • Insufficient staff and high turnover. | <ul style="list-style-type: none"> • Low competition and legally limited marketing potential • Independent of financial grouping |
|  <p>Regulation</p> | <ul style="list-style-type: none"> • No or weak regulatory environment of the sector or particular activity • No entity in charge of payments and registrations or the entity is malfunctioning | <ul style="list-style-type: none"> • Satisfactory level regulation of the sector and activity • The entity in charge of payment and registration functions efficiently |
|  <p>Compliance</p> | <ul style="list-style-type: none"> • Unsatisfactory level of understanding, knowledge, and tendency of RE’s • Weak or inexistent internal control of RE’s • The RE’s never been or inefficiently monitored • Constantly fail to submit reports, delay or cooking the books, or misreport • Have history of tax avoidance and organized crime | <ul style="list-style-type: none"> • The RE’s have sufficient level of ML/TF understanding, knowledge, and tendency • The RE’s have sufficiently established internal control • Regularly control and monitor of the RE’s and take measures • The reports and information are submitted on time, no breach is observed • Fully adheres the Tax laws and never participated in an organized crime |

SECTION 4. RED FLAGS

Red flags indicate unusual customer activity and should prompt a RE to carry out further investigation. The following red flags come from different sources and could occur and may raise the demand of control.

| | |
|---|---|
| <p>At the start of the customer relationship</p> | <ul style="list-style-type: none"> • Customer is nervous and reluctant to provide identity documents • No connection between customer’s place of residence and the financial institution • The information a customer provided does not align with information from other sources • Customer has unexplained wealth inconsistent with their economic situation • A wholesale customer who is an inexperienced investor • Customer has complex trust or other legal arrangements which aim to hide beneficial ownership. • Customer is a PEP • Customer resides in a high risk country rated by international sources such as Financial Action Taskforce or Transparency International |
| <ul style="list-style-type: none"> • Unusual or unexplained lump sums added to an account which does not align with the customer’s known wealth • Unusual settlements – such as third parties’ cheques sent for no apparent reason • Transactions that lack economic sense such as buy and sell orders with little gain or loss to give the impression of account activity • Investments are quickly followed by sales or transfer of assets • Customer who keeps losing money and replenishes the account in excess of their known wealth • Customer’s investments are inconsistent with their investment profile • Previously dormant accounts suddenly have unexplained wire transfer activities • A new customer who introduces other high-net worth customers shortly after onboarding • Cash is added to an account and withdrawn shortly after, with no trading • Customer age does not align with the investment or trading behaviour – they could be used as a mule (very younger or older customer) • Customer’s wealth is not aligned with their known background • Customer makes large or structured cash deposits into the RE bank account to facilitate investment | <p>During the customer relationship</p> |
| <p>Ending a customer relationship</p> | <ul style="list-style-type: none"> • An account is only used for one transaction, contrary to its normal use • Customer closes their account after requesting additional customer due diligence documents (like source of funds) • Customer requests funds to be sent to a third party account with no apparent connection or to an overseas account. |

SECTION 5. MONEY LAUNDERING THE PROCEEDS OF CRIME

5.1 Stages of money laundering

Money laundering (ML) involves concealing the origins of funds or assets. There are three recognised stages of ML:

- **Placement:** Criminals introduce proceeds of crime into the financial system.
- **Layering:** This occurs when the proceeds of crime are in the financial system. It can involve numerous transactions designed to confuse the tracing of funds to their original source.
- **Integration:** This occurs when the funds become legitimate following the additional transactions conducted.

The five sectors under the FRC jurisdictions have potential of being used in all three stages of money laundering, especially in the in the layering and integration stages.

5.2 Predicate offences and their characteristics

Money laundering (ML) is an intention of concealing the origins of funds or assets obtained through the crime and illegal deeds, circulating fund in the economic cycle, and making the ‘dirty’ money to look as ‘clean’ or legitimate income. The crime and illegal deed, that generate the ‘dirty’ money is called predicate offense. The reporting entities shall have basic understanding and knowledge, regarding the money laundering and predicate offenses.

High-risk predicate offences include fraud, anti-environmental crimes, tax avoidance, bribery; and medium risk offenses include drug dealing, smuggling or illegal cross border trade, organized crime and crimes against the banking regulations, theft, and assets related to the foreign crimes. Majority of the income generated through the predicate offence are laundered within Mongolia and the remaining (especially the bribes) are laundered in offshore regions.¹

The situation regarding the above mentioned high and medium risk offenses are analyzed based on the registered crime records. The RE’s of the sector, and their employees shall have understanding and knowledge of the predicate offences and factors impacting them and plan the preventive measures, especially consider in the operation of customer identification.

Fraud: Amongst the other offenses against the asset ownership, the fraud is the second common offence next to the theft. According to the National Police Agency (NPA) in 2018, total of 5,372 fraud incidents were registered, which is 79.3% higher than 2017 data.² Due to this type of a crime, in 2017 in total 9,275 citizens and 4 legal entities were victimized, and out of total damage of 123.2 billion MNT, roughly 48.4 billion MNT or 39.3 percent were reimbursed and 26.6 billion MNT worth assets were arrested. The average fraud loss was equivalent to 41.1 million MNT.³ The fraud crimes are mostly committed due to the following situation:

- (i) The fraud crime is mostly committed due to the financial difficulties. Specifically, increased number of crimes conducted to obtain the basic necessities of life, such as handphones, vehicles, and apartment; the people borrow items based on lie, avoid returning them, and execute civil agreements such as purchase and sales agreements, and contract work agreement for the purpose. Specifically, the fraud is committed by executing the loan agreements and disappearing without repaying the loan, and growing number of the loan related crimes are commonly caused by financial difficulties such as inability of paying the bank loan,

¹ ‘Anti-money laundering and counter-terrorist financing measures Mongolia Mutual Evaluation Report’ APG, September 2017.

² ‘The state statistics of the crime and violations, 2018’. National Police Agency

³ “The white book of crimes of Mongolia- 2017”, The regulatory commission of crime prevention of Mongolia, 2018.

borrowing monetary assistance from individual loaners (sharks) to pay the bank loan, and becoming unable to satisfy the requirements of the bank loan, and sudden demand of fund, etc.

- (ii) There are numerous cases of fraud of obtaining assets with lie taking advantage of the weak vigilant people. For example: criminals introduce themselves as personnel from the authorized entities and commit fraudulent crimes in the form of fee payment (specifically, deceitfully promising to issue special permit and/or land permit). Also, it is observed to deceive people based on the religious beliefs, to gain material benefit by pretending to be a monk or an astrologist.
- (iii) The social trend and situation. Based on the people's willingness to emigrate, work abroad, the fraud related to visa issuance is causing huge amount of damage to people. Moreover, due to the increased desire to study abroad amongst the Mongolian youth, the deception of obtaining others resources promising to mediate to the foreign schools is newly rising type of crime.⁴

Crime against the environment: In 2017, roughly 128 incidents of this type of crime was registered, which is increased by 56 incidents or 77.8 percent compared to the previous year. In 2016, total of 165 incidents of this crime was registered, out of which 4.9 billion MNT worth damage was caused, and 2.7 billion MNT or roughly 55.1 percent was recovered during the investigation stage. The crime against the environment is a socially dangerous crime, that usually happens in the countryside using the weapon and equipment, and the trade, transportation, storage and consumption of the poached trophies are conducted only between the seller and buyer in hidden. The most of the crime cases are related to illegal or unlicensed wildlife hunt, timber wood preparation, minerals extraction, and hazardous chemicals usage.

Specifically, in case of the mineral extraction the most of the cases are related to the conspiracy between public officers, business entities, and company owners; and mining operations held in the specially protected areas. For example:

The

Typology example #1 (Predicate crime): In the territory of Zaamar soum of Tuv province, the director of the "Suld mining resources" LLC conspired with the Soum Governor to extract the mineral resource illegally, and the "Mon dulaan trade" LLC exceeded the permit granted by the MU000211 license, illegally conducted mineral extraction works in 4.5 hectares of land area, causing 614.9 million MNT worth damage.

In Ulziit soum of Bayankhongor province, citizen G and B conducted illegal mineral extraction operations, under the cover of environmental rehabilitation works.

In the territory of the Naran bag of the Bayandalai soum of Umnugobi province, citizen G raked 9.8kgs of Orobanchaceae Vent.

reasons of the crime against the environment are caused by the people's desire to earn easy money, and delusion of healing if the parts of animal or plants are consumed.

Roughly 15 percent of this type of crimes are related to the illegal exploration and extraction of the mineral resources, which compared to over 2000 legal entities and 90 thousand of individuals conducting mineral exploration, it is possibly due to the hidden pattern of this type of crime. The types of 'ninjas' enhanced in types, with hauling of gold, tungsten, mineral stones, charcoal, and pine nuts.⁵

The crime of tax avoidance: Based on the international criminology research, behind 1 case of crime 3-10 hidden crimes exist; and as per special crime cases of bribery and tax avoidance it is highly probable of hiding 1:100 crimes behind one incident. If roughly 60-90 cases of tax avoidance are investigated a year in Mongolia, 600-900 tax avoidance incidents may have been committed. The approximate amount of loss of the state budget gain could be estimated based on the amount of 36 trillion MNT income, declared following the Law of Mongolia on

⁴ "The white book of crimes of Mongolia- 2016", The regulatory commission of crime prevention of Mongolia, 2017.

⁵ "The white book of crimes of Mongolia- 2016", The regulatory commission of crime prevention of Mongolia, 2017

Promotion of Economic Transparency, approved in 2015. The tax avoidance crime is conducted in the following forms.

1. Executing the sales and purchase agreement of the taxable property, goods, work, and specific rights for price lower or higher than market price;
2. Colluding with other tax payers, to fabricate the initial financial and accounting documents and concealing the taxable income, reducing on purpose, increasing the cost artificially, and unreasonably misrepresenting the financial statements, tax statement, and settlement reports;
3. Operate business without registering to the state registry and avoid registering with VAT tax payer registry;
4. Declare the imported goods price lower to the customs office and state higher value for the VAT return;
5. Import and sell the goods under the other individuals names to avoid tax application and statement;
6. Be unavailable at the state registered address and location, be absent, and disregard the tax authority summon without respectful reason;
7. Tax avoidance using the transfer price and thin capitalization methods.⁶

Crime of corruption: In 2017, the Independent Authority Against Corruption has received 658 complaints and information about the cases with criminal characteristics, and based on its types about 337 cases related to abuse of authority, 63 cases of corruption, 76 cases of bribery, 82 cases of poaching of assets by the officials, 51 cases related to unexplained enrichment or asset concealment, 48 incidents of violation of procurement regulation, 50 cases of inappropriate expenditure of budget asset, and 6 other cases were investigated.

Out of 709 officials, investigated under the complaints: 137 were in public and 115 are in state administrative offices, 220 in state special and 105 are in managing positions of public services, 47 are of the managing positions of private entities, 41 are the managing personnel of the state-owned entities, and 44 other officials.

For 174 incidents or 26.4 percent of the criminal complaints the case registration was applied (opening of criminal case), 375 cases or 58 percent were refused to apply case registration (refusal of criminal case), and 93 or 14.3 percent were transferred to the corresponding prosecutor's office according to their jurisdiction.

