

“RISK ASSESSMENT OF ANTI-MONEY LAUNDERING AND



COUNTER TERRORISM FINANCING OF ENTERPRISES CONDUCTING REAL ESTATE AGENCY ACTIVITIES”

Ulaanbaatar
2018

CONTENTS

I. AN INTRODUCTION.....	5
II. SURVEY METHODOLOGY	6
Determination of enterprises to be covered in the survey.....	6
Risk Assessment.....	9
Determination of Risk Factors.....	9
Formulating Qualitative and Quantitative Questionnaires	9
III. SECTOR SURVEY.....	10
Source of Data.....	10
Real Estate Market.....	11
IV. SECTORAL INTEGRATED ASSESSMENT	16
Survey Scope	16
Risk Assessment.....	18
Outcomes of Integrated Assessment.....	27
V. CREATION OF MONGOLIAN RISK MANAGEMENT SYSTEM FOR REAL ESTATE AGENCY ENTERPRISES BASED ON INTERNATIONAL GOOD PRACTICES	29
VI. VI. INTERNATIONAL EXAMPLES AND TYPOLOGIES OF REAL STATE AGENTS IN ACTIVITIES RELATED TO ANTI-MONEY LAUNDERING AND COUNTER- TERRORISM FINANCING	37
VIII. CONCLUSIONS , PROPOSALS AND RECOMMENDATIONS.....	39
BIBLIOGRAPHY	43
ANNEXES	Error! Bookmark not defined.
Annex 1.....	Error! Bookmark not defined.
Annex 2	45
Annex 3	47
Annex 4	50
Annex 5	53
Annex 6	54
Annex 7	57
Annex 8	58
Annex 9	Error! Bookmark not defined.

List of Graphs

Graph 1. Real estate agents	3
Graph 2. Construction companies with their own sale offices	3
Graph 3. Purchases of Apartments	7
Graph 4. Number of Newly Built Apartments	7
Graph 5. Number of Housholds living in Apartments	7
Graph 6. Number of Total Hypothec Lenders	7
Graph 7. Number of Local Citizens Owning Real Estate	8
Graph 8. Value of Real Estate Owned by Local Citizens /by billion MNT/	8
Graph 9. Number of Foreign Citizens Owning Real Estate	8
Graph 10. Value of Real Estate Owned by Foreign Citizens /by billion MNT/	8
Graph 11. Real estate transferred through sale and purchase agreements or gift agreements	8
Graph 12. Sales Income of Real Estate Agents (2017)	9
Graph 13. Sales Income of Construction Companies (2017)	10
Graph 14. Sales Income of Construction Companies (2017)	10
Graph 15. Risk Assessment Intervals	22
Graph 16. Cycles of risk-based approach	25

List of Tables

Table 1. Outcome of Survey Data Collection	11
Table 2. Ownership Forms of Enterprises	14
Table 3. Scope of Activities	14
Table 4. Year (s) conducting activities	14
Table 5. Classifications of Owners	15
Table 6. Corporate Governance	15
Table 7. Number of Employees	15
Table 8. Cooperative Enterprises	16
Table 9. Whether an Enterprise has any Branches or Subsidiaries	16
Table 10. Types of Customers	16
Table 11. Politically exposed persons and Customers related to them	16
Table 12. Customers with Accredited Representatives	17
Table 13. Percentages of Citizens and Legal Persons in Customer Relations	17
Table 14. Product and Service	17
Table 15. Distribution channels	17
Table 16. Rules, Regulations and Policies	18
Table 17. Whether there is any written policy and regulations	18
Table 18. Whether there is any officer in charge of compliance	18
Table 19. Whether officer in charge of compliance works in management level	18
Table 20. Whether risk management is assessed	19
Table 21. Risk Mitigation Strategy	19
Table 22. Frequencies of Risk Monitoring	19
Table 23. Internal Control	19
Table 24. Trainings and Human Resources	20
Table 25. Identification of Customers	20

Table 26. New technology	20
Table 27. Identification of Customers	20
Table 28. Identification of Customers related to Politically Exposed Persons	20
Table 29. Identification of Customers in High-Risk Countries on Anti-Money Laundering and Counter-Terrorism Financing	20
Table 30. Keeping documents	21
Table 31. Whether suspicious transaction reports were submitted to the FIU	21
Table 32. Whether cash-flow statements were submitted to the FIU	21
Table 33. Data on Compliance Implementation	21
Table 34. Unit Weight of Structural Risks	23
Table 35. Integrated Assessment of Structural Risks	23
Table 36. Unit Weight of Qualitative Assessment	23
Table 37. Outcome of Qualitative Assessment	23
Table 38. Risk Assessment (by each enterprise)	39
Table 39. Enterprises in form of legal persons	61
Table 40. Enterprises with foreign investments	62
Table 41. Enterprises with foreign owners	63
Table 42. Enterprises conducting activities internationally	63
Table 43. Enterprises in relation with politically exposed persons	63
Table 44. Enterprises which have more than 50 million of income	64
Table 45. Enterprises which have conducted activities since 2017	65
Table 46. Enterprises which satisfy with more than two criteria	66
Table 47. List of enterprises which refuse to conduct survey	67
Table 48. List of enterprises to be inspected	68
Table 49. Contact address of enterprises which are covered in the survey	70

List of Abbreviations

APG	Asia/Pacific Group of Money Laundering
IMF	International Monetary Fund
NSO	National Statistical Office
GASR	General Authority for State Registration
FATF	Financial Action Task Force

I. AN INTRODUCTION

Although Mongolia was withdrawn from the FATF checklist in 2014, the fact that Mongolia has included in an “intensive list” according to the second assessment on anti-money laundering and counter-terrorism financing made by the APG of the FATF illustrates Mongolia’s potential inclusion of FATF gray list. If the list goes into effect, it will be unfavorable to the economic, and international banking and financing relations of Mongolia.

International standards on anti-money laundering/counter terrorism financing by FATF recommends that designated non-financial businesses and professions should take measures for preventing and controlling risks of anti-money laundering/counter terrorism financing. Real estate agencies are included in non-financial businesses and professions, and Recommendation 1 provided that bases for implementing FATF recommendations and reducing risks of anti-money laundering/counter terrorism financing are to adopt a risk-based approach in countries, and establish the institutional framework for assessing and controlling them.

Therefore, in order to reduce such risks as well as implement a medium-term national program on anti-money laundering/counter terrorism financing, it is necessary to improve understandings and knowledge of non-financial businesses and professions on anti-money laundering/counter terrorism financing. One of the measures to be taken in this regard is to assess risks of anti-money laundering/counter terrorism financing in activities of real estate agencies and sales.

In Mongolia, there are totally 5186 enterprises registered in the fields of real estate agencies and sales. As of 2017, 3748 enterprises submitted their financial statements. 174 enterprises of such enterprises actively conduct their businesses in Ulaanbaatar. Our sample survey covers such 174 enterprises. In addition, a special feature of construction in Mongolia is that the construction enterprises themselves can sell their products through their own sales offices. There are totally 1470 construction enterprises which are listed in business registration. 193 enterprises of them conduct their businesses actively in Ulaanbaatar and their sales income are more than 2 billions. 39 companies of them sell their real estates. Our survey covers such 39 companies in Ulaanbaatar.

As of 2015, 74 percent or 157,754 of households who live in apartments were in Ulaanbaatar. In 2016, number of households who live in apartments were increased by 7053. and the number of households living in Ulaanbaatar increased by 7053 by 2016. From the supply side, the total value of 18685 apartments which were ready to use in 2017 was 1.2 trillions MNT, with a single apartment value of 64 million MNT. Estimating an average apartment price in 2017 is that an average price of real estates purchased by local citizens was 48 million MNT while an average price of real estates purchased by foreign citizens was 104 millions MNT. Moreover, in the same year, an average price of real estates which are presented to local citizens was 96 million MNT while an average price of real estates which are presented to foreign citizens were 35 million MNT. From this point of view, the real estate market of Mongolia is expanding year by year.

The survey is composed of the following parts: I) Introduction; II) Research Methodology; III) Sector survey; IV) Sectoral integrated assessment; V) International good practice; VI) International examples and typologies; VII) Recommendations; and VIII) Conclusions, and Proposals and Recommendations.

II. SURVEY METHODOLOGY

There are totally 5186 enterprises registered in the fields of real estate agencies and sales in Mongolia. As of 2017, 3748 enterprises submitted their financial statements to Mongolian Tax Authority. In Ulaanbaatar, 174 enterprises of such enterprises actively conduct their businesses and submitted their income statements.

Risk of anti-money laundering/counter terrorism financing in respect of real estate agents should be assessed in compliance with internationally-wide spread methodology. First, enterprises, which should be covered in the sample survey, should be determined by several criteria, then “The questionnaire for evaluating system of control and implementation of legislation” and “Quantitative data collection form” should be formulated and filled out, and finally risks of real estate agents should be assessed by risk matrix.

Carrying out the sample survey on risk assessment of anti-money laundering/counter terrorism financing in respect of real estate agents should be considered the followings:

- Determination of enterprises which are covered in the survey;
- Risk assessment;
- Determination of risk factors;
- Formulation of qualitative and quantitative questionnaires, and carrying out of survey; and
- Risk matrix assessment of outcome.

Determination of enterprises to be covered in the survey

There are no special law which regulates sale and purchase of real estates in Mongolia. Several existing laws, such as the Civil Code and the Law on Registration of Property Rights, govern this issue.

In international scene, sales of real estate are usually made through real estate agents. For example, in 2017, according to the statistical survey by the US National Realtor Association, 87% of real estate buyers made purchases through real estate agencies.

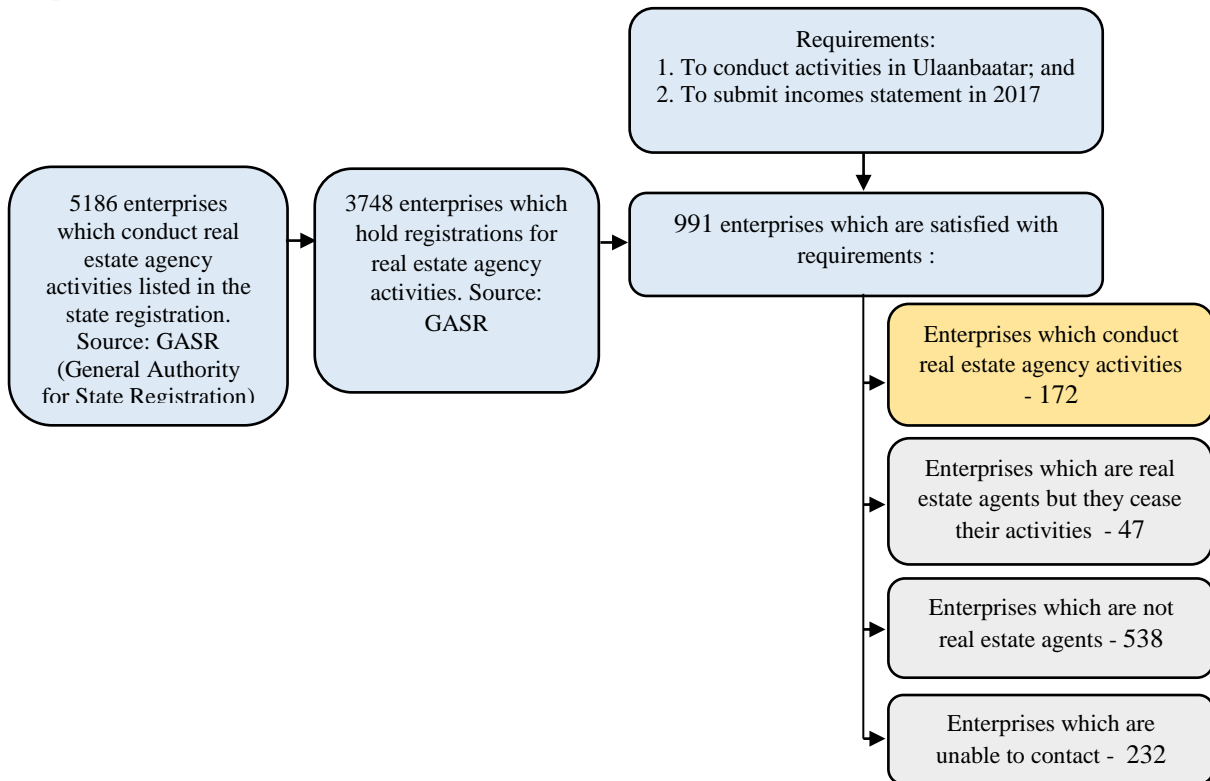
In contrast, construction companies themselves also sell real estates in Mongolia. Moreover, citizens and enterprises prefer to choose this method rather than real estate agents

Accordingly, determination of enterprises which are covered in the survey will be divided into two main areas depending on their lines of business: real estate agencies or construction companies with their own sale offices.

I. Real estate agencies

There are 5186 enterprises listed in the state registration database of real estate. We contacted 991 enterprises of them, which conduct their businesses in Ulaanbaatar and submitted their income statements in 2017, via phone. Consequently, 172 companies, which actively conduct their businesses, have been selected in the survey.

