

**NATIONAL RISK ASSESSMENT OF MONGOLIA ON FINANCING OF TERRORISM  
AND PROLIFERATION FINANCING OF WEAPONS OF MASS DESTRUCTION**



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## 1. UNDERSTANDING THE RISK ASSESSMENT OF THE FINANCING OF TERRORISM AND PROLIFERATION

Risk assessment of the financing terrorism is the “hypothesis” of analysis on a total assessment of the inspection that made by of citizens, non-government organizations and government organizations for accumulated, transferred properties and circulation that should be spent for terrorist activities of terrorist organizations, groups, and entities.

The work group has executed “National Risk Assessment of the Financing Terrorism and Proliferation” based on recommendations, reports, surveys, statistics, and related official data that received from international organizations against money laundering and financing terrorism and related government organizations with the mandate to combat such crimes under related laws.

This assessment evaluated risks of probable sectors and directions that could be used to finance terrorism and proliferation. In addition, it evaluated the related government organizations activities and determined their interdependence.

## 2. CRITERIA AND SURVEY OF RISK ASSESSMENT

**One. The criteria of threat:** *These criteria assess the potential internal and external threats and conditions of sectors, organizations, and related activities that are at risk financing terrorism and proliferation. This questionnaire includes below mentioned four questions.*

- 1. Sector dimension and range:** *It is the assessment of the potential to be subject of the financing of terrorism and proliferation by sectors, by their activity direction, their activity range, quantity, location and their activities covering range.*
- 2. Understanding of the financing of terrorism and proliferation financing of weapons of mass destruction:** *It is the assessment of all employees and officers from the sector and field on their understanding and knowledge of such crimes, readiness for preventive activities, planning for counter measurements, organization, preparedness of the officer in charge, their occupation level, and their alertness.*
- 3. Possible circumstances for products and services to be used:** *It is the assessment of possible circumstances to finance terrorism and proliferation using the provided activity and services, implemented works, and products and services of the sector and organization.*
- 4. If there is a data or record of violation related to the financing of terrorism and proliferation:** *It is the assessment of the history of criminal records, violations and criminal and non-criminal acts to finance terrorism and proliferation in this sector, measures taken in this area, and the preventive and combating activities the financing of terrorism and proliferation.*

**Two. The criteria of vulnerabilities:** *It is the assessment of challenges, mistake, and vulnerabilities to combat and prevent from financing terrorism and proliferation in their respective sectors, organizations, and activities. The questionnaire includes the following four questions*

- 1. Legal environment:** *It is the assessment of the implementation of relevant rules, regulations, and decrees that are regulating sector’s relations, and legislation to prevent and combat the financing of terrorism and proliferation in their respective sectors, organizations and activities.*

2. **Cooperation /Information exchange/:** It is the assessment of cooperation with the authorized government organization that performs duties to combat and prevent financing terrorism and proliferation, effectiveness of information exchange, the implementation of the requirements, recommendations, and directions provided by the authorized organization, and whether the implementation results, reports, and information is presented regularly.
3. **Regulation and Inspection:** It is the assessment of results, implementation of related decrees, rules, an internal organization that needed to prevent from financing terrorism and proliferation by related sectors in their activity direction.
4. **Preventive activities from financing of terrorism and proliferation of weapons of mass destruction and the obligation to report:** It is the assessment of sectors, organizations and related activities on their internal preventive activities from the financing of terrorism and proliferation and their reporting status of the criminal information to the related authorities and take immediate actions against the financing of terrorism and proliferation.

### 3 . RISK ASSESSMENT METHODOLOGY

In order to assess the terrorism financing risk and proliferation in respective sectors, a score of 0-5 was given to each question of the above-mentioned threat and vulnerability criteria. In other words, a total evaluation score of risk assessment of one sector, organization and activity shall be between 0 and 40 (total evaluation of 8 questions). The result shall determine the risk level based on the following methodology.