In total 427 criminal cases were investigated, against 1301 incidents related to the legal jurisdiction for 654 defendants. Out of investigated cases, 106 or 24.8 percent⁷ of these were transferred to the prosecutor's office with proposal to proceed with trial and 94 incidents or 22.0 percent were transferred to the prosecutor's office with proposal to close the registration case, 48 cases or 11.2 percent were transferred to their registered court, 14 incidents of 3.2 percent were applied to other criminal incidents, 2 cases were dismissed, and 163 incidents were remaining open by the end of the year.

⁶ "The white book of crimes of Mongolia- 2016", The regulatory commission of crime prevention of Mongolia, 2017.

⁷ "The white book of crimes of Mongolia- 2017", The regulatory commission of crime prevention of Mongolia, 2018.

SECTION 6. TERRORISM FINANCING

On October 10, 2019 the State Great Khural of Mongolia has approved the Law on Countering Weapons of Mass Destruction and Terrorism.

In provision 3.1.1 of Law on Countering Weapons of Mass Destruction and Terrorism ‘the “terrorism” means the unlawful use or intent of using the force and violence against to intimidate or coerce a government, the civilian population, or any segment thereof, in furtherance of political, religious, or ideology objectives’ ; and as stated in provision 3.1.3.10 “the financing of terrorism, direct and indirect assistance and support” are considered as “terrorist activity”’.

According to the Law of Mongolia on AML/CTF, in provision 3.1.2 it defined “terrorism financing” means the direct and indirect accumulation, modification, transfer, and expenditure of fund, being aware of its intent to be used for the terrorist action and activities of the terrorists’; and in provision 3.1.11 it stated “the financing of the spread of Countering Weapons of Mass Destruction” has the meaning stated in provision 3.1.20 of the Law on Countering Weapons of Mass Destruction and Terrorism’.

Moreover, in provision 3.1.20 of the Law on Countering Weapons of Mass Destruction and Terrorism it stated “the financing of the spread of Countering Weapons of Mass Destruction” means direct and indirect accumulation, transfer and expense of fund for the intent of financing the activities of processing of raw materials, manufacturing, obtaining, storing, possessing, transporting, exporting, transferring, accumulating, selling, and purchasing spread of chemical, biological and mass destruction weapon, prohibited by the international conventions’.

In this report, the definitions stated in provision 3.1.2 of Law of Mongolia on AML/CTF, the ‘terrorism financing’, and the definition of ‘the financing of the spread of Countering Weapons of Mass Destruction’ stated in provision 3.1.20 of the Law on Countering Weapons of Mass Destruction and Terrorism are referred together as ‘terrorism financing’ for the purpose sector analysis.

For the implementation of terrorist activity, the terrorists would need funding. These could be simple expenditures, such as apartment rental and food bill, etc. The characteristics of the terrorist financing activities is similar to money laundering in many ways. However, the TF has its special feature in its preventive measures.

As per characteristics, it is complicated to identify the TF action. The source of the funding could be both legal and illegal, and the transactions are mostly low value. Therefore, in terms of TF activity it aims to conceal the source of funding and essence of funded activities.

In 2017 Mutual assessment report of APG, it concluded ‘Mongolia’s exposure to terrorism financing (TF) threats seems to be limited. Based on available open source information, Mongolia has no reported or identified instances of Al Qaeda, Taliban or ISIL related activities, and Mongolia has not been identified as a major source or route jurisdiction for foreign terrorist fighter (FTFs). Furthermore, there have been no reports of terrorist attacks or indigenous terrorist groups operating in Mongolia’.

The General Intelligence Agency of Mongolia issued the ‘Risk assessment of financing of terrorism and mass destruction weapons’⁸.

The risk assessment of terrorism financing is the ‘speculation’ analysis on the summary of the assessments of vulnerabilities and threats of government, non-government, and citizen’s control on expenditure, accumulation,

⁸ Монгол Улсын Тагнуулын ерөнхий газар: <https://gia.gov.mn/5/item/548>

transferred assets, turnover that directly or indirectly relate to the terrorist activities of terrorist organization, grouping, and individuals.⁹

As a result of the analysis based on the task force research and information submitted by the member organizations, the general risk level of financing terrorism and mass destruction weapons of Mongolia is in **Yellow** or “**Medium-High**” level (Although, the risk of conducting terrorist activity in Mongolia is low, the circumstances of probable formation of terrorism foundation in our country is in medium level, which is drugging the risk to the “medium-high” level); thus it is mandatory to implement fundamental measures countering and preventing the terrorism financing throughout Mongolia.

| The risk assessment sector | Risk assessment against the terrorism financing | The risk assessment against the financing of the spread of CWMD |
|---|---|---|
| Financial entities except the banks | 57.5% | 62.5% |
| Real estate agents | 60.0% | 62.5% |
| Commercial banks | 41.25% | 50.0% |
| Legal entities – for profit | 47.5% | 50.0% |
| Legal entities – Non-Government Organizations | 62.5% | 65.0% |
| Border monitoring | 48.75% | 60.0% |

Where: 0-20% No risk, 21-40% low risk, 41-60% medium risk, 61-80% high risk, and 81-100% at real risk.

Currently, in the sectors except the banking, no terrorism financing incident was identified. FRC considers the services of the non-bank financing sectors pose relatively low risk of terrorism financing, except for currency exchange and foreign monetary transactions. Besides, throughout the sector the legal environment in regards of countering the money laundering and terrorism financing is relatively improved; and for the enforcement of the laws, it is striving to reflect special measures and articles to the relevant rules and regulations for the prevention of terrorism financing.

Although, the FRC constantly organizes corresponding training and information campaign within the non-bank financial sectors, due to the insufficient understanding, knowledge, and information on terrorism financing of the regulated sector is correspondingly increasing the risk.

The risk of fund accumulation and income generation for the purpose of terrorism financing is more probable within the sector, compared to direct financing the terrorism. Specifically, the non-bank financial sector is providing services and products directed domestically only, which is one of the reasons of increased risk of the sector.¹⁰

Nevertheless, in the era of globalization the RE’s shall act vigilantly and be alert all the time.

In provision 6¹.1 of the Law of Mongolia on AML/CTF it stated, ‘the entity defined in provision 4.1 of current law, shall not provide services to person, any group and consolidation defined in provision 3.1.17 and 3.1.18 of the Law on Countering Weapons of Mass Destruction and Terrorism’. In accordance with chapter 6¹ of Law of Mongolia on AML/CTF, the RE’s shall bear the following responsibilities:

1. Identify whether the customer and beneficiary of the transaction are included in the list of sanctioned persons, legal entities, any groupings, and consolidations;
2. As soon as identifying the party included in the list of sanctioned persons, legal entities, any grouping, and consolidations, it shall immediately halt the account and asset movements without advance notice,

⁹ Аргачлалыг талаарх дэлгэрэнгүй мэдээллийг <https://gia.gov.mn/5/item/548> линкээр орж үзнэ үү.

¹⁰ <https://gia.gov.mn/5/item/548>

- limiting the transactions without the resolutions of the authorized entities, and shall immediately notify the intelligence organizations and financial information department;
3. Implement thorough customer due diligence, identification procedure for the countries announced to have low involvement in the ML/TF monitoring by the international organizations in charge of ML/TF, when necessary it shall take measures defined in the law or the regulations issued in accordance with the law.

In provision 3.1.17 of the Law on Countering Weapons of Mass Destruction and Terrorism it stated “the sanctioned list” means the list of personnel and legal entities approved by the resolution of the United Nations Security Council’, and in provision 3.1.18 it defined “domestic sanctioned list” means the list of personnel and legal entities approved by the Government, based on the proposal for countering weapons and mass destruction and terrorism issued by the authority in charge of combatting the terrorism’.

Therefore, RE’s responsible to use the sanctioned list and domestic sanctioned list in their operations, implement actions to identify the customers, and implement sanctions.

Key indicators and considerations related to terrorist financing

Some of the key considerations that may indicate the TF involvement are shown below. These are not all potential forms, and the RE’s shall include the other potential factors depending on the characteristics of their own operations.

- Initiate numerous asset transactions to the beneficiaries located in the high-risk regions;
- Fund transfer of individuals and companies to the organizations identified and suspected to have relation to the TF;
- Account transaction conducted by multiple customers, using the same address and telephone number (conduct operations);
- Open account using fake identity;
- The customers residing or returning from the conflicting zone;
- Sudden activation of the account irrelevant to the nature and characteristics of the customer;
- Numerous low value domestic transactions conducted to one account, etc.

Since the TF risk arena is speedily transforming, it is recommended for the RE’s to consider long term prospect and reflect newly forming conditions when conducting TF risk assessment. The RE’s shall efficiently reflect newly identified conditions in its measures and regulations against ML/TF and continuously control the implementations and present conditions of the TF.

Within the framework of the ML/TF prevention, the RE’s shall use the following two groups of sanctions list in their customer identification activity:

1. The Consolidated sanctions list issued by the UN Security Council (United Nations Security Council Consolidated List)¹¹;
2. The list of Non-Cooperative Countries or Territories for ‘Call for action’ (black) and the ‘grey’ list of jurisdictions with strategic deficiencies issued by FATF.

The United Nations Security Council Consolidated List: It is mandatory to access the above link and download the United Nations Security Council Consolidated List information of persons, legal entities, any groups, and consolidations (in pdf, xml, and html format), and use in their actions of customer identification.

¹¹ <https://www.un.org/securitycouncil/content/un-sc-consolidated-list>

As per this list, it consists of two sets of individuals and legal entities list sorted in Latin alphabetic order. The list also includes the possible information regarding the customer identification, specifically four types of names, the form it is written in native language, birth place, and birthday.

The list issued by the FATF: As of October 30, 2019, the FATF judged the following two countries in its ‘high-risk’ countries list and defined to be non-cooperative in the global fight against money laundering and terrorist financing:

1. Iran¹²;
2. Democratic People’s Republic of Korea¹³

Moreover, the FATF considered the following countries as jurisdictions with strategic deficiencies and included in the ‘grey list’ of the other monitored countries with unsatisfactory ML/TF monitoring structure implemented:

1. Bahamas;
2. Botswana;
3. Cambodia;
4. Ghana;
5. Iceland;
6. Mongolia;
7. Pakistan;
8. Panama;
9. Syria;
10. Trinidad and Tobago;
11. Yemen;
12. Zimbabwe¹⁴.

It is mandatory for RE’s to constantly access the FATF website, obtain renewed list of jurisdictions in the “black” and “grey list”, to use this information in their customer identification activities.

Since no criminal incident on TF and financing of the WMDT is registered, for the purpose of information some of the typology cases published in the “APG yearly typologies report-2019”, August 2019 are included below.

