



Mongolian Marketing
Consulting Group



САНХҮҮГИЙН
ЗОХИЦУУЛАХ ХОРОО

ANTI-MONEY LAUNDERING AND COMBATING FINANCING OF TERRORISM THE RISK ASSESSMENT OF THE REAL ESTATE BROKER OR MEDIATORS



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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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.

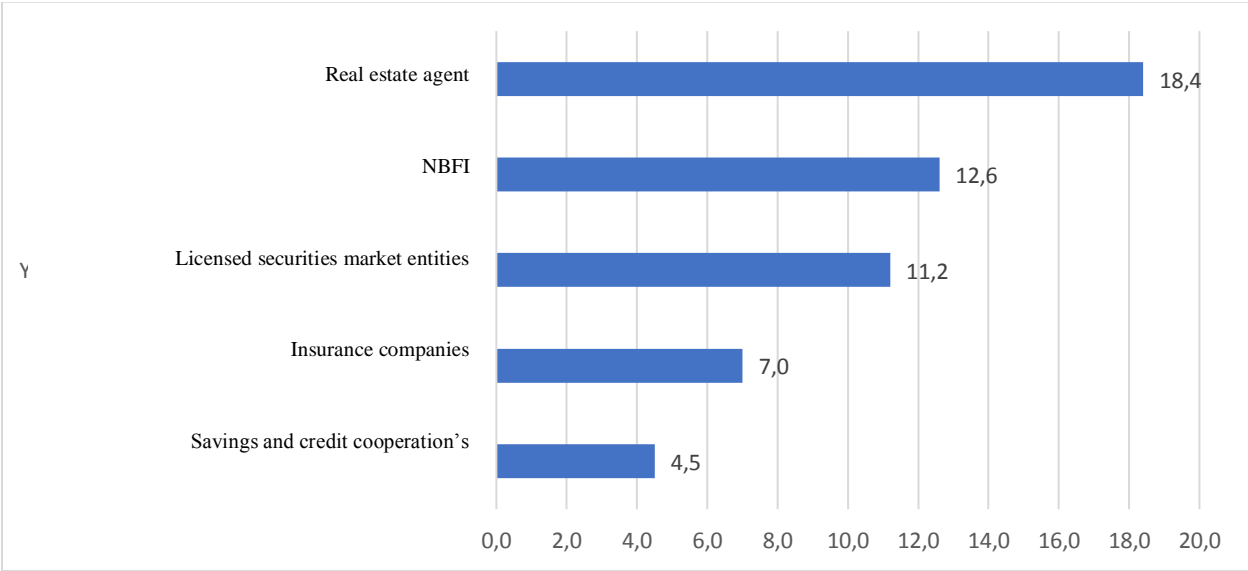
Risk variable	High probability (5)	Low probability (1)
Size of the sector	There are numerous entities that operate in high risk countries and cooperates with many organizations	A few or small-scale entities, the companies operate within the country only.
Products /services	There are number of cash-based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

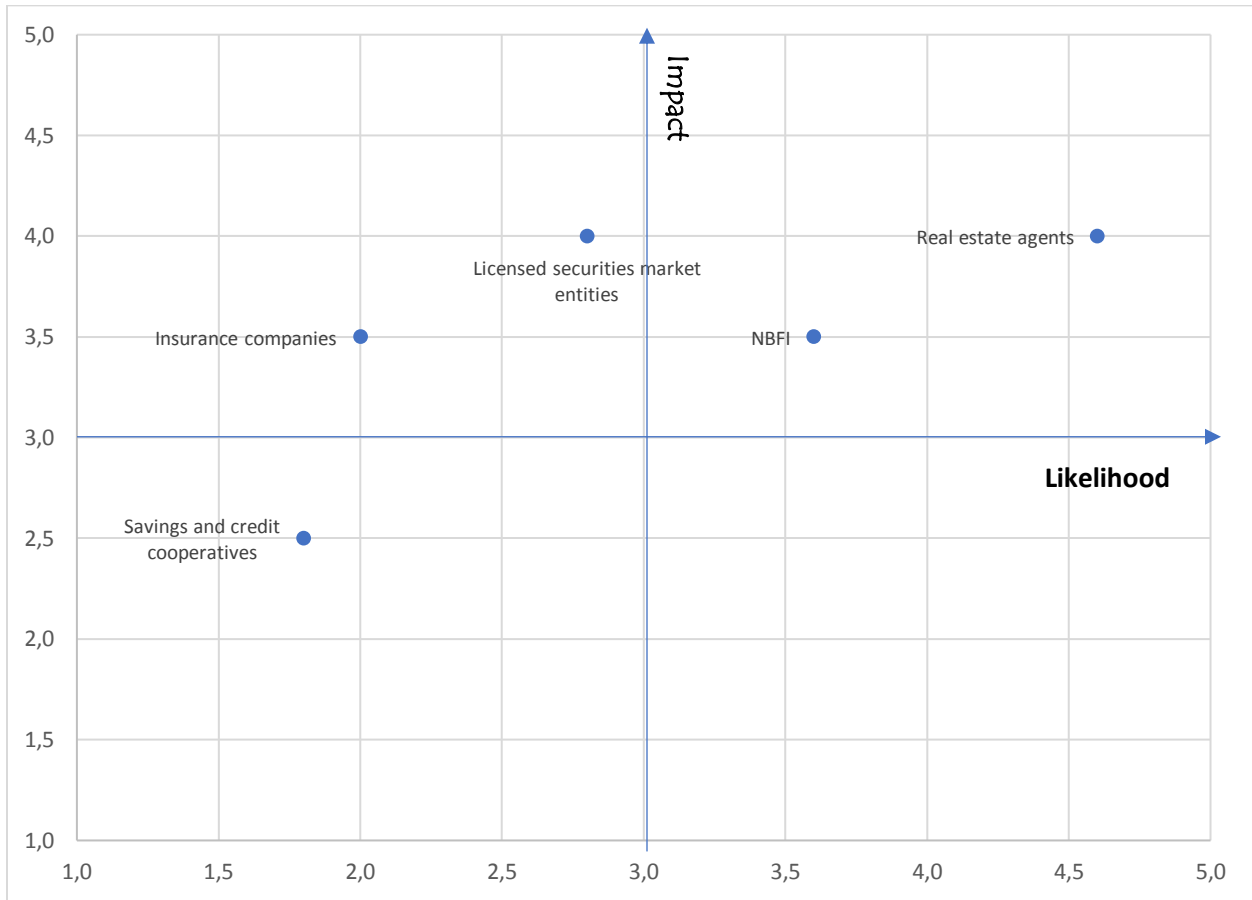
The risk vulnerability scale is identified as a multiplication of likelihood of the operational risk occurrence and the risk impact.