<b>RISK ASSESSMENT METHODOLOGY:</b>				
<b>ASSESSMENT FOR EACH QUESTION TO DETERMINE RISKS OF THE ORGANISATION AND THEIR ACTIVITY DIRECTIONS</b>				
<b>0-1</b> Very low risk	<b>2</b> Low risk	<b>3</b> Moderate	<b>4</b> High Risk	<b>5</b> Very high risk
<b>RISK LEVEL OF TOTAL ASSESSMENT FOR ALL CRITERION TO DETERMINE RISKS TO FINANCE OF TERRORISM AND PROLIFERATION BY ORGANISATIONS</b>				
<b>0-8</b>	<b>9-16</b>	<b>17-24</b>	<b>25-32</b>	<b>33-40</b>

<b>Very low risk</b>	<b>Low risk</b>	<b>Moderate</b>	<b>High risk</b>	<b>Very high risk</b>
<b>0-20%</b> <b>Very low risk</b>	<b>21-40%</b> <b>Low risk</b>	<b>41-60%</b> <b>Moderate</b>	<b>61-80%</b> <b>High risk</b>	<b>81-100%</b> <b>Very high risk</b>

#### 4.RISK ASSESSMENT SUMMARY

Based on the data and information submitted from member organizations and survey conducted by the working group, it concluded that general assessment level of the risks to financing of terrorism and proliferation of weapons of mass destruction is "yellow" or "higher than moderate" /Although there is a low risk of terrorism in Mongolia, the level of conducive conditions for fundamental conditions for terrorism is at medium level. Therefore, the level of risk of terrorism has increased to higher than low/. Therefore, it is required to take basic measures of combat the financing of terrorism and implement preventive measures for these crimes in Mongolia. When assessing the risks to finance terrorism and proliferation of weapons of mass destruction, the working group identified sectors, organizations, and businesses with high potential risk to be involved and exploited in such crimes, and compared to activities of competent authorities in charge of inspection.

This assessment evaluated banking, finance, legal entities, and border control and provided general conclusions. In order to assess the particular sector, we evaluated and compared the risk of each sector, organization, and activity direction's to finance the terrorism and proliferation of weapons of mass destruction.

See below results of the risk assessment of sectors, organizations, and activity directions:

<b>Risk assessment summary</b>			
	<b>RISK ASSESSED SECTOR</b>	<b>RISK ASSESSMENT OF TERRORISM FINANCING</b>	<b>RISK ASSESSMENT OF weapon of mass destruction proliferation financing</b>
BANKING AND	FINANCIAL ENTITIES NON BANK		

FINANCE SECTOR	SECTOR	57,5%	62,5%
	REAL ESTATE AGENT	60%	62,5%
	COMMERCIAL BANK	41,25%	50%
LEGAL PERSON TYPES	PROFIT ORGANIZATION	47,5%	50%
	NGO	62,5%	65%
BORDER INSPECTION	BORDER CONTROL	48,75%	60%

**TOTAL ASSESSMENT IN PERCENTAGE: 55,4%**

Risk assessment on financing of terrorism and weapon of mass destruction proliferation concludes that Mongolia is in average risk level with 'yellow' evaluation

SUMMARY OF RISK ASSESSMENT				
<b>0-20%</b>  <b>No risk</b>	<b>21-40%</b>  <b>Low risk</b>	<b>41-60%</b>  <b>Medium risk</b>	<b>61-80%</b>  <b>High risk</b>	<b>81-100%</b>  <b>Extreme risk</b>

**A. Non-bank financial sector.**

The work group assessed the risk of stock market participant securities companies, insurer and insurance intermediaries, non-bank financial institutions, and savings and credit cooperatives.

*Non-bank financial institution:* Out of 534 non-bank financial institutions that are regulated by the Commission, 466 (418 from Ulaanbaatar city and 48 from rural areas) were included in the risk assessment. The risk assessment was based on the data of 392 non-bank financial institutions.

*Insurer and insurance intermediary:* Out of 17 insurance companies, 46 insurance intermediaries, and 28 insurance loss assessors that are regulated by the Commission, 15 insurance companies, 28 insurance intermediaries, and 21 insurance loss assessors were included. The risk assessment was based on a quantitative and qualitative data of 64 insurer and insurance intermediaries.

*Savings and credits cooperative:* Out of 289 SCCs regulated by the Commission, 194 SCCs (148 from Ulaanbaatar city and 46 from rural areas) were included in the assessment. Taking into the consideration the quality of the survey and whether SCCs started their operation in 2018, the risk assessment was made based on 187 SCCs quantitative data.

