



Mongolian Marketing
Consulting Group



САНХҮҮГИЙН
ЗОХИЦУУЛАХ ХОРОО

ANTI-MONEY LAUNDERING AND COMBATING FINANCING OF TERRORISM THE RISK ASSESSMENT OF THE PROFESSIONAL INSTITUTIONS AT THE SECURITIES MARKET



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**



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Table of contents

ABBREVIATIONS.....6

EXECUTIVE SUMMARY7

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 Error! Bookmark not defined.

8.1.1. NBFI, providing the loan services..... Error! Bookmark not defined.

8.1.2. Factoring services of the NBFI Error! Bookmark not defined.

8.1.3. Payment guarantee service provider NBFI Error! Bookmark not defined.

8.1.4. Payment service provider NBFIs Error! Bookmark not defined.

8.1.5. Payment settlement service provider NBFIs Error! Bookmark not defined.

8.1.6. Foreign currency transaction service provider NBFIsError! Bookmark not defined.

8.1.7. Trust service provider NBFIs Error! Bookmark not defined.

**8.1.8. NBFIs providing ‘Investment into short-term financial instruments’ service.Error!
Bookmark not defined.**

**8.1.9. Financial and the investment advisory service provider NBFIsError! Bookmark
not defined.**

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	34
8.3.1. The securities broker company.....	38
8.3.2. The securities dealer company.....	43
Description of activities – ML/TF inherent risks	43
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.....	46
Description of activities – ML/TF inherent risks	46
8.3.6. Registration of securities ownership rights and securities centralized savings.....	Error! 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	50
Description of activities – ML/TF inherent risk.....	50
8.3.12. Determining the ranking for financial capabilities	54
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 cooperatives.....	Error! 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.

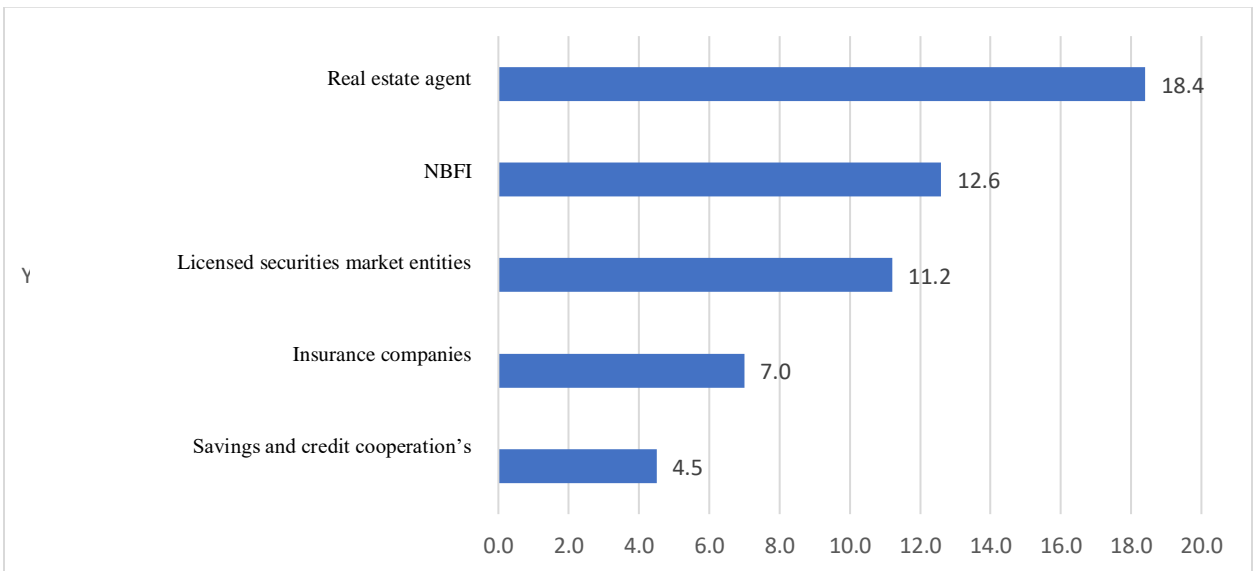
Risk variable	High probability (5)	Low probability (1)
Size of the sector	There are numerous entities that operate in high risk countries and cooperates with many organizations	A few or small-scale entities, the companies operate within the country only.
Products /services	There are number of cash-based 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.

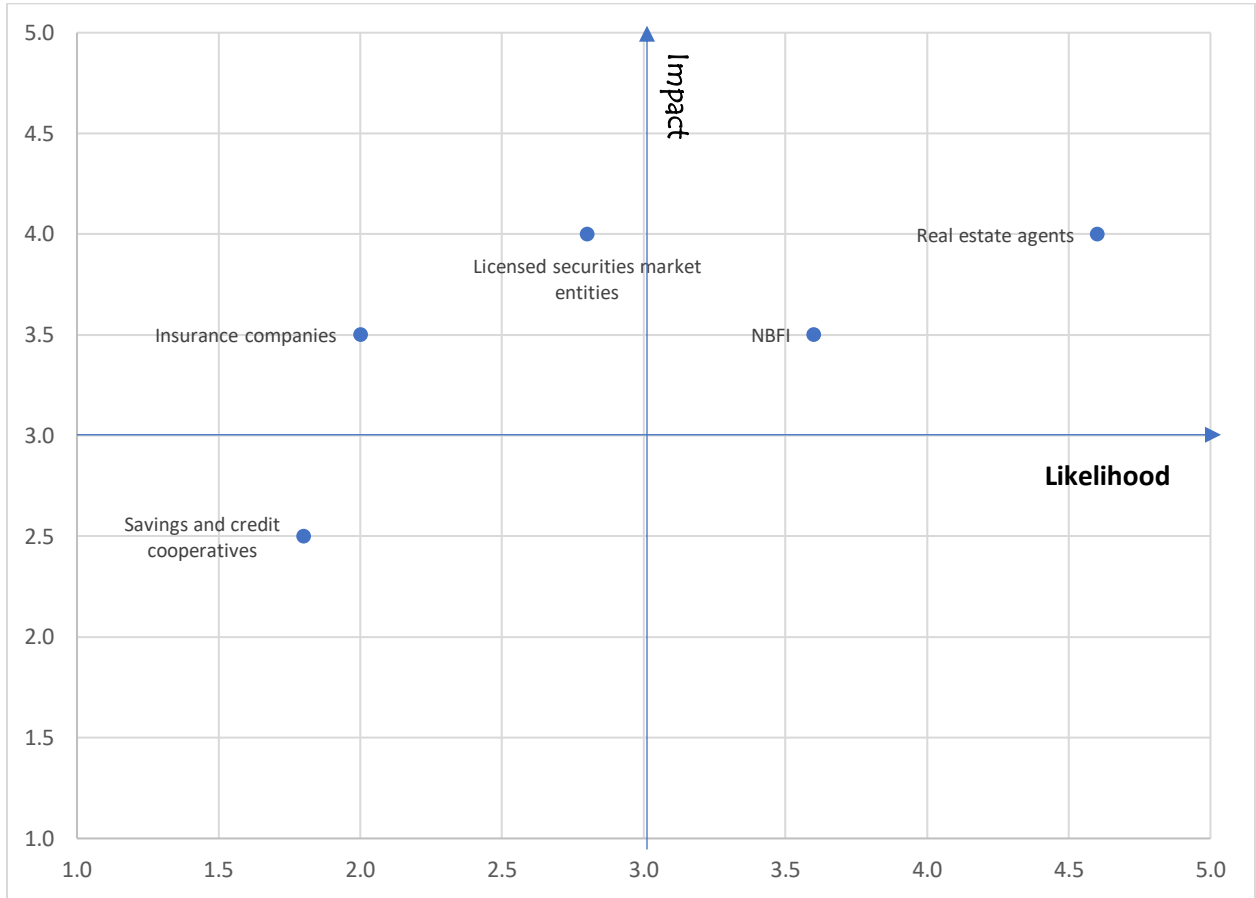
The risk vulnerability scale is identified as a multiplication of likelihood of the operational risk occurrence and the risk impact.