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.

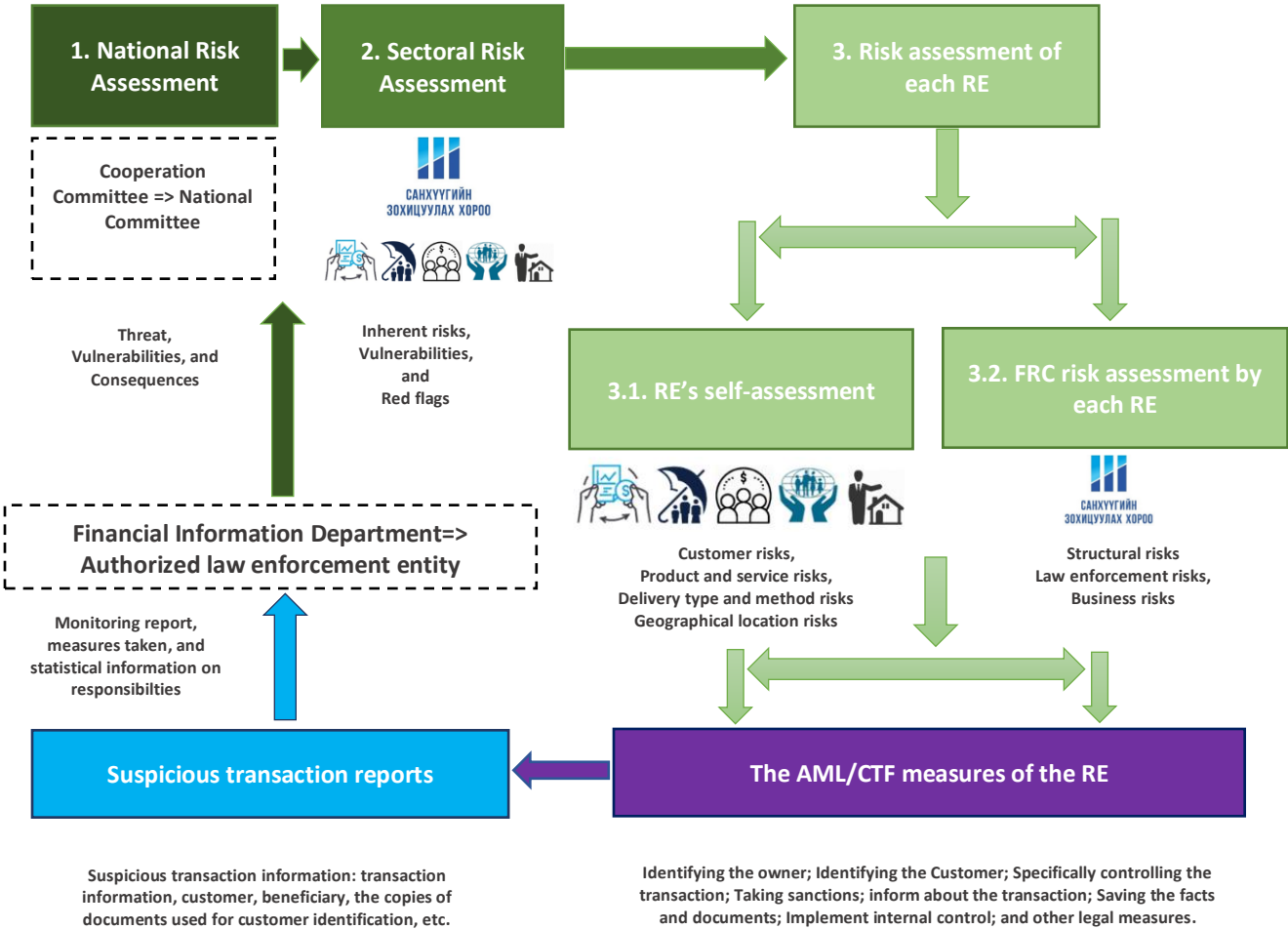
In provision 5.14 of the law, it states the Governor of the Bank of Mongolia shall approve the procedure of the ML/TF prevention; accordingly by the resolution A-26, of Governor of the Bank of Mongolia, dated January 21, 2019 the 'The regulation of preventive measures on anti-money laundering and combating 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,	Limited number of cash-based products and services, limited number

