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ABBREVIATIONS AND ACRONYMS

AML/CFT	Anti–money laundering and combating the financing of terrorism
DPMS	Dealers in precious metal and stones
EMMoU	Enhanced Multilateral Memorandum of Understanding
FATF	Financial Action Task Force
FRC	Financial Regulatory Commission (of Mongolia)
IAIS	International Association of Insurance Supervisors
IOSCO	International Organization of Securities Commissions
JSC	Joint stock company
LLC	Limited liability company
MACE	Mongolian Agricultural Commodity Exchange
MMoU	Multilateral Memorandum of Understanding
MNT	Mongolian tugrik
MONICPA	Mongolian Institute of Certified Public Accountants
MoU	Memorandum of understanding
MSE	Mongolian Stock Exchange
NBFI	Non–bank financial institution
NGO	Non–governmental organization
REB	Real estate broker
SC	Securities company
SCC	Savings and credit cooperative
SME	Small and medium enterprise

FOREWORD



This 2021 Annual Report of the Financial Regulatory Commission (FRC) is presented for your information.

Some of the year was devoted to digitalizing more of the FRC's activities, and updating registration and licensing programs in line with the prevailing situation.

The COVID-19 pandemic brought many social, economic and lifestyle changes, as well as major challenges to the financial sector during 2020 and 2021.

The FRC achieved significant success in 2021 as a result of re-evaluating potential risks in the

regulatory sectors (and systemic risks), amending medium and long-term financial market policies, and developing appropriate regulatory solutions. For example, shares became freely convertible among international exchanges for the first time, as a result of approving the 'Regulation of dual listing of securities'. Significant regulations were introduced to activate securities trading by bringing underwriting in line with international standards (as a result of classifying securities registration into stock and bond registration). The 'Regulation of OTC market' opened up broad opportunities to issue financial products in the OTC market, and trading totaling MNT 284.7 billion was conducted among 26 companies in 2021. New products (such as publicly-traded mutual funds, the first corporate bonds combining MNT, publicly-traded asset-backed securities, the first digital bonds based on financial technology, and bank IPOs) also emerged in the market.

In order to disseminate insurance risks and promote the capital market, amendments were made to reduce the maximum amount of the total assets and reserves (to be placed in the bank accounts and deposits) by 10%. And the maximum amount of corporate bonds and shares (to be placed in the form of the first-class of the Mongolian Stock Exchange) were increased by 10%. Insurance companies had the opportunity to invest up to MNT 190 billion in corporate bonds and shares.

As a result of the above, market capitalization (the share of the FRC's regulated entities in terms of GDP) increased by 8.7 percentage points (compared to 2020) to reach 24% in 2021. Capital market capitalization was increased by 95.8% (to MNT 6.0 trillion); the highest in the 30-year history of the capital market. Securities trading was increased 21.6 fold.

FOREWORD

A regulatory sandbox environment was created, allowing the testing of new, technology-based products (before their entry to the financial market) and the assessment of their risks. In 2021, the 'Law on Virtual Asset Service Providers' was adopted, and the FRC began working of its enforcement.

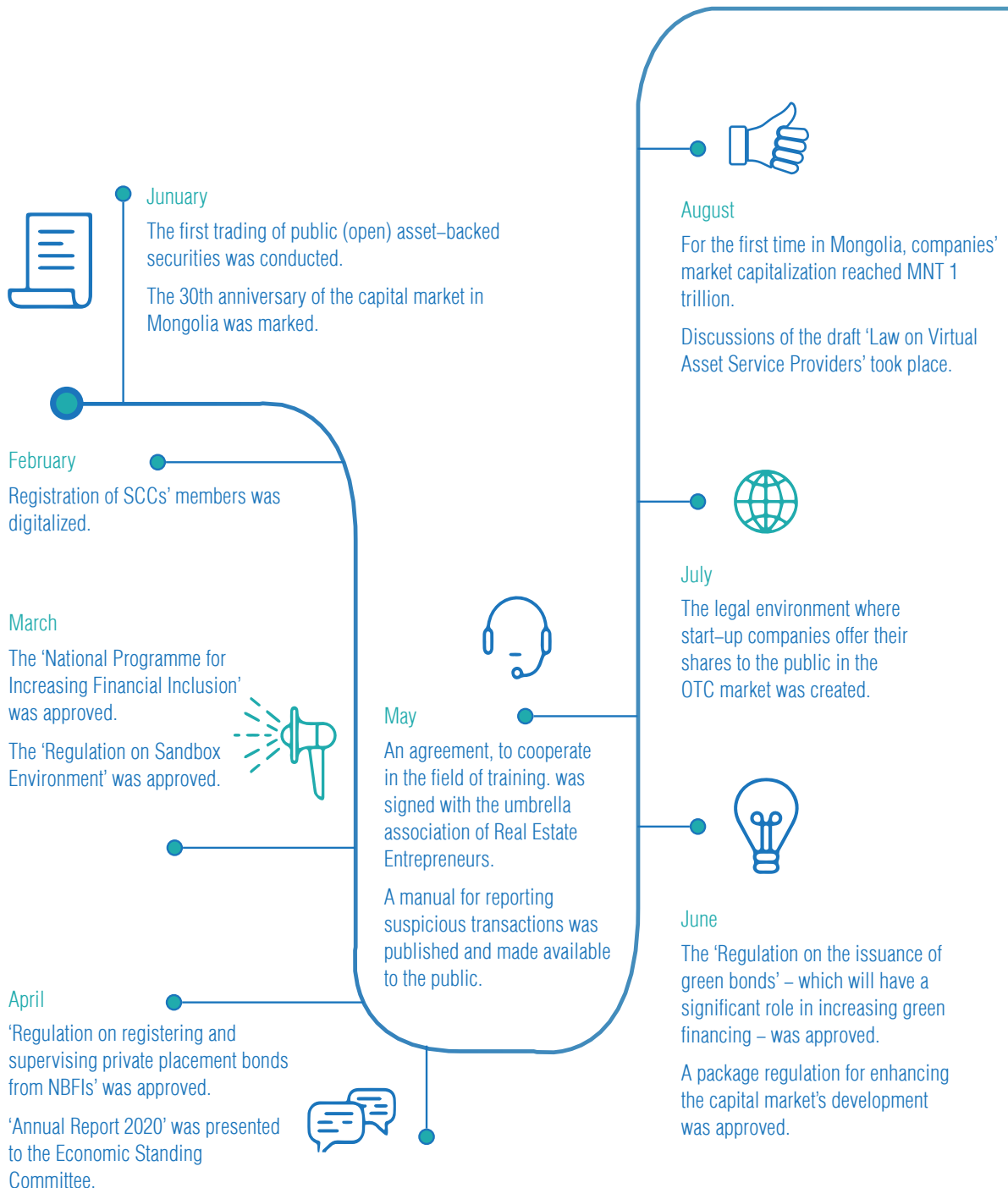
In 2022, the FRC will pay attention to maintaining market growth and promoting sustainable green finance. These will be accomplished by offering shares of systemic banks and state-owned companies to the public, providing policy support for professional investors, improving legal regulations, and increasing access to finance.

Bayarsaikhan Dembereldash



Chairman

TIMELINE





September

Trading in the OTC market began.

Capital market capitalization reached its highest level in the 30 years of its history.

The first online forum of SCCs was held.

Mongolia was added to the FTSE's 'Watch List of Frontier Markets'.



October

An authorized official of insurance companies is authorized to review and approve insurance products.

The first meeting of the Sandbox Council took place.

The FRC joined the 'Billion Tree' national campaign.



November

The 'Investor Relations Program' was announced.

Public petitions and complaints were being resolved electronically, and by telephone.

The first product to be tested in a sandbox environment was registered, and a digital bond was released in the market.



The opening bell ceremony for Mongolia's first digital bond was held.

The FRC signed an MoU with the Mongolian Sustainable Finance Association



December

Bogd Bank offered its shares to the public.

An 'Export Credit Insurance' product was registered for export companies.

The FRC's 'Supervision Framework' was approved.

'Research Booklet №2' was produced and made available to the public.

INTRODUCTION

The FRC was established in 2006 following Parliament's enactment of the Law on the Legal Status of the FRC. With adoption of the new law, the FRC commenced.

The FRC is responsible for ensuring the stability of financial markets, protecting the interests of investors (customers and policyholders), supervising the

nonbank financial sector, and establishing a regulatory environment through sound policy-making.

With 163 staff, the FRC supervised 3,440 regulated entities across six sectors throughout 2021, and implemented necessary policy measures.