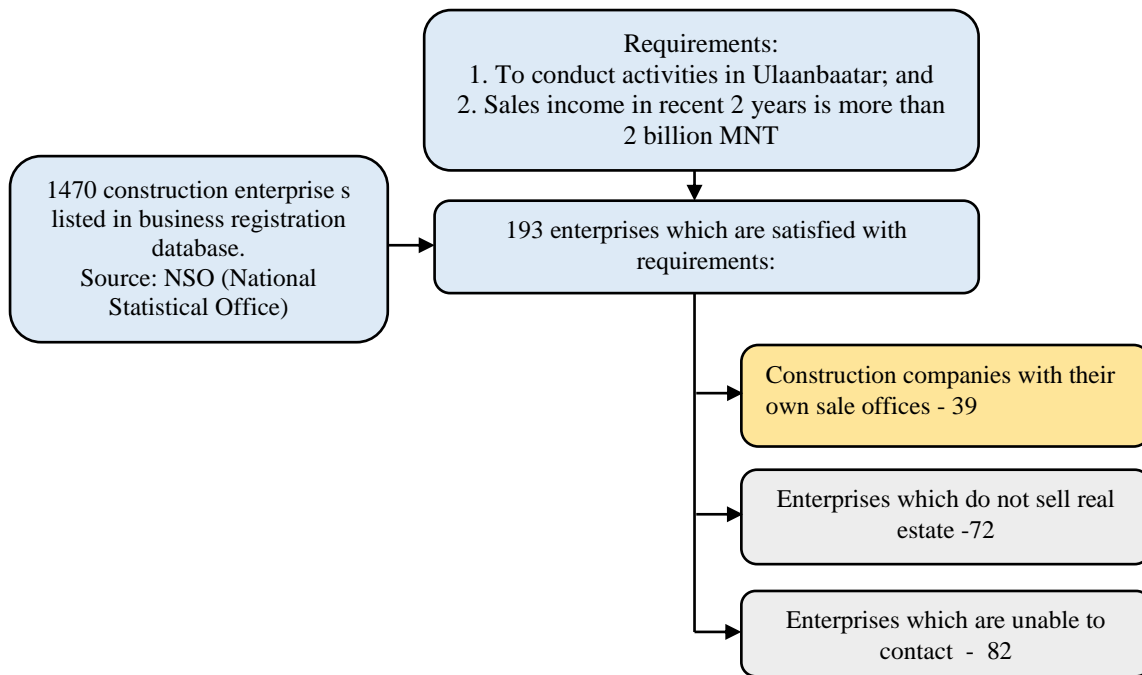
Graphic 1. Real estate agents



II. Construction companies with their own sale offices

Large construction companies, which sell real estates although they do not conduct activities of real estate agencies, should be analyzed in the survey.

Graphic 2. Construction companies with their own sale offices



There are 1470 construction companies listed in business registration database of National Statistical Office. We contacted with 193 companies of them, which conduct their businesses in Ulaanbaatar and their sales income are more than 2 billions during recent 2 years, via phone. Consequently, 39 companies, which sell their real estates themselves, have been selected in the survey. Totally 211 enterprises, which satisfy with the above requirements and conduct activities of real estate agencies and sales.

Interpretation:

1. An enterprise which is real estate agent but it ceases its activities - this category includes enterprises which are real estate agent but it ceases its activities - enterprise which has not conducted its activities during recent one or which has planned to commence its activities in this year;
2. An enterprise which is not real estate agent - This category includes enterprise which is listed in state registration authority but it does not conduct activities under its registration or does not change its registration, or enterprise which never conduct activities of real estate agency;
3. An enterprise which does not sell real estate - this category includes construction companies as well as companies which sell their real estates through real estate agents; and
4. An enterprise which is unable to contact - an enterprise in which the contact phone number listed is incorrect, unavailable, has incomplete access, or unable to accept incoming calls, an enterprise which has no web pages, an enterprise which did not accept incoming calls or did not permit giving information contact information.

Tables of information on enterprises subject to the survey includes the followings:

- ✓ Names of legal entities;

- ✓ *Registration number;*
- ✓ *Line of business registered in business registration database;*
- ✓ *Sales income data 2015-2017; and*
- ✓ *Contact phones, locations and internet sources.*

Risk Assessment

International standards on anti-money laundering/counter terrorism financing by FATF includes real estate agent as designated non-financial businesses and professions. Recommendation 1 provides that designated non-financial businesses and professions should take measures for preventing and controlling risks of anti-money laundering/counter terrorism financing. Real estate agencies are included in non-financial businesses and professions, and Recommendation 1 provided that bases for implementing FATF recommendations and reducing risks of anti-money laundering/counter terrorism financing are to adopt a risk-based approach in countries, and establish the institutional framework for assessing and controlling them. In Mongolia, such kind of survey were made within only commercial banks, non-banking financial institutions, securities companies, insurance companies, insurance intermediaries, savings and credit cooperatives for the purpose of implement FATF recommendations. Unlike, this survey covers real estate agents and sales companies for the first time in Mongolia.

Risks of anti-money laundering/counter terrorism financing of those enterprises are assessed by risk matrix methodology. Although the ground that lines of business and and types of services of each enterprise are different does not change general structure of risk matrix, risk factors can be not the same due to special feature of each enterprise.

Determination of Risk Factors

Risks of anti-money laundering/counter terrorism financing in respect of real estate agency and sale are assessed by risk matrix method developed by consultants of International Monetary Fund.

Risk assessment comprises structural, qualitative and business parts. Overall risks are assessed by each organization. According to this model, structural and qualitative risk assessment is based on qualitative questionnaires while business risks are assessed by quantitative data. Quality assessments include the following factors: corporate governance, risk managements, internal controls, internal and external audits, reportings, registrations, trainings, human resources, compliance as well as regulations and policy implementations. Factors that can determine organizational capacity for structural risk should be evaluated. The entity's activity year, and its ownership form are examples of such factors.

Formulating Qualitative and Quantitative Questionnaires

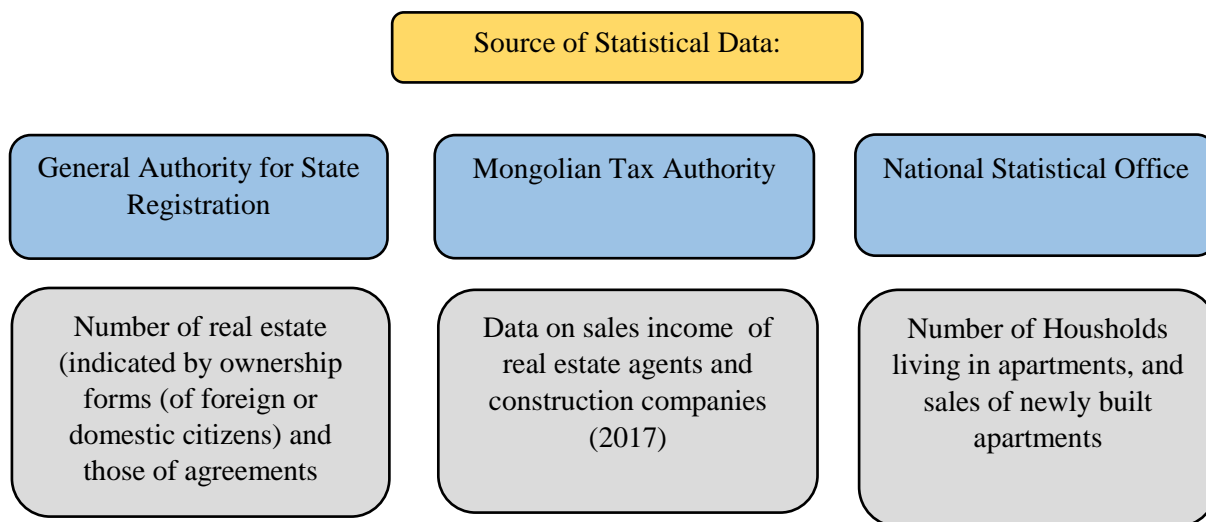
On the basis of the above-mentioned risk factors, qualitative questionnaires are formulated. Qualitative questionnaires consist of 17 chapters. Qualitative questionnaires include quality risks assessment questions, such as customer, product, service, geographic and distribution channels. Quantitative questions include structural and business risk assessment questions.

Qualitative and quantitative data collection forms are adapted to activities of real estate agents.

III. SECTOR SURVEY

Source of Data

Statistical data was obtained from the General Authority for State Registration, National Statistical Office, and Mongolian Tax Authority.



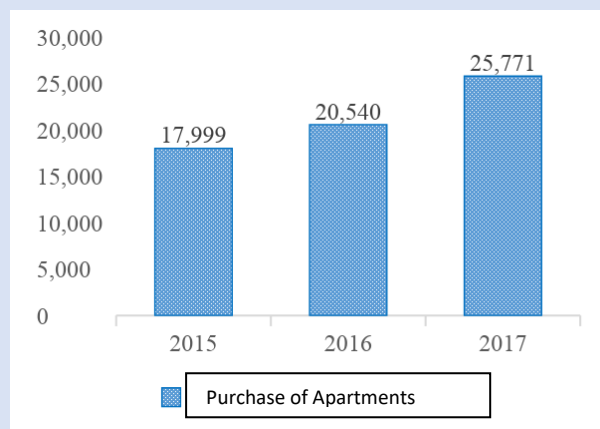
Real Estate Market

In the recent three years, totally 64130 pieces and 3.9 trillion MNT of real estate have been replaced by their owners. In particular, according to the General Authority for State Registration, 17999 real estate ownership rights were transferred in 2015, 20540 real estate ownership rights were transferred in 2016, and 25711 real estate ownership rights were transferred in 2017. It seems that real estate market is increasing year by year.

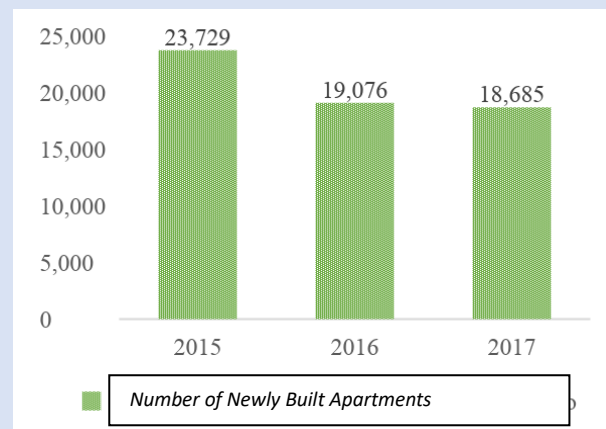
It can also be seen from number of newly built apartments. In particular, according to the Population and Housing Census of Mongolia (2015), 212700 household were lived in apartments. In that year, 23729 apartments (it is equal to 9 percent of households who were living in apartments) were newly built. Number of newly built apartments have decreased from 2016 to 2017 but it is still higher than total number of apartments. Total value of 18685 apartments which were newly built in 2017 was 1.2 trillion MNT with a single apartment price of 64 million MNT.

In 2015, 74 percent (157,754) of households, which were lived in apartments, is in Ulaanbaatar. In 2016, households, which were lived in apartments in Ulaanbaatar, were increased by number of 7053. In 2015, totally 77105 citizens had mortgage loan(hypotecs)-s. Hypotecs have been increased constantly in recent two years, then it led to 93147. This is one of evidence that larger percent of real estate sale is financed by hypotecs. More significantly, 10499 citizens took hypotecs newly in 2017.

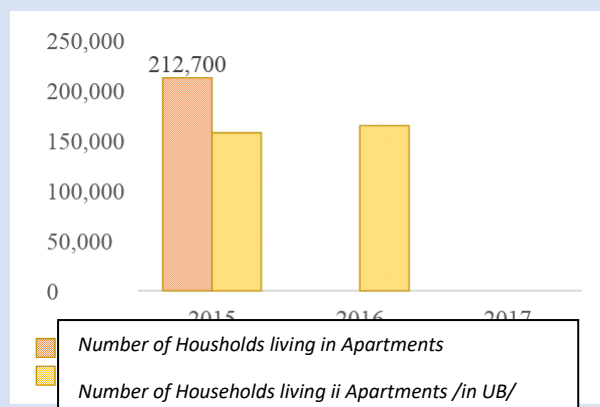
Graph 1. Purchases of Apartments



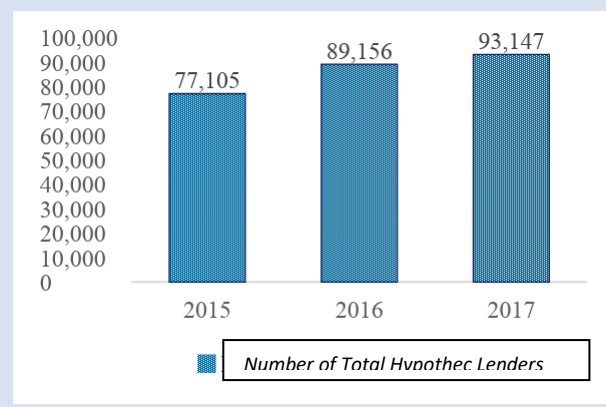
Graph 2. Number of Newly Built Apartments



Graph 3. Number of Households living in Apartments



Graph 4. Number of Total Hypothec Lenders

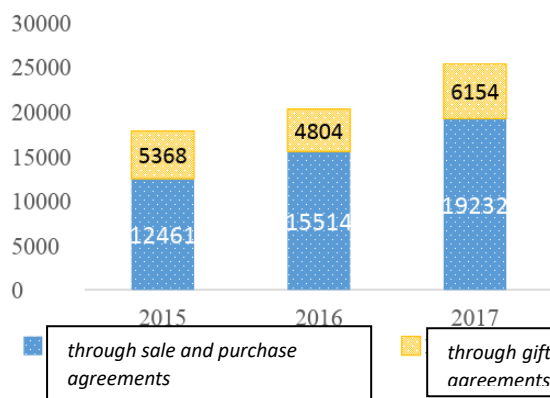


In 2017, 25,771 pieces of real estate (excluding land), which were transferred through sale and purchase agreements or gift agreements, were listed in the General Authority for State Registration. Its total value is 1.5 trillion MNT. 98.5 percent of such real estate are subject to ownerships by local citizens.