	and the source of fund is always undefined.	of transactions or few or simple products, and the source of fund is identifiable.
Transactions	Large volume of transactions, and high number of transactions to high-risk countries.	The low volume of transactions and transactions are within country only
Customer types	Numerous wealthy and foreign customers, and many customers with complex structure	Domestic customers only
Delivery channel	Never face the customer in person	Directly face to face communication with customer






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

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



SECTION 3. RISK KEY

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

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



Regulation



Compliance

- 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.

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

SECTION 5. MONEY LAUNDERING THE PROCEEDS OF CRIME

5.1 Stages of money laundering

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

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

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

5.2 Predicate offences and their characteristics

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

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

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

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

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

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.

- 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:

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.

The 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

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

the Law of Mongolia on 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.yo “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,

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

accumulation, 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 dragging the risk to the “medium-high” level); thus it is mandatory to implement fundamental measures countering and preventing the terrorism financing throughout Mongolia.

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

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

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

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

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

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

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

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

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

¹⁰ <https://gia.gov.mn/5/item/548>

- 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>* The 245.5 billion MNT</p> <p>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>* The 200.2 billion MNT</p> <p>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>* It is ∞ MNT</p> <p>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>

Real estate broker or mediators

Description of activities – ML/TF inherent risk

		Low	Medium-low	Medium-high	High
No	Activities	Definitions of the activity			Inherent ML/TF risks
1	 Real estate broker or mediator	Body that manages the sales of real estates through connecting the buyer and seller, leasor and lessee and representing the parties in the negotiations			High inherent risk. ML/TF risks may associate with providing services for sale, lease of real estates for customers, activities of delivery channels and identification of locations for real estates by brokers or mediators.
2	 Real estate Project implementer	Funding and salesman that manages all activities starting from land release for real estate projects up to commissioning of the properties. Real estate project may wholly implemented by the funding body or some of project activities by subcontractors. The real estate project implemented for purpose to own and possess by the implementer not for sale at the primary market of real estates is not considered for this case.			High inherent risk. ML/TF risks may associate with providing services for sale, lease of real estates for customers, activities of delivery channels and identification of locations for real estates by brokers or mediators. In addition, high risk may raise from the origin sources for the investors

Scope: Article 4 Article 4.1.7 in law on Anti-money laundering and anti-terrorism financing states that “If real estate broker or mediator operates to buy and sell the real estates on the behalf of customers, it shall be professional service provider”. But, in Mongolia the real estate broker or mediator does not directly receive the payments in cash from the customers and have no right to disburse their estates. The real estate project implementers directly sell by themselves the constructed properties and building without brokers or mediators at the market. Usually the construction companies sell the real estates constructed by themselves.

Currently, it is difficult to say how many individuals and entities run this type of activities in the nationwide level due to lack of the regulation system at the market. However, the sector of real estate brokering is characterized as follows;

- Seller at the primary market or real estate project implementers .
- Seller at the secondary market or real estate brokers or mediators. Real estate broker may run the activities to sell the properties at the primary market based on the contracts with real estate project implementers.

Risk factors related to the sector: As seen from first assumption, real estate brokering may be rated as high risky for money laundering. The responses given by representatives from the construction companies and real estate brokers have shown that they are still lack of proper concept and knowledge about ML risks and crimes. No communication of related information and awareness program for them.

As concluded from survey information, high price of real estates and luxury apartments, low control in the sector and exchange fluctuation of Mongolian tugriks against the dollar are considered as factors to increase the ML risks through favorable environment for money launderers in the sector.

Apartment purchase with mortgage loan is controlled by commercial banks and bank normally pays the attention on the financial capabilities for loan repayment according to repayment schedule not for origin

sources of the deposited amount for the mortgage loan 30 %. In other side, peoples capable to buy the apartments with 100 % owned capitals are remaining outside of the attention and focus.

Thus, these people may buy the apartments in cash with lower rate than bank loan through negotiation with construction companies. This may increase the risk for ML in the sector. So special attention to identify the sources of cash is required at the sector.