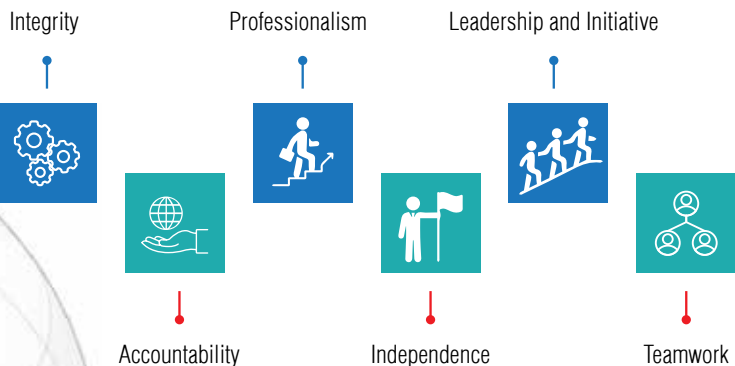
VISION

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

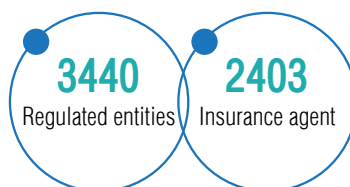
MISSION

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

VALUES

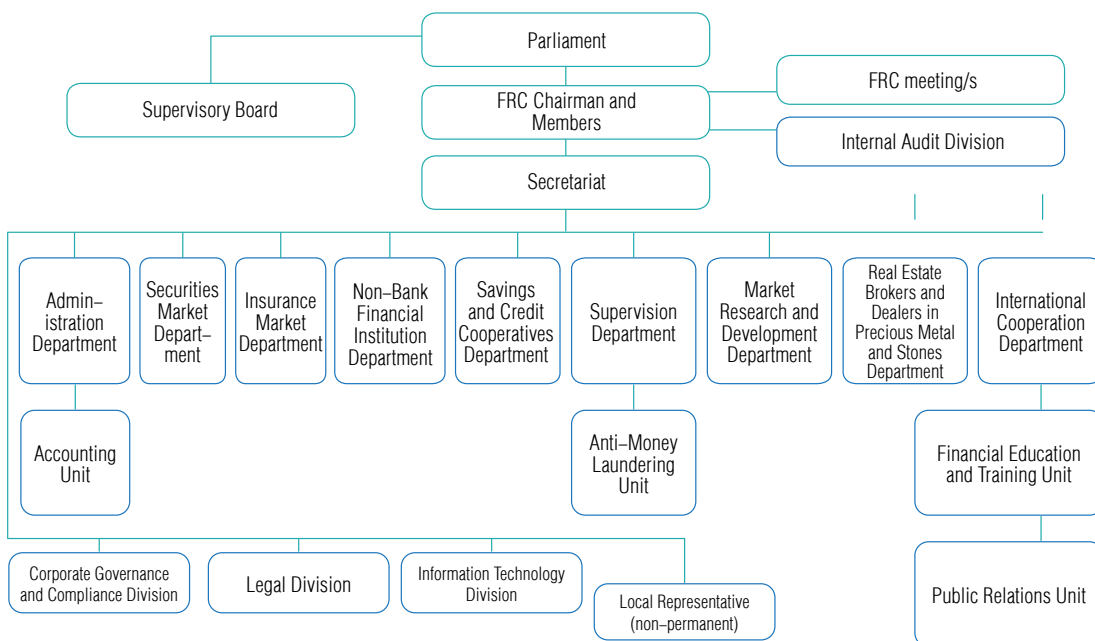


SECTOR STRUCTURE



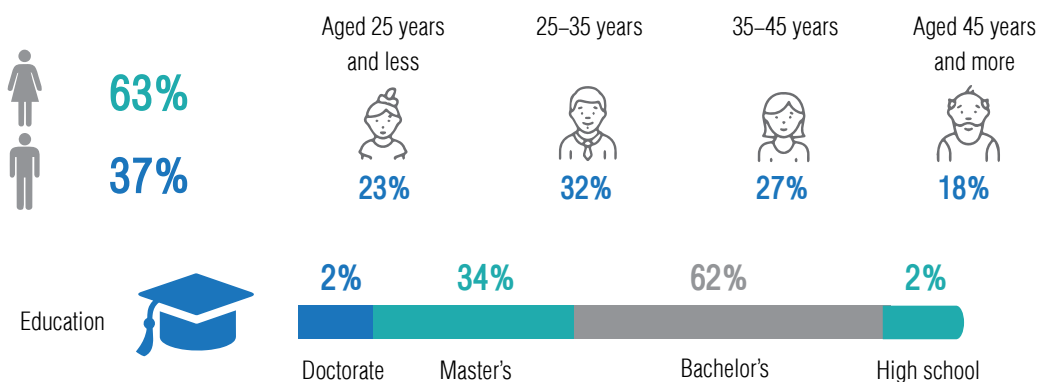
ORGANISATIONAL STRUCTURE

Figure 1. Organisational Structure



In 2021, there was a total of 62 local representatives – charged with supervisory duties to maintain records of regulated institutions, and enforce and promote FRC’s decisions – operating across all 21 provinces of the country, and the nine districts of the capital.

Figure 2. Staff Information



SUMMARY

In 2021, the International Monetary Fund (IMF) concluded that inflation increased due to supply chain delays and rising energy and commodity prices due to the COVID–19 epidemic, and it remains high. As a result, global economic growth reached 5.9 percent.

Mongolia's gross domestic product was MNT43.0 trillion in 2021; an increase of 1.4% over the previous year. Increases, within the leading sectors, included:

Other sectors, decreased, including:

- financial and insurance, 23.1%,
- wholesale and retail trade, 21.1%,
- transportation and storage, –5.3%,
- mining, 18.9%,
- construction, –13.4%;
- agriculture, 16.9%
- water supply, 19.9%,
- information and communication, 15.5%,
- health and social, 15.0%;
- manufacturing, 12.5%;
- real estate property, 10%;
- public administration and defense, 7.8%
- education, 5.6%

In 2021, 579 regulated entities operated in the securities market, and the number of account holders reached 2.5 million. The total of securities traded increased by 21.6% and reached MNT1.4 trillion. While market capitalization increased by 97.5% to MNT 6.0 trillion, the Mongolian Stock Exchange (MSE) TOP 20 Index increased by 25,125.8 points to 44,411.6.

During the fiscal year, MNT 794.6 billion worth of five goods were traded in the Mongolian Agricultural Commodity Exchange (MACE); a decrease of 62.6% compared to the previous year.

In the insurance market a total of 322 insurance companies, intermediaries, brokers, loss adjusters, audit firms, actuaries, and auditors, along with 2,403 insurance agents, delivered products and services to customers. Total assets of the insurance market reached MNT 425.4 billion, of which 45.5% (MNT 193.7billion) were for the reserve fund.

In 2021, the general and life insurance sector insured 3,573,869 policies with a total of MNT132.8 billion in premiums (an increase of 20.8% in insurance premiums from the previous year) and collected 243.3 billion MNT. A total of MNT 84.4 billion was spent on reinsurance premiums, an increase of 26.4% compared to the previous year. The total indemnity expenses of insurance companies reached MNT 70.0 billion in 2021; an increase of 16.9% compared to the previous year.

During the fiscal year, 534 NBFIs operated in the non–bank sector; and increased the number of customers to 4.8 million; an increase of 69.5% from the previous year (of which 4.4 million – 92.1% – was fintech customers). The number of borrowers increased 2.1–fold to 1.7 million, of which 1.3 million (80.2%) were fintech borrowers. Total assets reached MNT 2.7 trillion, an increase of 35.0% from the previous year, of which MNT 2.0 trillion was outstanding loans, and 87.5% were loans to individuals and 12.5% loans to legal entities.

The number of SCCs decreased by 16% to 209, while the number of members increased 3.8% to 75,400. The total assets of SCCs increased by 13.8% to MNT 291.2 billion during the fiscal year.

In 2021, 248 real estate brokerage companies were operating under license, and a total of MNT 852.6 billion worth (1,302,500 m²) of real estate was bought and sold in 6,274 transactions. A total MNT 23.6 billion worth (186,400m²) of real estate was brokered for rent or lease in 2,114 transactions.

A total of 40 organizations and 436 individuals were licensed as dealers in precious metal and stones (DPMS), in the sector where MNT694.2 billion was sold and MNT583.6 billion bought.

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KEY INDICATORS

Figure 3. Key Indicators of the financial and non-financial business sector



GLOBAL MARKET

Global central banks increased their gold reserves more than dollars. The volume of gold reached 36,000 tonnes; the highest level since 1990. Accordingly, countries are buying large amounts of gold to reinforce their financial systems and protect them from bankruptcy.

- According to the IMF estimation, in 2021 the world economy increased by 5.9%; the economies of developed countries increased by 5.2%, and the economies of developing countries by 6.4%. The economy decreased by 0.1 percentage point (from the IMF estimation) due to the COVID-19 pandemic (which constrained foreign trade, and downgraded the economies of some countries).



The value of world trade increased by 25%; to USD 28.5 trillion.

Analysts concluded that the increase was due to the strong recovery of demand related to the increase of commodity prices and package measures (to stimulate economies in the easing of restrictions imposed by the pandemic).