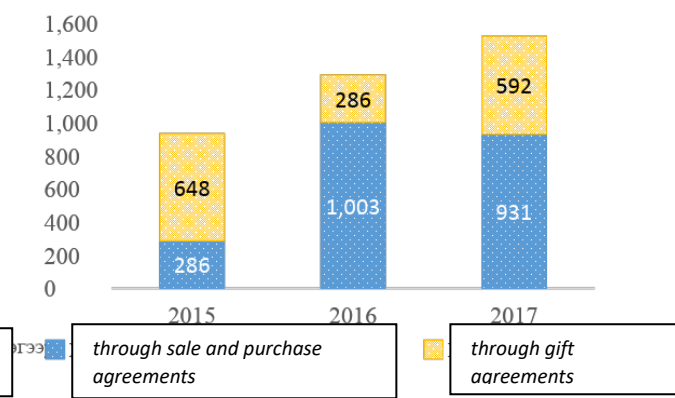
In 2015-2017, number of real estate purchased by local citizens were from 12461 to 19232 (increased by 54 percent) while number of real estate obtained by those citizens through gift agreements were increased from 5368 to 6154 (increased by 15 percent). Total value of real estate purchased by local citizens is 286 billion MNT in 2015, 1003 billion MNT, and 931 billion MNT. Total value of real estate transferred to local citizens by gift agreements is 648 billion MNT in 2015, 286 billion MNT, and 592 billion MNT.

In 2015-2017, number of real estate purchased by foreign citizens were from 108 to 299 (increased by 2.8 times) while number of real estate obtained by those citizens through gift agreements were increased from 62 to 86 (increased by 39 percent). Total value of real estate purchased by foreign citizens is 27 billion MNT in 2015, 56 billion MNT, and 34 billion MNT.

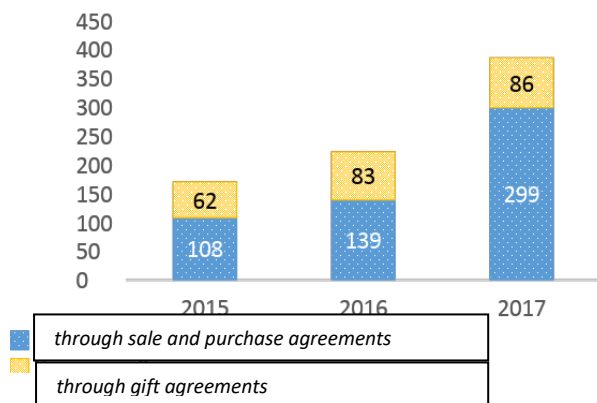
Graph 5. Number of Local Citizens Owning Real Estate



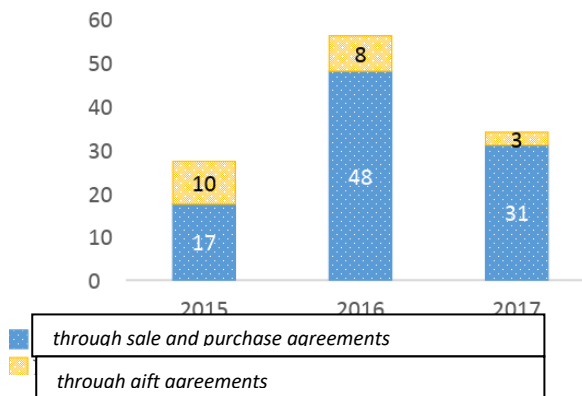
Graph 6. Value of Real Estate Owned by Local Citizens /by billion MNT/



Graph 7. Number of Foreign Citizens Owning Real Estate

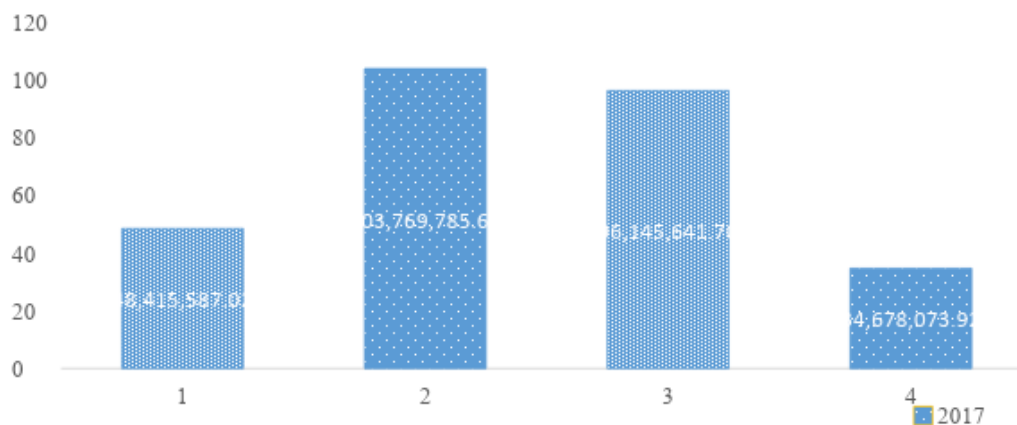


Graph 8. Value of Real Estate Owned by Foreign Citizens /by billion MNT/



Average value of real estate purchased by local citizens is 48 million MNT in 2017 while average value of real estate purchased by foreign citizens is 104 million MNT in 2017. Average value of real estate transferred to local citizens by gift agreements is 96 million MNT while average value of real estate transferred to local citizens by gift agreements is 35 million MNT.

Graph 9. Real estate transferred through sale and purchase agreements or gift agreements

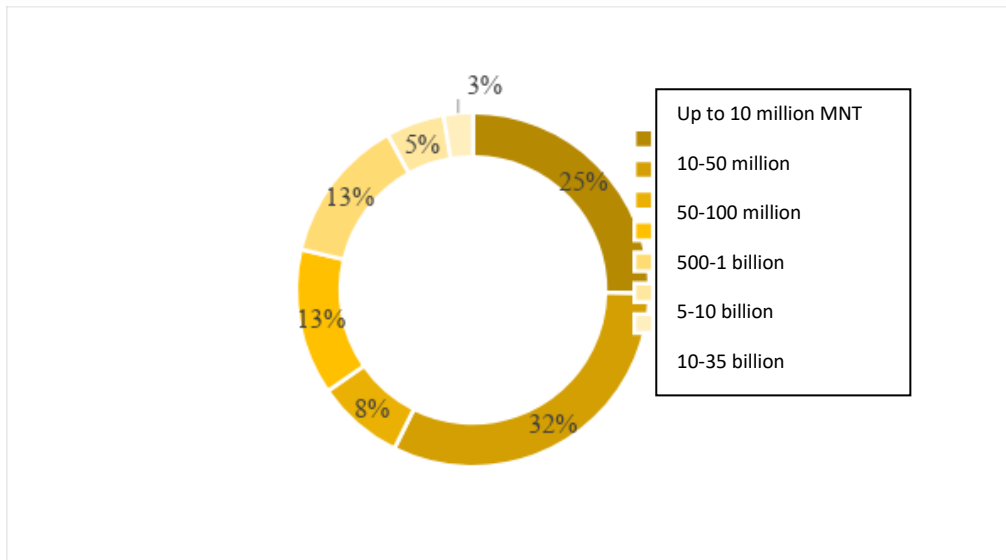


We requested sales income data for 2017 of enterprises, which are covered by the survey in Ulaanbaatar, from Mongolian Tax Authority. Mongolian Tax Authority sent expansive income statements of 94 enterprises to us. 81 enterprises of them are real estate agents, one enterprise did not make sale in that year, and remained 12 enterprises are construction companies.

Real estate agents:

- Most/ 29.6 percent of enterprises have sales income of 10- 50 million MNT; and
- Minority (2 enterprises) of them have sales income of 24 - 31 million MNT

Graph 10. Sales Income of Real Estate Agents (2017)



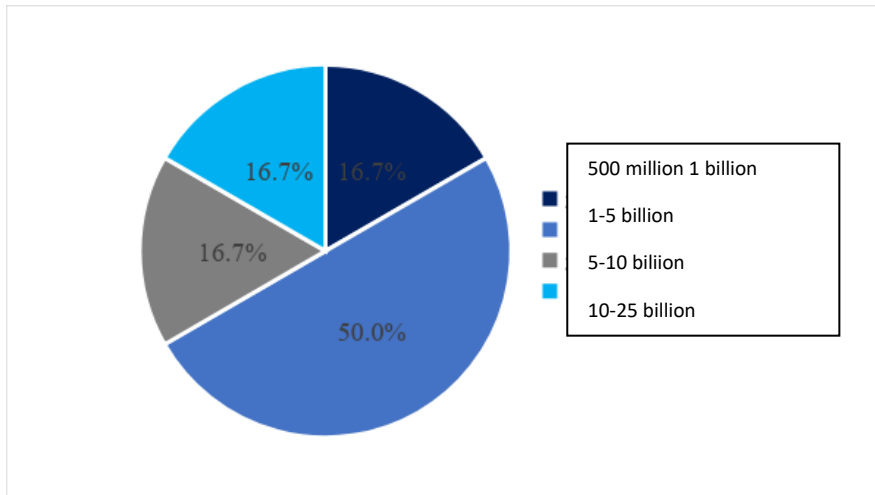
Incomes of 38 enterprises among enterprises which are covered in the survey are more than 50 million MNT.

Construction companies:

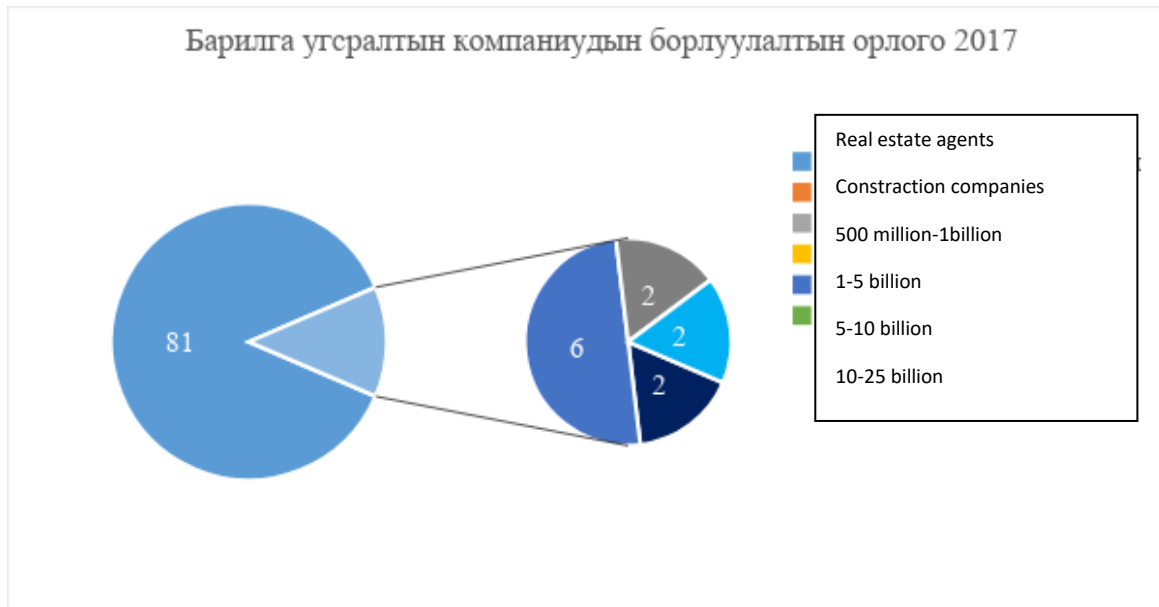
Totally 12 construction companies are covered in the survey. See detailed information on them from Annex 10. In 2017, it took up 12 percent of the sample, and 38 percent of sales income of total enterprises which are covered in the survey /Graph 14/. It shows that construction companies take up large position in real estate agency and sales.

In addition, annual sales income of construction companies is from 500 million MNT to 25 billion MNT, half (50 percent) of them have 1-5 billion income /Graph 13/.

Graph 11. Sales Income of Construction Companies (2017)



Graph 12. Sales Income of Construction Companies (2017)



IV. SECTORAL INTEGRATED ASSESSMENT

Survey Scope

On the order of FRC, Mongolian Economic Analysis and Research Center (MEARC) as a non-governmental organization (NGO) made survey “Risk Assessment of Anti-Money Laundering and Counter Terrorism Financing of Enterprises Conducting Real Estate Agency Activities” from 6 September 2018 to 12 October 2018.

For the purpose of collecting data in the survey, we obtained information on 5186 enterprises, which are listed in order to conduct real estate agency and sales activities, from database of the General Authority for State Registration. We also obtained information on 1470 construction enterprises, which conduct real estate sale activities in order to conduct real estate agency and sales activities, from business registration database of the National Statistical Office. In the survey, we chose 211 enterprises on the basis of clarifying whether those enterprises conduct activities by contacting them via phone. The survey data is collected by questionnaire methods.

Coverage Level of the Survey:

The survey intends to cover totally 211 enterprises in Ulaanbaatar. 103 (49 percent) of them are covered in the survey. Showing coverage level by each district, there are 67 percent in Baganuur, 50 percent in Bayangol, 41 percent in Bayanzurkh, 100 percent in Nalaikh, 60 percent in Songino Khairkhan, 55 percent in Sukhbaatar, 40 percent in Khan-Uul, and 60 percent in Chingeltei.

No	Ulaanbaatar	103	49%
1	Baganuur	2	67%
2	Bayangol	19	50%
3	Bayanzurkh	16	41%
4	Nalaikh	1	100%
5	Songinokhairkhan	6	60%
6	Sukhbaatar	31	55%
7	Khan-Uul	10	40%
8	Chingeltei	18	60%
9	Address is unclear	0	0%

We collected data of 103 enterprises successfully, and we could not collect data of 108 enterprises due to the following reasons.