The regulation system for the sector with right policies for management of real estate brokering and favorable condition for sales business and comprehensive preventive measures for the sector employees have to be shortly introduced and implemented in the sector. These actions should be account of the sales and ownership rights of business runners and individuals and avoid from any pressure in the sector. For the cooperation between business runners at the sector, concept and knowledge of interest protection activities from becoming the victim or actor of ML crimes should be correctly disseminated and communicated.¹⁵

Present vulnerability level of activities in real estate brokers

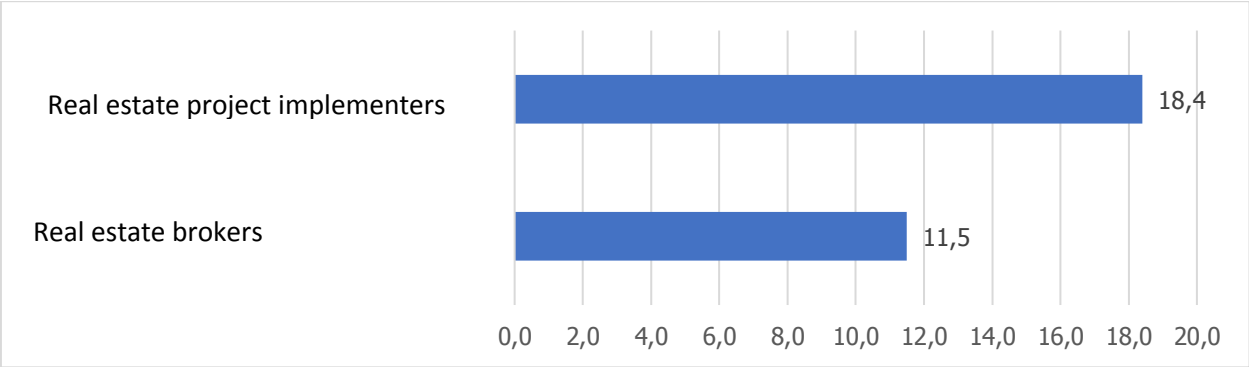
Risk factors	Point scale	Explanation
Size of the sector	5.0	No regulating law and procedure although there are large number of brokers in the sector
Product and service	5.0	No information and inventory of high amounted transactions
Transactions	5.0	High amounted transactions. Foreign individuals and entities are able to have the services. No information and inventory system
Customers	4.0	Foreign individuals and entities are able to have the services. No information and inventory system. No contracting for sell and buying the real estate on the behalf of customers
Delivery channels	4.0	Face to face relationships with customers, no recognition of end owners
Average scale	4.6	

Impact	Impact scale	Explanation
Economic – Financial impact	4.0	Medium-high level. Key lender are important in bank and financial sectors)
Reputational – Trust impact	4.0	Medium-high level. (Customers are looking for the reputation of real estate project implementers and construction company to select the real estate for purchase)
Average scale	4.0	

Risk level	18.4
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Present vulnerability level of activities in real estate brokering by each institution

¹⁵ “Assessment report on frameworks for ML/TF in Mongolia”, Asia, Pacific regional organization for combating ML, September, 2017 .