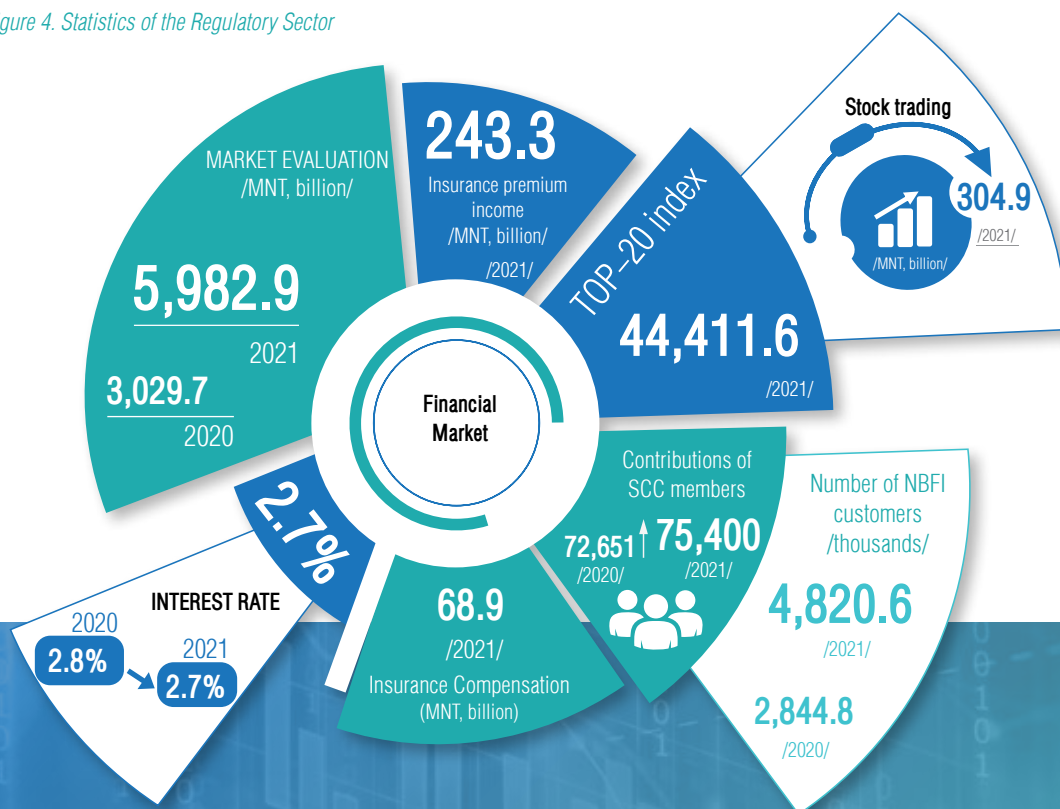
Changes in stock market indicators in 2021 – compared to the previous year – were as follows:

- MSCI index up 28.1%
- S&P 500 up 27.0%
- NASDAQ up 22%
- Germany's DAX up 7.7%
- Japan's Nikkei up 4.9%
- France's CAC up 38.9%, and
- China's CSI 300 down 1.6%

During 2020 and 2021, oil prices increased by 50%, natural gas by 48%, and copper by 25%. Food prices increased by 28.1%, and the average price index reached 133.7 percentage points; an increase of 23.1% compared to 2020.

CURRENT STATUS OF FINANCIAL MARKETS

Figure 4. Statistics of the Regulatory Sector



Capital market

- » JCSs: 314
- » SCs: 55
- » SECURITIES MARKET TRADING: MNT 1.4 trillion
- » Value of agricultural products: MNT 794.6 billion
- » Securities backed by MNT 3.0 trillion from 61,952 borrowers

Insurance market

- » Total assets: MNT 425.4 billion
- » Total fees: MNT 243.3 billion
- » COMPENSATION: MNT 69 billion
- » RESERVE FUND: MNT 194 billion
- » Penetration: 0.63%
- » Density: MNT 72,292 billion

NBFIs sector

- » NBFIs: 534
- » Total assets: MNT 2.7 trillion
- » Total loans: MNT 2.0 trillion
- » Annual weighted average interest rate: 2.7%
- » Borrowers: 1.7 million
- » Non-performing loan: 7%

SCCs sector

- » SCCs: 209
- » Total assets: MNT 291.2 billion
- » Total loans: MNT 213.4 billion
- » Total savings: MNT 203.6 billion
- » Annual weighted average interest rate: 2.2%
- » Annual weighted average savings interest rate: 1.2%
- » Depositors: 33,600
- » Borrowers: 38,000

POLICY AND LEGISLATION



POLICY AND LEGISLATION

Regulatory environment: Ensured the implementation of 27 laws, and 111 regulations and guidelines related to financial market activities. Among these, the rules and regulations related to: securities market (55); insurance market (25); NBFIs sector (16); SCC sector (6); real estate brokerage and dealing in precious metals (6); and others within the framework of regulation (3).

Policy implementation: A total of 210 tasks – within the framework of the FRC Secretariat – were undertaken, and the organization's performance of the plan for 2021 reached a level of 95.0 (or 'Certain results were achieved.').

Table 1. Implementation of Resolutions

	Decision of the supreme authority	Measures Implemented	Performance (%)
1	National Financial Market Development Programme 2025	73	92.2%
2	Policy objectives and measures to be implemented in 2021, within the framework to intensify implementation of the National Financial Market Development Programme 2025.	60	80.3%
3	Action plan to implement the strategy to reduce interest rates	19	91.9%
4	Action plan of the Government of Mongolia; 2020–2024	4	71.2%
5	Plan of the money and capital market development	10	94.3%
6	Resolution No. 32 of the Parliament of Mongolia in 2020 (Ensuring financial and economic stability, risk prevention and digital transition of public services during the outbreak of COVID-19)	4	97.5%
7	National Anti-Corruption Program	21	100.0%
8	Total	191	89.6

The performance of 191 provisions (of five policy documents approved by Parliament, and two approved by the Financial Stability Council, relating to the financial market's activities) was 89.6%.



POLICY AND LEGISLATION

1. Within the framework of compliance with the General Administrative Law

Within the framework of conforming to the General Administrative Law a total of seven administrative normative acts – approved by the FRC in 2021 – were registered in the state unified database of administrative normative acts; in accordance with the General Administrative Law. In addition, amendments to five normative acts – approved by the FRC and registered in the state database of administrative normative acts – were reviewed by the state central administrative body in charge of legal affairs; and relevant actions were taken..

Table 2. Administrative Norms and Regulations registered 2021

No	Resolution, order name and number	Registered; MJHA	Title
1	No. A-90/85 of 2021.03.15 of the Chairman, FRC and the Governor, Bank of Mongolia	13 April, 2021. No. 5,196	Temporary regulation for developing, implementing, reporting and monitoring a plan to restructure banks into publicly listed companies, and change the structure of shareholders and the amount of share capital.
2	FRC Resolution No. 152 of 2021.04.14	22 April, 2021. No. 5,218	Defining requirements for the professional association of real estate brokerage organizations
3	FRC Resolution No. 165 of 2021.04.28	10 May, 2021. No. 5,237	Regulation on registering and supervising private placement bonds from NBFIs
4	FRC Resolution No. 225 of 2021.06.11	25 June, 2021. No. 5,333	Securities Registration Regulation
5	FRC Resolution No. 226 of 2021.06.11	25 June, 2021. No. 5,334	Regulation on Corporate Bonds Registration
6	FRC Resolution No. 363 of 2021.09.08	25 September, 2021. No. 5,461	Regulation for conducting off-site and on-site inspections of real estate brokerage organizations
7	No. A-262/262 of 2021.10.05 of the Chairman, FRC and the Governor, Bank of Mongolia	21 October, 2021. No. 5,502	Regulation for approving changes in share capital and shareholder structure of publicly listed banks



POLICY AND LEGISLATION

2. Within the framework of capital market regulation



Law on Securities Market

The Working Group in charge of amending relevant legislations of the capital market, prepared the Draft Law on Amending the Law on Securities Market, along with a concept paper. In the draft law, are regulations on trading brokered certificates of deposit (by trading through a securities trading organization). Draft amendments to the Law on Securities Market were submitted to the Ministry of Finance, for discussion and approval in the regular session of the Parliament.

Law on Deposits, Settlements and Loans of Banks and Authorized Legal Entities

In cooperation with relevant government agencies, a draft revised Law on Deposits, Settlements and Loans of Banks and Authorized Legal Entities was developed and approved by Parliament. An environment to increase the variety of securities in the capital market – and maintain the return on interest – was created, as a result of reflecting the regulation on brokered certificates of deposit.

Law on Investment Fund

The Law on Investment Fund was drafted, and the forms of investment fund legal entities were expanded. In particular, regulations on establishing private investment funds (in the form of a contract, or non-legal entity), and funds traded by exchanges, were reflected.

In addition, regulations to invest in funds and funds' units – in order to increase the range of investment instruments of investment funds – were reflected.

The above-mentioned amendments will attract foreign investment, strengthen professional investors in the capital market and increase market demand; by expanding the fund's operations and creating internationally accepted variations.



POLICY AND LEGISLATION



"Securities Registration Regulation "

The Revised Securities Registration Regulation was drafted and approved by the FRC's Resolution №225 of 2021. Its purpose is to create a favorable regulatory environment for financial market participants, ensure effectiveness and transparency, support capital market development and improve the legal environment. As a result, new regulations on

trading initial and additional public offerings on the primary market (through underwriting companies, underwriters placing stocks on the primary market reflected in the introduction, placing and selling orders, and raising and distributing investments to investors, were reflected.



"Regulation on Corporate Bond Registration"

The Regulation on Corporate Bond Registration was approved by the FRC's Resolution №226; in order to simplify the registration of corporate bonds compared to the stock registration. By implementing the regulation, opportunities were developed in: eliminating duplication of supervision (over corporate bond issuance), reducing the duration of the registration process, and offering registered bonds to the public partially and in stages.