*Securities Company:* Out of 54 main and 16 branch securities companies that are operate within the regulation framework of the Commission 48 companies from Ulaanbaatar city and 4 from the rural areas were included. The risk assessment was made based on totally 42 securities companies' quantitative data.

Mongolia is not in active region of terrorism threat, it is possible that the financing of terrorism mostly graviates to foreign countries. Thus, non-bank financial sector could be used for remittance and foreign transactions. Most of foreign transactions in Mongolia carried out through banks.

Approximately 2100 non-bank financial institutions are registered, but they make about 10% of Mongolian financial market. Currently, there are no registrations of criminal cases to finance terrorism in non-bank financial institution sector. The Financial Regulatory Commission concludes that the terrorism financing risk of other financial services than foreign currency exchange and foreign transaction in non-bank financial institution sector is relatively low. It is due to improvements in legal environment to combat money laundering and the financing of terrorism and Mongolia is working on to specifically incorporate articles and clauses in rules and procedures related to prevention of the terrorism financing to ensure the enforcement of the law.

The Anti-Money Laundering and Counter-Terrorism Financing law states that the Financial Regulatory Commission shall enforce the implementation and monitor if non-bank financial institutions, insurer and insurance intermediaries, investment funds, investment management companies, securities companies, and savings and credit cooperatives are fulfilling their obligation under the law.

Even though the Financial Regulatory Commission has been organizing training and information distribution for non-bank financial institutions, for a regulated sector there is an insufficient knowledge and information on combating terrorism financing within the sector. This increases the risk of this sector. For instance, the regulated entities face challenges to identify and detect crimes to finance terrorism, inform instantaneously the related organizations, and take immediate measures.

Within the scope of this sector, the risk to collect earnings with aim to finance of terrorism is higher than direct financing of terrorism. Especially, non-bank financial institutions' services and transactions focused mostly on a domestic market and it could be one of the factors that increase the risk of this sector.

Articles related to the customer due diligence activities are incorporated in the internal inspection program that is included in article 14 of the Law on Combating Money Laundering and Terrorism Financing. NBFIs under the legal obligation approve the internal rules and procedures and appoint their internal inspection employee. They shall present the approved internal rules and procedures to the Commission and the Financial Information Unit. The Financial Regulatory Commission executes offsite and onsite monitoring and inspection. In order to ensure the rules and procedure enforcement, the Financial Regulatory Commission sends preventive recommendations and information together with the quarterly report. The participants of non-bank financial institutions regularly reports the cash and suspicious transactions in accordance with related laws and they are receive information on international sanctions and measures from the Financial Regulatory Commission.

## **B. Banking sector**

Risk of customer due diligence activities: By numeric reporting of the Bank of Mongolia, the bank system includes 826 customers of political exposed person category. According a definition of Law on Money Laundering and Terrorism Financing, civil representatives of provinces and capitals, higher ranked government officers, their family members and common interested persons are including in this category. In addition, by Law on Regulating Personal Interest in Public Service, within 2 years after released from above mentioned position, the person should be still included into this classification. However, it seems like political exposed persons are few in bank system, Golomt Bank, Ulaanbaatar City Bank, Khas Bank and Capital Bank are not delivered their customers quantity who including in political exposed person category. Based on this situation, aforesaid banks are not implementing customer due diligence activities efficiently. On the other hand, the banks are limited logging permit to the customer's information under the name of VIP Customer. In this case, maybe supervisory workers of the bank are not included customers' information of VIP Branches in questionnaire survey.

Risk on reporting duty:

In determining the meaning of the cash transaction report, it is generally referred to as revenue transaction and expense transaction. It is unclear how the government securities trade is being done using the Custodian banking service. In the case of government securities trading affecting the attractiveness of the bank, the monthly reports from the FINN system do not materialize. If the cash that other than the bank is joining for the government securities trading, it should be reported to the FIU on a cash transaction report. But such a meaningful report is not delivered yet on the FIU. It is also unclear how real estate agents and trading in the stock exchange are being carried out. Therefore, it is necessary to conduct a check on cash transaction and foreign settlement transaction report.

The number of foreign-settlement and cash transaction reports of Ulaanbaatar city banks is lower than the same level of banks. However, reporting of suspicious transactions is relatively high. As for the Trade and Development Bank, the identification, detection and reporting of suspicious transactions are lower than those of other similar operations. For example, Golomt bank reported 27 suspicious transactions while the Trade and Development Bank submitted 3 suspicious transaction reports. During the same period, Arig Bank and Capitron Bank submitted 4 suspicious transaction reports.