Real estate brokers

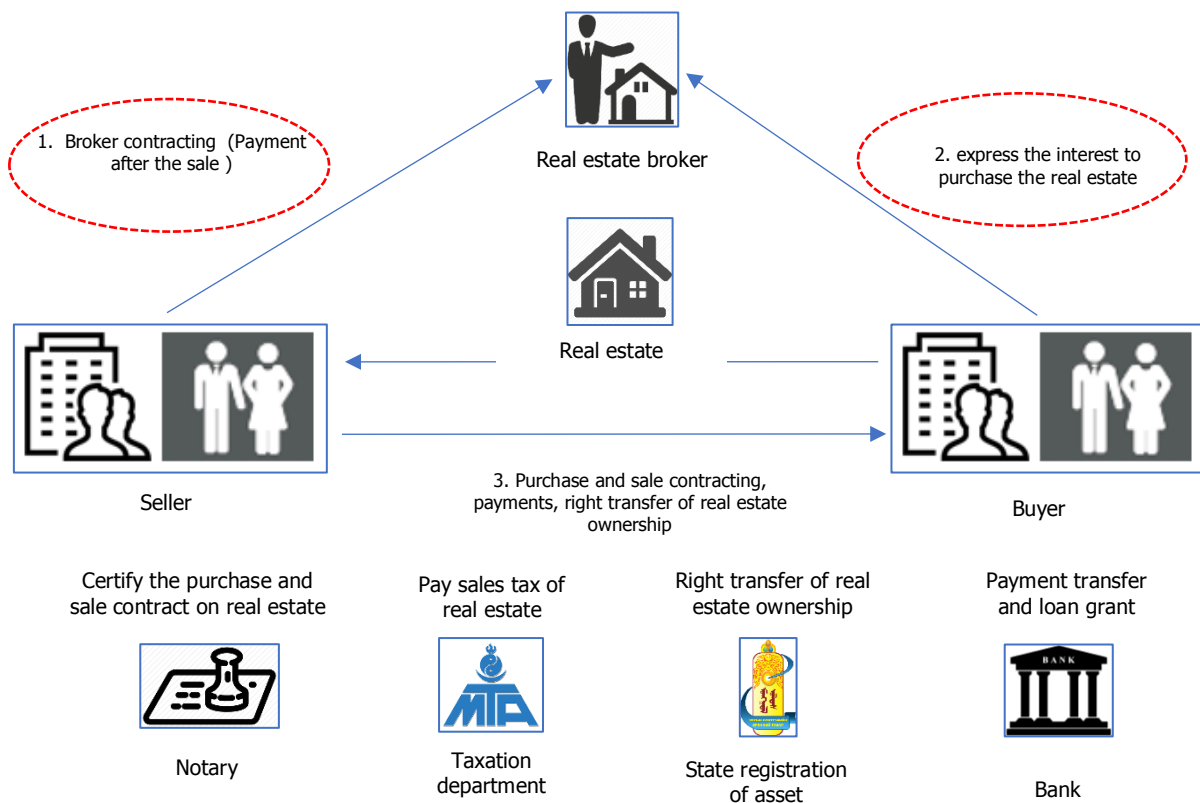


Description of activities – ML/TF inherent risk



The real estate brokers manages the sales of real estates through connecting the buyer and seller, leasor and lessee and representing the parties in the negotiations. Real estate brokers have to pay the attention to recognize all customers including, buyer, seller, lessee and leasor during the first stage of the operations.

Manage the sales of real estates through connecting the buyer and seller, leasor and lessee and representing the parties in the negotiations



Client recognition process commenced and done at the stage of contracting with real estate seller at the real estate brokers (1) and expressing the interests to buy the real estate by buyers (2) accordingly. The special review and control is required to recognize the clients during the investment fund and the investment management company contracting with investors 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.

Special control and client recognition is needed for the case when buyer concludes the authorization contract with real estate brokers to sell the real estate on behalf of the buyer.

On other side, Special control and client recognition is needed for the case when seller concludes the authorization contract with real estate brokers to purchase the real estate on behalf of the seller.

In terms of selling and buying the real estate, many stakeholders take in a part in the process, for instance notary is responsible to certify the purchase and sale agreement when transfer the ownership right of real estate, taxation department to collect the sale tax for real estate, the state registration office to register the ownership rights and bank to transfer the payments between agreement parties. The 2 parties have the right to take the control on the client recognition process and ask to complete the requirements.

In the recent practice, real estate broker has minorly participated in the process of purchase and sale contracting, payment and transfer the ownership rights (3), but it should provide with needed advices to the parties as a professional service provider.

For real estate for sale, some attention has to be paid on the followings;

- Customer is going to sell multiple real estate ;
- Real estate for sale has the lower price at the market or high priced luxury class ;
- Ownership rights have been modified many times or just transferred on the name of the seller.

Real estate broker has carried out the client recognition same as for the purchase and sale contract during the process of real estate leasing because 3 parties are normally taking a part as lessor, lessee and broker.

ML risk may accosiate with allocation of lease deposit, lease paying and termination of lease agreement before the deadline.

Risk assessment guideline for real estate brokers¹⁶: The risks potentially in real estate brokers are presented in section 1 “Risk types” of part 3 in this guideline. There is no particular lot for the risk classification in real estate broking activities, given example is telling us the typical category of the risk. There is no standart classification to categorize the potential risks in the sector of rea estate, therefore the strategy has to be studied. The risk category supports to identify ML/TF risks subject to particular condition at that market at that time. The typical category in real estate borkering is presented as below;

Country/geographic risks

Risk factors:

- Location of real estate
- Location of seller and buyer.

Factors to identify high risks for the country and locations:

- Countries listed in the blacklist of UN and other quaranteed measures.
- Country or region risky for ML/TF where low control for ML/TF activities announced by the International organization for ML/TF.
- Countries financed or supported the terrorism activities and have cooperated with terrorist organizations declared by formal sources of press.
- Countries with high risky for corruption and crimes declared by formal sources of press
- Countries where poor system for real estate registration and inventory

Customer’s risks

Behavior and manner of customer are considered as source for supporting ML/TF activities and risk mitigating measure is to review and check the personal information of the customers.

¹⁶ RBA Guidance for Real Estate Agents, FATF GAFI, 17 June 2008

Potential risks to customers :

- Geographic distance between broker and customer is unexplained .
- Complicated customers to recognize by structural organization or relationship of the activities as owner or controller .
- Business always uses the cash
- Charity and non governmental organizations outside of the control
- Use of brokers lack of control and auditing for ML/TF activities
- PEPs .

Transaction' risks

Risk factors are generally related to real estate, funding of transactions and customers in the relationships.

- Speed of transaction. Rapid or rushed transactions without excuse is rated as high risky
- Type of real estate (house, office buildings, building for service and manufacture, empty land, real estate with high marketable profits, multiple separated estate for leasing and etc).
- Sequenced transactions with altered amounts for relatively short periods for same real estate
- Real estate divided to small units .
- Unknown party appeared at the last moment of transaction for instance parties regulate some management for the sale.
- Third party's tools used to make the origin of ownership unclear (trust).
- Transactions with extremely high and low amounts .
- Real estate sold just before lost the financial capability or restriction for the financial capability .
- Amount of real estate is not aligning with customer well known wealth .