Within the framework of the approval of the Law on Regulation on Enforcement of the Law on Amendments to the Banking Law on 29 January 2021, the Regulation for approving changes in share capital and shareholder structure of public listed banks was developed and approved by the Joint Order № A-262/262 of the Governor, Bank of Mongolia and Chairman, FRC in 2021.



OTC market environment

Regulation of the OTC market was approved by the FRC's Resolution №9958; in order to create detailed direction for professional investors and foundations,

to develop the OTC market in line with international standards.

POLICY AND LEGISLATION

Trading on the OTC market started officially on 7 September 2021, by connecting the electronic OTC market platform to the direct registration system (system for book-entry ownership). The OTC market trading is now conducted wholly electronically; which saves investors time and money, and creates a favorable environment for investment. Since the establishment of the OTC market's regulation environment, private entities have successfully issued corporate bonds since September 2021. In particular, 26 companies raised a total of MNT 284.7 billion, and trading of corporate bonds on the secondary market is active.

Package regulations on the OTC market – in relation with the Mongolian Association of Securities Dealers – were approved by Order №168 of the FRC's Chairman. Amendments to the Regulation of the OTC market were approved by the FRC's Resolution №348 of 2021. Creating the OTC market's legal environment played a significant role in entities' trading of private corporate bonds. In particular, it provided for: saving time and cost in issuing securities, creating a secondary market of private corporate bonds from investors, improving liquidity, ensuring information transparency, and raising investments for small and medium enterprises (those facing difficulties with the requirements and criteria for issuing IPOs).

POLICY AND LEGISLATION

Insurance market

A concept paper, drafts, assessments of revised laws (the Insurance Market, Insurance Intermediaries, and Drivers's Insurance) were developed, and the concept paper was approved by the Minister of Finance and the Minister of Justice and Home Affairs.

Within the framework of developing the Insurance Package Law in line with international standards, comparative analysis of three countries was conducted, and reflected comments and feedback of stakeholders (including life and non-life insurance companies, intermediaries and loss adjusters) based on the results of discussions.

'Requirements and compliance indicators for insurers and insurance intermediaries', 'List of documents for applying licenses', and 'Requirements for the insurer's reinsurance plan' were revised and approved by the FRC's Resolution №25 (Annex 1), in order to:

- bring the insurance sector in line with international standards based on the core principles of insurance,
- increase insurance coverage,
- promote use of electronic or any advanced technology to improve the quality and inclusion of insurance products and services, and
- ensure corporate governance, information transparency, and consumer protection.

The 'Regulation on insurer's solvency criteria and its monitoring' (Annex 2, Insurance Package Regulation), and 'Terms and Conditions for the amount of assets to be deposited in the insurance reserve fund and compulsory insurance fund, and its placement in the investment' (Annex 4, Insurance Package Regulation) were amended by the FRC's Resolution №64 of 2021. The amendments provided opportunities for insurance companies to increase their investments in the capital market.



POLICY AND LEGISLATION

The 'Procedure for collecting, depositing, spending, and monitoring the index-based livestock reinsurance company fund' was developed. A draft regulation was also developed to amend the 'Procedure for centralizing, depositing accounts, transferring and spending funds of the driver's insurance fund'. In accordance with the

General Administrative Law, these items were posted on the FRC's website for receipt of public opinions, and discussions organized within related interest groups.



To support new technology-based financial products and services, and to improve the regulatory environment, the basic principles of insurance and international best practices were studied. Based on the results, the 'Requirements and Compliance Indicators for Insurers and Insurance Professional Participants' will be updated, and decided to register 5 issues.

Insurance companies used to sell their products on the

market after reviewing and registering by the FRC. This has been changed, so that authorized officials of the insurance company review and approve the insurance product and notifies the FRC (which publishes the results on the website). As a result, insurers have the opportunity to quickly introduce their products and services into the market, increase the quality (availability, and quantity) of insurance products and develop technology-based services. Within the framework of the above regulation, the FRC registered 54 new insurance products and revised the registration of 571 products (with duplicates) and posted them on the website. Currently, 621 products belonging to 22 types of insurance are sold in the insurance market of Mongolia.

POLICY AND LEGISLATION

NBFIs sector



A survey of the revised draft of the Law on Non-Bank Financial Activities, an impact assessment, cost research, and a study of other countries' regulations (services, and products) were conducted. The concept of the draft law and the revised draft law are being finalized, and progressing to submission to the Parliament.

FRC Resolutions 65 and 385 of 2021 made two temporary changes to the 'Procedures for regulating and supervising the activities of the loan guarantee fund'. The period of validity shall now be within the period specified in Article 18.1 of the Law on 'Reduction of Social and Economic Impacts of the COVID-19 Infection'. The 'Procedure for classification of NBFIs assets, establish and spend of asset risk fund' was amended four times, and extended until 31 December, 2021. Resolution No. 66 of 2021 of the FRC amended the appendix to Resolution No. 441 of 2019, and decided to postpone the schedule for gradually increasing the minimum share capital of NBFIs (until 2022–2023).

POLICY AND LEGISLATION

SCCs sector



A revised version of the 'Conditions and requirements for the operation of the SCC' was developed and duly reflected public opinion.

The 'SCC prudential ratios' were developed, revised and prepared for public comment.

As part of the work to create an integrated database of SCCs, the electronic authorization system included general information and others of 235 licensed SCCs, and 64,181 members of 222 SCCs were fully included as of June 30, 2021.

The FRC and the MOCCU jointly organized 10 training sessions, in accordance with Section 2.1.12 of the 'Conditions and requirements for the operation of SCCs' approved by FRC Resolution No. 245 of 2018. From the beginning of the training until June 2019, information on those members who participated was obtained from the MOCCU, and an integrated database of specialized human resources for the SCC market was created.



POLICY AND LEGISLATION

Real estate brokerage industry

- The first draft of the law regulating real estate brokerage activities was developed; to improve the policy, strategy, legislation, rules, regulations, criteria and standards followed by real estate brokerage, and to protect market participants from potential risks. In January 2021, a compilation of regulations regarding real estate brokerage, precious metals and stones, and anti-money laundering was published.
- Within the improvement of the regulatory framework of the sector, FRC Resolution No. 152 of 14, April 2021 was approved concerning the 'Regulation on Defining Requirements for the Professional Association of Real Estate Brokers'.
- FRC Resolution No.363 of 2021 revised the "Regulation on on-site and off-site inspection of real estate brokerage organization".

Dealers in precious metals and stones or products made from them

- In order to create an integrated database of dealers in precious metals and stones, or products made thereof in Ulaanbaatar, information collection activities were organized from among 72 trade and service centers.
- The first draft of a law regulating activities of dealers in precious metals and stones or products made thereof, was developed. This law will improve the policy, strategy, legislation, rules, regulations, criteria and standards followed by real estate brokerage; and will protect market participants from potential risks. In addition, a handbook for dealers in precious metals and stones (or products made thereof) was published.
- In order to create an environment for individual and legal entities to receive sales information from the HUR system, QR codes were created for 476 licensed citizens and legal entities to create E-barimt in the electronic payment system.



POLICY AND LEGISLATION

“Sandbox regulatory environment regulations”

The ‘Sandbox regulatory environment regulations’ were discussed in a regular meeting of the Financial Stability Board, and approved by the joint order of members’ organizations (Governor, BoM; Chairman, the FRC; the Minister of Finance, and the CEO of the Deposit Insurance Corporation) and approved by Joint Order A-63/64/32/A/27 of 1 March, 2021.

The Rule of the Sandboxing Council was approved by joint order No.A251/252 of the Governor of the BoM and the Chairman of the FRC on 24 September, 2021; and the council was duly established.



In order to create an environment for testing fintech-based products and services in the sandbox environment, a draft regulation (on decisions for awarding members of the sandbox, and the methodology for evaluating the business models and activities of organizations applying for participation in the sandbox environment) was developed.

In addition, the E-Sandbox licensing system was created and a new section ‘Sandbox’ was created and installed on the website. The menu includes six sub-sections: Regulation, Council, Unit, Request, News, Surveys and Related information. This system provides testing opportunities, and nine fintech-based financial products and services were received and tested.

Mongolia's program for improving financial inclusion 2021–2025

“The draft ‘Mongolia’s program for improving financial inclusion’ was approved by the Financial Stability Board, and is being implemented.

Virtual Asset Service Provider law

The draft Law on Virtual Asset Service Providers (VASPs) was developed and approved by Parliament, to prevent the registration of virtual asset service providers, combating money laundering, and terrorist financing activities.

The actual situation of the FRC’s inspection system, measures to be implemented and the levels to be achieved were determined, and the ‘Inspection Policy Document’ was revised and approved.



POLICY AND LEGISLATION

1 IN THE FRAMEWORK OF IMPROVING PUBLIC FINANCIAL EDUCATION



Due to the restrictive working regime during the COVID-19 pandemic, training, meetings, and discussions were conducted digitally. The FRC website, social network, and media (including Information on financial education) was regularly posted in the 'Financial Education' section of the Ikon.mn website and in the 'Economy' section of the Eagle.mn website.