Table 1. Outcome of Survey Data Collection

No	Outcome	Number	Percentage
1	Enterprises which were assessed in the survey	103	49%

2	Enterprises which did not provide information	4	2%
3	Enterprises which ceased their activities temporarily and their lines of business were changed	40	19%
4	Enterprises which have no clear contact address and phones and could not be contacted	36	17%
5	Enterprises which could not provide information during collection of survey data (there was no director or anyone who knew this issue)	28	13%

Detailed information on enterprises which could not be assessed in the survey is mentioned below: :

- **Enterprises which ceased their activities temporarily and their lines of business were changed:** Although enterprises are listed to conduct real estate agency and sales activities in its state registration, those enterprises did not conduct such activities or has not conduct such activities for recent 2 years due to decrease of apartments sales arising out of economic crisis.
- **Enterprises which have no clear contact address and phones and could not be contacted:** We could not find contact phone, location and address even we made attempts to find them.
- **Enterprises which could not provide information during collection of survey data (there was no director or anyone who knew this issue):** During collection of survey data (from 6 September to 28 September), directors and officers in charge of this issue were not in work office, and took rest.

In order to collect survey data, we contacted each enterprise 4-5 times by various ways , such as sending an official letter to the enterprise, clarifying whether competent person received that official letter, contacting survey participants via phone, and scheduling date to meet. We chose executive directors, accountants who can provide full and comprehensive information on their enterprises as survey participants. We spent 30-40 minutes on the average in order to collect information on each enterprise. During the collection of survey data, we met Subscribers two times to constantly provide data collection process for them. About 10 professional experts of MIRIM Consulting LLC collected survey data by asking questions to each participants.

Some of outcomes in the course of the survey):

- In recent years, activities of most real estate sales enterprises have been ceased and weakened.
- Most of them conduct their activities within only 2-3 sellers rather than following corporate principles.
- Real estate agents and sales companies have a lack of knowledge on anti-money laundering and counter terrorism financing, fight against the proliferation of weapons of mass destruction, and policies and directions of protection of world financial system.
- There is no special financial and operational registration of real estate companies. In particular, there is no registration on sales and purchases made

by politically exposed persons and their family members, and citizens in high risk countries listed by the FATF.

- In Mongolia, because of the fact that real estate agencies and sales are made among citizens in most cases, development of real estate agency and sales enterprises is not well. Those enterprises have no qualified human resources, and effective structure and organization.
- Most enterprises which sell real estate in the survey are construction companies
- Most enterprises which sell real estate provide sale and agency services among citizens of Mongolia. Those enterprises take 1-2 percent of sales income, and they do not intervene in transactions between citizens. Companies renting real estate provide services to 1-2 foreign citizen(s) on the average per year.

Risk Assessment

We assume that business risk assessment based on quantitative data is not appropriate in the sense that there is no any internal registration and statement on customers, services, transactions in real estate agency and sales enterprises as well as any special registration and statements classifying types of customers, geographical locations, distribution channels and types of products and services by their sales income.

For those reasons, the survey was made by using matrix methodology on basis of data collected through qualitative questionnaire for assessing risks of anti-money laundering and counter terrorism financing, which are developed by consultants of IMF.

The matrix methodology is composed of two basic parts: assessment of total risks in each enterprise; and risk prevention questionnaires. Risk matrix has totally 38 questions of 17 parts. Each question has 1-3 question (s). Risk level is determined in each enterprises.

Assessment of Total Risks

1. General Information

❖ *Ownership Forms of Enterprises*

In order to assess risks of anti-money laundering and counter terrorism financing of real estate agency and sales enterprises, we gave 1 point to ownership of individual persons, 2 points to ownership of legal persons, and 3 points to ownership with foreign investments, depending on their ownership forms.

51 percent of enterprises which were assessed in the survey belongs to ownership of individual persons, 43 percent of them belongs to ownership of legal persons, and 6 percent of them belongs to ownership with foreign investments.

Table 2. *Ownership Forms of Enterprises*

Ownership Forms of Enterprises	Risk Level	Percentage
Ownership of Individual Persons	1	51%
Ownership of Legal Persons	2	43%
Ownership with Foreign Investments	3	6%

❖ *Scope of Activities*

If an enterprise conduct its activities in Ulaanbaatar, it is called as low risk enterprise. If an enterprise conduct its activities in Ulaanbaatar, it is called as a low risk enterprise. If an enterprise conduct its activities throughout the country, it is called as a medium risk enterprise. If an enterprise conduct its activities in international scene, it is called as high risk enterprise.

93 percent of real estate agency and sales enterprises conducts their activities in Ulaanbaatar, 1 percent of them throughout the country, and 6 percent of them in international scene.

Table 3. Scope of Activities

Scope of Activities	Risk Level	Percentage
in Ulaanbaatar	1	93%
throughout the country	2	1%
in international scene	3	6%

❖ *Year (s) conducting activities*

If an enterprise has conducted its activities for a long time of period, that enterprise is a low-risk enterprise. 66 percent of low-risk enterprises have conducted their activities for more than 5 years. 32 percent of such enterprises have conducted their activities for 1-5 years. 66 percent of low-risk enterprises have conducted their activities for one year.

Table 4. Year (s) conducting activities

Year (s) conducting activities	Risk Level	Percentage
For 1 year	3	2%
For 1-5 years	2	32%
More than 5 years	1	66%

❖ *Classifications of Owners*

If an owner of enterprise is Mongolian, that enterprise is a low risk enterprise. If an owner of enterprise is foreigner, that enterprise is a high risk enterprise (gave 1 point). 94 percent of enterprises has foreign owners while 6 percent of them has foreign owners (gave 3 points).

Table 5. Classifications of Owners

Nationality of Owners	Risk Level	Percentage
Mongolian	1	94%
Foreign	3	6%

2. Corporate Governance

For assessing corporate governance and structure capacity of enterprise, we considered the following factors: whether a company has board of directors, offices and departments, or whether a company is controlled by another company, or how many employees a company has. If the company has board of directors, the company is controlled by another company, or the company offices and departments, that company is deemed as low risk enterprise.

54 percent of enterprises which are covered in the survey belongs to complex and combined corporate governance while 46 percent of them is normal or low risk enterprises.

Table 6. Corporate Governance

Risk assessment	Risk Level	Percentage
1	Low	46%
3	High	54%

3. Size and Capacity of Enterprise

In order to determine capacity of enterprise, we considered the following factors: number of employees, subsidiaries, and cooperative enterprises.

❖ *Number of Employees in Enterprise*

Depending on number of employees in real estate agency and sales enterprises, 1-3 point (s) given in the survey. Less than 3 points represents low risk, 3-5 points represent medium-risk, and more than 5 points represent high risk. As a result of the survey, 76 percent of enterprises is high, 10 percent of them is average, and 15 percent of them is low.

Table 7. Number of Employees

Risk assessment	Risk Level	Percentage
3	High	76%
2	Medium	10%
1	Low	15%

❖ *Cooperative Enterprises*

If an enterprise is in cooperation with other real estate agents, brokers and legal persons, that enterprise is a low-risk enterprise. 14 percent of enterprises which are covered in the survey is high risk, 17 percent of them is medium, and 70 percent of them is low.

Table 8. Cooperative Enterprises

Risk assessment	Risk Level	Percentage
1	Low	70%
2	Medium	17%
3	High	14%

❖ *Whether enterprise has any branches and subsidiaries*

One of factors which determine capacity of enterprise is to whether that enterprise has any branches or subsidiaries. If a enterprise has no branches and subsidiaries, that enterprise is low-risk one. If a enterprise has any branches and subsidiaries in Mongolia, that enterprise is medium-risk one. If a enterprise has any branches and subsidiaries in foreign country, that enterprise is high-risk one. As a result of the survey, 88 percent of real estate agency and sales companies is low-risk enterprises. 12 percent of such enterprise is medium-risk one. There is no enterprise which has any branch or subsidiary in foreign country.

Table 9. Whether an Enterprise has any Branches or Subsidiaries

Risk assessment	Risk Level	Percentage
1	Low	88%
2	Medium	12%
3	High	0%

4. Types of Customers

Customers of real estate agency and sales enterprises are classified in the following types: citizens of Mongolia, foreign citizens, citizens of high risk countries listed in anti-money laundering and counter terrorism financing, politically exposed persons and their family members, their affiliated legal persons and customers, accredited representatives of legal persons.

In order to assess risks of anti-money laundering and counter terrorism financing of real estate agency and sales enterprises, we gave 1 point to ownership of individual persons, 2 points to ownership of legal persons, and 3 points to ownership with foreign investments, depending on their ownership forms. If a customer of an enterprise is a citizen of Mongolia, we gave 1 point to that enterprise. If a customer of an enterprise is a foreign citizen, we gave 2 points to that enterprise. As a result, there was no any customer from high-risk country on anti-money laundering and counter-terrorism financing. 28 percent of enterprises is high-risk one, 2 percent is medium-risk one, and 70 percent is a low-risk one (enterprise has only Mongolian customers).

Table 10. Types of Customers

Risk assessment	Risk Level	Percentage
3	High	28%
2	Medium	2%
1	Low	70%

If there are any politically exposed persons and customers related to them in an enterprise, we gave 3 points to that enterprise. It means that enterprise is a high-risk one. If there are no any politically exposed person and customer related to them in an enterprise, that enterprise is deemed as a low-risk one (it should receive 1 point). 86 percent of enterprises which are covered in the survey is a low-risk one, and 14 percent of them is a high-risk one.

Table 11. Politically exposed persons and Customers related to them

Risk assessment	Risk Level	Percentage
1	Low	86%
3	High	14%

If enterprises have customers with accredited representatives, 3 points are given to them. If there are any such kind of customers in enterprises, 1 point is given to them. 78 percent of enterprises is at a low risk. 22 percent of enterprises is at a high risk.

Table 12. Customers with Accredited Representatives

Risk assessment	Risk Level	Percentage
1	Low	78%
3	High	22%

1 point is given to them if most customers of enterprises are citizens. 3 points are given to them if most customers of enterprises are legal persons/companies. 52 percent of enterprises is at a low risk. 48 percent of enterprises is at a high risk.

Table 13. Percentages of Citizens and Legal Persons in Customer Relations

Risk assessment	Risk Level	Percentage
1	Low	52%
3	High	48%

As a result, in respect of real estate agency and sales enterprises in Mongolia, risks related to customers are relatively low.

5. Product and Service

If enterprises permits to make transactions with customers by cash, 3 points are given to them. If enterprises do not permit it, 1 point is given to them. 51 percent of enterprises is at a high risk as such enterprises permit it.

Table 14. Product and Service

Risk assessment	Risk Level	Percentage
1	Low	49%
3	High	51%

6. Distribution Channels

89 percent of the evaluated enterprises met with their customers face to face, and 11 percent of them did not met their customers face to face. Enterprises often provide services and make transactions through central offices, branches and agents.

Table 15. Distribution Channels

Risk assessment	Risk Level	Percentage
1	Low	89%
3	High	11%

Risk Mitigation

Second part of risk assessment are based on rules, regulations, policies and operational qualitative questionnaires as indicators for reducing risks of anti-money laundering and counter-terrorism financing.

7. Rules, Regulations and Policies

There is no enough rules, regulation and policies on anti-money laundering and counter-terrorism financing among enterprises. In this regard, 76 percent of enterprises which are covered in the survey is a medium or high-risk one. 23 percent of such enterprises is subject to a low-risk one.

Table 16. Rules, Regulations and Policies

Risk assessment	Risk Level	Percentage
1	Low	23%
2	Medium	21%
3	High	55%

78 percent of such enterprises did not official rules, regulation and policies on anti-money laundering and counter-terrorism financing.

Table 17. Whether there is any written policy and regulations

Risk assessment	Risk Level	Percentage
3	High	78%
1	Low	22%

8. Officer in charge of Compliance

89 percent of enterprises which are covered in the survey did not appoint officer in charge of compliance. 11 percent of such enterprises has such officers, and 91 percent of them works in management level.

Table 18. Whether there is any officer in charge of compliance

Risk assessment	Risk Level	Percentage
3	High	89%
1	Low	11%

Table 19. Whether officer in charge of compliance works in management level

Risk assessment	Risk Level	Percentage
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3	High	9%
1	Low	91%

9. Risk Management

93 percent of 103 real estate agency and sale enterprises has not been assessed by risk associated with money laundering and terrorism financing. It means those enterprises have a lack of knowledge about this issue. This situation led to increase of total risks.

Table 20. Whether risk management is assessed

Risk assessment	Risk Level	Percentage
3	High	93%
2	Medium	-
1	Low	7%

5 percent of such enterprises implements any policies and strategies for risk mitigation. 36 percent is semi-insufficient, 59 percent have never been or are at high risk.

Table 21. Risk Mitigation Strategy

Risk assessment	Risk Level	Percentage
3	High	59%
2	Medium	36%
1	Low	5%

Although enterprises take risk mitigation measures by determining risks, they do not conduct risk monitorings. It means that those enterprises could not manage their risks completely.

83 percent of enterprises which are covered in the survey does not conduct risk monitoring per season or never conducts. Therefore, it is necessary to conduct risk monitorings regularly in enterprises.

Table 22. Frequencies of Risk Monitoring

Risk assessment	Risk Level	Percentage
3	High	7%
3	High	76%
2	Medium	14%
1	Low	4%

10. Internal control

87 percent of real estate agency and sales enterprises has not been conducted impartial monitorings or controls on anti-money laundering and terrorism financing operations, laws and regulations. Moreover, there are no external auditing in such enterprises.

Table 23. Internal Control

Risk assessment	Risk Level	Percentage
3	High	87%
1	Low	13%

11. Trainings and Human resources

Enterprises have insufficient capacity for training and human resources against money laundering and terrorism financing. 85 percent of enterprises are at a high risk.

Table 24. Trainings and Human Resources

Risk assessment	Risk Level	Percentage
3	High	85%
1	Low	15%

12. Identification of Customers

83 percent of enterprises provide services after clarifying who customers are.45 percent of them do not check customer information in next service for them.

Table 25. Identification of Customers

Risk assessment	Risk Level	Percentage
3	High	17%
1	Low	83%

13. New Technology

93 percent of enterprises do not implement risk assessment and mitigation strategies in relation to the use of new technologies.