¹² <https://www.fatf-gafi.org/countries/#Iran>

¹³ [https://www.fatf-gafi.org/countries/#Democratic%20People's%20Republic%20of%20Korea%20\(DPRK\)](https://www.fatf-gafi.org/countries/#Democratic%20People's%20Republic%20of%20Korea%20(DPRK))

¹⁴ <https://www.fatf-gafi.org/countries/#other-monitored-jurisdictions>

Typology example #2 (Financing the terrorism - Malaysia):**Typology example #3 (Financing the terrorism - Philippines):**

The Maute Group (MG) is a Daesh/Islamic State of Iraq and Syria (ISIS) inspired group in the Southern Philippines. The group consists of known clans in the area belonging to prominent families. Based on the analysis and findings, CJ (a foreign terrorist organization) cell members sent international fund transfers to the Philippines from January to February 2017. These transactions were all received through the same remittance agency and network of who was using an international remittance platform. Although the beneficiaries of these transactions were the official business entities in the Philippines, the transactions were not relevant to the nature of their businesses. Using the system, foreign fighters in Syria were able to access funds in person or funds were made available in jurisdiction without the need for international funds transfers, remittance or physical movement of currency.

SECTION 7. HOW TO INTERPRET THE DATA

Inherent risk tables

Individual REs will vary to some degree from the average inherent risk of the sector, due to them having differing exposure to the factors, characteristics, and scope of their activities.

To allow REs to be flexible with how they apply the sector risk rating to their own business, we have provided a number of factors we think lower or heighten the risk of ML/TF for individual REs in this report. This report aims to provide REs with an understanding and information, about the identified potentially higher or lower risk areas within the sector. It is important for RE's to evaluate where their business differs from the sector generally and rate their risks accordingly.

Timeframe

The regulated RE's are required to file monthly, quarterly, and annual financial statements and other reports to the FRC. The data and information reflected into this report are based on the information of the special permit, licenses database as of first half of 2019 and the report and statements filed by RE's as of the end of 2018.





















As per the predicate crime statistics and dataset referred in item 5.2 of report, the information, conclusions, and typology examples of the "The white book of crimes of Mongolia- 2016" and "The white book of crimes of Mongolia- 2017" issued by the regulatory commission of crime prevention of Mongolia, 2018.

Moreover, the 'Money laundering risk assessment report' on RE's issued by FRC in 2018 was considered as well.

As per real estate agents and corresponding registration entities, the analysis is based specifically on the information of the Legal entities registration department and Asset registration department of State Registration Agency, professional union of the sector, and information of the large entities operating in the sector. Moreover, the 'Money laundering and terrorism financing risk assessment report of the real estate agents'-2018, developed by the MIRIM Consulting LLC and Mongolian economic analysis and research center NGO conducted by the request of FRC was used for the purpose of this report.

As per regulated entities, the RE's may operate in several regulated sectors and conduct several regulated activities within the sector, in such a case it shall be noted, that the data related to the individual RE are included in each section relevant to their activities. Moreover, reader shall bear in mind that the information is limited with the operational information, and statistical indicators of RE's operating in the sector.

SECTION 8. SECTOR SPECIFIC RISKS

| | | | |
|--|---|--|--|
|  Non-Bank Financial Institutions |  1,601.7 thous Customers * Accumulated count | *  1.3 billion MNT Amount of total assets |  539 Number of RE's * The number of NBFIs |
|  Insurance companies and professionals |  717,751 Customers * Number of Insured | *  178.7 billion MNT Total insurance premium |  18 Number of RE's * Insurers 16 Life insurer 1 Double insurers 1 |
|  Licensed securities market entities |  1,304,371 Customers * The number of securities account holders | * The  245.5 billion MNT total amount of securities trade |  53 Number of RE's * The number of securities companies conducting brokering, dealing, underwriting, and investment advisory services -53; |
|  Savings and credit cooperative |  62,556 Customers * Number of members | * The  200.2 billion MNT amount of total assets |  275 Number of RE's * The Number of Savings and credit cooperatives with licenses issued by the FRC |
|  Real estate agent |  ∞ Customers * It is impossible to identify the number of Customers served by the real estate agents | * It is  ∞ MNT Impossible to identify the Volume of the sales mediated by the real estate agents |  104 Number of RE's * Roughly 104 companies are actively operating. |




Non-bank financial institutions



Inherent risks of the Non-Bank Financial Institutions



| No. | Activity | Definitions of the activity | Inherent ML/TF risks |
|-----|---|---|--|
| 1 | Loan | | High inherent risk. For the establishment of statutory fund, the shareholders may take fake loan and repay on behalf of the Customers. |
| 2 | Factoring services | financial transaction and a type of debtor finance operation in which a business sells (transfers) its accounts receivable to a third party as whole and the recipient of this transaction bears all the responsibilities arisen due to the transaction (4.1.2) | High inherent risk. The Customer may perform the money laundering through the NBFI using the fake transaction and fabricated agreement. |
| 3 | Issue payment guarantee | according to provision 457 of the Civil code, under the guarantee contract a NBFI undertakes to settle payments on behalf of the principal and the latter's written order, and the principal undertakes the responsibility to pay fees to the NBFI. | High inherent risk. May perform money laundering through NBFI using the fake transaction and fabricated agreement. |
| 4 | Issuance of payment instrument | | High inherent risk. Potential of ML/TF by conducting numerous low value transactions using the issued payment instruments. |
| 5 | Electronic payment and money transfer service | the monetary payment transaction of the others monetary asset through own current account, using electronic payment instruments, automated equipment, and internet (4.1.5) | High inherent risk. High probability of ML/TF risk, by conducting numerous low value transactions using electronic payment and monetary transaction services. Since the registration and transactions are conducted without facing the customer, it causes risks in the customer identification process. |
| 6 | Foreign exchange | shall mean sale and purchase of a foreign currency, or issuance of a loan, or a guarantee in a foreign currency. (4.1.6) | High inherent risk. The acts of not executing transaction documents and not registering customers increase the risks. |

| | | | |
|---|---|---|---|
| | Foreign exchange service | | |
| 7 |  Trust services | shall mean an arrangement in whereby a trustee temporarily controls, uses and manages assets /cash, loan, other assets/ of a beneficiary on the basis of an agreement with the purpose of preserving the value of the assets and earning a profit (4.1.7) | High inherent risk. High probability of risk within the Customer and trustee identification process, and at the end of contract condition and trust agreement. |
| 8 |  Investment into short-term financial instruments | shall mean conversion of the funds of an individual or a legal person into investment securities or similar financial instruments with maturity of up to 1 year on the basis of a mutually agreed contract (4.1.8) | High inherent risk. The risk is highly probable during the customer identification, and at the end of the conditions of the contract and at the end of agreement. |
| 9 |  Financial and Investment Advisory Service | | Low inherent risk. The risk is likely in cases of unfounded conclusion and advisory service provided to the Customer, intentionally hiding the violations and breaches. |

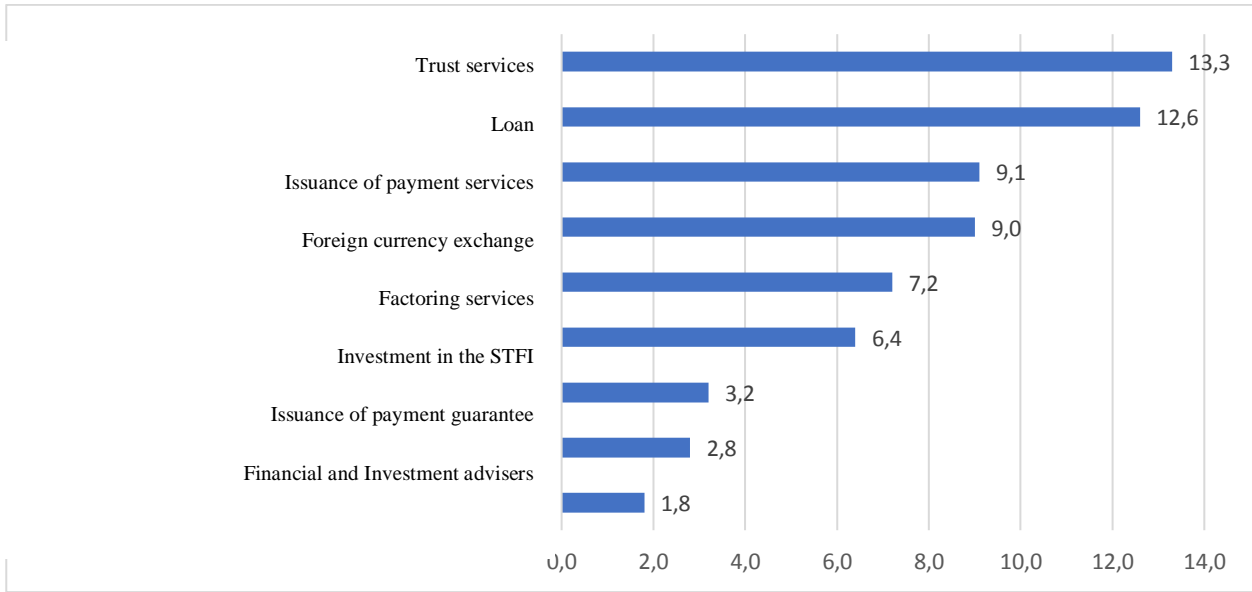
Present vulnerability level of the non-bank financial sector

| Risk factor | Point scale | Explanation |
|-----------------------|--------------------|---|
| Size of the sector | 4.0 | Large number of entities (538 NBFI). Although, it serves mostly domestic customers only (As of Q2 of 2019, the interest fee income from foreign residents occupied only 0.03% of total interest income) |
| Product and services | 4.0 | Most of the activities have high inherent risk. However, mostly the domestic customers are served. |
| Transactions | 4.0 | Although the number of transactions is continuously increasing, the value of the transaction is low. |
| Customers | 3.0 | Mostly domestic customers are served. |
| Delivery channel | 3.0 | Mostly communicate with the customers face to face. Although, electronic services are being implemented. |
| Average points | 3.6 | |

| Impact | Impact scale | Explanation |
|-----------------------------|---------------------|---|
| Economic – Financial impact | 4.0 | Medium-high level of economic and financial impact. (the position amongst the financial sector is drastically increasing) |
| Reputational – Trust impact | 3.0 | Medium level reputational and trust impact (It is necessary to enhance the framework of other operations except the loan and currency exchange. Reduced level of the trust negatively impacts the development of these operations.) |
| Average points | 3.5 | |

| | |
|-------------------|-------------|
| Risk level | 12.6 |
|-------------------|-------------|

Present vulnerability of the non-bank financial sector, by the types of activities



Where: STFI– short term financial instrument

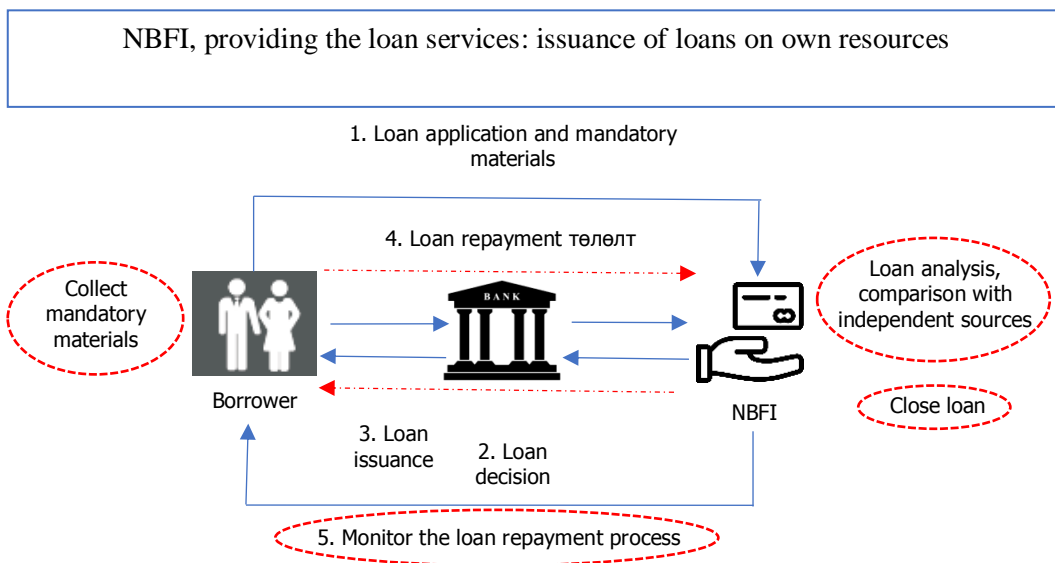
The sectoral risk landscape of the non-bank financial institutions