In order to improve the financial education of citizens and promote the activities of the FRC to the public, the Commission broadcast the 'Financial Market Hour' program in cooperation with the Mongolian National Public Radio (MNPR).



Due to the COVID-19 pandemic, a series of financial education pages for the public was distributed through the FRC's social media channels, and through the 'For your Financial Education' section of Financial Inclusion magazine.



Digital training was co-organized in some provinces to provide information to the public on: how to participate in the capital market, the revised Banking Law, anti-money laundering and combatting the financing of terrorism, and issues.



Within the framework of providing knowledge on financial markets; a total of 176 news, 14 interviews, 24 informational videos, and 76 English versions of news items were posted on the FRC website.

POLICY AND LEGISLATION

2 IN THE FRAMEWORK OF IMPROVING THE KNOWLEDGE AND SKILLS OF FINANCIAL MARKET PARTICIPANTS



Relevant training was organized in accordance with the 'Training Agreement' with professional associations. In collaboration with seven professional associations 13 licensing trainings were organized, and four specialized trainings were organized with the MOCCU. Ten trainings on capacity building and certification of financial market participants were organized. A total of 260 people participated and received certificates.

Precious metals and stones traders were presented training twice, and 42 people participated. Authorization training for real estate brokerage was organized four times and 336 people participated.



The Qualifications Board organized three examinations to authorize professional services in the securities market. Authorization to conduct securities brokerage services was extended to 42 citizens who passed the examination.

- investment work and services to 244 people;
- 77 people were authorized to operate in the securities market.



In collaboration with the Alliance for Financial Inclusion (AFI) the Commission implemented the 'Introduction of green finance to regulated entities' project. Within the framework of the project, the FRC and Corporate Governance Development Center organized a 'Green Finance' webinar for more than 300 microfinance institutions.



On 9 September 2021, the FRC and the MOCCU jointly organized an online forum on 'Localization of World Standard Cooperative Development' and provided information on international experiences to SCCs. In collaboration with the ADB, three trainings on capacity building of SCC supervisory boards were organized for 46 participants from 16 SCCs (operating in Ulaanbaatar and Tuv province) during 14 to 21 December 2021.

LICENSING AND REGISTRATION

On 9 September 2021, the FRC and the MOCCU jointly organized an online forum on 'Localization of World Standard Co-operative Development' and provided information on international experiences to SCCs. In collaboration with the ADB, three trainings on capacity building of SCC supervisory boards were organized for 46 participants from 16 SCCs (operating in Ulaanbaatar and Tuv province) during 14 to 21 December 2021.

Securities market

Make changes to the securities register – 2	Name change – 2
Register additional ordinary shares to be issued in a closed framework – 2	License for asset management activities – 1
Register ordinary shares issued in a closed circle for the purpose of exchanging debt for shares – 1	License to conduct broker activities for the selling and purchase securities in foreign securities market – 3
To register the shares of a company registered with a foreign trading organization in the securities registry that is approved for public offering – 1	Authorize customers to provide cash income and expenditure transactions through a nominal account – 1
To register additional shares to be issued by a company registered with a foreign trading organization – 1	Registration as a legal entity to provide legal advice to securities market participants – 5
Register documents to establish a private investment fund – 8	Registration as a legal entity to provide audit services to securities market participants – 4
Related to a mutual investment fund – 3	Make changes to the securities register – 2
Licensing of investment management companies – 10	Issue a brokerage license in the securities market – 2
Additional licenses to act as investment advisors – 3	Additional underwriting licenses – 4
Issuance of additional licenses to operate as a securities dealer – 1	Exclude additional shares from the list of securities that are allowed to be offered to the public – 1



Registered 2 debt instruments offered in a closed framework.



Registered 5 debt instruments offered to the public.



Issued 9 licenses to register asset-backed securities.



Two additional public shares were registered in the closed range.



Registered 2 securities that were approved for public offering.

Insurance agents licenses issued to 84 people



Issued 61 licenses to open branches of insurance and professional participating companies.

The rights and registration of insurance actuaries were granted to 6 legal entities.

Insurance market:

- ◆ Register insurance products–663;
- ◆ License to conduct insurance business–1;
- ◆ License for insurance broker–2;
- ◆ Revoke the license of an insurance agent–96;
- ◆ Request permission to appoint an authorized official–73;
- ◆ Deregistration of branches and units–5;
- ◆ Authorization of the auditor to audit the insurance company–2;
- ◆ Rights of reinsurance brokers–1;
- ◆ Permission to change the amount of share capital and the composition of shareholders–29;
- ◆ Name change–3;
- ◆ Address change–14.

LICENSING AND REGISTRATION

NBFI sector

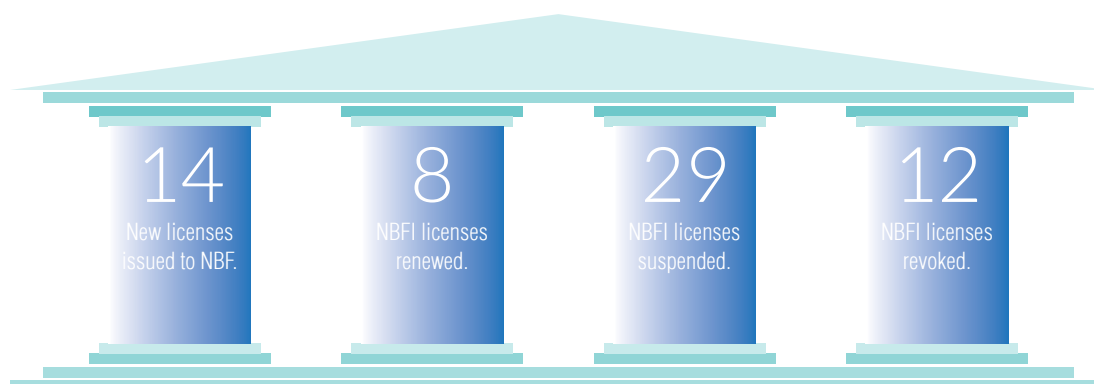


Figure 5. Information of the NBFI Sector; Licensing

The among of non-bank financially regulated entities is 534. In 2021, a total of 355 registrations, including 14 new NBFI licenses, 22 additional NBFI licenses, the establishment of a branch, address location, and executive management changes were registered and enriched.

Table 3. Information on NBFI Sector; Licensing

Nº	Authorizations	Nº	Nº	Authorizations	Nº
1	New license	14	6	Shareholder structure, Share capital, Share capital structure	119
2	Additional license	22	7	Secondary charity	8
3	Closed bonds	21	8	Address change	49
4	Name change	7	9	Executive management changes	105
5	Establish a branch	31	10	Board registration	15

SCCs sector:

- ◆ Licenses for savings and credit activities issued (3);
- ◆ SCCs extension of licenses (50);
- ◆ registered to have elected and authorized officials (31),
- ◆ Register to change address and location (3),
- ◆ Permission for SCC to engage in other financial activities and services (1)

A total of 88 applications were received by the electronic licensing system and the relevant information was fully incorporated into the system.

Of the 86 applications submitted for registration for election and entitlement office changes, 64 were received by a review of 13 applications for location changes and a total of 77 registration requests have been received.

LICENSING AND REGISTRATION

Real estate brokerage sector:



Table 4. Number of Licenses and Registrations among REBs

N ^o	Permission and registration name	N ^o
1	Branch approval	1
2	Permission to change the assigned name	1
3	Change of equity, and/or composition of shareholders	12
4	Registration of an authorized official of a real estate brokerage organization / broker, CEO, compliance officer /	16
5	Registration of an agent of a legal entity engaged in the activities of a real estate brokerage organization	52
6	Address and location change	12

Dealers of precious metals and stones:

Licenses for dealers of precious metals and stones were issued to 10 legal entities and 41 individuals.

Table 5. Number of Licenses and Registrations among DPMS

N ^o	Permission and registration name	N ^o	
		Citi-zen	Legal entities
1	License to trade in precious metals and precious stones	5	12
2	License to operate as a precious metal and precious stone trader	2	19
3	License to operate as a trader of precious metals, precious stones or articles made of them	3	10



SUPERVISION

WITHIN THE SCOPE OF ON-SITE INSPECTIONS:

The Chairman of the FRC collaborated with the head of Authority for Fair Competition and Consumer Protection approved by Order 41/01-11, 2021.02.05 In accordance with guidelines the SCHCD POSC, FRC and Ministry of Finance checks on the office 61 auditors conducted surveillance.

Securities market: As of the end of 2021, on-site and remote inspections were carried out in relation to 154 regulated securities market entities, and an official request was made by the state inspector for the implementation of fines and orders imposed for violations identified during the inspections.

- Securities infrastructure organizations 14,
- Securities issuer 4,
- Professional securities participant 8,
- Securities market participants have the right to provide audit services 28
- Legal entities have the right to provide legal advice 13

Delivered to legal entities and 6 appraisal companies.

According to the FRC Chairman's Order No. 276 of 2021, a total of eight brokers, dealers and underwriters were inspected on-site. As a result of the inspection, six were notified in writing of their failure to comply with securities market laws and regulations.

Insurance market: During the reporting period, one insurer's timely assignment to eliminate the violations revealed during the inspection 20200 was calculated.