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.

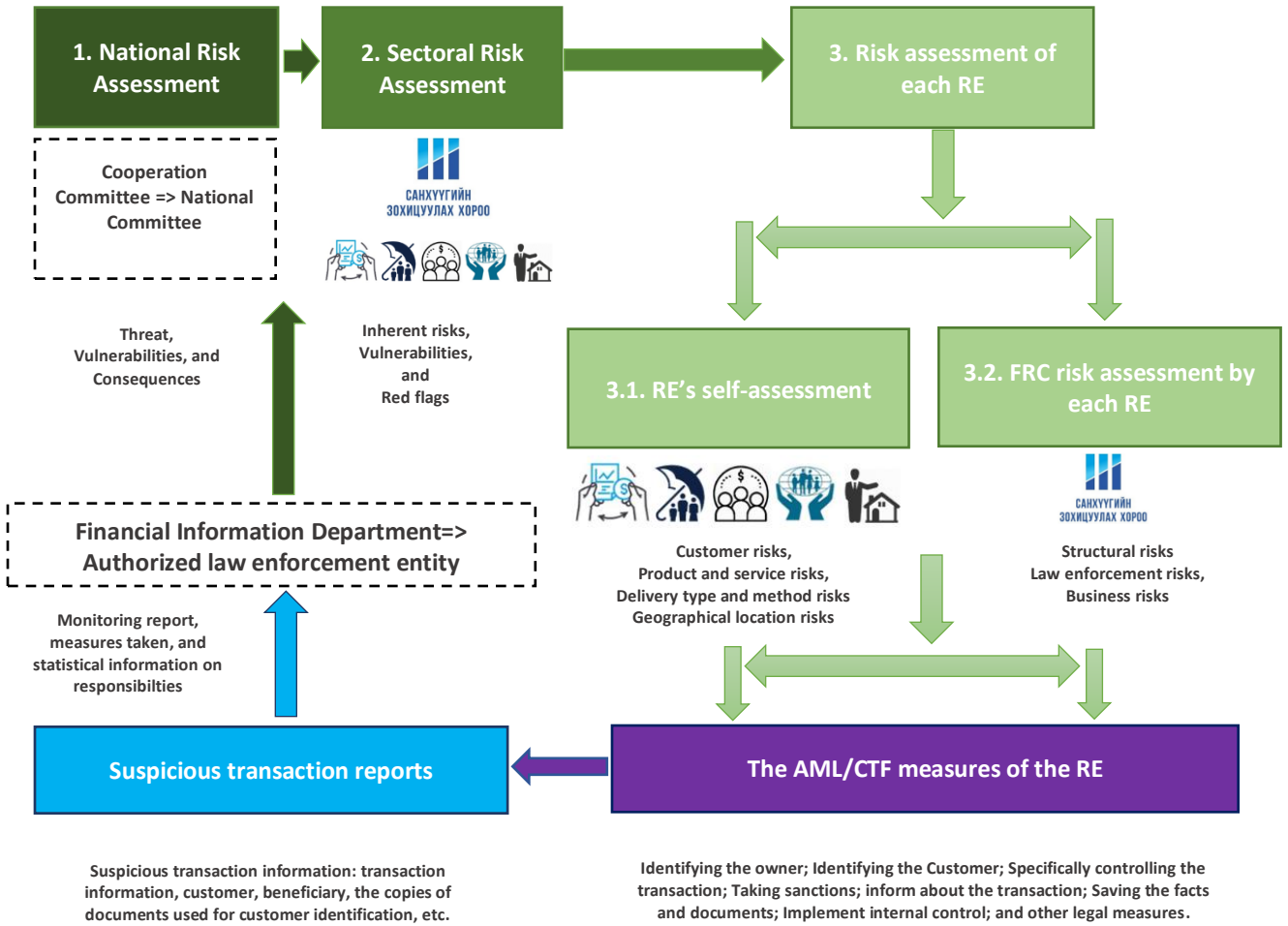
In provision 5.14 of the law, it states the Governor of the Bank of Mongolia shall approve the procedure of the ML/TF prevention; accordingly by the resolution A-26, of Governor of the Bank of Mongolia, dated January 21, 2019 the 'The regulation of preventive measures on anti-money laundering and combating 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
 <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"> • Small and clear customers • Simple customers • With a strict membership rule or clear and constant customer base • 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 	<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



Regulation



Compliance

- High volume and necessity of the statutory fund
- 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.
- No or weak regulatory environment of the sector or particular activity
- No entity in charge of payments and registrations or the entity is malfunctioning
- 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
- Low competition and legally limited marketing potential
- Independent of financial grouping
- Satisfactory level regulation of the sector and activity
- The entity in charge of payment and registration functions efficiently
- 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.