Financial risks are originated from the financial sources and transactions and risk factors for the financial risk factors are;

- Location or origin of real estate of client and customer .
- Unusual source for instance estate received from not known people or organization
- Purchase with high amount of cash .
- Cash saving and cash transfer are from the unusual source or country rated as high risky for geographic location .
- Complex loan compared with regulating institutions or use unclear financial tools
- Unexplained alteration in financial tools .

Risk may mitigate with close cooperation and participation of stakeholders such as notary, lawyer and financial institution in the process of client recognition according to guideline from ML/TF organization.








Risk factors

Many risk factors are subject to particular condition or environment as presented below;

- Participation of other stakeholders such as financial organizations, lawyers, notary that met the requirements of ML/TF regulations .
- Linkage between client and brokers .
- Communication methods of client and broker for instance by e-mail or personal relations
- Client is PEP or not .

- Other party except the direct connected customer .
- Product and services provided with client and customer .
- Relationship of real estate brokers base of individuals or entities. Entities are more risky than individuals when it has no clear structural organization.

Inherent risks in activities of real estate brokers

Vulnerability variables	What increases the risk?	What reduces the risk?
 <p>Customer</p>	<ul style="list-style-type: none"> • Foreign customer, PEPs are dominant • Key customers are foreign individuals and entities • Large number of customers 	<ul style="list-style-type: none"> • Requirements for customers • More domestic customers • Easy client recognition • Few number of regular customers • Many sources of information used for client recognition process
 <p>Product and services</p>	<ul style="list-style-type: none"> • Offer expensive real estate for sale and lease • Purchase and sale of real estate on the behalf of customers • No participation in the contracting and payment transfer 	<ul style="list-style-type: none"> • Offer real estate with medium and medium low prices for sale and leaser • Provision with professional consultancy for customer in the process of contracting and paying the payment
 <p>Delivery channels</p>	<ul style="list-style-type: none"> • Activities through brokering office or agents 	<ul style="list-style-type: none"> • Face to face client recognition • Direct or face-to-face relationship with customers
 <p>Geographic location</p>	<ul style="list-style-type: none"> • Operating in different region or countries • Activities through representative offices • Operating in economic free zone, border area where is low control and high risky zone for the crimes and criminals 	<ul style="list-style-type: none"> • Operating at same region or country where control is taken • No branch
 <p>Structural organization</p>	<ul style="list-style-type: none"> • Company end owners is composed of PEPs and other high risky rated bodies • Proactive marketing activities , • Cooperative members are obligated to joining members • Insufficient staff and high staff turnover . 	<ul style="list-style-type: none"> • Company end owners has no PEPs and other high risky rated bodies • Low rate for membership and small amount of shares by members • Marketing activities are limited by law
 <p>Regulation</p>	<ul style="list-style-type: none"> • Not proper cooperative bylaw and procedure • No ethic code 	<ul style="list-style-type: none"> • Have the well and smooth bylaw for the cooperative • Restrictly follow up the ethic code
 <p>Compliance</p>	<ul style="list-style-type: none"> • Employees, agents, realtors are lack of sufficient concept and knowledge of ML/TF risks • Low internal auditing system • No more inspection and investigation • Breach and violation to delay submission of information and reports, sending the confused and incorrect information and data 	<ul style="list-style-type: none"> • Employees, agents, realtors are familiar with concept and knowledge about ML/TF risks • Effective and productive internal auditing system • Regular and timely submission of information and reports, no delay and problems with reports • Proper comply with legal requirements and no part in the crimes well organized

	<ul style="list-style-type: none"> Involved in well organized crimes and records with tax evasion 	
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Typology example #8 (Trading of real estate - Pakistan):

Criminal KH has purchased 6 real estate cost with 6,885,625 pounds in Great Britain in years of 2004-2006. Then transferred the real estate with 5-16 times higher cost than real estate price to companies under the supervision of criminals. The criminals granted the mortgage loan amount of 49,276,250 pounds using this real estate with unfair asset assessment for the loan. In 2004-2006, they transmitted the faked 28,883,098 pounds with 20 times of transactions to bank in Pakistan. Criminal Mr. Kh has sentenced with 13 years punishment in jail at the court of Great Britain in 2011, but he escaped to Pakistan. The Great Britain court looked for assistance Pakistan to return those illegally transferred real estate. As result, the investigation process started with support of National Accountability Bureau to collect the related information from many organizations. And 12 houses and agricultural land were sealed with resolution article 23 in Pakistan National transparency. Today this crime cases is under the court investigation.

The basic service indicators of activities in real estate brokers

There is no system for basic information collection and database for real estate brokers, we have shown the information obtained from RE/MAX Mongolia for purpose to compare the basic information for reference.

Total sale amount Total sale numbers Total lease numbers

* Source: 2018 Annual report of ReMax Mongolia, <https://www.remax.mn/>.

Broker offices

The related information to housing lease taken from Tenkhleg Broker, LLC is presented.