STFI – Short term financial investment

NBFI, providing the loan services



Definitions of operations – inherent ML/TF risk










As per NBFI, it shall pay special attention to the following directions at the loan application, loan analysis (1), and decision stages:

1. Identifying the customer: verify whether it is a politically exposed person (PEP), person and legal entities included in the list of international organizations with responsibilities of ML/TF, and/ or person, legal entities, any groups, and consolidations included in the sanctioned list of UNSC.
2. Identify the status of Customer: Whether the customer was involved in the predicate crime with high and medium risk, or operate work or service activities related to those, and whether the particular individual or legal entity raised obviously economically and legally unfounded loan request irrelevant to its work and operation.
3. Identify the ownership: verify whether the loan application was made on behalf of others, and verify the identity of the co-loaner and guarantor of the loan in accordance with above requirements.
4. Verify the source of loan collateral asset: verify the number and nature of ownership change.

At the loan repayment stage (4) the having the repayment made in cash without involving bank accounts (red stripe d line) or the NBFI requirement to have the repayment made in cash without involving the bank accounts would increase the money laundering risk.






Also, special care is required in the loan repayment (4) and monitoring of repayment (5) stages in case of curtailment and premature closure of loan.

Inherent risks of the NBFI loan services

| Vulnerability Variable | What increases the risk? | What reduces the risk? |
|---|--|---|
|  <p>Customer</p> | <ul style="list-style-type: none"> Any customer may take a loan- in case if the loan and collateral requirements are satisfied Mostly foreign citizen and legal entities, and domestic citizens are served Large base of customers | <ul style="list-style-type: none"> Besides loan and collateral requirements, there are special requirements for the customers Domestic legal entities are served Customers are easily identified Few and identifiable customers are served Multiple information sources used for customer identification |
|  <p>Product and services</p> | <ul style="list-style-type: none"> Offers high-volume loan product Supports curtailment and premature loan repayment No additional payment and penalty applied for loan curtailment The loans ordered for short term on flexible conditions Offers discount and benefits depending on the loan amount | <ul style="list-style-type: none"> Offers low amount loan product Curtailing not supported Low liquidity, strict terms and requires additional fee and penalty required for curtailment No discount and benefits offered depending on the loan volume |
|  <p>Delivery method and types</p> | <ul style="list-style-type: none"> Provides online-loan service Receives and resolves the loan request online Allows cash repayment of loan Communicates with borrowers through mediators | <ul style="list-style-type: none"> Face-to-face customer identification Direct communication with customers The loan issuance and repayment conducted via the bank account only Communicates with borrowers via mediators |
|  <p>Geographical location</p> | <ul style="list-style-type: none"> Operates in different regions and countries Conducts operation via branch and representative offices Conducts operation in free economic or low control region, where there is high risk of predicate crime | <ul style="list-style-type: none"> Operates in the same country and region of the monitoring entity No branch or representative offices |
|  <p>Structure and organization</p> | <ul style="list-style-type: none"> The ownership of the NBFIs belongs to PEP and other high-risk owners Raises investment through trust service and other operations Actively implements marketing operations The small-scale organizations may have weak understanding of ML/TF Insufficient staff and high staff turnover | <ul style="list-style-type: none"> No PEP or high-risk person or entity amongst the NBFIs owners Easy to identify the ownership and high-requirement for direct owners The demand and amount of the statutory fund The marketing operations are limited by law |
|  <p>Regulation</p> | <ul style="list-style-type: none"> The regulation of the sector and sector is loose or lacking No entity in charge of settlement, registration or its operations are loose or lacking | <ul style="list-style-type: none"> Sufficient regulatory operation of the sector The regulatory entity in charge of settlement and registration operates efficiently |
|  <p>Compliance</p> | <ul style="list-style-type: none"> The knowledge, attitude, and understanding of the economist are insufficient Internal control of the NBFIs are loose or absent | <ul style="list-style-type: none"> Sufficient knowledge, understanding, and attitude towards the ML/TF amongst the economists Implements efficient internal monitoring of NBFIs |

| | | |
|--|---|--|
| | <ul style="list-style-type: none">• No monitoring• Violations such as failure to report, delay, and misrepresentation• Has history of tax avoidance and organized crime | <ul style="list-style-type: none">• No history of violation, monitored by the review• Constantly submits report and information, no violation was reported• Fully adheres the tax regulation and never taken part in organized crime |
|--|---|--|

Main performance indicators of loan activities of NBFIs

| | | |
|--|--|---|
|  <p>490 NBFIs Hold loan service license *</p> <p>357 NBFIs issue loan service only*</p> |  <p>150,542 borrowers*</p>  <p>5.1 mil MNT* Average outstanding balance per customer</p> |  <p>768.3 billion MNT* Outstanding balance</p>  <p>3.3%* Weighted average loan interest</p> |
| <p>433 NBFIs 575.2 billion MNT loan was issued**</p> | <p>442 NBFIs 444.5 billion MNT loan repayment received **</p> | <p>1.3 billion MNT** Average loan issued per NBFIs</p> <p>1.0 billion MNT** Loan repayment amount per NBFIs</p> |

* at the end of Q2, 2019, source: FRC, <http://frc.mn/news/2598>

** accumulated result at the end of Q2, 2019, source: FRC, <http://frc.mn/news/2598>

Present vulnerability of the sector of loan activities of NBFIs

| Risk factor | Point scale | Explanation |
|----------------------|--------------------|--|
| Size of the sector | 4.0 | Large number of competitors in the sector (490 NBFIs were issued with loan license, out of these 357 provide loan service only). However, the sector provides service to domestic customers only (at the end of Q2, 2019 the loan interest income was equivalent to 0.003% of total interest income) |
| Product and services | 5.0 | High cash turnover rate (at the end of Q2, 2019 the cash accounted for 10.9% of total assets) |
| Transaction | 4.0 | The transaction volume is increasing (as of Q2, 2019 average outstanding balance per borrower was 5.1million MNT, and average loan amount per NBFIs was 1 billion MNT). Domestic transactions only. |
| Customer | 3.0 | Most of the customers are domestic citizens. The number of foreign investors is increasing. |
| Delivery channel | 2.0 | In most of the cases communicates with customer face to face |
| Average scale | 3.6 | |

| Impact | Impact scale | Explanation |
|-----------------------------|---------------------|---|
| Economic – Financial impact | 4.0 | Medium-high level of economic and financial impact (as of Q2, 2019 150.5 thousand borrowers have 768.3 billion MNT outstanding balance) |
| Reputational – Trust impact | 3.0 | Medium level of reputational and trust impact (although savings not accumulated, due to the reduced level of loan service of commercial banks, the loan service demand of NBFIs is increasing.) |
| Average scale | 3.5 | |

| | |
|-------------------|-------------|
| Risk level | 12.6 |
|-------------------|-------------|

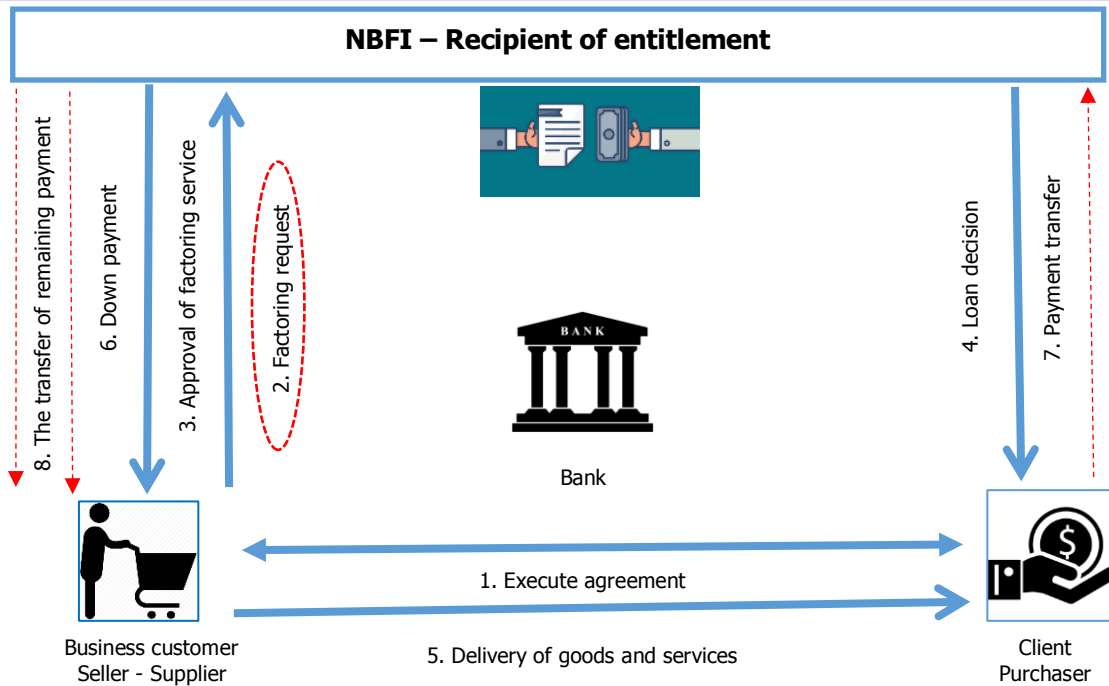
Factoring services of the NBFIs



Description of activities – Inherent ML/TF risks



Financial transaction and a type of debtor finance operation in which a business sells (transfers) its accounts receivable to a third party as whole and the recipient of this transaction bears all the responsibilities arisen due to the transaction







As per NBFIs, which provides factoring services, it is necessary to conduct customer identification process for both seller and purchaser at the 2nd phase or when processing the factoring request. For this task, besides implementing the common customer identification, due diligence measures, the following factors shall be considered:

1. Whether the parties of the goods and services delivery agreement are affiliated entities.
2. Whether the characteristics of the business operations of contracting parties are relevant to the contract item or the goods and services provided by the agreement.

At the Factoring approval (3) phase, it is mandatory to monitor the realistic delivery terms of goods and services in comparison with the contract term, review the economic and legal compliance of the contract terms, and especially if the customer is inattentive to the down payment percentage and factoring services fee of the factoring agreement, enhanced review and monitoring shall be conducted.