- Off site inspection 6,
- On site inspection 2

- On issues related to re-impbursement dispute 3
- Delivered to the insurer official requirements of the state inspector 4
- Official participants, 5 Enforcement has been submitted by the insurer and the achievement is 100%.
- Two insurance companies were instructed to eliminate the violations revealed during the partial on-site inspections in 2021, with inspection reports and to ensure compliance.

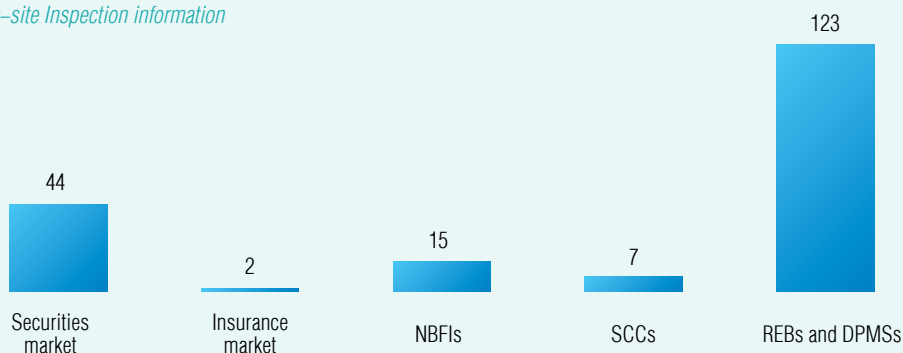
The Micro finance industry: In accordance with guidelines approved by the Chairman of the FRC in 2021, the two SCCs conducted a full inspection on site.

In accordance with the guidelines approved by the Chairman of the FRC under Order 251 of 2021, 15 NBFIs and 5 SCCs were inspected.

The Real Estate Brokers and Dealers of Precious Metals and Stones industry: According to the on-site inspection plan for the REBDPMS, there are 4 REBs, DPMFPMAS legal entities were conducted 2 on-site inspections.



Figure 6. On-site Inspection information



SUPERVISION

WITHIN THE SCOPE OF OFF-SITE SUPERVISION:

The FRC received and reviewed monthly and quarterly financial statements, balance sheet metrics and reports on prudential ratios submitted by regulated entities. The Commission issued timely guidance, and undertook tasks to eliminate violations and shortcomings as well as monitor their implementation. A total of 10,509 (including some replicates) monthly and quarterly financial reports, and prudential ratios, were monitored off-site.

NBFIs: 149 submitted timely assignments and tasks to NBFIs upon the official request of the state inspector to eliminate the revealed violations 141 NBFIs' fulfillment of time-bound tasks is estimated at 63.1% on average.

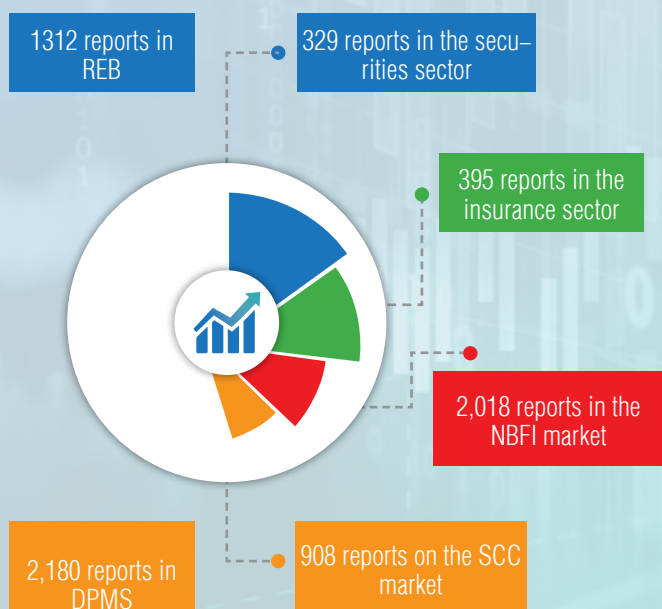
SCCs: Tasks given by the FRC were not completed on time, not all SCC members meetings were convened, did not submit audited financial statements, supervised 37

SCCs that did not meet the prudential ratios by giving them time-bound responsibilities official requirements of the state inspector.

In 2021 framework of Real estate brokerage and jewelry brokerage to pursue 3,492 reports submitted by the FinA system were reviewed and included in the consolidation. Official warnings were issued to 48 legal entities that did not submit reports, and measures were taken to prevent the recurrence of violations.

The Real Estate Brokers and Dealers of Precious Metals and Stones industry: In 2021, a total of 3,492 reports REB 1312, DPMFPMAS 2,180 were submitted by non-financial businesses and professionals through the FINA system.

Figure 7. Remote Monitoring and Inspection Data /duplicate numbers/



FRC, its positions of authorities and state inspectors have made totally 31 penalty pages as of the 2021 end including 17 penalty pages to lay penalties in simplified ways and 14 penalty pages to lay penalties on breaches respectively in conformity with Conflict Law and Conflict Resolution Law of Mongolia. Out of them, 5 penalty pages were laid in Non-Bank Financial Institution sector, 8 – in Securities sector, 12 – insurance sector, and remaining 6 – in real estate and precious metal sectors, respectively.

SUPERVISION

In 2021, violations cases were opened and inquiries were conducted against 8 legal entities. For instance, 3 legal entities without a license to operate a real estate brokerage organization, according to the Law of Infringement, a total of MNT 25.0 million was fined and suspended due to the activities of 2 legal entities engaged in unlicensed activities of traders of precious metals, precious stones or articles made of them.

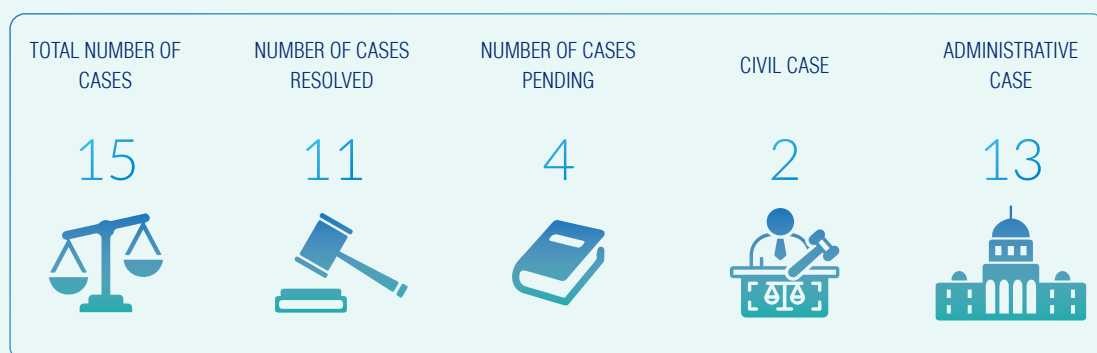


In 2020 year-end report 122 REB, 1 DPMFPAS submitted recommendations to legal entities.

Official notices were sent to 35 REBs and 13 DPMFPAS legal entities that did not submit their reports. Deliver and calculator official requirements of the state inspector several times did not submit reports 1 REB.

the FRC had 2021, participated in a total of 15 court cases and disputes; as plaintiffs, defendants and as third parties. These included: 5 cases from the previous year, the filing of one new lawsuit and the receipt of nine claims. Of these, 11 cases were settled and the remaining four are pending.

Figure 8. Number of cases pending in court



The FRC has compiled and published a three-volume collection of rules and regulations registered in the state database of administrative norms.



SUPERVISION

In 2020, a total of 322 official requirements of state inspectors were submitted in six areas, including:

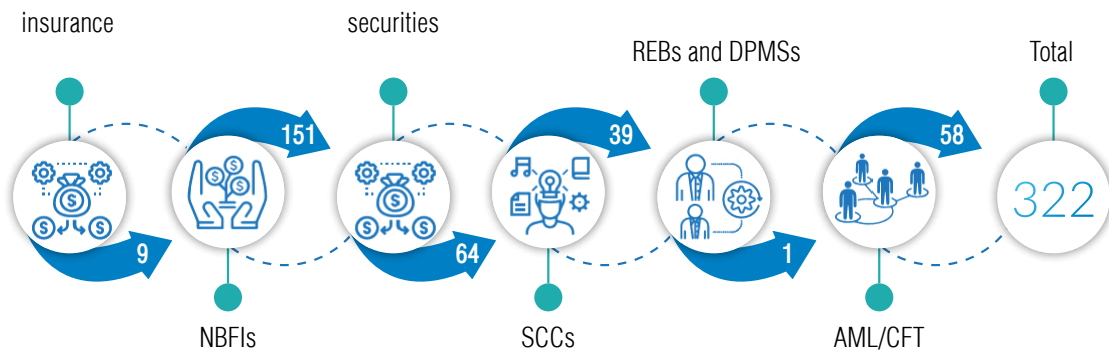
- 64 in securities market,
- 151 in NBFIs sector,
- 39 in SCCs sector, and
- 9 in insurance market
- Real Estate Brokers and Dealers of Precious Metals and Stones industry 1

- Money laundering and financial terrorism 58 official requirements of state inspectors were delivered and the recipients worked to meet the requirements.