At the start of the customer relationship	<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
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<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 	During the customer relationship
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Ending customer relationship	<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.
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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;

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

¹⁰ <https://gia.gov.mn/5/item/548>

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, 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





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




Professional institutions at the securities market

Inherent risks from functions and operations of professional institutions at the securities market



No	Activity	Definition of activity	Inherent risk of ML/TF
1	 Securities broker	Provide the brokering services on buying and selling the securities by customers' capital on the behalf of customers at customers' requests according to the contracts (36.1).	High inherent risk. Probability of ML/TF risks during functioning of contracting, bank opening, client recognition, receipt the request for buying and selling the securities. Moreover, broker companies are likely vulnerable to earn the illegal income from security trading using the internally available information and misuse of market reputation.
2	 Securities dealer	Buy and sell the securities by own capital on own name (37.1).	Medium-low inherent risk. May earn illegal income from non-legal allocation of own capital fund through security trading using the the internally available information and misuse of market reputation
3	 Securities investment Advisor	Offer the paid professional consultancy on purchase and selling price, term of conditions and timing for customers, conduct the survey and analysis based on public information from the security issuers (39.1).	Low inherent risk. Risks may be associated with proving consultant sevices for customers without proof evidences and concealling the known breach and violations concerning Money laundering and Financing of terrorism.
4	 Authorization for securities	Authorized body perform the limited duties regarding the securities and asset ownership rights as stated in the authorization agreement (40.1)	Medium-high inherent risk. Risks for ML/TF may be associated with client recognition and determination of agreement term and conditions during the conclusion of the authorization agreement. In addition risks could be arised during the managing the additional capitals from the customer and identifying the origin sources of those capitals.
5	 Underwriting	Provide the professional services for IPO issue according to the contract with securities issuer and purchase of the remaining balance of securities at the primary securities market at the amount as presented in the underwriting contract (41.1)	Medium-low inherent risk. ML/TF risks may be from the purchase of remaining balance of securities at the primary security market at the specified amount in the underwriting contract .
6	 Registration of securities	With reference of made contract with securities issuers, to receive the infomration of ownership right transfer of securities, register to the information database of securities ownership rights and recording,	Low inherent risk. ML/TF risks may be resulted from providing the service for heritage and gifting the ownership rights certified by the securities and duty performance.

	ownership rights and centralized savings	as well reporting as required by the governing law and regulations (42.1) Functioning of keeping the securities and recording according to the contract with securities issuers and other stakeholders (45.1)	
7	 <p>Payment and trading account of the securities;</p>	<p>The payment and trading account of the securities is the comprehensive activities at following steps (43.1):</p> <ul style="list-style-type: none"> - Do the estimation and financial recordings of securities, payment after the security trading through the contracts between the stakeholders; - Ensure the payment process and send the payment slips to financial respective institutions. <p>Payment process of securities trading is described as follows; (44.1):</p> <ul style="list-style-type: none"> - Transfer the payable payment to securities seller from the buyer according to the estimated payment slips received from the financial institutions; - Allocate the agreed number of securities in the account of buyer from the account of the seller; - Do simultaneously payment within the agreed timing through sending the payment request to custodian centralized saving and cash saving organizations; - To confirm the transaction and financial records with compliance of payment reports; - Submit the related information to the securities saving and registration organizations. 	<p>Low inherent risk. To perform the duties to control the trading payments and report to the respective bodies in the case insufficient control by other stakeholders at the securities market.</p>
8	 <p>Custodians</p>	<p>Provide the services for keeping the securities in owned by the securities owners and implement the ownership rights certified by the securities (46.1)</p>	<p>Low inherent risk. Risky for fault information and changes in registered information as well information database caused by poor control on the system.</p>
9	 <p>Trading of the securities</p>	<p>Operation of securities trading is to organize the trading of the securities and derivative financial products for the public through creating the favorable conditions for purchase and selling contracts and negotiations (47.1)</p>	<p>Low inherent risk. To perform the duties to control the trading payments and report about the suspicious transactions and payment to the respective bodies in the case insufficient control by other stakeholders at the securities market.</p>
10	 <p>The investment fund</p>	<p>The close or public fund of allocated capital for purpose to function the activities as presented in the article 4.1.18 of the present law under the investment management of the company (4.1.32)</p>	<p>As stated in article 14.1 of law on the investment fund, only legal body granted with special license for operations of the investment management shall establish the investment fund and the investment management company is responsible to run the fund activities. Therefore should review and consider the risk assessment of the Investment management company.</p>

11	 <p>The investment management company</p>	Legal body regulated by the securities market with special license for asset management of the investment fund according to the contract signed with the investment fund (4.1.33)	High inherent risk. Risks associated with investors' recognition for the investment fund and management of the fund asset and operations.
12	 <p>Determining the rank for financing capability</p>	Independent or external activities to set up the ranks based on the specially developed methodology for financing capability of the securities issuers (50.1)	Low inherent risk. Risk to determine the ranking of financing capability without proof evidence or background.
13	 <p>Offer the advices on law, asset, assessment and auditing for all stakeholders at the securities market</p>		Low inherent risk. Risks may arise from recommended advice and conclusion to regulated bodies such as broker, dealer and underwrites without proof evidences and conceal the known breach and faults.

Present vulnerability level of professional institutions at the securities market

Risk factor	Probability scale	Explanation
Size of the sector	4.0	Relatively large numbers of the Securities Companies. Securities market is going to be expanded.
Product and services	3.0	Non –active securities trading. Authorization for the securities, the investment fund, the investment management companies are newly commenced and developed out. However, poor regulations in this sector.
Transactions	2.0	Low amount of multiple transactions. It is able to control the payments from securities trading.
Customers	3.0	Relatively high amount of securities trading although there is few number of foreign individuals and legal entities
Delivery channels	2.0	Face to face contacts with customers. Online or electronic trading is just introduced.
Average points	2.8	

Impact	Impact scale	Explanation
Economic – Financial impact	4.0	Medium-high level of economic and financial impact (The securities market plays the vital role in the financial sector even though it's development is at the low level)

Reputational – Trust impact	4.0	Medium level of reputational and trust impact (The securities market is normally relied on the trust and fairth)
Average points	4.0	

Risk level	11.2
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The securities broker company