Table 26. New technology

Risk assessment	Risk Level	Percentage
3	High	93%
1	Low	7%

14. Expanded Identification of Customers

77 percent of enterprises do not implement expanded measures for identification of customers, or they are at high risk. Moreover, 89 percent of enterprises do not implement the practices for identification of customers in relation with politically exposed persons, and 91 percent of enterprises do not implement the mechanisms for identification of customers from high-risk countries. (Tables 28 and 29).

Table 27. Identification of Customers

Risk assessment	Risk Level	Percentage
3	High	77%
1	Low	23%

Table 28. Identification of Customers related to Politically Exposed Persons

Risk assessment	Risk Level	Percentage
3	High	89%
1	Low	11%

Table 29. Identification of Customers in High-Risk Countries on Anti-Money Laundering and Counter-Terrorism Financing

Risk assessment	Risk Level	Percentage
3	High	91%
1	Low	9%

15. Storage documents

The FATF recommends that enterprises need to archive copies of official documents, and transaction documents and suspicious transaction reports for at least five years. 64 percent of enterprises do not store such documents and reports, and they belong to the high-risk group.

Table 30. Storage documents

Risk assessment	Risk Level	Percentage
3	High	64%
1	Low	36%

16. Reporting

91 percent of enterprises does not submit suspicious transaction reports on money laundering and terrorism financing to the FIU. 73 percent of enterprises does not submit cash transaction report to the FIU. The enterprises stated that they had not submitted a report to the FIU in relation to policies and procedures to conform to the UN Security Council resolutions and decisions on Terrorism Financing. It illustrates that those enterprises have a lack of knowledge and understandings on suspicious transaction and FIU.

Table 31. Whether suspicious transaction reports were submitted to the FIU

Risk assessment	Risk Level	Percentage
3	High	91%
1	Low	9%

Table 32. Whether cash-flow statements were submitted to the FIU

Risk assessment	Risk Level	Percentage
3	High	73%
1	Low	27%

17. Data on Compliance Implementation

71 percent of enterprises are at high risk in respect of fulfillment of duties combating money laundering and terrorism financing.

Table 33. Data on Compliance Implementation

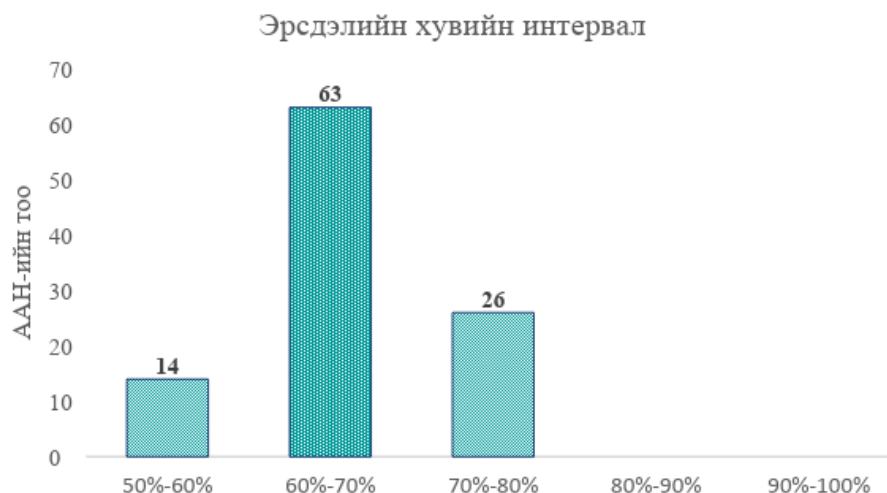
Risk assessment	Risk Level	Percentage
3	High	30%
2	Medium	41%
1	Low	29%

Outcomes of Integrated Assessment

According to the survey covering assessment of 103 enterprises, 14 percent of them is at 50-60 percent risk, 61 percent of them is at 60-70 percent risk, and 25 percent of them is 70-80 percent risk. See Graph 14/.

Graph 13. Risk Assessment Intervals

Risk percentage intervals



The average risk of enterprises is 66.2 percent, and the lowest risk is 55.8 percent and the highest risk is 75.6 percent. The highest risk rate which is mostly mentioned in the sample is 68.4%.

Among enterprises which covered in the survey, preventive measures against money laundering and terrorism financing is very low.

In addition, as enterprises have insufficient trainings and capacities in respect of money laundering and terrorism financing. 85 percent of them are at high risk. Therefore, it can be concluded that the anti-money laundering and terrorism financing in real estate agency sector is at an average risk level. The main factor for increasing risks is the lack of knowledge on laws for combating money laundering and terrorism financing.

We organized meetings with the Financial Regulatory Commission during the course of the survey, and introduced the issues raised during the survey. According to the FRC's recommendations, we made qualitative risk assessments and structural risk assessments of 103 enterprises respectively.

Integrated structural risk assessment

Structural risks include enterprise capacity, capital asset, type of ownership, and year(s) conducting activities. In the case of lack of quantitative data in this survey we chose scope of activities instead of enterprise capital asset in integrated structural risk assessment. Considering such factors, integrated assessment is conducted by applying the following unit weights in order evaluate risks on money laundering and terrorism financing of insurance intermediaries.

Table 34. Unit Weight of Structural Risks

Risk Size	Unit weight
Scope of Activities	33.(3)
Forms of Ownership	33.(3)
Year (s) conducting activities	33.(3)

93 percent of enterprises is at low risk, and 7 percent of enterprises is at high risk.

Table 35. **Integrated Assessment of Structural Risks**

Risk assessment	Risk Level	Percentage
1-2	Low	93%

2-3	High	7%
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Integrated Assessment of Qualitative Risks

Risk points are given on the basis of outcomes of qualitative questionnaires. Structural points are determined on the average of each question. Integrated qualitative assessment is made by unit weights in each group and weights of insurance intermediaries.

Table 36. Unit Weight of Qualitative Assessment

№	Group indicator	Unit weight
1	Corporate Governance	25
2	Risk Management	20
3	Rules, Regulations, Policies and Operations	15
4	Internal Control, and Internal and External Audit	10
5	Compliance Function	12.5
6	Trainings and Human Resources	5
7	Reportings and Registrations	12.5

93 percent of enterprises is at high risks. It means that those enterprises do not take measures on anti-money laundering and counter-terrorism financing.

Table 37. Outcome of Qualitative Assessment

Risk assessment	Risk Level	Percentage
1-2	Low	6%
2-3	High	92%

It seems that integrated qualitative assessment is likely at high risk due to very low implementations of policies, regulations and preventive measures on anti-money laundering and counter-terrorism financing. However, in fact, certain factors, a lack of basic understandings on anti-money laundering and terrorism financing as well as measures and internal procedures against money laundering and terrorism financing, and sales income of real estate agency and sale enterprises, are led to see integrated qualitative assessment as high-risk one. According to methodology made by designated non-financial businesses and professions of IMF, risk on money laundering and terrorism financing of real estate agency enterprises in Mongolia is at average level.

V. CREATION OF MONGOLIAN RISK MANAGEMENT SYSTEM FOR REAL ESTATE AGENCY ENTERPRISES BASED ON INTERNATIONAL GOOD PRACTICES

According to the Law of Mongolia on Combating Money Laundering and Terrorism Financing in 2013, “Money laundering” means the acquisition, conversion or transfer of an asset knowing that the asset is the proceeds of crime or the concealment or disguise of the illicit origin of the asset, transfer of rights of ownership of the asset, conversion of the true nature, location of that asset for the purposes of making the assets’ appearance as legal.

Money laundering and terrorism financing can be considered as the following three-step process:

1. Location - access the illegal income into financial system (such as opening many deposits with a small amount of money, buying a financial instrument);
2. Layering - camouflage illegal income source by making multi-fold financial transactions;
and
3. Reintegration – take back illegal income as a income obtained from legal source

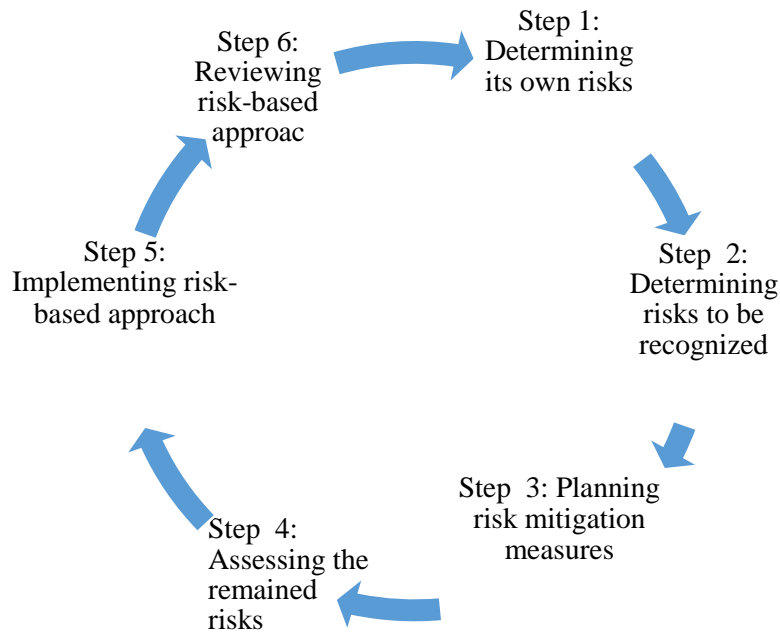
Real estate transactions can be used at any stage of crimes of the money laundering and terrorism financing, but they are often in the third stage. For example, if an individual transfers the illegal income as advance payment in order to purchase an apartment, it can be considered a reintegration process.

If real estate is bought or sold on behalf of the customer as described in this Law, the real estate agency is responsible for reporting.

Risk Management System

A foundation of risk management system is a risk-based approach. The approach is designed to assess risk associated with money laundering and terrorism financing not creating obstacles to enterprises and their customers. and its customers. There are the following 6 steps (stages) of risk-based approach for managing risk with the least cost:

Graph 14. Cycles of risk-based approach



Step 1: Determining risks

The risk-based approach begins with the identification and assessment of risks that are necessary to manage. The survey suggests that a real estate intermediary organization proposed a model that could be used to assess risk by identifying high risk customers and activities. Risk assessments can identify and target customers and transactions in which groups of risk (usually classified as high, medium and low risk) to identify and track appropriate customers, measures, tests and additional information about the customer and ongoing monitoring.

International practice shows that the following three main types of risks are likely to be faced in real estate sales. These are :

- Geographical or country risks;
- Customer risks; and
- Transaction risks.

Geographical or country risks: It should be considered whether the country of nationality or geographical location is at high risk of anti-money laundering and counter-terrorism financing, or the country has been banned by the United Nations and the European Council. If the FATF and the European Council assume that the country is at risk, customers and transactions originated from that country should be also at risk. In that country, corruptions and crimes, and customers and transaction risks associated with terrorist financing and promoting operations are higher. In addition, there are high risk locations for large transactions with foreigners and foreigners.

The risk of customer and transaction risks can be determined by observing the risk characteristics and implementing measures to identify customer.s In principle, "unusual"

customers and "abnormal" transactions need to be taken into account. Real estate agents should have risk management systems for determining and assessing them.

Step 2: Determining risks to be recognized

Business organizations and non-governmental organizations are also at risk. Recognizing and maintaining the degree of risks depends on the nature of each organization. It should be decided by the management of each organization.

Step 3: Planning risk mitigation measures

It should be planned risk management and mitigation measures in high-risk customers and operations. There are the following types of risk management and mitigation measures:

- Take measures to identify customers to in order to check customers' information and determine the final owner;
- Control regularly several transactions and operations by customers;
- Establish a system for identifying and verifying "abnormal" transactions and activities in order to determine whether there are any ground for knowing or suspecting commission of crimes of money laundering and terrorism financing;
- Obtain permission from supervisory experts to make transactions;
- Request additional information for customer identification;
- Obtain names of persons behind legal persons /enterprises;
- Monitor whether customers make additional real estate transactions;
- Obtain information on customer income and funding sources;
- Organize trainings for employees;
- Review the regulatory environment for combating money laundering and terrorism financing;
- Include duties and responsibilities of anti-money laundering and counter-terrorism financing in job description and performance evaluation
- Set the maximum amount of cash transaction
- Take a bank bill instead of receiving a large amount of cash
- Make the transaction itself; and
- Obtain more information to understand business or condition of customers.

Step 4: Assessing the remained risks

Step 3 describes the remaining risks after the planned measures in Step 3 are taken. Such risks should be less than the acceptable level of risks. The remained risks are risks which are left one even implementing risk mitigation measures. For example, each suspicious transaction is required to be reported to the relevant authorities but there are also certain cases in which some transactions could not be reported.

Step 5: Implementing risk-based approach

The steps include the followings: reporting, storage, of documents, identification of customers, risk assessment and implementation of measure at high risk.

Real estate agency enterprises implements a risk-based approach should have officers with the following functions:

- Receive information on suspicious activity and cash out-of-pocket payments from other employees;
- Obtain necessary documents in time;
- Make a final decision whether suspicious cases should be reported to competent authorities; and
- Submit reports to the competent authorities if necessary.

Officers in charge of reporting may not work at the management level.

However, training needs to be able to perform these tasks.

The enterprise should also have a supervisory officer and the employee has the authority of management and the following functions:

- Establish policies, procedures, and control measures to combat crime against money laundering and terrorism financing;
- Inspection of compliance with relevant laws and regulations;
- Obtain all the necessary documents in time;

The above two employees may be one person and must be a senior official.

In the reporting section, real estate agency must submit information on suspicious transactions in a timely manner to the competent authority of the bank and have the following contents:

- Name of the real estate agency enterprise, location of the enterprise and the parent (s) / name of the person who delivered the information;
- Information about clients and recipients;
- Information about the transaction value, amount, form performed, date, account number, other participants' accounts, and account holders;
- A brief description of the circumstances and circumstances of suspect transaction; and
- Other relevant documents.