Inherent ML/TF risks of the factoring services of NBFIs

| Vulnerability Variable | What increases the risk? | What reduces the risk? |
|---|---|---|
|  <p>Customer</p> | <ul style="list-style-type: none"> • The parties to the contract are affiliated entities • Purchaser and seller are foreign citizen and legal entity • The characteristics of the business parties are irrelevant to the contract item. | <ul style="list-style-type: none"> • The contract parties are non-affiliated entities • Purchaser and seller are domestic citizen and legal entity • The characteristics of the business parties are related to the contract item. |
|  <p>Product and services</p> | <ul style="list-style-type: none"> • 100% of payment or above 85% of down payment • Low level of factoring fee • Although the factoring fee is high, the contract terms are flexible • Offers discount and benefits depending on the factoring amount | <ul style="list-style-type: none"> • Down payment is lower than 85% • Low liquidity and curtailment are prohibited • No discount and benefits offered depending on the factoring amount |
|  <p>Delivery methods and types</p> | <ul style="list-style-type: none"> • The factoring contract involves mediators • Do not demand the physical presence of Customer | <ul style="list-style-type: none"> • Mediators are not involved • Demands physical presence of Customer |
|  <p>Geographical location</p> | <ul style="list-style-type: none"> • The payment beneficiary is located in other country • The contracted goods and services are provided cross-border | <ul style="list-style-type: none"> • The payment beneficiary is located in the same country and region • The goods and services are delivered within the same region |

Common organizational, regulation, and compliance indicators, it shall be considered for the services (Please refer to CHAPTER 3).

The basic service indicators of the factoring services of NBFIs

| | | | |
|---|--|---|--------------------------------|
|  | 2 NBFIs are providing factoring service * |  | 8,134.2 million MNT* |
|---|--|---|--------------------------------|

** As of Q2, 2018, Source: NBFIs department of the FRC.

Present vulnerability level of the factoring services of NBFIs

| Risk factor | Point scale | Explanation |
|----------------------|-------------|--|
| Size of the sector | 2.0 | The number of customers of factoring service are few (Although 24 NBFIs obtained factoring service license, only 2 NBFIs provided factoring service as of Q2, 2019). |
| Product and services | 4.0 | It is relatively complex to identify the customer, business relations, and contract characteristics of the factoring agreement. However, the transactions are conducted via commercial bank accounts only. |
| Transactions | 4.0 | The transaction volumes are relatively high. Although, only 2 NBFIs provided factoring services the total amount of factoring constitutes 2.2% of total payables of NBFIs. |
| Customer | 4.0 | Th Customers are domestic and foreign clients. |
| Delivery channel | 2.0 | Although the customers are communicated face to face, there may be barrier in identifying the foreign party of the export/import factoring relation. |
| Average scale | 3.2 | |

| Impact | Impact scale | Explanation |
|-----------------------------|--------------|--|
| Economic – Financial impact | 1.0 | Low level of economic and financial impact (As of Q2, 2019 the two NBFIs have 8.1 billion MNT factoring payables) |
| Reputational – Trust impact | 3.0 | Medium level of reputational and trust impact (low level of knowledge and understanding of this type of service, in case of identified ML/TF incident this may negatively impact the factoring operations) |
| Average scale | 2.0 | |

| | |
|-------------------|------------|
| Risk level | 6.4 |
|-------------------|------------|

Payment guarantee service provider NBFİ



Description of activities - Inherent ML/TF risk

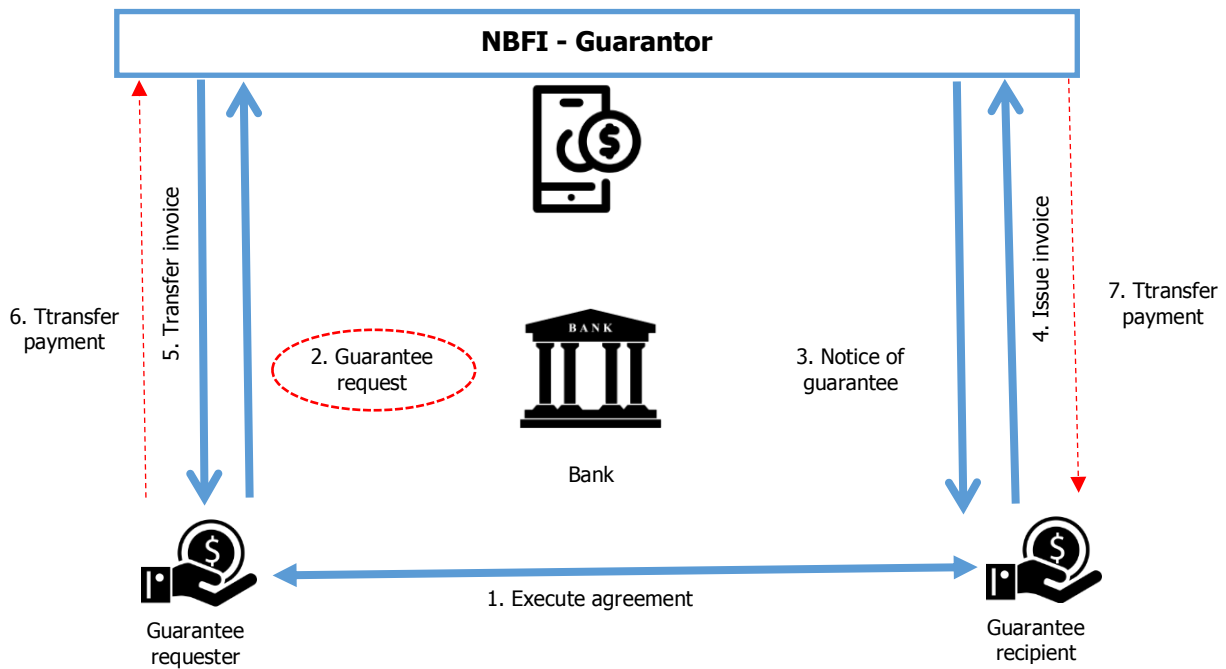
Low

Medium-Low

Medium-High

High

According to provision 457 of the Civil code (4.1.4), under the guarantee contract a NBFİ undertakes to settle payments on behalf of the principal and the latter’s written order, and the principal undertakes the responsibility to pay fees to the NBFİ.







In the request resolution phase (2), the payment guarantee service provider NBFİ after receiving the Guarantee request from the Customer, shall conduct operation of customer due diligence and identification on both guarantee requester and guarantee recipient. Besides the common characteristics, the following factors shall be considered in the customer identification process:

1. Whether the parties of the goods and services delivery agreement are affiliated entities.
2. Whether the characteristics of the business operations of contract parties are relevant to the contract item or the goods and services provided by the agreement.


Special attention is required if the contract terms are legally and economically unfounded and the guarantee requester is inattentive to the terms and payment guarantee fee.

Inherent risks of the payment guarantee service of NBFIs

| Vulnerability Variable | What increases the risk? | What reduces the risk? |
|---|---|--|
|  <p>Customer</p> | <ul style="list-style-type: none"> • The parties to the contract are affiliated entities • Purchaser and seller are foreign citizen and legal entity • The characteristics of the business parties are irrelevant to the contract item | <ul style="list-style-type: none"> • The contract parties are non-affiliated entities • The recipient of the payment guarantee is domestic citizen and legal entity • The characteristics of the business parties are related to the contract item. |
|  <p>Product and services</p> | <ul style="list-style-type: none"> • Low level of payment guarantee service fee • Although the payment guarantee service fee is high, the contract terms are flexible • Offers discount and benefits depending on the payment guarantee amount | <ul style="list-style-type: none"> • Low liquidity and curtailment are prohibited • No discount and benefits offered depending on the factoring amount |
|  <p>Delivery methods and types</p> | <ul style="list-style-type: none"> • The payment guarantee contract involves mediators • Do not demand the physical presence of Customer | <ul style="list-style-type: none"> • Mediators are not involved • Demands physical presence of Customer |
|  <p>Geographical location</p> | <ul style="list-style-type: none"> • The payment guarantee beneficiary is located in other country • The contracted goods and services are provided cross-border | <ul style="list-style-type: none"> • The guarantee recipient is located in the same country and region • The goods and services are delivered within the same region |

Common organizational, regulation, and compliance indicators, it shall be considered for the services (Please refer to CHAPTER 3).

The basic service indicators of the payment guarantee service of NBFIs

| | |
|---|--|
|  | <p>19 NBFIs are providing payment guarantee service *</p> |
|---|--|

** As of Q2, 2018, Source: NBFIs department of FRC.

Present vulnerability level of the payment guarantee services of NBFIs

| Risk factor | Point scale | Explanation |
|----------------------|--------------------|--|
| Size of the sector | 1.0 | Currently no customer requested payment guarantee service provided yet (Although 19 NBFIs obtained payment guarantee services license, as of Q2, 2019 no NBFIs provided this type of service). |
| Product and services | 3.0 | It is relatively complex to identify the customer, business relations, and contract characteristics of the payment guarantee service agreement. However, the transactions are conducted via commercial bank accounts only. |
| Transaction | 1.0 | Currently no customer received the payment guarantee service. |
| Customer | 1.0 | Currently no customer received the payment guarantee service. |
| Delivery channel | 1.0 | Communicates with customer face to face |
| Average scale | 1.4 | |

| Impact | Impact scale | Explanation |
|-----------------------------|---------------------|--|
| Economic – Financial impact | 1.0 | Low level of economic and financial impact (No customer received the payment guarantee service year) |
| Reputational – Trust impact | 3.0 | Medium level of reputational and trust impact (low level of knowledge and understanding of this type of service, in case of identified ML/TF incident this may negatively impact the factoring operations) |
| Average scale | 2.0 | |

| | |
|-------------------|------------|
| Risk level | 2.8 |
|-------------------|------------|

Payment service provider NBFIs



Description of activities - Inherent ML/TF risk



The law on National payment system was approved on May 31, 2017. According to provision 5.1.23 of the Law on national payment system “‘the payment system’ means the tangible and intangible instruments permitted by Bank of Mongolia, such as payment card and electronic money implemented for the purpose of cash, monetary fund transfer, and receipt and payment“ and provision 5.1.25 states “‘electronic money’ means non-cash payment instrument equivalent to Tugrug (MNT)- Monetary unit of Mongolia permitted by Bank of Mongolia”. Moreover, in provision 10.1 of the same law states that the payment instrument issuance and electronic money issuance operation permit, licenses are managed by the Bank of Mongolia.

According to the Law on non-bank financial organizations, there are **3 NBFIs** obtained the **license to issue payment and settlement instrument** from FRC. As per law on National payment system the Bank of Mongolia is implementing the role of issuing the license for payment and settlement instrument and monitoring their activities.

In provision 11.1.7 of the Law on non-bank financial organizations it states, the entity applying for the payment instrument and electronic money issuance shall submit documentary proof of establishment of internal monitoring structure against money laundering and terrorism financing.

As per payment instrument issuance, there is a risk of ML/TF to use the payment instrument to conduct numerous non-monitored low value transactions, enabling the use of instrument by third parties and losing the confidentiality of the secure electronic equipment, and violating of the service providers internal monitoring regulations.