Low

Medium-low

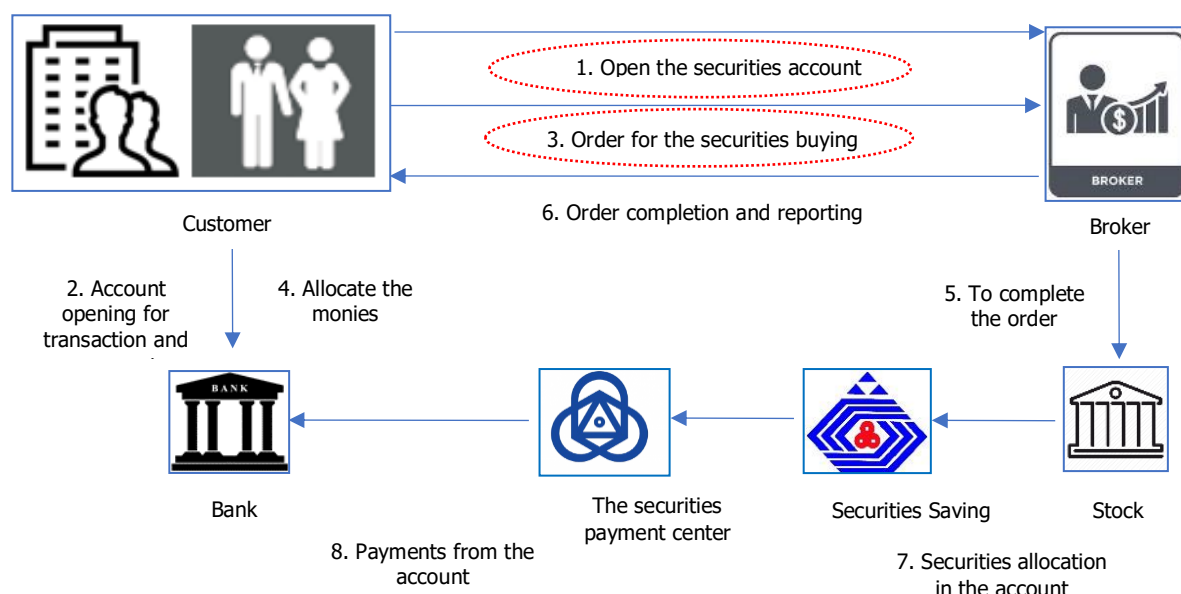
Medium-high

High

Description of activities – inherent ML/TF risks

Provide the brokering services on buying and selling the securities by customers' capital on the behalf of customer at customers' requests according to the contracts

Customer involving at the trading:



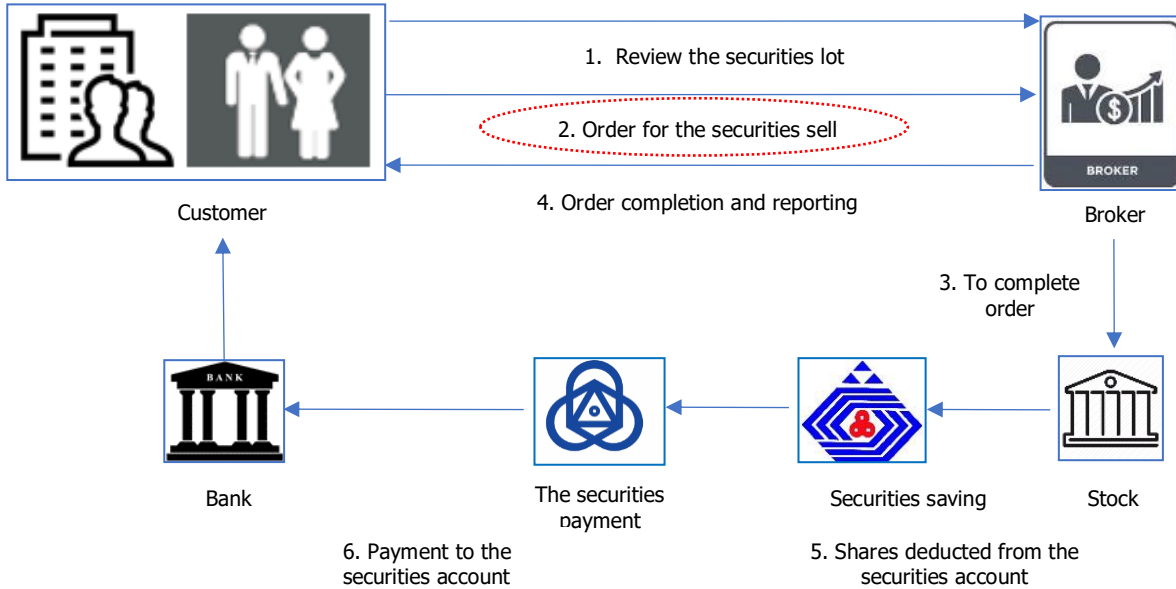
The special review and control is required to recognize the clients during the opening of the securities account (1). Where: The careful and proper review and check up is needed to identify whether the customer is Politally exposed people, legal body, group or community, citizen and entities from the countries registered in the blacklist for money laundering and terrorism financing where is no control for ML/TF by UN Security Council. As well as the customers to be checked they are involved in the high and medium high risky criminal cases and run the business connected to the crime with high risks. It should be careful to open the connecting accounts with existing the securities accounts through other broker companies. Customers with multiple securities accounts and many connecting accounts are considered as high risky for ML/TF through separate allocation of monies in the multiple accounts.

At the order step of the securities buying (3), order made at the different ways except ordered by phone, by e-mail, by internet and by personally and sudden altered high amount of transactions and order that not align with economic proof evidences are probably risky for ML/TF activities. Therefore should deeply review that customer does the order by itself, type and amount of the order and economic proof evidences for that order respectively. The order for buying and selling of the securities is categorized into types as follows and market order rates as high risk for money laundering.

- Market order /to identify total amount or total numbers/
- Conditional order / particular order the unit price and quantities /

- Order expired by the cancellation /GTC/
- Order expired by designated date /GTD/
- Order expired by specified periods in the ordered date /GTT/
- Daily order or order expired by ordered date /DAY/








Buying the securities:



At the stage of ordering the securities selling (2), order made by other methods except by phone, by e-mail, face-to-face and on the internet, high amount of sudden changed order and order does not align with economic situation are considered as high risky to be exposed to money laundering. Therefore the detailed investigation is required to check up the customer contacts for order, type and amount of order and economic situations during this stage of customer relationship.

Moreover, the broker companies are rated as high risky if they misuse the securities market, involved in the trading using the internal information to gain the illegal gains.

