

REGULATION ON VIRTUAL ASSET SERVICE PROVIDERS OPERATIONS

ONE. GENERAL PROVISION

- 1.1. The purpose of this procedure is to define the requirements for the proper governance, operations, capital equity, and reporting of the Virtual Asset Service Providers /hereinafter referred to as VASP/.
- 1.2. VASP shall abide by the “Corporate Governance Code” and its rules, regulations, and guidelines.
- 1.3. VASP shall operate to protect the interests of customers and ensure fair competition in the virtual market.

TWO. EXCHANGE OF VIRTUAL ASSETS

- 2.1 To carry out the activities stipulated in Article 6.1.1 and 6.1.2 of the Law on Virtual Asset Service Providers, the requirements set forth in the Chapter shall be met.
- 2.2 VASP shall handle the customer’s order fairly, in accordance with the order acceptance price and time.
- 2.3 VASP shall provide publicly disclose the exchange information fairly and accurately.
- 2.4 VASP shall regularly conduct internal inspections on the following orders and transactions to prevent illegal use of internal information and abuse of exchanges on VASPs:
 - 2.4.1 high value transactions;
 - 2.4.2 transactions with high fluctuations;
 - 2.4.3 transactions in which virtual assets are traded small quantities, 5 or more times, that may affect the value of the virtual asset;
 - 2.4.4 virtual asset transactions exchanged 5 or more times between the related and affiliated persons with common interests;
 - 2.4.5 other transactions considered abnormal.
- 2.5 VASP shall disclose and submit the evidence to the National Police Agency, General Intelligence Authority and must notify the FRC within 24 hours if an activity stated in Article 18.19, 18.20 of Criminal code is detected after conducting supervision according to Article 2.4 of this regulation.
- 2.6 Participants should be able to receive the following information in real-time upon the completion of virtual asset service transaction agreement:
 - 2.6.1 name of virtual asset;
 - 2.6.2 time of transaction completed;
 - 2.6.3 amount of traded virtual asset;
 - 2.6.4 other necessary information.

- 2.7 VASP may be able to handle the exchange using the following means:
 - 2.7.1 market order;
 - 2.7.2 limit order;
- 2.8 VASP shall notify the FRC of the information on virtual assets excluded from the transactions within 24 hours.

THREE. TRANSFER OF VIRTUAL ASSET

- 3.1 The requirements set forth in Article 6.1.3 of the Law on Virtual Asset Service Providers must be met to conduct the operations.
- 3.2 Originator VASP must obtain and submit the following information for virtual assets transactions amounting to MNT 3 million or above:
 - 3.2.1 originator's full name/legal entity's name;
 - 3.2.2 originator's ID number;
 - 3.2.3 transaction number of originator's wallet number;
 - 3.2.4 originator's registered address;
 - 3.2.5 purpose of the transaction;
 - 3.2.6 beneficiary's full name/legal entity's name;
 - 3.2.7 beneficiary's registered address;
 - 3.2.8 beneficiary's jurisdiction;
 - 3.2.9 name of beneficiary VASP;
 - 3.2.10 other information.
- 3.3 Beneficiary VASPs must collect and hold the following information for virtual asset transactions amounting to MNT 3 million or above:
 - 3.3.1 beneficiary's full name/legal entity's name;
 - 3.3.2 beneficiary's ID number;
 - 3.3.3 transaction number of originator's wallet number;
 - 3.3.4 beneficiary's registered address;
 - 3.3.5 beneficiary's full name;
 - 3.3.6 transaction number or beneficiary's wallet number.
- 3.4 When receiving transactions from unhosted wallet, beneficiary VASP shall hold information stated in Article 3.3.
- 3.5 Originator VASP shall submit information stated in Article 3.3 immediately and securely before the transaction is conducted.
- 3.6 Originator and beneficiary VASP shall identify counterparties, conduct CDD, identify data privacy and security before submitting and holding information stated in the Article 3.2, 3.3.
- 3.7 In case originator VASP conducts transaction through intermediary VASPs, it must conduct actions stated in 3.2 and 3.3.
- 3.8 Originator VASP must ensure data accuracy of the originator, while beneficiary must ensure data accuracy of the beneficiary.
- 3.9 VASP must conduct risk-based approach and shall not make transfers with high-risk entities or shall refuse to operate with them.
- 3.10 Originator and beneficiary VASP shall keep records stated in Article 3.2 and 3.3 and it must be kept for easy transfer to the law enforcement authorities.

- 3.11 VASP shall conduct two-step verification and check the accuracy of the address before conducting virtual asset transfers for the customers.