Typology example #3 (Use of payment instrument - Japan):

A second-hand dealer, who also managed illegal loans, planned to make illicit profits by deceiving a credit card company, by using its customer’s credit card. The dealer provided the credit card company with fictional sales data, detailing sales paid for by a credit card that never occurred. The credit card company then deposited funds into an account opened in the name of another person but actually controlled by the dealer.

Present vulnerability level of payment settlement instrument of NBFIs

| Risk factor | Point scale | Explanation |
|----------------------|-------------|---|
| Size of the sector | 1.0 | Few competitors (3 NBFIs obtained license to provide payment settlement service). On the other hand, only, domestic customers are served. |
| Product and services | 2.0 | Although the number of transactions is high, possible to control in accordance with the Law on National payment system. |
| Transactions | 2.0 | The low value transactions are conducted domestically only. |
| Customers | 4.0 | High number of customers. |
| Delivery channel | 4.0 | Do not communicate with customers face to face. |
| Average scale | 2.6 | |

| Impact | Impact scale | Explanation |
|-----------------------------|--------------|--|
| Economic – Financial impact | 3.0 | Medium level of economic and financial impact (Number of customers that use the types of payment instruments are increasing and operations are activating) |
| Reputational – Trust impact | 4.0 | Medium-high level reputational-trust impact (may negatively impact reputation of the newly developing sector) |
| Average scale | 3.5 | |

| | |
|-------------------|------------|
| Risk level | 9.1 |
|-------------------|------------|

Payment settlement service provider NBFIs



Description of activities - Inherent ML/TF risk



“Electronic payment and remittance service” shall mean wire transferring other’s cash through own current account with a bank, or settlement of payments using Internet, automatic equipment or electronic payment means (4.1.5)

In the law on National Payment system, in provision 5.1.21 it states “electronic money transfer” means customer initiated monetary fund transfer using the payment service provider service with an assistance of electronic equipment, in accordance with provision 5.1.22 ‘monetary transfer’ means fund transfer service initiated by payment initiator without having an account created for the beneficiary of the transaction, provided under the license of the Bank of Mongolia. In the same law in provision 10.1 it defined, the Bank of Mongolia shall issue license for the monetary transfer and electronic money transfer services.

In accordance with the law on National payment service Bank of Mongolia is implementing the role of license issuer and regulator of the payment instrument issuance service operations.

The provision 11.1.7 of the Law on National payment services states, the entity applying for the monetary transfer service and electronic money transfer services license shall submit documentary proof of establishing internal monitoring structure against money laundering and terrorism financing.

As stated in the Law on non-bank financial institutions, **27 NBFIs** obtained license for the **electronic money transfer and Money transfer services** from the FRC.

As per **electronic money transfer service**, there is a risk of ML/TF to use the payment instrument to conduct numerous non-monitored low value transactions, enabling the use of instrument by third parties and losing the confidentiality of the secure electronic equipment, and violating of the service providers internal monitoring regulations. This risk is higher in the customer identification phase, since the transaction and registry are conducted without facing the customer.

Typology example #4 (Use of electronic payment instrument - China):

In June 2017, Suspect D provided his Alipay QR code with real name authentication to his girlfriend (who has been sentenced) to receive drug proceeds, and transferred the money to the game ID of his girlfriend. Suspect D used his account to conceal the source and nature of criminal proceeds, and was involved in the crime of ML. In April 2018, the court sentenced Suspect D to a two-month detention along with a penalty.

Typology example #5 (Use of electronic payment instrument - China):

In 2017, Suspect E was involved in drug trafficking, and received payment for drugs using WeChat or cash. Suspect E transferred the money to his ex-wife (Suspect F) through the same means. The court determined that Suspect F provided her WeChat account to Suspect E, concealed the source and nature of criminal proceeds, and assisted to transfer the proceeds. They were convicted of ML offences. In March 2018, the court sentenced Suspect F to seven months imprisonment along with a penalty.

As per **Money transfer** service, under the understanding of Customer both the transaction initiator and beneficiary of the transaction are considered. **Special control shall be implemented in the customer due diligence and identification phase** prior to implementation of money transfer. Where: It is mandatory to verify whether it is Politically Exposed Person (PEP), or whether the person or legal entity, or groups from the countries included in the list of jurisdictions with strategic deficiencies against the NL/TF identified by the entity in charge of ML/TF (the list of Non-Cooperative Countries or Territories for 'Call for action' (black) and the 'grey' list of jurisdictions with strategic deficiencies issued by FATF).

As per money transfer **product and services**, including but not limited to the following factors may increase the ML/TF risks:

1. Allows high volume transactions.
2. The number and coverage of countries that receive the money transfer.
3. Unnecessary to fill in transfer form, unnecessary to visit NBFi in person.
4. High transaction speed.
5. Possible to conduct transaction in multiple currencies.
6. Low transaction fee.
7. Cooperates with internationally reputable money transfer networks.

Typology example #6 (Monetary transfer service – Pakistan):

An STR was submitted in relation to suspect XYZ from ABC Exchange Company based on adverse media that; the suspect was allegedly involved in child abuse via making and selling videos online. Suspect XYZ was arrested by the Federal Investigation Agency. The police of a foreign jurisdiction arrested a man allegedly linked to child abuse activities. During the investigation, the accused revealed that the Pakistan citizen, Suspect XYZ, was also involved in the illegal activity. This information was shared with Pakistani authorities by the foreign jurisdiction's embassy and based on this information Suspect XYZ was arrested by the LEA.

Suspect XYZ received remittances of small amounts from six jurisdictions from different individuals. It was suspected that Suspect XYZ received illicit proceeds from selling videos. The accused also confessed that he received small amounts for selling one video.

The FMU shared financial intelligence with LEAs. The suspect was found guilty and sentenced for seven years and fined Rs. 1.2m by a special court for cybercrime.

Present level of vulnerability of the electronic money transfer and money transfer services of NBFIs

| Risk factor | Point scale | Explanation |
|----------------------|--------------------|---|
| Size of the sector | 3.0 | Relatively large number of entities operating in the market (27 NBFIs obtained electronic money transfer and money transfer service's license). On the other hand, the recipients of the money transfer service are usually foreign beneficiaries. |
| Product and services | 4.0 | Although the number of electronic transfer is relatively high, it is possible to control according to the Law on National payment system. The money transfer service has a high ML/TF probability due to its nature of having the money transfer without opening an account under the names of payment initiator and beneficiary via the money transfer service provider. |
| Transaction | 3.0 | It is possible to conduct high volume transactions to foreign countries. |
| Customer | 4.0 | Money transfer is conducted to foreign countries. |
| Delivery channel | 4.0 | Do not face with customers face to face. |
| Average scale | 3.6 | |

| Impact | Impact scale | Explanation |
|-----------------------------|---------------------|--|
| Economic – Financial impact | 2.0 | Medium level of economic and financial impact (Although the electronic money transfer service is activating, the commercial banking service is still dominating) |
| Reputational – Trust impact | 3.0 | Medium level of reputational and trust impact (possible to implement the service through the commercial banks that cooperate with foreign banks) |
| Average scale | 2.5 | |

| | |
|-------------------|------------|
| Risk level | 9.0 |
|-------------------|------------|

Foreign currency transaction service provider NBFIs



Description of activities - Inherent ML/TF risk

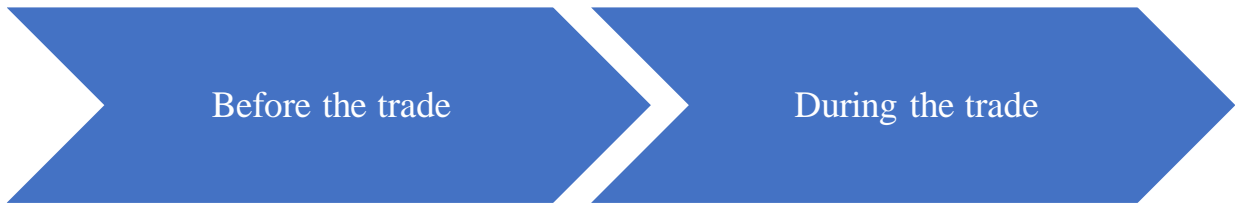


‘Foreign currency transaction’ shall mean sale or purchase of a foreign currency, or issuance of a loan or guarantee in a foreign currency (4.1.6)

The foreign currency exchange is considered as most efficient method of money laundering, for concealing the criminal source of fund, furthermore consolidating to the official money flow. Although the currency exchange point does not appear to have direct relation to the money laundering, it serves as an initial step of many phases towards officiating of money and placing the fund into the financial system of the country.

Most commonly observed money laundering forms of the currency exchange operation:

- **Converting large amount of cash into different currency.** The source of the fund probable to be organized crime. The person made large amount of cash usually approaches to the currency exchange points for foreign currency exchange, instead of the bank. The currency exchange service personnel are usually incapable of identifying the customer.
- **Currency exchange via numerous low value transactions.** It is clear that the high-volume trade is conducted via high volume of low value transactions. This action is due to the requirement of the Law of Mongolia on AML/CTF, to identify and inform the customer, who conducted high value transaction above 20 million MNT. This type of transaction is usually conducted through several different currency exchange points. There are cases that the transaction is done by paying small fee to different other people.
- **Abnormally high number of transactions conducted at the currency exchange point.** The currency exchange point could report high volume of transaction within short term. Although, its purpose is to produce high volume of low value transactions, it is technically impossible to monitor based on the period of transaction.
- **Currency exchange from one currency to different currency.** To conduct transaction in Mongolia, first the foreign currency shall be exchanged to MNT and the MNT shall be converted to another currency. Although, this type of transaction is economically unprofitable to customer, it is important to conceal the source of fund for the criminals laundering money.
- **The trade of currency commonly used for certain types of crime.** In some countries it is recommended not to use 500 Euro banknotes, for its potential use in organized crimes. It enables criminals to launder money with a few transactions. Therefore, this type of banknotes is favorite money of criminals. Also, it is easier to transport for their small physical volume.
- **Trading of marked banknotes.** When working with foreign banknotes the special care shall be paid for the marks that may reveal the identity of the person related to ML/TF. These marks are made using with special sollubles, thus it may be impossible to observe directly and only visible under UV light.
- **Trading of damaged banknotes.** Since it is possible to trade banknotes damaged due to the criminal actions, the type and reason of damage shall be considered during the trade. The banknotes may be intentionally damaged. Since, it is unimportant, the criminals exchange these banknotes with high transaction fee.









Customer due diligence:

- Verify the documents such as citizenship ID and foreign passport (the sanctions list of UNSC).
- if foreign citizen, identify the country of citizenship.
- if refused to show identification documents refuse from providing services.

Verify purpose, amount, and currency of transaction

- High volume transaction.
- Request to purchase high value of currency.
- Request to sell one type of foreign currency and buy different type of foreign currency.
- Abnormally high volume currency exchange (leftover currency from foreign tour)
- Exchange of marked or damaged banknotes.