Inherent risk factors in the activities of the broker company

Vulnerability Variable	What increases the risk?	What reduces the risk?
 Customer	<ul style="list-style-type: none"> The securities account is able to be opened by other methods except online and face-to-face onboarding Large number of customers Foreign individuals and entities are served Customers required the special contral as set out in the law Active participation in the trading by multiple customers having the connecting accounts 	<ul style="list-style-type: none"> Only face-to-face opening of the securities account Few and certain number of customers Domestic legal entities Customers served by particular broker company and no connecting accounts
 Products and services	<ul style="list-style-type: none"> Customers make order b phone and e-mail and confirmed Majority order is market orders Dormant transactions by individuals having the connecting accounts Transactions by norminal accounts Brokering of the securities buying and selling at the foreign securities market Order for bond trading is dorninant Offers the services to issue the bidding guarantee, the securities separation, gifting, heritage and authorization Order for high amount trading 	<ul style="list-style-type: none"> Face-to face ordering and confirmation More conditional orders Dorminant transactions by customers only opened the account in the particular broker company Only domestic trading of securities buying and selling at the stock exchange Dormant orders for shares trading Services only for securities buying and selling, trading on the orders
 Delivery method and types	<ul style="list-style-type: none"> Online onboarding through online trading system 	<ul style="list-style-type: none"> Direct relationship with customers
 Geographic location	<ul style="list-style-type: none"> Trading orders via representative offices and branches 	<ul style="list-style-type: none"> No branch and representative office
 Structural and organization	<ul style="list-style-type: none"> The regular end customers at the broker company are PEPs and high risky owners Insufficient staff and high staff turnover. 	<ul style="list-style-type: none"> No more PEPs and other risky owners at the broker company Limited requirements for end customers and easy recognition of end owners
 Regulation	<ul style="list-style-type: none"> Right suspension or contract termination for the membership and system access by the respective bodies for the registration and payments such as the Securities centralized saving and the Securities payment Center Penalty measures are taken by Financial regulating committee 	<ul style="list-style-type: none"> No penalty actions regarding the securities payments by the respective institutions such as the Securities centralized saving and the Securities payment Center No penalty measures by Financial regulating committee.
 Compliance	<ul style="list-style-type: none"> Lack of concept and knowledge, attitude by employees Poor internal auditing system or no more system No control and auditing 	<ul style="list-style-type: none"> Employees are lacked with concept and knowledge of money laundering and terrorism financing Effective and Productive system for internal auditing and control

	<ul style="list-style-type: none"> • Breach or violation of no sending information and reports, delay of the reports, sending the confused information and fault data 	<ul style="list-style-type: none"> • No breach or violation by auditing and control • Regular sending of information and reports, no non-compliances
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Common organizational, regulation, and compliance indicators, it shall be considered for the services (Please refer to CHAPTER 3).

Present vulnerability level of activities in the securities broker

Risk factors	Point scale	Explanation
Size of the sector	5.0	Relatively many number of broker companies and there are 53.
Product and service	4.0	Numbers of the securities trading and participants are gone up in the recent years. No detailed out the financial reserves of participants in the securities trading
Transactions	3.0	There are multiple transactions and payments done through account at the corresponding banks and the Securities Payment, State owned liability limited company. Many companies have been already granted with brokering license for securities buying and selling at the foreign and overseas markets .
Customers	4.0	Open participation of foreign entities in the securities trading (As dated of end 2018 year, 0.2% of the securities accounts at the Securities Savings occupies with foreign individuals and entities and 39.2% of trading amounts are done by foreigners).
Delivery channels	2.0	Face-to-face relations with customers in majority cases. There are many companies to buy and sell the securities at the foreign market of the securities.
Average scale	3.6	

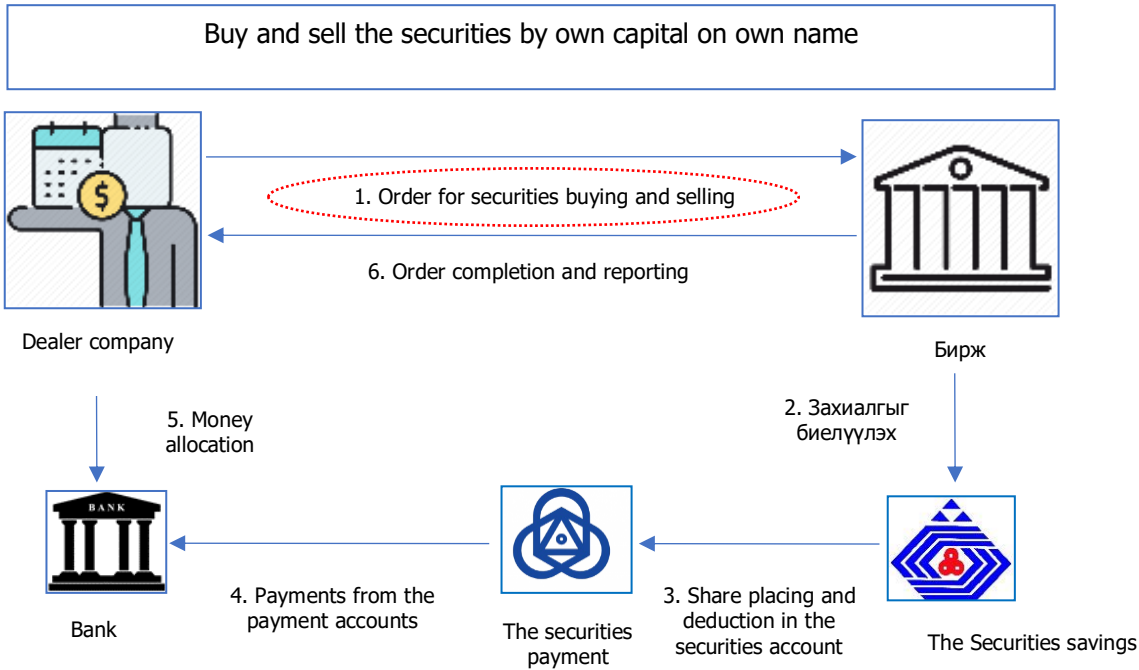
Impact	Impact scale	Explanation
Economic- Financial impact	4.0	Financial and economic impacts are at medium-high level and became key player at the securities market
Reputational – Trust impact	3.0	Medium level of reputational and trust impact. (Key starting point for direct relations with investors)
Average scale	3.5	

Risk level	12.6
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The securities dealer company






Description of activities – ML/TF inherent risks



Dealer company may exposure to ML/TF risks during the stage of own capital composition because it operates to buy and sell the securities by own capital on it name. It may have the risk to illegally earn the incomes from the trading using the internally available information at the securities market and misuse the securities market. The risk level could be determaind by taken measures by Financial regulating committee, therefore variables such as structural organization, regulation and compliances should be carefully addressed out.