Khan Bank does not report on foreign currency settlements since March 2017, which violates article 7.1 of the Law on Combating Money Laundering and Terrorism Financing. Furthermore, banks such as Golomt Bank and Trade and Development Bank have reported foreign settlement transactions reports that delayed from approved date by related law. Some of the transactions that have been delayed are due to the fact that there may be transactions with law enforcement agencies. In this case, these factors are increasing their risks.

*Risks on correspondent relationship:*

Over the past two years, US and European banks such as Wells Fargo, HSBC, Citibank, Mashreq Bank PSC, Deutsche Bank AG, Commerzbank, Barclays Bank PLS and Standard Chartered closed our US dollar accounts. The reasons for closing includes below mentioned 2 reasons. It includes:

1. Decided to close accounts that making low transactions based on a decision to reduce compliance costs.
2. Decided to reduce their business range based on the banks business planning

The two reasons are basically just one reason. In the United States and the European Union, supervision and penalties for money laundering and financing of terrorism have been extremely strong, leading to a drop in correspondence with high-risk and low-risk relationships among major banks. For example, Deutsche Bank AG fined by \$ 630 million in January 2017 and \$ 41 million in May. HSBC Bank fined by 1.92 billion dollars and Citibank fined by \$ 97.44 million.

The following factors are influencing for our commercial banks to summarize as a risky. It includes:

1. Previous and current mutual evaluation report on structure of country for combating money laundering and financing of terrorism;
2. Basel AML Index Report /Evaluated on 69<sup>th</sup> country from 146 countries in 2017 as higher than medium risk level. /
3. International evaluation reports and indexes on corruption and criminal records;
4. Geographical location /*Sanctions on legal person and enterprises of Russian Federation, sanctions against Democratic Republic of North Korea, economic and social relationship of Mongolia is close with these countries /;*



5. Lack of information transparency and cooperation */The Bank of Mongolia's insufficient condition on independently work and cooperation with other banks to provide information on the risk-based supervision strategy, general level of activities to combating money laundering and financing terrorism, preventive measures, good examples and training etc/;*
6. Responding to the clarifications from inquiries from commercial banks with correspondent banks */delay and can not give additional information about customers and their transactions /;*
7. The SWIFT transaction detail is unclear, it is too general, there is no transaction pattern, and it is highly probable that the suspicious transaction filter will be exposed;
8. Non professional responding for fraud transaction. */Returning cash by ISO 4550 or ISO 4763 Swift message, but recalling returned cash without any additional information and documents. Also this process has been repeating during 120 days of recalling/*

Structure of commercial banks to combating money laundering and financing of terrorism:

The management of 12 commercial banks has been approved by the executive management for policies on combating money laundering and financing of terrorism. It's being deficient to mitigate risk of money laundering and financing of terrorism before to introduce new products, service and new technology.

The participation of committees and board of directors is insufficient in the activities of combating money laundering and financing of terrorism. According to the quarterly reports from the banks, two common weaknesses are observed. These include:

1. The report preparing compliance unit has not including risk assessment of their banks on combating money laundering and financing of terrorism and the reporting unit permanently reports only transaction quantity that reported for financial information unit, organized training, and additional information of the customer and updated condition of sanction list of UN. So depending on one form of the reports, has not organizing discussion on meeting of board of directors and the members are only introducing with reports. Also, the compliance units still have not any providing by participation and information to prepare new service that developing by other bank units that have not any methodology on risk assessment, dedicatory softwares and have not rights to log in their bank customer's information.
2. The participation of auditing committee and internal audit unit is insufficient. Also there are not any banks that have a internal policy, regulation and methodology to combating money laundering and terrorism financing. But internal audit unit has general regulations for inspection but their regulations have not any detailed coordination for money laundering and financing of terrorism.
3. The bank's specialized monitoring activity is insufficient. The transaction quantity of banks specialized monitoring has been as below mentioned during 6 months of assessment.<sup>1</sup>:

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<sup>1</sup> The banks has duty to make specialized monitoring for transactions that made by insufficient structured country against money laundering and terrorism financing, transactions of political exposed person, transactions without any economical justification and high value transaction amount

In the future, we need to improve effectiveness of cash transaction report and foreign settlements. For this work, must make risk assessment twice in a year on approved months (not by form of ad-hoc). It should be so effective to make comparison for annual cycle and determine change reason of attitude directions.