Document storage is the next essential element of implementing risk-based approaches.

In the case of a real estate sale or purchase transaction, the following information should be stored:

- Customers' data collected by client-identifiable information and detailed information when details are met;
- Transaction data;
- Internal and external reports - The measures taken in accordance with internal and external reporting requirements should be documented and maintained. Collected additional information not reported to competent authority should be stored.; and
- Other documents

When is the training on anti-money laundering and counter-terrorism financing related to the training, the name of the training program, the name of the trainer, the name of the trainee, and the exam score

Procedures related to monitoring / reporting of supervisory / supervisory staff - Measures taken in line with reports and reports to management

Documents can be saved in original, original copy, and scanned files electronically. The relevant documents will be retained for five years after the transaction.

Another important part of risk-based approach is the recognition of the client. Make every effort to identify the customer. The customer includes both the individual and the legal person and the buyer and the buyer, by which the final owner of the property will be identified and the personal information will be disclosed. If the client is a legal entity, the client's ownership and management structure should be understood. Also understand the purpose and characteristics of real estate sales and purchases.

Individuals will use documents issued by the state, such as their ID card, passport, driver's license, to identify the customer. Documents must be original. Copy not acceptable. The validity period of the document shall also be considered. Realizing the purpose and character of real estate sales and purchases. Individuals receive the following information. These include:

- Full name;
- Address of residence;
- Birth date;
- Birth place;
- Nationality;
- Sex; and
- Registration number

In the event of a detailed action taken by the customer, the following additional information should be obtained:

- Professional name, employer's name, and source of income
- Have you done a state or high ranking job?
- Additional information about customer assets and sources of income

Paying the influence of politically influential persons to risk is considered to be a high risk and to take precautionary action and to obtain permission for an employee at the level of the management of the enterprise. Also, customer transactions and operations need to be regularly reviewed. Annex 6 describes who is a politically influential person.

For legal persons, the person to whom the transaction is to be made must check whether the entity is authorized to represent it and verify the personal documentation. Check the name of the director / head of the organization and check the documentation. The final owner of the legal entity shall be determined. Legal person ownership and management structure. Also understand the purpose and specifics of buying and selling real estate. For the legal person, the following information shall be recorded. These include:

- Full name;
- Established and registered date and location;
- Registered address;
- Whether it is registered at the stock Exchange, where registered if it is registered;

- Registration number;
- Director name;
- Organizational form and direction of activity; and
- Ownership and management structure.

The following additional measures need to be taken as they are considered to be at high risk for customers who have not met themselves:

- Collect additional information to identify customers
- Check the accuracy of the document, and require documents to be notarized or certified financial institution; and
- Require the first payment is made by the bank account which is opened in name of customer;

Conducting risk assessment by real estate agency enterprises themselves is the next important step in implementing risk-based approaches. Template for risk assessment is attached in Annex 6. Template offers to take measures to manage and mitigate high risk.

Step 6: Reviewing risk-based approaches

Risk assessment is not a one-time event. The risk is constantly changing depending on the customer's behavior, new technology, and market changes. Therefore, each agency enterprise should conduct risk assessment every two years and regularly improve controlling measures. Trainings for employees are very important in this regard. Trainings must cover employees who have job descriptions which include duties to check whether any assets and income is related to money laundering and terrorism financing, employees who implement controls against money laundering and terrorism financing, employees who works with customers, and employees who are working temporarily by contract.

Trainings should be include the following contents:

1. Measures to identify customers;
2. Regular monitoring;
3. Report suspicious and cash transactions;
4. Keep documents;
5. Internal controls; and
6. Risk assessment and management.

Such training should provide the following knowledge and abilities for their participants:

- Understandings of laws and regulations governing crimes of money laundering and terrorism financing;
- Identification of the transactions related to those crimes; and
- Correct reporting of suspected transactions.

Training should be organized at least per a year. Training should cover all employees and managers. Each enterprise should determine its training methods and assessments, and it should evaluate outcomes of trainings.

VI. INTERNATIONAL EXAMPLES AND TYPOLOGIES OF REAL STATE AGENTS IN ACTIVITIES RELATED TO ANTI-MONEY LAUNDERING AND COUNTER-TERRORISM FINANCING

It is important to develop effective policies and procedures to effectively manage the risks associated with anti-money laundering and counter-terrorism financing. Templates of such policies and procedures are specified in Annex 2.

One of daily activities conducted by real estate agencies is the identification of customers. We offers certain templates of customer identification in Annex 3.

If real estate agents can control "unusual" customers and "ubnormal" transactions effectively, the risks associated with anti-money laundering and counter-terrorism financing will be mitigated. Indicators for identifying suspicious or high-risk transactions are included in Annex 4. It is also important to ensure that employees are regularly trained, informed and reported on suspicious transactions to the relevant agencies, and therefore Appendix 5 provides a domestic reporting template for suspicious activity. Conducting risk assessment by real estate agents is very significant to determine, assess and manage challenging risks to enterprise. Template for challenging risk assessment is specified in Annex 6. We also offer necessary measures to manage and mitigate such risks in this regard.

Inspection by Competent Authority

Assessment of real estate agency is very important for determining, evaluating and managing the risks the organization faces. In Appendix 6, we have included an evaluation design that can be used to assess the risk of an entity. Using this model, it is possible to detect the type of risk that the organization has to offer, and to take action to manage and reduce risks. That interpretation is based on introduction This interpretation is based on the Guidelines for the Auditing and Financial Analysis of the Canadian Financial Services and Investigations Agency.

Authorized public authorities have the right to examine the activities of any entity that regulates the law. Under the scope of this work, examinations can be conducted on-site and office or documents. In the course of the examination, the risk-based approach is based on the choice of the highest risk organizations and the organization sends the notification and the date of the declaration is the date of the inspection process. Therefore, the financial transactions that are to be made at the time of investigation are not reported as at the date of the notification. When an established policy or procedure has been established since the date of notification, it is considered a violation. Authorized public authorities have the right to examine the activities of any entity that regulates the law. Under the scope of this work, examinations can be conducted on-site and office or documents. In the course of the examination, the risk-based approach is based on the choice of the highest risk organizations and the organization sends the notification and the date of the declaration is the date of the inspection process. Therefore, the financial transactions that are to be made at the time of investigation are not reported as at the date of the notification. When an established policy or procedure has been established since the date of notification, it is considered a violation.

On-site inspection

- Supervisory officers of competent authority notify enterprise of inspection via phone and letter.
- Prior to arrive in enterprise, supervisory officers may request to submit inspection policies and procedures, risk assessment of anti-money laundering and counter-terrorism financing, mitigation measures of high-risks, and transaction documents. As a result, time of period spending in enterprise is reduced.
- In some special cases, supervisory officers may conduct inspection in locations out of apartments, without prior notification.

Office inspection

- Supervisory officers of competent authority may also conduct office inspection. Such inspection may be conducted by the supervisory officer in its authority.
- Supervisory officers of competent authority notify enterprises to be inspected in advance, then confirm it by sending letters. Supervisory officers may require necessary documents from enterprise to evaluate its relevant policies and procedures, reportings and retents of customer information, and customers identification.

What to inspect?

The inspection covers the following areas:

- Implementation of monitoring policies and procedures
- whether all necessary transactions are reported;
- Implementation of customer identification;
- Requirements for keeping documents; and
- Measures to determine third party.

The following questions may be asked during the inspection:

Are the supervisory officers appointed?

- Are there policies and procedures in the enterprise?
- Does the enterprise take measures to define, document and mitigate risks associated with anti-money laundering and counter-terrorism financing?
- Are there training programs in the enterprise?
- Are inspection policies and procedures regularly renewed?
- Are the reporting requirements fulfilled?
- Are the requirements for customer identification? and
- Are necessary document kept?

At the end of on-site and office inspections, the supervising officer will present a detailed conclusion to the final interview with the organization's management. After the interview, the conclusions including following issues should be submitted to the enterprise:

- There is no additional inspection measures;
- Additional inspection measures should be taken; and

- Decision on imposing administrative monetary fines.

Inspection shall be fulfilled by completing letter on conclusion.

The roles of enterprises to be inspected by competent authorities

- To entry into office of enterprises to be inspected by competent authorities - Officers of competent authorities have rights to entry into office of enterprises to be inspected;
- To provide documents - Competent authority must provide documents required by competent authorities within 30 days; and
- To provide assistance – Enterprises to be inspected by competent authorities should provide assistance, including provide copies of documents.

Punishments

Competent authorities have rights to impose administrative monetary fines. Furthermore, a criminal penalties may be imposed by law enforcement bodies. However, international experience shows that monetary fines and criminal penalties should not applied to one case.

VIII. CONCLUSIONS , PROPOSALS AND RECOMMENDATIONS

Conclusions

On the order of FRC, the Mongolian Economic Analysis and Research Center (MEARC) LLC as a non-governmental organization (NGO) made the survey “Risk Assessment of Anti-Money Laundering and Counter-Terrorism Financing of Enterprises Conducting Real Estate Agency Activities” from 6 September 2018 to 12 October 2018. The sample survey was carried out under qualitative questionnaires on risk assessment of anti-money laundering and counter-terrorism financing, which was developed by consultants of IMF, and outcomes of the survey were determined by risk matrix methodology.

Within data collection of the survey, data of 5186 real estate agency and sale enterprises registered were obtained from the GASR database. Data 1470 construction enterprises conducting sales activities was obtained from the NSO's business register database. We selected 211 enterprises which conduct their activities in Ulaanbaatar, and submitted their relevant reports to Mongolian Tax Authority in 2017, in our survey.

The survey covers 103 enterprises (49 percent) among 211 enterprises in Ulaanbaatar. The survey do not cover some enterprises due to the following reasons: enterprises had ceased their activities for certain time period or changed their lines of business (19 percent), enterprises have no clear contacting addressess and phones (17 percent), enterprises notified that they could not give information in course of survey data collection (13 percent), and enterprises notified that there were no need to participate in the survey (2 percent).

The survey finds that the following common characteristics and systems among enterprises which conduct real estate agency and sale activities:

1. In Mongolia, real estate agencies and sales are made among citizens in most cases;
2. Qualification of enterprises which conduct real estate agency and sale activities is poor because of the fact that human resources, corporate governance, structure, and management of such enterprises are not sufficiently constituted. Most of them conduct their activities within only 2-3 sellers rather than following corporate principles;
3. Most enterprises which sell real estate in the survey are construction companies;
4. Most enterprises which sell real estate provide sale and agency services among citizens of Mongolia;
5. Enterprises take 1-2 percent of sales income, and they do not intervene in transactions between citizens.
6. Real estate agents and sales companies have a lack of knowledge on anti-money laundering and counter-terrorism financing, fight against the proliferation of weapons of mass destruction, and policies and directions of protection of world financial system;
7. There is no special financial and operational registration of real estate companies. In particular, there is no registration on sales and purchases made by politically exposed persons and their family members and citizens in high-risk countries listed by the FATF;
8. Business risk assessment based on quantitative data is not appropriate in the sense that there is no any internal registration and statement on customers, services, transactions in real estate agency and sales enterprises as well as any special registration and statements

classifying types of customers, geographical locations, distribution channels and types of products and services by their sales income. For those reasons, the survey was made by using a qualitative questionnaire method.

According to the survey covering assessment of 103 enterprises, 14 percent of them is at 50-60 percent risk, 61 percent of them is at 60-70 percent risk, and 25 percent of them is 70-80 percent risk. The average risk of enterprises is 66.2 percent, and the lowest risk is 55.8 percent and the highest risk is 75.6 percent. The main factor for increasing risks is a lack of knowledge on laws on anti-money laundering and terrorism financing on Mongolia.

Among enterprises which covered in the survey, taking preventive measures against money laundering and terrorism financing is at very low level. In particular, 76 percent of total enterprises is subject to medium or high-risk groups because of the fact that formulations and implementations of rules, regulations, policies and procedures related to anti-money laundering and counter-terrorism financing are insufficient in those enterprises. Facts that 89 percent of enterprises do not appoint officers in charge of compliance, 93 percent of enterprises do not make risk assessments, and 87 percent of enterprises is not subject to impartial monitorings and external audits, are likely led to increase of risks. Organizations have not been adequately trained in training against the MFN and their human resources capacity, indicating that 85% of the surveyed institutions are at high risk levels. Moreover, 85 percent of enterprises is at high risk in the sense that there are no effective trainings of anti-money laundering and counter-terrorism financing for qualifying human resources in those enterprises.

91 percent of enterprises does not submit suspicious transaction reports on money laundering and terrorism financing to the FIU. 73 percent of enterprises does not submit cash transaction report to the FIU. 73% did not send their cash reports to the FIU. The enterprises stated that they had not submitted a report to the FIU in relation to policies and procedures to conform to the UN Security Council resolutions and decisions on Terrorism Financing. It illustrates that those enterprises have a lack of knowledge and understandings on suspicious transaction and FIU.

We organized meetings with the Financial Regulatory Commission (FRC) during the course of the survey, introduced the issues raised to FRC, and cooperated with FRC during all stages of the survey. We made qualitative risk assessments and structural risk assessments of 103 enterprises respectively in light of the recommendations of the FRC.

Under the structural risks assessment, 93 percent of 103 enterprises is at low-risk, 7 percent of 103 enterprises is at high-risk, while 92 percent of 103 enterprises is at high-risk or they do not take any measures for combating money laundering and terrorism financing according to qualitative risk assessment.

According to the recommendation of the FIU, the list of high-risk enterprises which are required to conduct on-site inspection is made in the survey (Annex 9). 38 enterprises are officially included in the list not including enterprises which are refused to participate in the survey (Table 48). The list reflects the findings of the survey and the recommendations of the

FIU, and 32 enterprises have been listed in Table 46 below which meet two or more criteria set out below:

- ownership of legal person;
- whether enterprise has a foreign investment;
- Information on real estate agency and sales enterprises with foreign owners;
- whether enterprise conducts its activities internationally;
- whether its sales income is over 50 million MNT;
- whether it is relationt with politcally exposed person; and
- whether it has high sales income eventhough it has not conducted its activities for a long time.