Inherent risk factors in the foreign currency exchange service of NBFIs

| Vulnerability Variable | What increases the risk? | What reduces the risk? |
|---|---|---|
|  <p>Customer</p> | <ul style="list-style-type: none"> • Mostly conducts business with commercial banks and legal entities • Large number of customers | <ul style="list-style-type: none"> • Mostly conducts business with individuals • Few and identifiable customers |
|  <p>Product and services</p> | <ul style="list-style-type: none"> • Do not have customer identification and registration procedure implemented • Conducts multiple types of currency exchange • The exchange rate fluctuates depending on exchange rate | <ul style="list-style-type: none"> • Do not have customer identification and registration procedure implemented • Exchange is conducted between few commonly used types of currencies • The exchange rate does not vary depending on the value of the transaction |
|  <p>Delivery types and methods</p> | <ul style="list-style-type: none"> • Provides on-call service at the customer premise | <ul style="list-style-type: none"> • Provides service only at the exchange point |
|  <p>Geographical location</p> | <ul style="list-style-type: none"> • Operates in rural area and at border port • Provides service via branch and representative office | <ul style="list-style-type: none"> • Provides service in the capital city at the centralized service point |
|  <p>Compliance</p>  <p>Organization and structure</p> | <ul style="list-style-type: none"> • Insufficient understanding, knowledge, and attitude of employee on ML/TF • The transaction and customers are not registered • The large denomination banknote transaction is not limited • Do not implement special procedure for marked and damaged banknote trade • Equipped with surveillance camera and other necessary accessories | <ul style="list-style-type: none"> • Sufficient understanding, knowledge, and attitude of employee on ML/TF • Have database and software for customer and transaction registration • Limits the large denomination banknote transaction • Implements special procedure for marked and damaged banknote transaction • Not equipped with surveillance camera and other necessary accessories |

Common organizational, regulation, and compliance indicators, it shall be considered for the services (Please refer to CHAPTER 3).

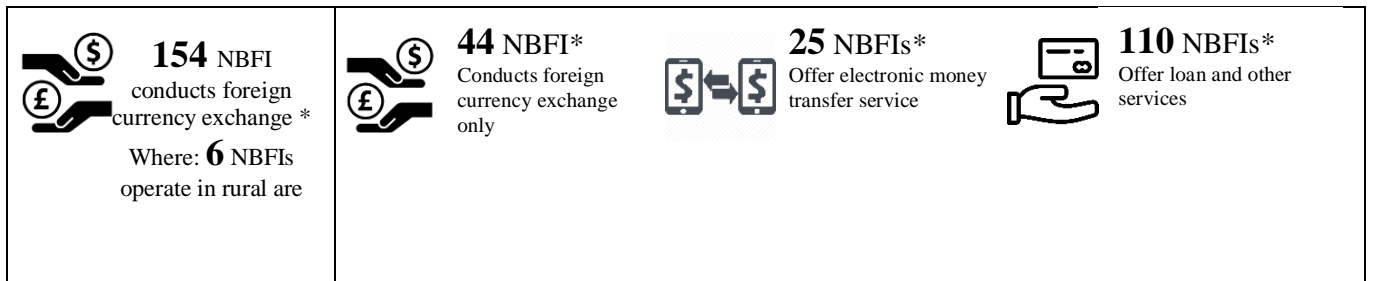
Typology example #7 (Un-reported currency exchange – Fiji):

The FIU received an STR from a foreign exchange dealer in relation to Person M, a naturalized Fijian citizen who is a frequent traveler to Jurisdiction Z. Person M conducted three foreign exchange transactions totaling approximately FJ\$30,000.00 on behalf of Person X and Person Y.

The Fiji FIU conducted financial profiling and established that the FJ\$30,000.00 was not sourced from Person M, X and Y’s bank accounts. It was suspected that the individuals were keeping cash at home and laundering funds out of the jurisdiction. A case dissemination report was provided to the FRCS for their profiling and investigations.

Possible offence: • Non-declaration of BCR. • ML. • Possible tax related offence/tax evasion. Indicators: • BCR form not filled by individual. • Individual exchanged funds under the name of other persons, especially minors

The basic service indicators of the foreign currency exchange of NBFIs



* as of the end of 2018

** Source: NBFIs department of the FRC.

Present vulnerability level of the foreign currency exchange service of NBFIs

| Risk factor | Point scale | Explanation |
|----------------------|--------------------|--|
| Size of the sector | 4.0 | Relatively large number of organizations operate in the market (154 NBFIs obtained foreign currency exchange service license). |
| Product and services | 4.0 | As per service, high volume of cash transaction are conducted. |
| Transactions | 2.0 | The value of the transaction is relatively low and conducted domestically |
| Customers | 4.0 | Large base of domestic and foreign customers. |
| Delivery channel | 4.0 | Although communicates with Customers face to face, the customer identification process is not implemented. |
| Average scale | 3.6 | |

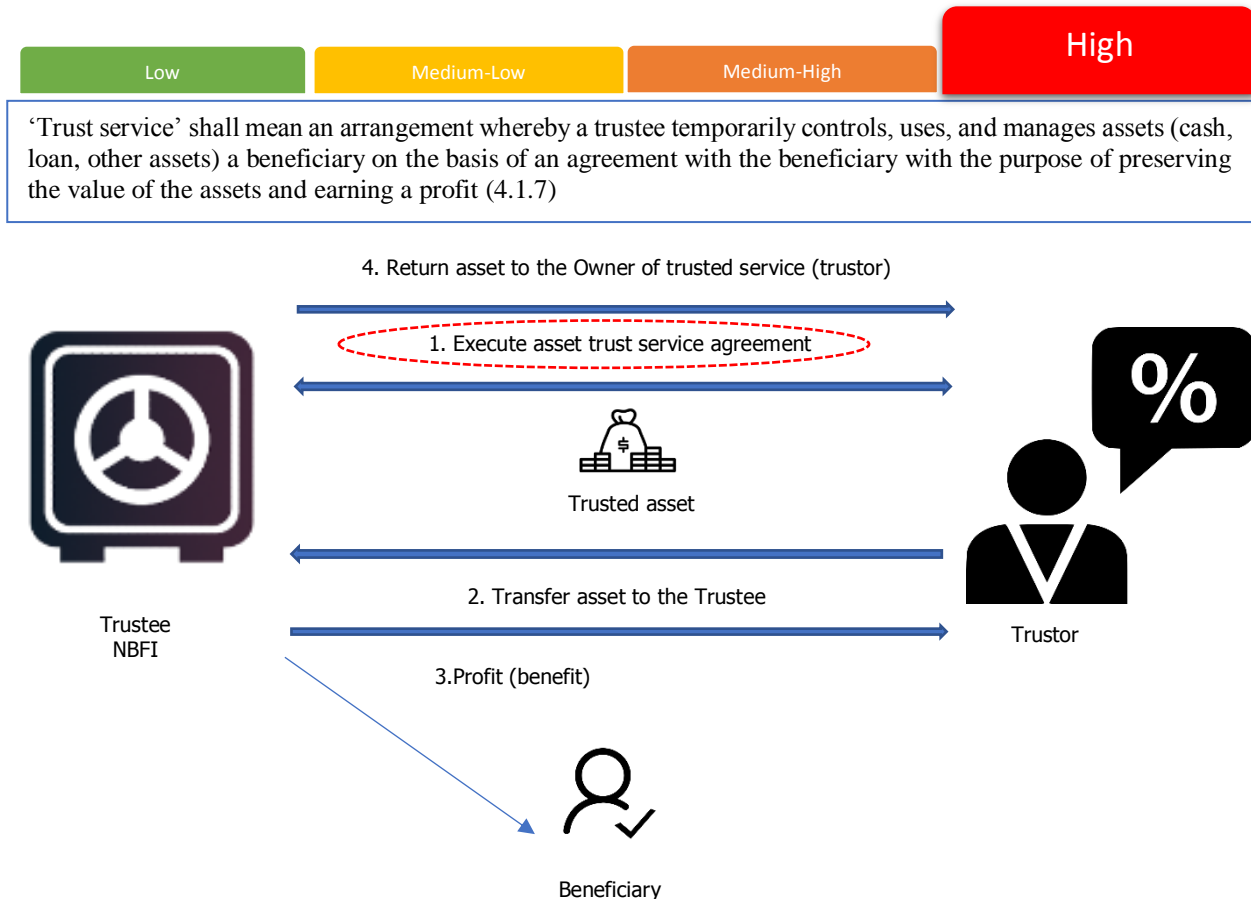
| Impact | Impact scale | Explanation |
|-----------------------------|---------------------|--|
| Economic – Financial impact | 2.0 | Medium-low level of economic and financial impact (although it may impact foreign currency exchange rate, it has low impact in the medium and long term) |
| Reputational – Trust impact | 2.0 | Medium-low level of reputational and trust impact (the customers may be served by the commercial banks) |
| Average scale | 2.0 | |

| | |
|-------------------|------------|
| Risk level | 7.2 |
|-------------------|------------|

Trust service provider NBFIs



Description of activities - Inherent ML/TF risk







If the ‘Trust service’ agreement has identified the existence of customer or trustee and beneficiary in the negotiation phase (1) of the contract, the following points shall be carefully considered:

1. Verify the whether the trustee and beneficiaries are PEPs, the citizen and legal entities from the countries included in the list of jurisdiction with strategic deficiencies issued by the international entity in charge of ML/TF, and the citizen, legal entities, group and consolidation included in the sanctions list of UNSC, and verify the relation between the trustee and beneficiaries.
2. The characteristics of the trustor: Verify whether it was involved in high risk predicate crime, or conducts business operation relevant or related to the predicate crime.
3. The characteristics of the trusted asset: Verify whether the business and operation of particular person and legal entity are related to the trusted asset, the source of trusted asset, and the asset status.






Moreover, if the trusted asset is a cash, the risk is higher at the stages of transfer from trustor to trustee (2) and return of asset to trustor from trustee (4). When the asset returned the transfer of asset to beneficiary other than the trustor increases the ML/TF risk.

Inherent risk factors of trust service

| Vulnerability Variable | What increases the risk? | What reduces the risk? |
|---|---|---|
|  <p>Customer</p> | <ul style="list-style-type: none"> • Politically Exposed Person (PEP) • The citizen and legal entity from the country included in the list of jurisdictions with strategic deficiencies identified by international organizations in charge of AML/CTF. • The person, legal entities, group, and consolidations included in the UNSC sanctions list • The entity that was involved in high and medium risk predicate crimes and entities that operate business related to • The business and operation of the trustor are unrelated to the asset and direction of the business, • The source of trusted asset is unclear • The trustor and beneficiary are unrelated | <ul style="list-style-type: none"> • Few, easily identifiable customers • The customer or the trustor do not require special attention (not one of the entities stated in the previous cell) • The source of trusted asset is identifiable, and relevant to the business and operations of trustor |
|  <p>Product and services</p> | <ul style="list-style-type: none"> • Trusted asset is cash or cash equivalent asset • Possible to conduct cash transaction when the asset is transferred to trustee and returned to the trustor • The trust service term is relatively short • The terms of the contract are flexible and possible to return asset in parts prior the end or term • Involves beneficiary, especially more than one beneficiary is involved. • When the contract term ends it is required to transfer the trusted asset to beneficiary or third party. | <ul style="list-style-type: none"> • The trusted asset is non cash active • For the benefit transaction and profit transfer (benefit), only bank account or regulated payment system are used • The trust service term is relatively long • Strict contract term, prohibited early termination • The trusted asset is returned to the trustor only |
|  <p>Delivery types and methods</p> | <ul style="list-style-type: none"> • The asset trust contract can be executed through third party | <ul style="list-style-type: none"> • The asset trust agreement cannot be executed by thirst party mediation |
|  <p>Geographical location</p> | <ul style="list-style-type: none"> • The trustor is located in foreign country or different location • Conducts its operation through the branch or representative office | <ul style="list-style-type: none"> • Trustor or trustee NBFIs are located in the same area |

Common organizational, regulatory, and compliance indicators, it shall be considered for the services (Please refer to CHAPTER 3).