Inherent risk factors in the activities of the dealer company

Vulnerability variables	What increases the risk?	What reduces the risk?
 <p>Structural organization</p>	<ul style="list-style-type: none"> • The regular end customers at the broker company are PEPs and high risky owners • Insufficient staff and high staff turnover. 	<ul style="list-style-type: none"> • No more PEPs and other risky owners at the broker company • Limited requirements for end customers and easy recognition of end owners
 <p>Regulations</p>	<ul style="list-style-type: none"> • Right suspension or contract termination for the membership and system access by the respective bodies for the registration and payments such as the Securities centralized saving and the Securities payments center • Penalty measures are taken by Financial regulating committee 	<ul style="list-style-type: none"> • No penalty actions regarding the securities payments by the respective institutions such as the Securities centralized saving and the Securities payment Center • No penalty measures by Financial regulating committee.
 <p>Compliance</p>	<ul style="list-style-type: none"> • Lack of concept and knowledge, attitude by employees • Poor internal auditing system or no more system • No control and auditing • Breach or violation of no sending information and reports, delay of the reports, sending the confused information and fault data 	<ul style="list-style-type: none"> • Employees are lacked with concept and knowledge of money laundering and terrorism financing • Effective and Productive system for internal auditing and control • No breach or violation by auditing and control • Regular sending of information and reports, no non-compliances

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

Present vulnerability level of activities in the securities dealer

Risk factors	Point scale	Explanation
Size of the sector	2.0	Low dealing activities although many securities dealing company, today 41 the securities dealer company are operating.
Product and service	1.0	Funding clear sources and transactions via bank accounts of customer and SECURITIES CLEARING HOUSE , the state owned liability limited company
Transactions	2.0	Transactions via SECURITIES CLEARING HOUSE, the state owned LLC and corresponding bank accounts, mainly domestic transactions
Customers	1.0	Relations with self-regulating organizations or institutions
Delivery channels	1.0	Relations with self-regulating organizations or institutions
Average scale	1.4	

Impact	Impact scale	Explanation
Economic – Financial impact	2.0	Medium-low level of economic and financial impact (The securities market promotes and motivates the dealing activities)
Reputational – Trust impact	1.0	Low level of reputational and trust impact. Participate in the trading as market derivatives
Average scale	1.5	

Risk level	2.1
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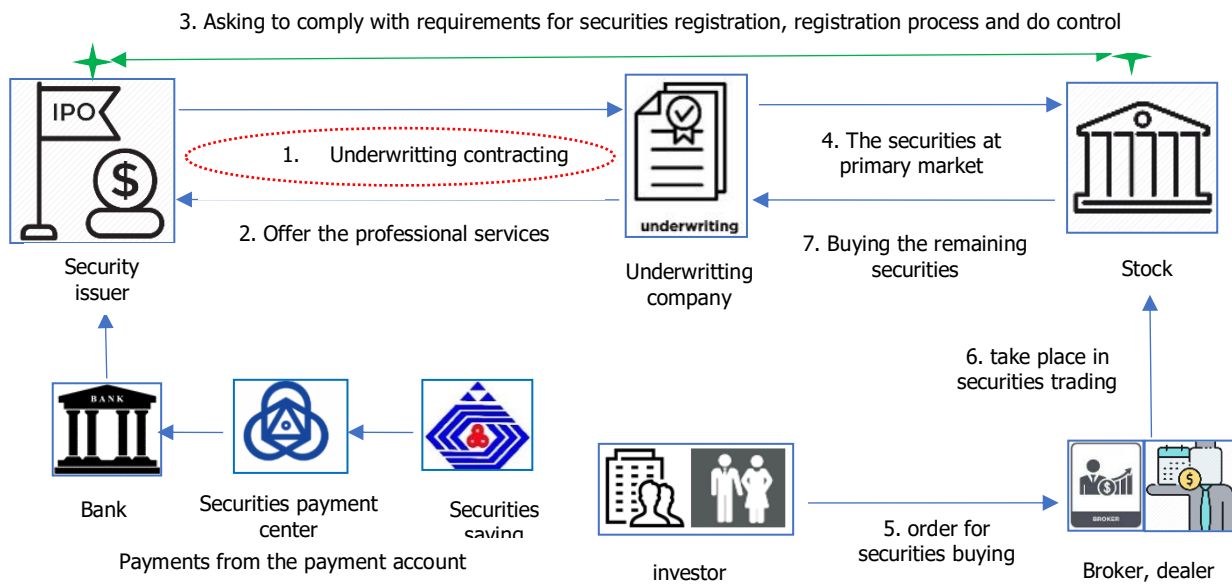
Underwriting activity



Description of activities – ML/TF inherent risks






Provide the professional services for IPO issue according to the contract with securities issuer and purchase of the remaining balance of securities at the primary securities market at the amount as presented in the underwriting contract



The particular attention and control is required for client recognition during the underwriting contracting stage (1) to review whether the customers are PEPs, individual or entities from countries with high risk jurisdictions where no proper control for ML/TF activities and blacklisted individuals or entities by UN Security council. As well the careful review is needed to clarify that customer involved in the criminal cases with medium and high risks and run the business related to the designated crimes.




ML/TF risks may associated with own capital composition when underwriting company purchases the remaining balance of securities at the primary market in the quantities specified as in the underwriting contract with securities issuers. Thus the variables namely as structural organization, regulations and compliances have to be properly considered.

Inherent risk factors in activities of the underwriting company

Vulnerability variables	What increases the risk?	What reduces the risk?
 <p>Structural organization</p>	<ul style="list-style-type: none"> • The regular end customers at the underwriting company are PEPs and high risky owners • Actively implement marketing activity • Insufficient staff and high staff turnover. 	<ul style="list-style-type: none"> • No more PEPs and other risky owners at the underwriting company • Limited requirements for end customers and easy recognition of end owners • Marketing is limited by law requirements
 <p>Regulations</p>	<ul style="list-style-type: none"> • Right suspension or contract termination for the membership and system access by the respective bodies for the registration and payments such as the Securities centralized saving and the Securities payments center 	<ul style="list-style-type: none"> • No penalty actions regarding the securities payments by the respective institutions such as the Securities centralized saving and the Securities payment Center
 <p>Compliance</p>	<ul style="list-style-type: none"> • Lack of concept and knowledge, attitude by employees • Poor internal auditing system or no more system • No control and auditing • Breach or violation of no sending information and reports, delay of the reports, sending the confused information and fault data 	<ul style="list-style-type: none"> • Employees are lacked with concept and knowledge of money laundering and terrorism financing • Effective and Productive system for internal auditing and control • No breach or violation by auditing and control • Regular sending of information and reports, no non-compliances

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

The basic service indicators of activities in underwriting company

 <p>25 Securities underwriting company*</p>	 <p>6 companies's IPO at primary market</p>	 <p>893.7 billion MNT valued trading</p>
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* Source: Internet system of special licenses for the regulating institutions. As dated of end 2018 year.