FOUR. SAFEKEEPING AND ADMINISTRATION OF VIRTUAL ASSETS OR THEIR RELATED INSTRUMENTS

- 4.1 The requirements set forth in the Chapter shall be met to conduct the activities specified in Article 6.1.4 of the Law on Virtual Asset Service Providers.
- 4.2 VASP shall safe-keep and administer virtual assets no more than 100 times its own capital equity.
- 4.3 VASP measures its capital adequacy ratio on a quarterly basis and meets the requirements set forth in Article 4.2 of this regulation.
- 4.4 VASP shall conduct two-step verification and check the accuracy of the address when safekeeping and administering virtual assets by customer's order.

FIVE. PARTICIPATING, PROVIDING FINANCIAL SERVICES RELATED TO AN ISSUER'S OFFER AND/OR SALE OF A VIRTUAL ASSET

- 5.1 The requirements set forth in the Chapter shall be met to conduct the activities specified in Article 6.1.5 of the Law on Virtual Asset Service Providers.
- 5.2 Cooperation agreement must be signed between the virtual asset issuer and VASP, prior to organizing virtual asset offer and trade to the public.
- 5.3 VASP must analyze the followings matters prior to the decision to organize virtual asset offer and trade to the public:
- 5.3.1 whether the virtual asset and its project are economically viable, realistic and sustainable;
 - 5.3.2 whether the virtual asset issuer, its ultimate owners and the authorized officials have no history of involving in economic crimes, no overdue debts, and have a business reputation and professional team;
 - 5.3.3 whether virtual asset-based blockchain is fully developed, and ensure cybersecurity;
 - 5.3.4 other matters.
- 5.4 Virtual asset introduction shall include the following information:
- 5.4.1 introduction/presentation in Mongolian language;
 - 5.4.2 virtual asset usage, purpose of issuance and blockchain type;
 - 5.4.3 name of the virtual asset issuer, postal address, contact information, and information about conducted activities;
 - 5.4.4 information on shareholders and beneficial owner of virtual asset issuer, number and percentage of shares;
 - 5.4.5 structure and organization of virtual asset issuer, name, picture, work experience of authorized officials, and other additional information;
 - 5.4.6 virtual asset issuer's financial report of the past year, and audit review;
 - 5.4.7 a quantity and price of virtual asset for offered to the public;
 - 5.4.8 disbursement of funds raised and action plan;
 - 5.4.9 information on distribution and allocation of virtual asset;
 - 5.4.10 information on potential risk to the virtual asset issuer's activities;

- 5.4.11 technological audit report on the virtual asset;
- 5.4.12 other relevant information.
- 5.5 Prior to organize virtual asset offer and trade to the public, VASP shall submit the introduction of new virtual assets for trade and relevant documents to the FRC within 10 business days.
- 5.6 VASP shall monitor the implementation of virtual asset introduction, tokenomics, and action plan and shall take measures to mitigate the risks.

SIX. INFORMATION TRANSPARENCY AND CONSUMER PROTECTION

- 6.1 VASP shall disclose the following information through the software on its website transparently and openly:
 - 6.1.1 information stated in Articles 9.1.1-9.1.13 and 10.13 of the Law on Virtual Asset Service Providers;
 - 6.1.2 user instruction, guidance and manual to use trading software program;
 - 6.1.3 contact details for the public, email address, active social networking address, location, and telephone numbers;
 - 6.1.4 introduction of publicly issued and traded virtual assets through its own software program;
 - 6.1.5 information on products and services and the service charges, commission;
 - 6.1.6 registration number of the virtual assets on the blockchain, distinguishing mark, total issued and traded quantities, the value, price, rate and the trading volume;
 - 6.1.7 virtual asset registration requirements, criteria, rules and regulations;
 - 6.1.8 information on customers' complaint handling and resolution process;
 - 6.1.9 introduction of VASP main activities, financial statement and information of transactions with potential direct impacts on the business;
 - 6.1.10 information on changes and updates to the software, system, information and technology used in operations.
- 6.2 VASP shall promptly disclose the following changes in the activities in virtual asset offer and trade to the public through its software:
 - 6.2.1 changes in authorized officials;
 - 6.2.2 changes in the introduction of virtual assets, tokenomics, and action plan and reduction in their performance;
 - 6.2.3 changes in the organizational structure;
 - 6.2.4 authorized executive and officers' involvement in economic crimes has been proven by the court;
 - 6.2.5 other information stipulated in the internal operational procedure of VASP.
- 6.3 VASP shall undertake following actions within the framework of consumer protection activities:
 - 6.3.1 resolve customer complaint within 7 business days after the receiving the complaint;
 - 6.3.2 organize quarterly public awareness activities for customers and the general public on risks associated with virtual assets;
 - 6.3.3 take confidentiality guarantee from the staff on non-disclosure and non-exploitation of the customers' data for non-work purposes.