In addition, the following criteria are applied to enterprises that refused to participate in the survey, and 6 enterprises are included in the checklist.

- Enterprises which have sales income of 2017 is over 50 million MNT; and
- Enterprises which conducts their activities normally but they are not covered in the survey due to the fact that they directly deny to give information or they notified that there were any person who knows their activities in enterprises, and they had ceased activities for certain time of period (Table 47).

In addition, contact addresses and telephone numbers of 103 enterprises which are covered in the survey is provided in Annex 10.

According to the recommendations of the FIU, we explored and improved chapter for constituting risk management system based on international good experience, particularly Canadian risk-based approach.

To conclude, it seems that integrated qualitative assessment is likely at high risk due to very low implementations of policies, regulations and preventive measures on anti-money laundering and counter-terrorism financing, However, in fact, certain factors, a lack of basic understandings on anti-money laundering and terrorism financing as well as measures and internal procedures against money laundering and terrorism financing, and sales income of real estate agency and sale enterprises, are led to see integrated qualitative assessment as high –risk one. According to methodology made by designated non-financial businesses and professions of IMF, risk on money laundering and terrorism financing of real estate agency enterprises in Mongolia is **at average level**.

Proposals and Recommendations:

MEARC NGO and Mirim Consulting carried out the survey in a short period of time (5 weeks). This survey covers only enterprises which conduct activities in Ulaanbaatar (88 percent of those enterprises conducts activities of real estate agency). It is necessary to

develop this survey in the future, in particular, a comprehensive survey covering the domestic construction sector should be needed.

The survey shows that it is necessary to improve the registration system of real estate agents and sales enterprises. We contacted enterprises which satisfy with requirements of our sample survey. 54.3 percent of such enterprises, which are registered to conduct activities of real estate agents in the General Authority for State Registration, replies that they do not conduct such activities. 23 percent of such enterprises was impossible to contact or they changed their contact address and phone numbers. Therefore, creating a legal environment for registering enterprises which intend to conduct such activities, and licensing or certifying them in accordance with international good practice is crucial. In doing so, the controlling system of such enterprises will be improved, then significant achievements in such enterprises, as well as the real estate market, will be constituted.

Moreover, enterprises which conduct activities in the real estate market have a lack of knowledge and information on anti-money laundering and counter-terrorism financing, relevant laws, and risk management. For this reason, an organization of training related to anti-money laundering and counter-terrorism financing, and qualifying human resources are challenging issues in this field. Some enterprises have no internal registration and report about customers, agencies and sales and understandings on suspicious transaction reports. In relation to this issue, introduction of easy and simply reports to those enterprises and submission of those reports to FRC (Financial Regulatory Committee) and FIU (Financial Intelligence Unit) should be important steps to reducing anti-money laundering and counter-terrorism financing in the field of real estate agency (standard report is attached in the survey

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Annex 2

Model AML/CFT policy, procedure

Address of organization

Telephone

email

Name of organization

Policy, procedure

Following issues should be included in policy, procedure:

- Obligation of supervisory official;
- Method for introducing policy, procedure to employees and officers;
- How to reflect changes of policy, legal regulation in policy, procedure;
- Frequency of updating policy, procedure;
- Regularly conducting external audit on policy, procedure.

Risk assessment and risk mitigation:

- What customer should be considered as high risk customer (risk assessment shall be attached);
- What measures should be take mitigate risk;
- Method for determining risk of newly introduced product and service;
- Regularly updating risk assessment;

Measures for knowing customer (CDD and/or KYC):

- When measure for knowing buyer and seller of real estate transaction should be taken?
- What information should be extracted for knowing individual?
- What information should be extracted for knowing legal person?
- What documents are acceptable?
- Let customer know that documents should be submitted as original.
- Way to know customer when such customer is not present in person.
- What to do if measure for knowing customer could not be completed?

Keeping submitted documents:

- Determine specific period to keep supporting documents associated certain transaction;
- Determine which documents should be kept;
- Determine place for keeping documents;
- How to promptly deliver information to state authority?
- In case third party is in charge of measures for knowing customer:
 - Determine way to verify that the third party is correctly taking measures;
 - Determine way to obtain information from the third party.

Specific measure for knowing customer:

- What measures should be taken for knowing the following customers:
 - Transaction or customer associated with FATF designated country;
 - Transaction or customer associated with countries that connected ML/FT, corruption and that are under international sanction;
 - Other high risk occurrences.

Politically exposed person:

- Definition of PEPs;

- How to identify PEPs;
- How to get permission of managing officials;
- Measures for identifying source of property, income;
- Constant supervision procedure;

Constant supervision:

- Determine procedure for conducting supervision in the following cases:
 - Stable business relation (after execution of more than 2 real estate transaction)
 - Complicated and/or significant transaction;
 - “Unusual transaction” with no legal or economic purpose.
- Evidencing conclusion;

Reporting suspicious activity:

- Definition of suspicious activity;
- Identifying suspicious activity;
- Who is in charge of reporting;
- Explain the process how your officers inform to the officer in charge of reporting;
- Make aware that report of suspicious activities to be sent to state authority should be confidential.

Training:

- How to identify that person can uphold high standard before employing such person?
- How to involve your employees and officers in following trainings:
 - Identifying suspicious transaction;
 - Your organization’s obligations to bear for AML/CFT;
 - How to implement policy, procedure?

Form of measures to be taken to know customer (sample)

Part 1: Collection of customer information:

1. Explain for what purpose customer visited (buy or rent real estate etc.);
2. Using customer civil identification, following information should be filled (examine validity of identification and make a copy):

First and last name:

Registration number:

Address:

Date of birth (year/month/day):

Place of birth (country/city and/or aimag):

Nationality and ethnicity:

Sex: Male Female

Type of civil identification Foreign passport Civil ID

Driver's license Other: _____

Number of identification (if possible):

Organization issued such identification:

Date of identification issued (year/month/day):

Identification valid until (year/month/day):

3. Ask customer if he/she is PEP or family member of PEP.

No Yes

If the customer is PEP or family member of PEP, source of income should be written as additional information:

4. Ask if customer itself the beneficial owner:

Yes No

If the customer is not the beneficial owner or he/she is representing other person additional information should be collected: _____

5. If customer is in blacklist:

No Yes

If customer is in black list, collect additional information: _____

6. Make a internet search by name of customer:

Negative information not found Negative information found

Additional information about negative information: _____

Part 2. Verification

Make a copy of customer's identification and put it in proper file:

Yes No

Part 3. Risk rating assessment

7. Conduct a customer risk assessment:

Customer is PEP or family member of PEP: Yes No

Is the source country of transaction or customer other than following countries:

- Mongolia – Great Britain - Canada - USA

Yes No

Is there a history of reporting suspicious transaction associated current customer?

Yes No

Criteria of other risks: _____

Yes No

If there is at least one YES above, it is high risk customer.

None of above criteria is associated to current customer:

Yes No If it is YES, it is middle risk customer

8. *For the high risk customer * Additional information is necessary

Profession, name of employer

Source of property, income

Part 4. Verification

9. The following information about the person filled out this form:

First and last name:

Position:

Date:

Signature:

10. * For the high risk customer * Manager's permission is required

First and last name:

Position:

Date:

Signature:

Annex 4

Criteria for identifying high risk/suspicious transaction

Risky characteristics of transaction:

- Transaction made by significant amount of cash, check on the name of third person;
- Payment that was made in several insignificant amounts within short period;
- Transaction of which customer was 100 percent represented by lawyer or power of attorney;
- Transaction that was made on behalf of person who does not have financial capacity to buy this real estate. Such person can be minor/underage person, disabled person and person does not have high financial capacity;
- Transaction in which third legal person is involved provided that such legal person has no connection with this transaction or buying legal person or such legal person does not conduct business operation;
- Transaction of which parties intend to finish within very short term without justifiable reason;
- Transaction made by several payments from various sources;
- Ownership of real estate is regularly changed among relatives or people know each other;
- Reselling certain real estate by significantly different price while market price of real estate has not changed significantly.
- Reselling real estate within very short period (within one day etc.) from the date that bought /not by market price/.
- Transaction that is bought for ownership of third party /even the third party is relatives or friends/.
- Transaction that is not compatible with financial capacity of customer.
- Transaction of which buyer wants to make payment by several insignificant amounts.
- Customer wanted to pay significant amount of commission to real estate agent/broker.
- Customer has prepaid payment which is several times higher than that of similar type of real estates for long term.

Suspicious actions of customer

- Customer wants to cancel the transaction without explanation and want to have paid advance back.
- Customer is eager to buy real estate for a price above market value.
- Customer buys real estate without examining.

- Customer pay significant amount for repair or maintenance.
- Customer buy back same real estate that was previously sold by itself.
- In case customer accepted to buy real estate by market price or higher, but the customer wants to have lesser amount written on documents and to pay for it “under table”.
- Customer pays advance by check of third party other than his/her family member or parents.
- Customer pays significant amount of advance in cash and source of cash draws attention (from offshore account or lent from third party etc.).
- Customer buys family use property in the name of company.
- Customer buys several real property within short term not concerning about their location, condition, repair cost etc.
- Customer strive to send the signed document by fax or email.
- Customer is giving overwhelming explanation or protection about buying of such property.
- Customer’s office or home landline number is not reachable or not in use.
- Customer uses post address in service.
- Customer specifically and persistently asks about agent’s AML/CFT procedure, policy.
- Customer does not care about commission, risk and other costs of related transaction.
- Customer fails to explain its financial condition, resource or fails to prove it by document.
- Customer brings significant amount of cash just before closing time of agent.
- Customer buys real property on the name of third person other than its family members (for instance assistant, associate etc.) without explanation.
- Customer refuse to use its own name on the document and try to use other name.
- Customer wants to change name of beneficial owner without giving justifiable reason.
- Customer concentrates on one specific real property /and/or does not care about price/.
- Customer is not introduced to real property in person and pay through third person /lawyer, mediator, close person/.
- Customer try to make transaction using document that is foreign and/or not easy to verify.
- Customer does not use its name in transaction.
- Customer does not care much about characteristics of property /quality of building, location etc./
- Customer is eager to finish transaction within short term /does not care about articles of agreement/.
- Customer buys real property paying in cash and within not long time, to buy another one

using the old property as pledge.

- Gift of real estate

Annex 5

Form for reporting suspicious activity /internal use only/

Date of report:

Name of person prepared report:

Position:

Name of customer:

Additional information of customer (registry number, address etc.):

Customer risk assessment:

If customer is legal person, Organizational chart, address, state registration number of organization:

Type of suspecting money laundering offence:

Date of transaction:

Amount and currency of transaction:

Explanation about suspicious transaction or activity (along with supporting evidence):

Signature of person prepared report, date:

Signature of person in charge of reporting, date:

Annex 6

Form for structural risk assessment of own organization

Name of real estate agency

Instruction: In case following questions are answered YES, certain risk of current condition or customer is high and risk mitigation measures are recommended. Result of current assessment should be introduced to every official in charge of providing service directly to customer and risk mitigation training should be organized for those officials. Date of training should be evidenced. It is recommended that structural risk assessment should be conducted every two year.

High risk condition or customer	YES High risk	No Low risk	Proposed risk mitigation measure
Customer			
Is any of your customers is foreign citizen?			-Identify if such foreign citizen is a PEP.
Is any of your customers is PEP?			-Obtain additional information about property, income thereof. - Obtain permission of supervisory official or director to make transaction.
Is any of your customers is a legal person such as company, foundation or partnership of which beneficial owner is not easy to identify?			- Obtain additional information about property, income thereof. -Screen and monitor further real estate transaction.
Is any of your customers is a legal person such as company, foundation or partnership of which beneficial owner is not easy to identify?			-Find out name of the beneficial owner. -Obtain additional information about structure of organization.
Is any of your customers is mediator (such as lawyer or accountant who is representing customer)?			- Obtain additional information about property, income thereof. - Find out name of the beneficial owner.
Is there any history of publicized information that suspected any of your customer as criminal?			- Obtain additional information about property, income thereof. -Prepare report of suspicious activity.
Did any of your customers bought real estate that has market value which exceeds profession or financial capacity of such customer?			- Obtain additional information about property, income thereof. -Obtain additional information about property, income thereof.
Was there any suspicious			- Prepare report of suspicious

activity by customer?

activity.

- Obtain additional information about property, income thereof.

Geographical risk

Is there any source of property or customer associated to country that is under sanction of international organization such as UN?

- Obtain permission of supervisory official or director to make transaction.

- Take additional measure to know your customer.

- Obtain additional information about property, income thereof.

- Obtain permission of supervisory official or director to make transaction.

- Take additional measure to know your customer.

- Obtain additional information about property, income thereof.

- Obtain permission of supervisory official or director to make transaction.

- Take additional measure to know your customer.

- Obtain additional information about property, income thereof.

- Obtain permission of supervisory official or director to make transaction.

- Take additional measure to know your customer.

- Obtain additional information about property, income thereof.

- Obtain permission of supervisory official or director to make transaction.

- Take additional measure to know your customer.

- Obtain additional information about property, income thereof.

Is there any source of property or customer of countries that have high financial confidentiality?

Is there any source of property or customer of FATF designated country?

Is there any source of property or customer of country which was determined by credible source of information as financing terrorism?

Is there any source of property or customer of country determined by credible source of information (such as Transparency International) as country with high risk of corruption or crime?

Distribution channel

Does your organization accept cash transaction?

- Examine source of cash.

- Determine maximum amount of cash transaction.

- Require and receive bank receipt instead of significant amount of

Does your organization accept transaction without meeting the customer in person?