Present vulnerability level of activities in the underwriting company

Risk factors	Point scale	Explanation
Size of the sector	3.0	Relatively large number of underwriting companies and 25 had the license for underwriting services. This number trends to be increased, but few number of customers issue the shares at the securities market. Only domestic customers.
Product and service	2.0	Underwriting activities are complex and register the securities and trading at the stock exchange are regulated by the respective authorities
Transactions	2.0	High amount of transactions with proper control
Customers	2.0	Cash transfer to abroad or foreign countries
Delivery channels	1.0	Face to –face relationships with customers
Average scale	2.0	

Impact	Impact scale	Explanation
Economic – Financial impact	3.0	Medium level of economic and financial impact. (Impact are valued at the asset market and intensified at the recent years)
Reputational – Trust impact	3.0	Medium level of reputational and trust impact. (High valued at the asset market)
Average scale	3.0	

Risk level	6.0
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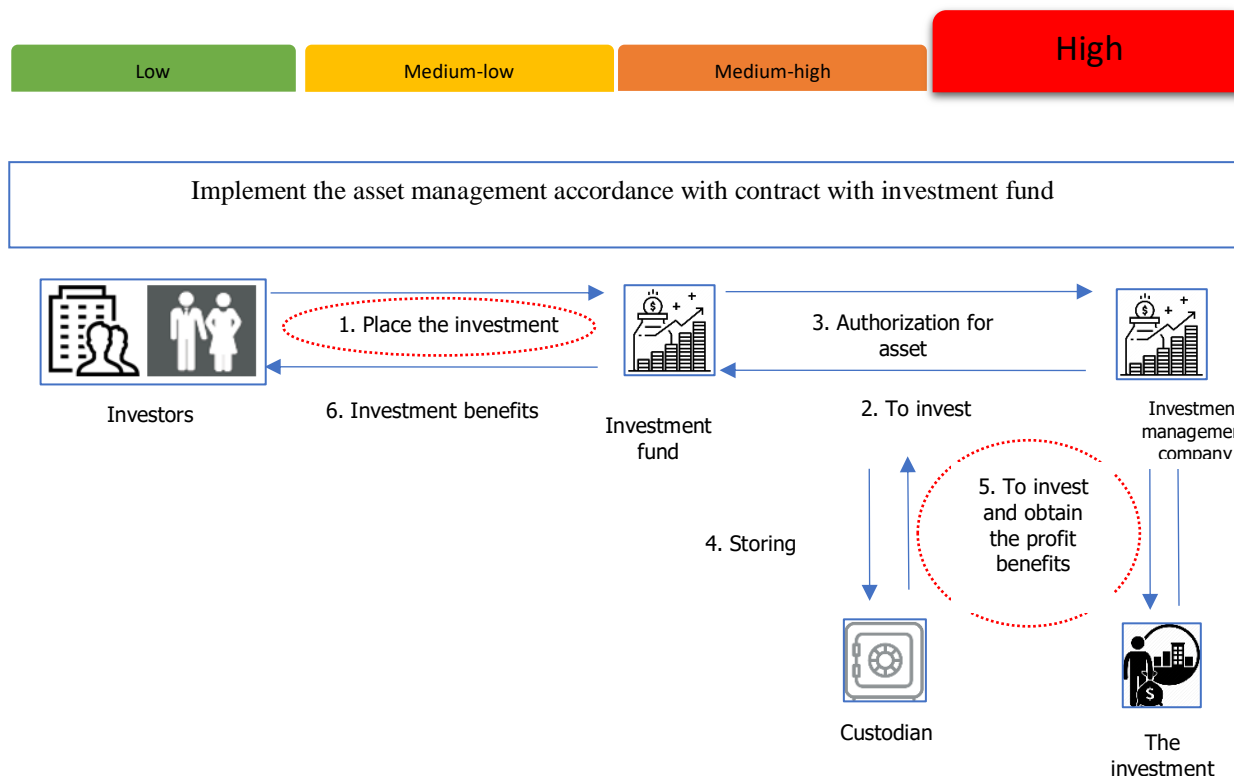
Inherent risk factors in activities of registration of the security ownership rights and SCSC

Vulnerability variables	What increases the risk?	What reduces the risk?
 Customer	<ul style="list-style-type: none"> No proper information sheet and guideline for client recognition process . Insufficient activities for client recognition at the securities companies Increased number of account owners by foreign individuals and entities and accumulation of securities for the ownership rights 	<ul style="list-style-type: none"> Client recognition is conducted well at the securities companies Few number of regular customers Securities account by domestic entities to be dominant
 Product and services	<ul style="list-style-type: none"> Intensified the ownership rights Duties performance substituted by heritage and gifting contracts is become proactive 	<ul style="list-style-type: none"> Stock trading of the securities and registration of ownership rights are become the dominant More repo trading between central bank and commercial banks
 Delivery channels	<ul style="list-style-type: none"> Delay of information technology and software security system (“Bulk account” opening at MIT CSD sub system and etc) 	<ul style="list-style-type: none"> Ensure the reliability of technology and software security system
 Geographic location	<ul style="list-style-type: none"> Operating in different regions and countries Activities through the representative and branch offices 	<ul style="list-style-type: none"> Operating in same region and country where the control by the respective authorities No branch and representative office
 Structure and organization	<ul style="list-style-type: none"> Insufficient staff and high staff turnover . 	
 Regulation	<ul style="list-style-type: none"> Poor regulating system or no more system for the regulation Lack of control activities by respective authorities of auditing and control 	<ul style="list-style-type: none"> Smooth regulating system Productive operations of control and auditing authorities
 Compliance	<ul style="list-style-type: none"> Lack of concept and knowledge of ML/TF activities among the employees No internal auditing system or poor internal auditing system 	<ul style="list-style-type: none"> Have the sufficient concept and knowledge of ML/TF by employees Efficient operations of internal auditing system

The investment management company



Description of activities – ML/TF inherent risk








The special review and control is required to recognize the clients during the investment fund and the investment management company contracting with investors (1) careful and proper review and check up is needed to identify whether the customer is Politically exposed people, legal body, group or community, citizen and entities from the countries registered in the blacklist for money laundering and terrorism financing where is no control for ML/TF by UN Security Council. As well as the customers to be checked they are involved in the high and medium high risky criminal cases and run the business connected to the crime with high risks.