The basic service indicators of the trust services of NBFIs

| | | |
|--|--|---|
|  <p>31 NBFIs have trust service license</p> <p>1 NBFIs operate in the rural area</p> |  <p>24 NBFIs conducted asset trust service contract in 2018</p>  <p>3.5 billion MNT Amount per NBFIs contract</p> |  <p>84.1 billion MNT Outstanding payables balance</p>  <p>73.9% Rate of payable balance against own assets</p> |
|--|--|---|

** As of Q2, 2018, Source: NBFIs department of FRC.

Present level of vulnerability of the Trust service of NBFIs

| Risk factor | Point scale | Explanation |
|----------------------|-------------|---|
| Size of the sector | 4.0 | Relatively higher number of competitors in the market (31 NBFIs obtained trust service license, as of Q2, 2019 total 24 NBFIs executed trust contract). |
| Product and services | 4.0 | Although, it is a simple service, the risk is high in case of unsatisfactory implementation of customer identification procedure. Relatively high value (As of Q2, 2019 the NBFIs obtained trust service in value equivalent to 79% of own asset, on average equal to 3.5 billion MNT). |
| Transactions | 4.0 | The amount of transaction is relatively high; however, transactions are conducted domestically only. |
| Customers | 4.0 | Few wealthy domestic and foreign customers are served. |
| Delivery channel | 3.0 | Although NBFIs communicate with Customers face to face, the risk is relatively higher if customer identification is insufficiently executed. |
| Average scale | 3.8 | |

| Impact | Impact scale | Explanation |
|-----------------------------|--------------|--|
| Economic – Financial impact | 4.0 | Medium-high level of economic and financial impact. High in case of NBFIs, involved in the trust service. (As of Q2, 2019 the NBFIs providing trust service equivalent to roughly 79% of own asset and equal to 3.5 billion MNT per NBFIs on average). |
| Reputational – Trust impact | 3.0 | Medium level of reputational and trust impact (Customers may transfer fund to the accounts in the commercial bank) |
| Average scale | 3.5 | |

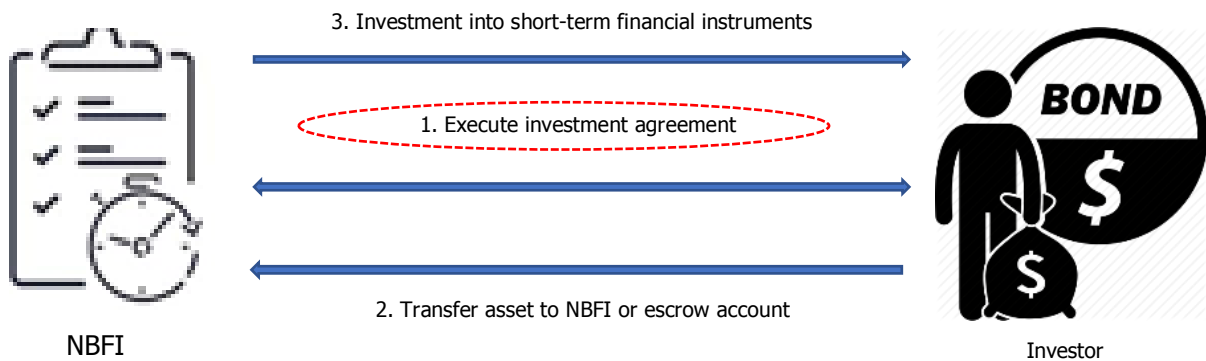
| | |
|-------------------|-------------|
| Risk level | 13.3 |
|-------------------|-------------|

NBFIs providing ‘Investment into short-term financial instruments’ service

Description of activities - Inherent ML/TF risk



Investment into short-term financial instruments shall mean conversion of the funds of an individual or a legal person into investment securities or similar financial instruments with maturity of up to 1 year on the basis of a mutually agreed contract; (4.1.8)



Within the execution of investment agreement (1) phase, the following factors shall be specially verified for customer identification:





1. Verify the whether the customer is PEPs, the citizen and legal entities from the countries included in the list of jurisdictions with strategic deficiencies issued by the international entity in charge of ML/TF, and the citizen, legal entities, group and consolidation included in the sanctions list of UNSC.
2. Whether the customer was involved in the high and medium risk predicate crime, or whether it conducts services and works related to those
3. Verify business operations and directions of individual and legal entity and ensure the source of fund.

In the Investment into short-term financial instruments phase (3) the following ML/TF related risks may rise.

1. Pay attention to items irrelevant items such as return term, condition, and stages instead of the investment profit.
2. Express strong interest in ‘investing highly liquid securities with quick turnover’.
3. Express preference in other forms of financial instruments except the regulated financial instruments such as securities trade.
4. Select the financial instrument with shortest term possible.
5. Negotiate to register and transfer the financial instrument under the name of third party.





Inherent risks of the investment into short-term financial instruments service

| Vulnerability Variable | What increases the risk? | What reduces the risk? |
|---|--|--|
|  <p>Customer</p> | <ul style="list-style-type: none"> Politically Exposed Person (PEP) The citizen and legal entity from the country included in the list of jurisdictions with strategic deficiencies identified by international organizations in charge of AML/CTF, The individual, legal entity, group, and consolidation included in the UNSC sanctions list, The entity which was involved in the high and medium risk predicate crime, and one operates business related to the crime, The work and operations direction are unrelated to the source of asset and the asset source is unclear | <ul style="list-style-type: none"> Few and identifiable customers The customer do not require special monitoring (not the entity defined in the previous cell) Clear source of fund, relevant to the product, service, and operations of the customer |
|  <p>Product and services</p> | <ul style="list-style-type: none"> The customer assets are cash and cash equivalent fund The contract term is relatively short Proposes other forms of financial instruments except the securities. | <ul style="list-style-type: none"> The customer assets are non-cash actives The contract term is relatively long Proposes regulated financial instruments such as securities |
|  <p>Delivery types and methods</p> | <ul style="list-style-type: none"> The contract can be mediated through third party | <ul style="list-style-type: none"> The contract cannot be mediated through third party |
|  <p>Geographical location</p> | <ul style="list-style-type: none"> The customer contacts from abroad or from different location Conducts operations through branch and representative office | <ul style="list-style-type: none"> Customer and NBFi are located in the same country and location |

Common organizational, regulation, and compliance indicators, it shall be considered for the services (Please refer to CHAPTER 3).

The basic service indicators of the ‘investment into short-term financial instruments’ service of NBFIs

| | |
|---|---|
|  <p>10 NBFIs provide ‘Investment into short-term financial instruments’ service</p> |  <p>1 NBFIs operate in the rural area</p> |
|---|---|

** As of Q2, 2018, Source: NBFIs department of FRC.

Present vulnerability level of the ‘investment into short-term financial instruments’ service of NBFIs

| Risk factor | Point scale | Explanation |
|----------------------|-------------|--|
| Size of the sector | 2.0 | Cooperates with few entities (10 NBFIs obtained license for the ‘investment into short-term financial instruments’ service). |
| Product and services | 3.0 | Although the service could be complex, currently the number of clients of the service are few. |
| Transactions | 1.0 | Currently, only a few customers are using the service. |
| Customers | 1.0 | Currently, only a few customers are using the service. |
| Delivery channel | 1.0 | Communicates with customer face to face. |
| Average scale | 1.6 | |

| Impact | Impact scale | Explanation |
|-----------------------------|--------------|--|
| Economic – Financial impact | 2.0 | Medium-low economic and financial impact. Currently, only a few customers are using the service. |
| Reputational – Trust impact | 2.0 | Medium-low reputational and trust impact. Although, there are only a few customers, this may impact once the service is actively used. |
| Average scale | 2.0 | |

| | |
|-------------------|------------|
| Risk level | 3.2 |
|-------------------|------------|

Financial and the investment advisory service provider NBFIs



Description of activities - Inherent ML/TF risk



As defined in provision 4.1.9 of the Law of Mongolia on AML/CTF, the following actions would be considered to have been provided by FIAS and the entity shall satisfy all the requirements of FIAS:




- Sale and purchase of real estate;
- Managing the customer’s asset;
- Managing the bank, savings, and securities account;
- Register the company, and manage its operations, raise capital for management, and establish its foundation;
- Establish legal entity, organize its operations, manage, or conduct certain operation based on the agreement, manage, or sell or purchase company or business.

In this case, based on provision 19.1 of the law on AML/CTF, ‘the authorized entity for issuance of license and monitor its operations shall implement its activities on risk-based method, for the monitoring and control of the operations of entities defined in provision 4.1.9’ the FRC shall organize the monitoring and enforcement operations.

As most of the financial and investment advisory service license holders provide loan, factoring services, payment guarantee and trust services, and short-term financial instruments services at the same time; thus, it is possible to manage customer’s asset in relation to those other services, such as loan, factoring, payment guarantee, trust and investment into short-term financial instruments, provided. In such a case ICSPs shall implement special preventive measures.

In case if the NBFIs provides paid advisory service on investment and financing, it performs ‘goalkeeper’ role; and there is a risk of negligence for failing to perform its role, providing unfounded conclusion and consultation to the customers, and concealing the violations and breaches related to ML/TF. To regulate this situation, the ethical code of conduct shall be developed and implemented in place. Moreover, the national laws and regulations such as law on accounting, law on audit, and law on tax consultancy shall be adhered.

The basic service indicators of the Financial and Investment Advisory Service

| | | |
|--|---|---|
|  <p>32 NBFIs obtained advisory service license</p> |  <p>2 NBFIs generated income from advisory service within reported period</p> |  <p>118.7 million MNT Advisory service income</p> |
|--|---|---|

** As of Q2, 2018, Source: NBFIs department of FRC.

Present vulnerability level of the Financial and Investment Advisory Service of the NBFIs

| Risk factor | Point scale | Explanation |
|----------------------|--------------------|--|
| Size of the sector | 2.0 | The advisory service development is relatively weak (As of Q2, 2019, out of 32 NBFIs obtained advisory service license, only 2NBFIs provided the service in the field and generated income). |
| Product and services | 1.0 | Not-directly used in ML/TF. |
| Transactions | 1.0 | Not-directly used in ML/TF. |
| Customers | 1.0 | Not-directly used in ML/TF. |
| Delivery channel | 1.0 | Not-directly used in ML/TF. |
| Average scale | 1.2 | |

| Impact | Impact scale | Explanation |
|-----------------------------|---------------------|--|
| Economic – Financial impact | 1.0 | Low level of economic and financial impact. Currently, the number of service recipient are few. |
| Reputational – Trust impact | 2.0 | Medium-low level of reputational and trust impact. Although, currently the number of customers is low, this may impact negatively when the service is activated in the market. |
| Average scale | 1.5 | |

| | |
|-------------------|------------|
| Risk level | 1.8 |
|-------------------|------------|