The FRC resolved 160 issues; of which:

- 47 were suspensions of licenses,
- 11 renewals,
- 66 revocations,
- 28 removed from record.

Figure 9. Requirements, by State inspector



Within the framework to enhance the enforcement of Law to perform settlements in national currencies, on-field inspection has been conducted in the operational activities of two legal entities engaged in realization

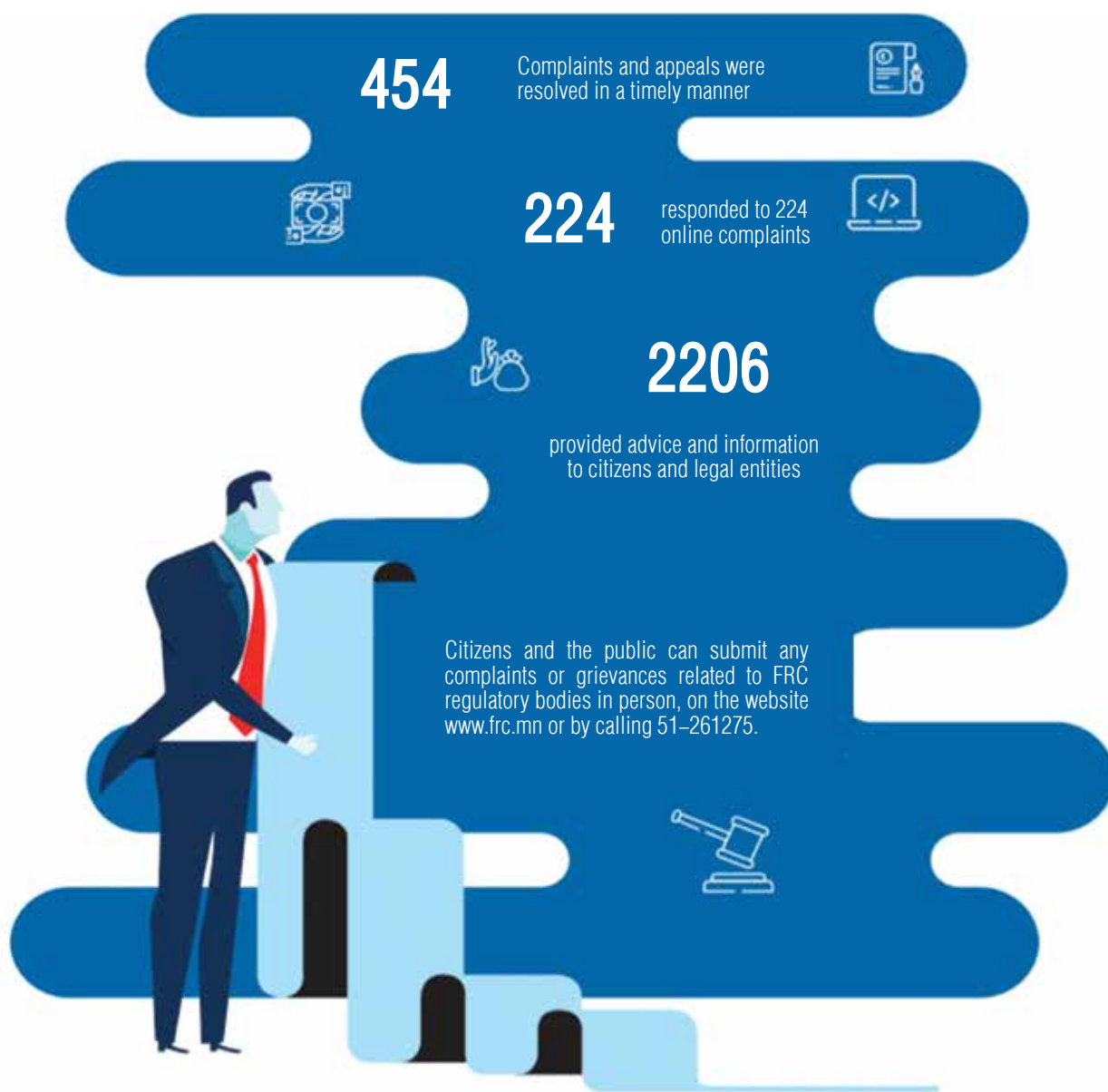
of Franchise agreement of real estate go-between activities in Mongolia in conformity with instructions approved by Resolution Nr. 218 of Chairman of FRC on September 01, 2021 and delivered term assignments through official requirements of state inspectors. In addition, conflict cases were opened on two legal entities for their breaches of law to perform settlements on national currencies; however, one of the cases were terminated and closed. Moreover, a conflict case was opened against one economic entity for illegal engagement in the real estate go-between activities and conducted inquiry activities.

PROTECTING THE RIGHTS OF CONSUMERS AND INVESTORS

Within the framework of resolving petitions and complaints from license holders, securities issuers, investors and clients. In 2021, of these, 688 electronically, and 475 in writing. 454 petitions and complaints were resolved within the legal deadline, and 21 petitions and complaints were under review.

The 224 applications submitted by the department responded to the complaint and worked to provide advice and information to 2,206 civilians and lawyers who came by telephone and at work.

Figure 10. Petitions and Complaints; Decisions



ANTI-MONEY LAUNDERING AND COMBATting THE FINANCING OF TERRORISM



The national risk assessment report – for six regulated areas of financial and non-financial sector – is being finalized; after which the Commission will finalize the Action Plan to 2023. The Commission submitted a proposal for inclusion in ‘National program for AML/CFT 2021–2026’.

As result of the successful completion of the national risk assessment, the Asia Pacific Group on Money Laundering approved Mongolia’s fourth Follow-up Report and concluded that Mongolia had made significant progress towards overcoming deficiencies on technical compliance identified in its Mutual Evaluation Report, published in July 2021. Mongolia has been re-rated on Recommendation 1; re-rated from ‘Partially’ to ‘Largely Compliant’.

NATIONAL RISK ASSESSMENT

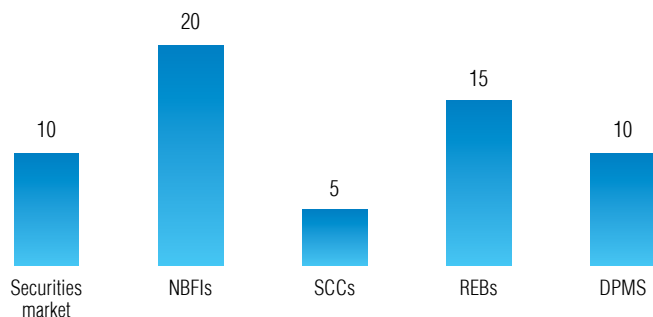
Regular risk assessment of each entity responsible for reporting database creation and scoring were introduced in six regulated sectors.

The ‘Questionnaire for Assessing the Risk of Money Laundering and Terrorist Financing and Proliferation of Weapons and Mass Destruction’ was developed, and the information collected was updated twice in the year; from the Confederation of Mongolian Trade Unions (CMTU). A total of 1,542 individuals, from six regulated sectors were included in the assessment.

To ensure uninterrupted inspections in the area of AML/CFT, intensified inspections were implemented to ensure compliance with the law.

In 2021, a total of 1,562 individuals were involved in the intensified inspection of the AML/CFT, and 346 notifications were sent to the entities responsible for reporting, and 30 official requirements and instructions (with deadlines) were sent to entities.

Figure 11. On-site Inspections for AML/CFT



ANTI-MONEY LAUNDERING AND COMBATTING THE FINANCING OF TERRORISM

PROVIDE INFORMATION AND TRAINING TO THE PUBLIC

The handbook 'Methodology on Virtual Assets and Risk-Based Methodology for Virtual Asset Service Providers' is being translated into Mongolian. The 'Handbook for inspectors' and 'Handbook on Professional Money Laundering' from the FATF have been translated and are being prepared for publication.

In order to make news and information more accessible to the public, answers to common questions about AML/CMT measures were prepared and posted on a newly opened 'Frequently Asked Questions' menu on the website.

Since 2021, the Commission has prepared and posted 14 items of information; which included attention to prevent from causes of financial illiteracy, market manipulation, fraud, and economic crimes.

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Fulfillment of FATF Recommendation 15

Surveys were conducted during the accounting period as part of research on virtual asset service providers, information data funds, virtual asset service providers' coordination and inspection systems, to protect legal interests of clients and customers, to struggle against money laundering and terrorism financing, to create information data fund and to identify solutions. The topics included

- ◆ Research paper of the top 10 cryptocurrencies in the world
- ◆ Information and regulatory measures related to virtual assets in Mongolia
- ◆ Virtual asset service provider legal regulations internationally
- ◆ About blockchain savings
- ◆ STO/ICO regulations for countries
- ◆ Platforms of cryptocurrency, and complaint regulations
- ◆ Digital shekel, forex, and offshore zone
- ◆ Research paper of NFT regulation

INTERNATIONAL COOPERATION

The FRC prepared to join the Multilateral Memorandum of Understanding (MMoU) of the International Association of Insurance Supervisors (IAIS), and the Enhanced Multilateral Memorandum of Understanding (EMMoU) Concerning Consultation and Cooperation and the Exchange of Information, of the International Organization of Securities Commissions (IOSCO). The MMoU of IAIS provides signatories with broader opportunities of joining the global framework for close cooperation and information exchange between insurance supervisors, and receiving technical assistance in implementing insurance core principles and standards from other signatories. The EMMoU of IOSCO provides additional key powers identified as significant to promote cross-border enforcement cooperation and assistance in the field of AML/CFT, and combating cross-border fraud and misconduct (including insider dealing and trading, market manipulation) and so on.