- 6.4 VASP shall publicly disclose the following information through its website or software to prevent the misuse of virtual assets, regularly or periodically in an open and transparent manner:
 - 6.4.1 VASP transactions in order to stabilize the price differences and increase liquidity, in case the value of the virtual asset in the trading software is relatively lower or higher than the average price in the international market;
 - 6.4.2 repurchase activities by an issuer of the virtual assets in public, based on the agreements and transactions with the VASP to prevent a sudden price drop of the virtual asset.

SEVEN. INFORMING AND REPORTING

- 7.1 VASP shall disclose the information specified in the legislation and this regulation to the FRC, clients, and the public in a complete, accurate and unambiguous manner within a specified period and in timely and secure manner.
- 7.2 VASP shall submit an annual financial report to the FRC by February 10 of the following year and semi-annual and quarterly financial reports by 20th of the following month.
- 7.3 VASP shall submit the annual financial report and review certified by the auditing legal entity to the FRC by May 1 of the following year.
- 7.4 VASP shall submit the annual operational report, containing the following information, to the FRC by March 1 of the following year and disclose to the public:
 - 7.4.1 evaluate and review the factors that affected the VASP revenue in the reporting year;
 - 7.4.2 VASP's capability to fully cover its business liabilities with its own financial sources and if necessary, to attract funding from external and internal sources;
 - 7.4.3 Market research, market share, products and services innovation, diversification and changes in the sector where VASP operates;
 - 7.4.4 statistics of customers' virtual and monetary assets managed and maintained by VASP;
 - 7.4.5 risk assessment report and risk mitigation and prevention measures conducted on the VASP software, system, information, and technology infrastructure and their continuity, reliability, security, and confidentiality;
 - 7.4.6 VASP's transactions with a large volume and conflict of interests, and the transaction stakeholders;
 - 7.4.7 VASP's risk management implementation and internal audit reports;
 - 7.4.8 other information.
- 7.5 VASP shall disclose the company's bylaws and a copy of the state registration certificate within 5 business days to the FRC, in case of changes in shareholders other than the legal name, address, location, and related parties.
- 7.6 VASP shall prepare documents on changes in the amount of share capital, related parties, and authorized officials in advance, according to Annex 1 and 2 to this Regulation, and submit the FRC for resolution.
- 7.7 The FRC shall review and resolve the request specified in Article 7.6 of this regulation within 10 business days after submission of required and complete documents.

Annex 1 to the “Regulation on Virtual Asset Service Providers Operations” approved under the resolution No.....by the Financial Regulatory Commission, dated2022

**LIST OF DOCUMENTS TO THE APPLICATION FOR CHANGES
IN VASPS SHARE CAPITAL, RELATED PARTIES AND THE AUTHORIZED OFFICIALS**

№	List of documents	Number of pages
1	Application form - Annex 2 to this regulation	
2	Evidence and decisions as a legal grounds to apply changes	
3	A letter of eligibility for a suitable person issued by the FRC	
4	Shareholder’s origin of assets to purchase VASP shares and evidence	
5	A draft proposal to amend the legal entity’s bylaws in relation to the changes in the share capital and shareholders	

Annex 2 to the “Regulation on Virtual Asset Service Providers Operations” approved under the resolution No.....by the Financial Regulatory Commission, dated2022

**APPLICATION FOR CHANGES
IN VASPS SHARE CAPITAL, RELATED PARTIES AND THE AUTHORIZED OFFICIALS**

Date of application	Year		Month		Day		
Applicant's legal name							
State registration No							
Registration No.							
Please select the appropriate type.							
<input type="radio"/> Changes in the amount of share capital <input type="radio"/> Changes in related parties <input type="radio"/> Changes in the authorized officials							
Part 1. Changes in the amount of share capital							
Full name/ legal name	Registration No	Current amount share capital MNT	Increased by MNT	Deducted by MNT	Amount of share capital after the change in MNT	Percentage in share capital	
<i>Note: (The above information must be completed for each shareholder.)</i>							
Part 2. Changes in related parties							
Full name/ legal name	Ultimate owner	Ownership 5% or more percent in the share capital	Affiliation	Registration No	Number of shares	Amount of shares in MNT	Percentage in share capital
Part 3. Changes in authorized officials							
Job title	Full name	Affiliation	Registration No	Profession	Telephone No		

Applicant's name:

(Authorized Official)

(signature)

(date)