Is there any customer that is recommended by third person?

Do you have agents that work based on short-term or part-time agreement?

Do you make transaction with significant amount (5 million USD or more)?

cash.

-Train your organization about knowing your customer.

-Take additional measure to know your customer.

-Regularly conduct inspection on measures taken for knowing the customer.

-Immediately take measures for knowing customer.

- Regularly conduct inspection on explaining document that is sent to inform third party to let it know that you implement KYC measures.

-Include AML/CFT obligations in such agreements, related job descriptions and assessment of job.

-Train all newly hired officers.

- Keep such transaction in your attention.

-Obtain additional information about property, income thereof.

Name of Director

Signature

Date

Date of training for employees and officers

Who is politically exposed person?

- President, prime minister, minister, vice minister;
- Parliament members, leading persons of political parties;
- High-ranking officials of government organizations such as State secretary of ministry;
- High-ranking state officials such as supreme court judge, Constitutional court member;
- Members of Supervisory Board of the Bank of Mongolia;
- Ambassador;
- High-ranking army officials;
- Board of Directors' member, managing level officials of state owned enterprises.

PEPs of international organization:

- Executive manager;
- Director, vice-director;
- Member of board.

Middle or low ranking officials are not PEPs. Local area administrative level officials are usually not considered as PEPs.

Family members of PEPs:

- Wife/husband;
- Legal partner;
- Children, their spouses or partners;
- Parents;
- Siblings.

Close associates of PEPs:

- Boyfriend/girlfriend;
- Member of political party, civil society or trade union which PEP belongs;
- Person or legal person that owns legal person jointly with PEP;
- Ownership of legal person that was established for the interest of PEP;
- Individuals including BoD members who have close business relationship with PEP.

Person shall not be considered as PEP if one year has passed after such person dismissed his/her office. However, decision on termination of screening the transaction, activities of such person should be made after risk assessment is conducted.

Mongolia approved Law on Public and Private Interests and Prevention of Conflict of Interest in Public Service in 2012. According to this law President of Mongolia, members of the State Great Hural, Prime Minister, Ministers, Vice Ministers, members of the Constitutional Court, the President of the Supreme Court, judges of the Supreme Court, Prosecutor General, head of organization responsible for directly reporting its activities to State Great Hural, governors of Aimag and capital city, head of Presidium of Citizens' Representative Hural of Aimag and capital city, state secretary of ministries, head of government agencies, person who is/was a director of state owned companies or international organizations are considered as PEPs.

Recommendation on implementing methodology based on risk assessment of REAs

Section 1

1. For the effective implementation of methodology based on risk, it is important to determine criteria for assessing potential AML/CFT risks. AML/CFT risks can be determined based on customer, type of customers and transactions and determining such risk enables REAs to mitigate their risks by taking special measures and supervision.
2. AML/CFT risks can be measured in various ways based on various classifications. These classifications used for preparing risk management strategy for potential risk. The most common classifications are: geographical or source country risk, customer risk, transaction risk. During the assessment of potential risks, weight of total potential risk can be different between one REA to another based on current condition of REAs. Therefore, each REA should have specific methodology for assessing own risk. Criteria determined by legislation can limit REA's selection of methodology.
3. In this recommendation, most common risk classifications are considered as example because no risk classification is applicable to all REAs. There is no commonly accepted methodology for classification of risks. However, classifications included in this recommendation are to be used for developing of risk management strategy. We consider that following risks classification the most suitable for determining AML/CFT risks.

Country/ Geographical risk

4. Elements of potential risks are:
 - Location of property in association with buyer. Trans-border transactions when customer is not in person have potential risk but countries are in different level of such risk depending on regulation and standard.
 - Location of buyer and seller.
5. Authorized organization or local governments and REAs have not found universal definition for geographical and country risks. AML/CFT risk is usually determined by country risk in association with other risks. Following factors are used to determine country risks:
 - Sanctions and similar measures of UN. In some cases, countries itself also take similar measures and some national organizations can be accredited by REAs.
 - According to “credible sources”¹, some countries can be identified as having weak regulation on AML/CFT and other related measures.

¹ “Credible sources” mean information of internationally accepted organizations such as FATF and regional FAFT model organizations, IMF, WB, Egmont group of FIUs, government and non-governmental organizations. However, their

- Countries identified by credible sources having association with terrorist organization and/or financing terrorist activities.
- Countries that are known for their corruption and crime level.
- Countries with no official registration of real estate.

Customer risks

6. Moral and motivation of customers can be source of ML/FT risks. However, REAs should report about such situation based on considering participation of other parties of transaction. In most of the cases, there is officer in charge of reporting about ML/FT but it can be different person depending on legal or company regulations. Customer risks can be usually mitigated on the basis of measures for knowing about customer such as Customer Due Diligence.
7. Main types of customer risks:
 - Significant or indefinite gap between REA and customer;
 - Identifying beneficial owner is not easy in case customer organization's structure and other characteristics are indefinite.
 - Businesses that provided service by cash.
 - Donation /charity/ and non-government organizations that is not supervised.
 - REAs that is not being supervised or unsatisfactory supervised according to AML/CFT regulations.
 - PEPs.

Transaction risks

8. Parties and financing related factors of real estate transactions are considered as ML/FT risks.
 - Urgency of transaction (transaction made in very short time without justifiable reason may illustrate high risk).
 - Types of real estate (apartment, building for trade and service, unused land, investment, marketable properties and rental properties).
 - Several consecutive transactions with change of price without justifiable explanation.
 - Dividing real estate into small units.
 - Involving unknown party in the end of transaction. For instance, transaction between buyers.
 - Using third party (including trust) may have purpose to cover beneficial owner.
 - Transaction with unusually high or low price.

information cannot be considered as information without interference, so informed country is not to be automatically considered as high risk country.

- Urgent selling property because of limitation or insolvency.
 - Private information of customer does not include property value.
- 9.** Financial risk is usually associated with financial source and related factors. Risky sources are:
- Location of customer's financial source;
 - Unusual sources including payment by unknown or unusual individual or legal person;
 - Payment by significant amount of cash;
 - Payment made from high risk countries/geographical location or unusual pledge or transfer of money from such locations;
 - Complicated procedure of loan, lending or other financial instrument instead of loan from financially regulated organization;
 - Indefinite amendment made in financial deal.
- 10.** Due to cultural difference, financial procedure differs country to country. For instance, some countries consider cash transaction as risky while it is normal in developing countries that have weak currency or mortgage market.
- 11.** Loan, mortgage, other financial instruments can be obtained, closed, so recommendation for REAs should be issued by related authority. REAs have obligations related fund should ensure that they have strict procedure, policy to mitigate risks.
- 12.** In some national systems, involving other professional and business persons/organizations such as lawyers, notaries and financial organizations is very common. This can be way to mitigate risk by knowing customer from different perspectives.

Risk triggering variables

- 13.** There are variables that trigger certain classification of risk:
- If participation of other parties including financial organizations, lawyers, notaries fulfilled AML/CFT requirements;
 - How customer knew about REA;
 - Communication form of customer and REA, for instance, email, other private connection address;
 - If customer is PEP;
 - If customer itself is the beneficial owner;
 - If customer is user of services or buyer;
 - REA's associated person, legal person with indefinite structure can cause higher risk than other individuals.

Controlling of high risk condition

14. REAs should implement proper AML/CFT supervision and measures using risk based methodology. Those can include following:
- Raise awareness of organization on high risk customers and transactions;
 - Increase level of knowing customer activities;
 - Improve verification during opening of account and other services;
 - Improve transaction monitoring;
 - Improve frequency and level of current supervision and control measures;
 - Consider that certain measure can be used for identifying various risks and REAs are not required to implement specific supervision on each risk criterion.

Section 2: Using risk based methodology

15. REAs should conduct risk assessment considering the following factors:
- Capacity of business market, for instance, simplified transaction;
 - Characteristics of business, for instance, real estate operation is carried out in domestic/foreign territory;
 - Way of finding out recommendations, for instance, through advertisement or enquiry and assistance;
16. Risk mitigation policy, procedures should be developed. Efficiency of policy and procedures should be assessed.

Measures for knowing customer

17. Know your customer /its purpose is to determine each customer according to well-founded model for REAs/. REAs can extract and obtain information about customers during its normal operations and they should obtain information about reason for selling/buying property², source of income or finance.
18. Regulations should be upheld by REAs include the following:
- Know and verify each customer³;
 - Identify the beneficial owner. Take reliable measures to identify beneficial owner based on risk based methodology. Such measures should also verify the beneficial owner.
 - Obtain additional information to understand customer's condition, business, expected

² REAs should be careful buyers/sellers of real estate because they may make transaction unknowingly to REA

³When seller or buyer is not customer of certain REA, the REA should take measures for knowing and verifying them based on risk based methodology.

transaction and quality, level of such transaction;

19. Legal person's failure to identifying of beneficial owner can become reason to report such organization as participant of suspicious transaction.
20. In identifying customer, identification document should be official document (including civil ID or driver's license). Verification scope should be determined based on risk level of customer and identification of beneficial owner. Such supervision should be made using on risk based methodology so that improper requirements should be avoided and only high risk condition is supervised. Publicly open information sources can be used to identify beneficial owners.
21. During the measures for knowing customer, REAs should understand that and consider about risk levels vary between buyer and seller during different activities such as making transaction, obtaining information about customer's financial condition and introducing fund.

Supervision of customer and transaction

22. Characteristics and scope of REA's monitoring is determined in connection to such REA's scope of business, legal regulation about AML/CFT and method of monitoring (use of manual, automated or unified methods). Scope of monitoring is determined based on location of real estate, customer's transaction and risk of customer. REA's resource should be considered during the determining of monitoring methods and process.
23. Effective monitoring of REA includes following:
 - Keeping evidences and documents related REA's obligation, internal requirements and applicable limitation.
 - Company's officer in charge of reporting (ML/FT) should have following functions:
 - Transactions to be monitored;
 - Submit report of suspicious international transaction to domestic authority;
 - Regularly report to senior manager about implementation of AML/CFT legislation.
 - Government's function is to determine structure of cash flow⁴.

Reporting suspicious transaction

24. Reporting suspicious transaction or suspicious activity is very important for the countries that have proper AML/CFT structure. On the other hand, countries should require such report from reporting entities in relation every transaction or activity which is clearly suspicious.
25. Legal and other regulations require to report when transaction or activity is verified as suspicious, so risk based methodology is not applicable in reporting.
26. Risk based methodology is suitable for identifying and discovering suspicious activities, for instance, based on additional sources, REAs of certain territory can be identified as high risk

⁴ Flow of cash in relation to mortgage loan.

organizations. For using risk based methodology, REAs use information released by authorized state organizations and self-regulatory organizations. REAs should assess its own ability to identify and report suspicious transaction or activity with definite

27. Reporting should include following activities:

- Other employees and officers report internal activities to the officer in charge of reporting ML/FT.
- Confidentiality of report, for instance, way of treating customer and other participants of transaction after reporting such customer and participants.

Training and awareness

28. REAs should care about following:

- Improve training for new and current officers;
- Legal and other obligations;
- Good practice training that includes AML/CFT proper activities of REA;
- Activities that can be suspicious;

29. Recommendation 15 requires REAs to participate AML/CFT trainings and their participation in training is important.

30. Such trainings may use various training methods but using risk based methodologies brings better result to REAs.

31. REAs should assess its training module, capacity and resources for AML/CFT:

- Define suitable obligations of officers (for example, contact information, activities);
- Keep them in proper level;
- Frequency in relation to transaction participation risk;
- Make experiments in order to assess knowledge in relation to given detail information.

Section 3: Internal auditing system

32. Sizes of Designated Non-Financial Business or Professions is very different from size of financial organizations. DNFBPs usually have lesser number of employees than those of financial institutions. Therefore, DNFBPs have limited resource to fight against ML/FT. For DNFBPs, may be only one person is in charge of administration, logistics, reporting ML/FT. Especially, DNFBPs (including REAs) should have internal auditing system that is modeled to use risk based methodology.

33. For having efficient risk based methodology risk based activities should be subject to internal audit. Successful internal policy and procedure are very likely to depend on internal auditing system. For this purpose, following 2 systems can be determined:

Ensuring full compliance

34. In implementation:

- Training for employees of all REAs should be developed, implemented and kept.
- To be aware of every change in government regulations;
- Regular scheduled supervision of brokerage companies will support ensuring compliance and establish culture of complying.

Owners and general management

35. Important part of risk based methodology implementation is leadership and function of strong general management. Managers should ensure their employees uphold policy and procedures for managing and mitigating risks and establish such culture. Policy and procedures are effective only when owners and general management motivating compliance of recommendations.

36. Concerning size of REA on market, following measures should be taken in scope of internal audit:

- Pay high attention on operations (product, service, customers, geographical location) of REA that has potential risks of ML/FT and other crimes.
- Regular supervision should be conducted on management and risk assessment processes of REAs considering each their operations, activeness.
- Appoint managing officers who are in charge of managing compliance of AML/CFT requirements.
- Control AML/CFT program compliance and implementation of related obligations.
- Pay attention on sufficient supervision before introducing new product.
- Determine deficiency in compliance, take correcting measures, inform general manager about it.
- Ensure implementation of AML/CFT program without concerning change of structure and officials.
- Ensure that all administrative recommendations, reporting requirements and document keeping requirement are complied and renewed when related regulations is amended.
- Implement policy and procedures on knowing customer using risk based methodology.
- Ensure satisfactory supervision on high risk customers, transactions and products, for

instance, delay transaction, obtain manager's permission.

- Ensure transactions to be reported are identified timely and reports are prepared correctly and accurately.
- Monitor employees and officers in charge of cash transaction, completeness of report, discount and suspicious activity.
- Include AML/CFT obligations in related job descriptions and assessment of implementations.
- Train all related employees and officers.
- Common supervision structure should be implemented in every units and groups.
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