In this case, we need to establish information resource for foreign banks and financial institutions by methodology to establish lists on English for all works that organizing for combating money laundering and financing of terrorism, preventive measures and policies on inspection.

### **C. Risk assessment of legal entities.**

Concept and data on Money Laundering and Financing Terrorism among legal entities, specifically for-profit organizations, is very scarce. Risk assessment regarding Financing Terrorism was never conducted before and this conduct was based on the suggestion of Asia Pacific Group on Combatting Money Laundering. As of today, common regime is in effect among legal entities sector in relation to governance. Legal entities sector might be affected by UNSC sanction on financing proliferation of Mass destructive weapons might. This is mainly due to engagement of the North Korean and Iran citizens in labor force and legal entities registered in those countries. On the other side, Mongolian legal entities have held and are holding shares in state owned enterprises in North Korea. Lack of legal system regarding implementation of financial sanctions against North Korea and Iran also contributes to the high risk indication.

As of June 2018, total number of legal entities registered in Mongolia is 174732<sup>2</sup>, of which 12072 were removed from the State Registration as a result of liquidation.

From the state registered legal entities, Foreign Investment LLC amounts to 8827 and Foreign Inversment Partner amounts to 9. Number of Foreign Investment Legal Entities is 9619 with double counting as the table below demonstrates the investing countries.

#### **Profit organization risk assessment**

##### **Monitoring with regard to combatting of Money laundering and Financing terrorism**

As of 21 December 2017, 46 State Inspector statements were referred to the Police Department on the grounds of tax evasion of 737.6 billion MNT. No case associated with weapon proliferation and terrorism financing was registered during the tax inspection that was conducted among 19 companies which are invested by Islam countries operating in Mongolia between 2013-2017. Tax Authority is conducting the relevant inspection based on the General Authority of State Registration Report of newly registered companies. As to the non-government organizations, they had been registered and certified by Ministry of Justice and Home affairs since 2008.

As a result of amendment made on “Law on Income tax of legal entities”, non-government organizations, private schools, hospitals are no longer subject to profit tax starting from 1 January 2007. This can be explained as legal grounds for registering them as

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<sup>2</sup> General Authority of State Registration report, June 2018

tax payers had become limited in scope, weakening State control therefore increasing the risk of financing terrorism and proliferating weapons. Currently, Non-profit organizations are registered as tax payers of Personal Income tax and remuneration, bonus, pension benefits, real estate tax adhering to tax laws and regulations. Non-profit organizations are operating in compliance with the tax laws such as Personal Income tax, Remuneration, bonus and pension benefit tax and Real Estate tax laws.

Transportation and Freight forwarding is considered as the most vulnerable sector to the risk of financing terrorism, proliferating weapons specifically, among all the legal entities. Number of freight forwarding companies that are licensed by Ministry of Road and Transportation Development is around 300, however only 100 of them are actively engaged in the transportation operations with extended licenses in Mongolia. Freight forwarding companies are operating within the special license which makes them subject to taxes. Tax Authority register them and keep the records, furthermore calculate the risk of adherence to tax laws and regulations and in cases of high risk indications, they carry out an inspection.

Although relevant requirements are checked and rules on Shipping dangerous goods are followed when receiving the goods, due to lack of understanding of financing terrorism, weapon proliferation and its prevention, the risk chances are likely to increase. Ministry of Road and Transportation Development exercises control in this sector however it is not adequate for the reasons that they are not very considerate about the high risk of this sector being used in financing terrorism and proliferation of weapons, as well as, there is no monitoring force.

Even though there is no data available on terrorism financing and weapon proliferation among Transportation and Freight forwarding operations, monitoring system is slightly weak. Thus, competent state authorities shall collaborate on exchanging information and conducting supervision. General Authority of Customs and General Police Office are conducting supervision in relation to information of the persons who ordered shipping, examining of their tax report, safety on shipping and labor, dangerous and toxic goods. In the absence of information database of the sector, only the registration database is being used. Therefore, joint supervision shall be conducted among monitoring agency and policy implementation regulatory ministry, legal institutions, professional association in order to prevent potential risk.