Agents 173 billion MNT

Average sale term Average sale price Sale increase by percent Referral transactions Total dials Total meetings

Risk factors	Point scale	Explanation
Size of the sector	5.0	No regulating law and procedure although there are large number of brokers in the sector
57 days 73 million MNT	5.0	No information and inventory of high amount transactions.
Immovable properties introduces	Organized open house	nsactions. Foreign individuals and entities > services. No information and inventory system
Customers	4.0	Foreign individuals and entities are able to have the services. No information and inventory system. No contracting for sell and buying the real estate on the behalf of customers
Delivery channels	4.0	Face to face relationships with customers, no recognition of end owners
Average scale	4.6	

Impact	Impact scale	Explanation
Economic – Financial impact	3.0	Finance-economic impact at medium-high. More impact in the financial sector, but majority sales of real estate are not done by real estate brokers
Reputational – Trust impact	2.0	Reputation-trust impacts at medium –low level. majority sales of real estate are not done by real estate brokers
Average scale	2.5	

Risk level	11.5
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Real estate project implementer

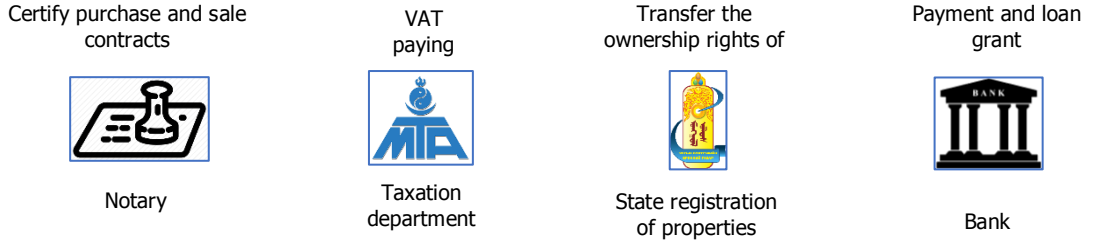
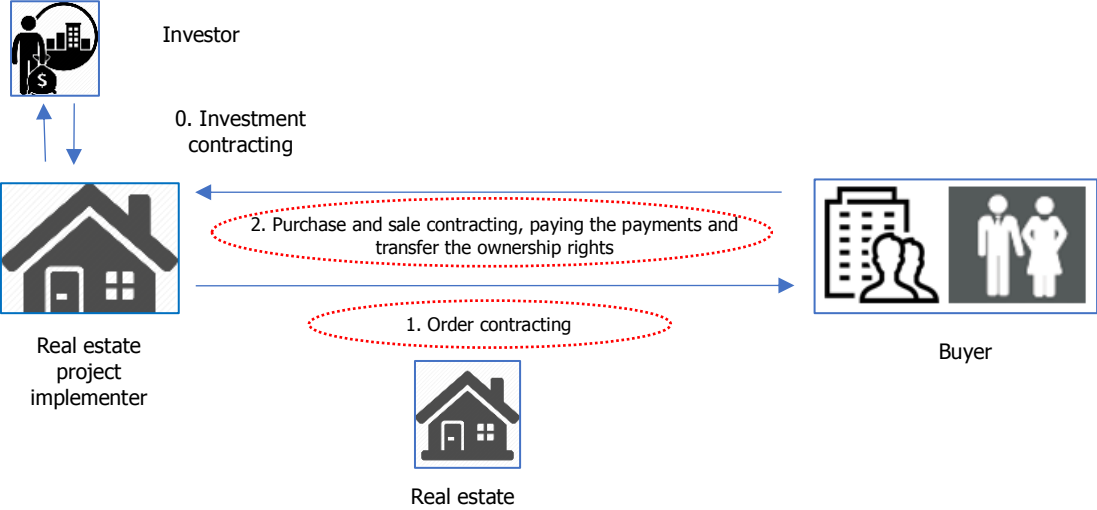


Description of activities – ML/TF inherent risk



Funding and salesman that manages all activities starting from land release for real estate projects up to commissioning of the properties. Real estate project may wholly implemented by the funding body or some of project activities by subcontractors. The real estate project implemented for purpose to own and possess by the implementer not for sale at the primary market of real estates is not considered for this case. ML/TF risks may associate with providing services for sale, lease of real estates for customers, activities of delivery channels and identification of locations for real estates by brokers or mediators. In addition, high risk may raise from the origin sources for the investors. Special attention and client recognition is required for sale of real estate at the primary market.

Real estate project implementer nages all activities starting from land release for real estate projects up to commissioning of the properties. As well sale of real estate at the primary market










Client recognition process commenced and done at the stage of contracting with real estate seller at the real estate brokers (1) and expressing the interests to buy the real estate by buyers (2) accordingly. 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.

On other side, Special control and client recognition is needed for the case when seller concludes the authorization contract with real estate project implementer to purchase the real estate on behalf of the seller.

In terms of selling and buying the real estate, many stakeholders take in a part in the process, for instance notary is responsible to certify the purchase and sale agreement when transfer the ownership right of real estate, taxation department to collect the sale tax for real estate, the state registration office to register the ownership rights and bank to transfer the payments between agreement parties. The two parties have the right to take the control on the client recognition process and ask to complete the requirements.