FSA

The short-term and long-term training program of the International Financial Partnership Center



GIZ

Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia program /RPF1 III/



AFI

Board Member and Deputy Chair of the Eastern Europe & Central Asia Policy Initiative (ECAPI) and Regulated Entities Empowerment on Green Finance project



WB

Strengthening Fiscal and Financial Stability project/



FSS

Financial Supervisors Partnership Program



ADB

Expanding the Capacity of Nonbank Finance Sector to Support Financial Access and Developing Anti-Money Laundering and Combating the Financing of Terrorism Approaches, Methodologies, and Controls projects



MEFIN

Member of the Mutual Exchange Forum on Inclusive Insurance, and Chair of the Regional Steering Committee



JICA

The Project for Capacity Building of the Capital Market Phase 2



EBRD

Delivery versus Payment and T+2 Settlement System and Support for the Legal Framework on Non-Bank Financial Institutions in Mongolia projects



IMF

Short-term capacity building training of International Monetary Fund; Singapore Regional Training Institute



MoU of Insurance Regulatory and Development Authority of India, and MoU of Securities and Exchange Board of India for Mutual Co-Operation and Technical Assistance

INTERNATIONAL COOPERATION

In cooperation with international banks, donor organizations, and international standard-setting organizations, the FRC implemented technical assistance projects in strengthening the capacity of the non-bank financial sector.

Within the framework of JICA project, 'Mongolian Association of Securities Traders', which has been assigned to manage and organize non-exchange sales, has developed a procedure that regulates detailed non-exchange market relations and co-organized a training workshop to grant knowledge to market participants in accordance with opinions and instructions of JICA consultants and specialists.



The Chairman for FRC was elected Chairman of ECAP1 at AFI. Regional Initiative includes the FRC of Mongolia, Kazakhstan Financial Market Coordination and Development Agency, and Central Banks of Armenia, Russian Federation, Uzbekistan, and Tajikistan. FRC of Mongolia shall pay a special attention on intensification of collaboration and efforts of member organizations to improve and enhance regional financial adequacy.



Within the framework of EBRD collaboration expansion, the Commission initiated a project to calculate numerical data with gender classifications at micro financial organizations, to determine their present situation, and to create opportunities to enhance gender equality.



European Bank
for Reconstruction and Development

RESEARCH AND ANALYSIS

The FRC made decisions – on financial sector policies, regulations, and supervision – on the basis of research and analysis.

In 2021:

- Development of Japanese financial markets
- National Wealth Fund
- Determining Indicators for Measuring Financial Access
- International Cryptocurrency Regulation
- Stock market system risk assessment, etc. organized 11 research papers and published the Research publish book №2.



Monthly

“Citizens in your financial knowledge” series of posters

Quarterly

STATISTICAL BULLETIN

Quarterly

Financial Market Review.

Monthly

Inclusive Finance journal.

Monthly

Financial Market Monthly Review.

Weekly

News of financial market.

Industry report, journals, data, and research are available on the FRC website (www.frc.mn), mail (rsa@frc.mn), and available by phone number 51-261106.

CORPORATE GOVERNANCE AND COMPLIANCE

FRC Resolution No. 45 of 2021 amended the 'Procedure for announcing the shareholders meeting of the JSC' and approved the regulation on organizing the shareholders meeting electronically, and registered it in the state registry.



A draft handbook 'Program to implement company governance codex' and a handbook to develop a compliance program for persons with special licenses were developed and allocated in the website of FRC.

A survey has been conducted both in every of company governance and compliance control. It is ready to conduct a survey on governance of an organization with coordination assignments, to develop a handbook draft to give for publication.



INFORMATION TECHNOLOGY



It is available to organize the internal and external network WAN automatically switch to backup network when the main network is interrupted.



Of the total of 26 information security and audit recommendations accomplished following network security 6, camera 5, intercom and cable security 5, security 15.

XYP

The www.data.frc.mn system has been implemented, and through this system, 6 services from the HUR system have been used for e-signatures.

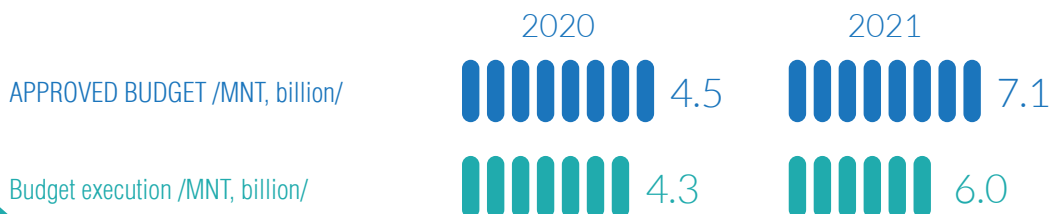


Information on license holders is fully entered and registered in the electronic licensing system, which is a sub-part of the FRC's general electronic system.



The process of digitizing activities was implemented step by step, application, request and all necessary FRC services were received electronically, and employees were able to work online if necessary due to the pandemic situation

BUDGET AND FINANCE

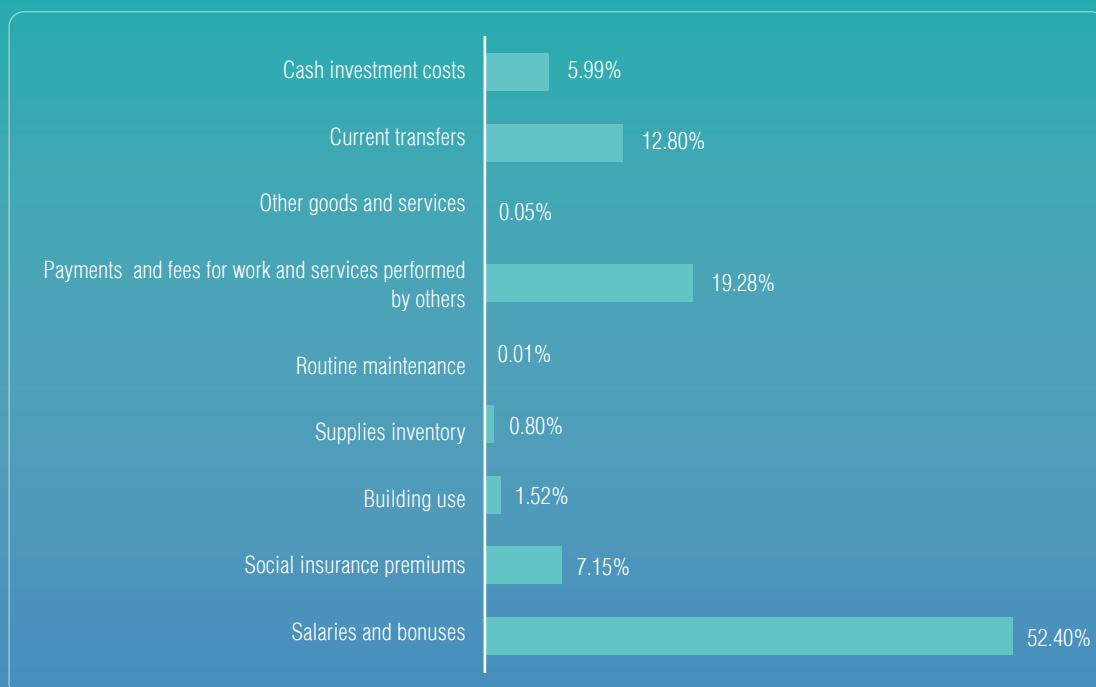


In 2021, we conducted operational activities with MNT 6.1 billion budget, 69.6% of which has been financed from state budget and remaining 30.4% – from revenues of regulation service fees, respectively in order to provide financial resources to conduct normal uninterrupted operational activities of FRC.

In the reporting year, MNT 3.2 billion of regulatory services revenue was collected, of which 39.5% (MNT 1.3 billion) came from NBFJ sector, 36.2% or (MNT 1.2 billion from

the insurance sector, 21.6% or MNT 0.7 billion from the securities sector, 03% or MNT 33.6 million from SCC sector, 1.5% or 49.5 MNT million was generated by the sector of the Real estate brokerage and jewelry brokerage. We have also paid MNT 54.8 million into state budget as a state note fee and MNT 224.9 million as penalty revenues. The approved budget is MNT 4.5 billion

Figure 12. Total cost (%)



ACHIEVEMENTS

2021



OVER-THE-COUNTER
MARKET TRADING
HAS STARTED



INTRODUCED
SANDBOX



THE LEGAL
ENVIRONMENT FOR
GREEN BONDS HAS
BEEN CREATED



The Law on Virtual
Property Service
Providers has been
approved



Arrangements have
been made to invest in
insurance companies
as professional
investors



For the first time,
mutual funds, loan-
backed securities and
digital bonds were
traded on the capital
market



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