According to article 8 Article 8.1 of the law, individuals and entities may place the investment to the investment fund and as stated in article 8.2.1, only investment in cash is allowed for the public investment fund. Any people may invest in cash to the public investment fund, **therefore recognition process for the investors and end owners has to be detailed out.** Article 8.4 in the law says that “the capital or investment to the investment fund has no any violation to the ownership rights and not obligated for the substation of duties performance” but does not state about the income sources of the investment. Thus, this sector is highly vulnerable for ML risks.

Risks may associate with stage to manage the asset in the investment fund by the Investment Management Company (5) resulted from the types and methods the investment.

Inherent risks in the activities of Investment Management Company

Vulnerability variables	What increases the risk?	What reduces the risk?
 <p>Customer</p>	<ul style="list-style-type: none"> • Wealthy and powerful clients. They do not like to show the documents and explain the investment. If they are PEPs, the condition is getting worse for the relationship. • Customers with multiple complex accounts and wealthy customers usually have had one or more companies in many countries or many accounts in the different companies or corporations 	<ul style="list-style-type: none"> • Able to easily recognize the client • Few number of customers and regular customers
 <p>Product and services</p>	<ul style="list-style-type: none"> • Confidentiality requirements. Special review and investigation is required for business condition of investors and any risks may associate with information confidentiality of customers • Conceal. Difficulty to identify the end owner if simultaneous use of offshore accounts and shading company. • Origin from countries protected by law for bank confidentiality. Hardship to manage the assets originated from the countries protected by laws and identify the end owner. • From the countries where corruptions are high. • Asset flow or movement with high productivity for short terms in the territory of many countries. It is possible to conceal the illegal asset before the legal institutions find those customers. • May use the centralized account among multiple customers to collect the monies for ML activities. 	<ul style="list-style-type: none"> • Offer low amount investment • Low liquidity and fixed terms
 <p>Delivery channels</p>	<ul style="list-style-type: none"> • Receive the materials from the investors via online application system • Only permit the cash for the investment • Contact with investors through brokers or intermediary 	<ul style="list-style-type: none"> • Face-to-face recognition of customers and clients • Direct relationship with customers • Investment placed using the bank accounts • Contact with investors through broker or intermediary
 <p>Geographic location</p>	<ul style="list-style-type: none"> • Operating in different regions or countries • Activities via branch and representative offices 	<ul style="list-style-type: none"> • Operating in the same country where the taken the control and auditing • No branch and representative offices

	<ul style="list-style-type: none"> Operating in economic free zone, border zone where the control system is low. In areas with high risky for crime or criminal cases 	
 <p>Structural organization</p>	<ul style="list-style-type: none"> Fund end owners are composed from PEPs and other risky owners Capital allocation by other methods and trust services Proactive marketing activities Minor institutions are lack of concept and knowledge about ML/TF Insufficient staff and high staff turnover. 	<ul style="list-style-type: none"> No high risky customers and PEPs as Fund end owners Limited requirements for end owners and easy to recognize the end owners Low requirements for fund and low amount Marketing activities are restricted by laws
 <p>Regulation</p>	<ul style="list-style-type: none"> Poor regulation system for sector or particular activities Lack of the control institution for registration, accounting and payments and poor operations of existing institutions 	<ul style="list-style-type: none"> No particular regulation system or framework for the sector and certain activities Efficient and productive operations of the control institutions for registration, accounting and payment
 <p>Compliance</p>	<ul style="list-style-type: none"> Loan economists have insufficient knowledge, concept and attitudes Poor internal auditing at Non-bank financial organizations or there is no the internal auditing system No inspection or investigation Violations to delay the information and reports, sending the confused and incorrect information Records in involving in organized criminal crimes and conceal the taxes and tax evasion 	<ul style="list-style-type: none"> loan economists have obtained sufficient and good concept and knowledge of ML/TF risks Efficient internal auditing at Non-Bank financial organizations for smooth implementation No records of break and shortcoming during the inspection Submission of information and reports without breakage and delay Complied with Taxation law and no being part of the crimes well organized

The basic service indicators of activities in the investment management company



*Source: Internet system of special licenses for the regulating institutions. As dated of 3rd Quarter end of 2018 year.

Present vulnerability level of activities in the investment management company

Risk factors	Point scale	Explanation
Size of the sector	4.0	No intensified operations of 21 the investment management companies with special licenses .
Product and service	4.0	Lack of information about the activities by the investment management companies and they are currently operating in the investments of immovable properties.
Transactions	3.0	Few transactions with high amount .
Customers	4.0	Few number of customers, but many wealthy customers .
Delivery channels	1.0	Face-to-face relationships with customers
Average scale	3.2	

Impact	Impact scale	Explanation
Economic – Financial impact	3.0	Medium level of finance –economic impact. Activity scope is narrow in the investment fund and investment management companies although they are become proactive in the securities market .
Reputational – Trust impact	3.0	Medium level of reputation-trust impact. But low level of activities, the intensified activities shall have the adverse impact in the asset market.
Average scale	3.0	

Risk level	9.6
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Determining the ranking for financial capabilities



Description of activities – ML/TF inherent risk



Independent or external activities to set up the ranking based on the specially developed methodology for financing capability of the securities issuers

There is no any entities have obtained the special license for activities to determine the ranking of financial capabilities of the securities issuers.

For activities to determine the ranking of financial capabilities of the securities issuers, they play the role of “Watchman” in the providing the services. Thus low level of risks may be associated with proving consultant sevices for customers without proof evidences and concealling the known breach and violations concerning Money laundering and Financing of terrorism. For managing this type of risks, the particular procedure or ethic code for the consultancy services should be produced and implemented properly. The company should comply with laws and regulations namely as law on the accounting and recording, law on auditing and law on the asset assessment respectively.

Present vulnerability level of activities in determining the ranking of financial capability of the securities issuers

Risk factors	Point scale	Explanation
Size of the sector	1.0	No company or entities obtained the special license for this activity .
Product and service	1.0	No direct relations to ML/TF
Transactions	1.0	No direct relations to ML/TF
Customers	1.0	No direct relations to ML/TF
Delivery channels	1.0	No direct relations to ML/TF
Average scale	1.0	

Impact	Impact scale	Explanation
Economic – Financial impact	2.0	Medium-low level of finance-economic Impact. There is no company or entities with special license, But this activity strongly supports the development of the securities market.
Reputational – Trust impact	2.0	Medium-low level of reputation-trust Impact. There is no company or entities with special license, But this activity strongly supports the development of the securities market
Average scale	2.0	

Risk level	2.0
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