Inherent risks of activities in real estate project implementer

Vulnerability variables	What increases the risk?	What reduces the risk?
 Customer	<ul style="list-style-type: none"> • Foreign customer, PEPs are dominant • Key customers are foreign individuals and entities • Large number of customers 	<ul style="list-style-type: none"> • Requirements for customers • More domestic customers • Easy client recognition • Few number of regular customers • Many sources of information used for client recognition process
 Product and services	<ul style="list-style-type: none"> • High expensive real estate • Real estate is able to divide into units of • Incentives offer for purchase in case • Discount per amount of deposit payments • Offer the loan from company 	<ul style="list-style-type: none"> • Medium and medium –low priced real estates • Sale with bank loan • Payment fixed terms
 Delivery channels	<ul style="list-style-type: none"> • Marketing and sale through brokers • Bonus for brokers • Real estate sale through real estate brokers 	<ul style="list-style-type: none"> • Face-to-face client recognition process • Face-to-face relationships with customers
 Geographic location	<ul style="list-style-type: none"> • Orders from abroad • Activities through representative offices • Operating in economic free zone, border area where is low control and high risky zone for the crimes and criminals 	<ul style="list-style-type: none"> • Operating at same region or country where control is taken • No branch
 Structural organization	<ul style="list-style-type: none"> • End customers is composed of PEPs and other high risky rated bodies • Proactive marketing activities , • Cooperative members are obligated to joining members 	<ul style="list-style-type: none"> • End customers have no PEPs and other high risky rated bodies • Low rate for membership and small amount of shares by members • Marketing activities are limited by law

		<ul style="list-style-type: none"> • Insufficient staff and high staff turnover . 	
	Regulation	<ul style="list-style-type: none"> • Not proper cooperative bylaw and procedure • No ethic code • VAT payer and issue VAT payment slip to individuals 	<ul style="list-style-type: none"> • Have the well and smooth bylaw for the cooperative • Restrictly follow up the ethic code
	Compliance	<ul style="list-style-type: none"> • Marketing agents are lack of sufficient concept and knowledge of ML/TF risks • Low internal auditing system • No more inspection and investigation • Breach and violation to delay submission of information and reports, sending the confused and incorrect information and data • Involved in well organized crimes and records with tax evasion 	<ul style="list-style-type: none"> • Marketing agents are familiar with concept and knowledge about ML/TF risks • Effective and productive internal auditing system • No shortcoming and breach at the inspection and control • Regular and timely submission of information and reports, no delay and problems with reports • Proper comply with legal requirements and no part in the crimes well organized

The basic service indicators of the activities

Real estate cost	Dec, 2017	Dec, 2018	Date for commissioning (HHs)		
Apartment assessment Index (Basic 2013.1)			Order received	33.882	33.017
General index	1.011	1.055	Commissioned	21.768	19.386
New apartment	1/160	1.249	Commissioning for that year	5.827	
Old apartment	0.915	0.971	Commissioning after 1 year	5.878	13.523
Apartment price 1m2 in million MNT			Commissioning after 2 years	409	108
New apartments	2.20	2.30	Ranking (HHs)		
Luxury	7.12	8.28	Ordering for	33.882	33.017
Business class	3.36	3.61	Luxury	874	819
Medium class	2.17	2.29	Business class	4.777	6.361
Standard class	1.62	1.70	Medium class	17.144	14.020
Old apartment with 2 rooms	1.77	1.85	Standard class	11.087	11.817
Other real estate cost 1m2 in million MNT			Sales of Houses	Dec, 2017	Dec, 2018
Office average cost	3.53	3.53	Order status (HHs)		
House average cost	2.00	2.27	Total under construction	6.240	3.365
Fenced home	38.09	38.74	Order recieved	1.595	1.938
Sales of apartment	Dec, 2017	Dec, 2018	Order stopped	958	1.073
Sales starting from beginning of year (HHs)			Not yet ordered	3.687	354
New apartment	12.578.0	9.811.0	Order types (HHs)		
Old apartment	12.082.0	14.678.0	Townhouse with multiple families	724	930
Fenced home	4.683.0	5.077.0	House for single family	871	1,008
Order status (HHs)			Date for commissioning (HHs)		
Total under construction	82.355	57.229	Commissioned	938	1.057
Order not yet started	37.432	14.362	Commission for that year	379	-
Order stopped	11.041	9.850	Commissioning in following year	278	881
Order recieving	33.882	33.017			

* Source: Mongol Bank, Tenkhleg Broker, LLC .

Present vulnerability level of activities in real estate project implementer

Risk factors	Point scale	Explanation
Size of the sector	5.0	Large numbers of project implementers in real estate sector and amount of current capital places in the 2 nd in the economic sectors.
Product and service	4.0	ML inherent high risk, but onle sale in the primary market .
Transactions	5.0	High amount of transactions and open for foreignh individuals and entities. No information database for the registration
Customers	5.0	Open for foreignh individuals and entities. No information database for the registration. Direct contracting for sale of real estate .

Delivery channels	4.0	Face-to face relationship with customer, but no recognition of end owners
Average scale	4.6	

Impact	Impact scale	Explanation
Economic – Financial impact	4.0	Finance-economic impact at medium-high level. Important role in financial sector and key lenders
Reputational – Trust impact	4.0	Reputation-trust impact at medium-high level. Customers are now looking for reputation of project implementer and contractor company for selection of real estate for purchase.
Average scale	4.0	

Risk level	18.4
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