### **Risk assessment on non profit organization**

Overall 18,943 non-government organizations have been registered as legal person and conducting activities in Mongolia. In regard to non-profit organizations, the registration shall be made at General Authority for Intellectual Property and State Registration and at Mongolian Immigration agency. Moreover, they shall be registered as tax payer at tax authority, and required to submit tax statements in accordance to the tax types to controlling body as tax authority. For instance, non-profit organizations are registered as tax payers obliged to report its statement on payroll remuneration and immovable tax statement, and become subject to pay them. Throughout the state, totally 505 religious organizations were registered at local administration in charge of state registration. The religious organizations are also registered as tax payers obliged to report its statement on payroll remuneration and immovable tax statement to tax authority. Tax authorities carry out joint supervisory works organized by state and participate in working groups.

In 2017, 3862 from 18,943 non-government organizations in Mongolia submitted their tax statements within the time limit defined by law. According to the assessment made by the working group of Asia Pacific region in charge of counterfeiting money laundering and financing of terrorism, there exists high risk of committing money laundering and financing of terrorism crime through non-government organizations, and it warned that this type of crime could be identified in that sector of the country.

***About the subsidiaries or representatives of the non-government organization conducting activities in Mongolia***

Currently, 95 subsidiaries or representatives of foreign non-government organizations are officially registered in Mongolia, and 85 of them actively conducting their activities in the fields as politics, economics, environment, education, health, humanitarian and social welfare, majority of them are originated from the USA, Germany, France, Great Britain and South Korea. International and foreign non-government organizations are mostly raising the history and importance of the civil organizations at the seminars, conferences or broadcasting the subject through media, and they started to advise the need to actively collaborate with civil society in order to enhance the supervision on state activities. These organizations are actively and freely conducting their activities in field of development tendency of social, political, economic sphere of the society, human rights, freedom, cultural and educational sectors. Within the programs and projects, the expenses of parliament members, state administrative officers, political party's cadres for participating in the short or long term trainings are born by these organizations. It's notable that foreign NGOs have contacted and supporting civil society organizations as priority.

As of year 2016, subsidiaries or representatives of international and foreign non-governmental organizations have being implemented the programs and projects mainly in sphere of environment, humanitarian, strengthening of governance transparency, capacity building of institutes conducting activities in agricultural and civil society field, and prepare young leaders in Mongolia. Totally 130,040,817,388 /in increased amount/ tugrugs have been funded to implement the projects and programs, and it is expected to grow further.

There exist below common shortcomings of NGOs and circumstances that might increase the risk:

- NGOs with foreign investment use information and small or large quantity of data related to our country through the implementation of projects and programs through their own subsidiaries and representative offices. The purpose of the usage of these information is unclear.
- Under the financial statements of some NGOs, it revealed occurances that high amount of money were collected in the debit accounts of at the commercial banks with no clear reason.
- Representative offices of most NGOs in humanitarian field implicitly conduct religious activities as referring to financialy support the citizens, therefore, carry out the activity as breaching the law have been occurred.
- Some representative offices of NGOs with foreign investment have occasionally received the fund from donors or contributors not to their official bank account of the organization but used the private account of their head or manager, which implies unclear usage of the budget.

The majority of non-governmental organizations do not inform and submit their financial statements to respondent financial institutions and supervisory state competent authorities. Particularly, how much capital is funded from central and external donors, and how it is spent and donated to the relevant state central

#### **D. Border control:**

**Operation of Border Control Institutions:** Majority of the border points are not equipped with designated custom control equipments and some of the equipments were outdated or inadequate. Border institutions are not centered in one network, some of them are not connected to internet, thus there is no condition to exchange information which creates obstacle of many repeated stages in keeping records of the control among transiting passengers and vehicles.

Goods and vehicle inspection is conducted through 18 custom points and units on state borders. Isolation of border points, weak development of infrastructure, bad inadequate supply of technical equipments preclude substantial implementations such as organizing trainings related to combatting and preventing financing terrorism and proliferation of weapons. No data and information was reported on Border Point engagements in Financing terrorism and proliferation of weapons, however, concept or rule on how and what kind of feasible measures can be taken is very scarce when the the risk is once faced. Furthermore, border points and knowledge and skills of the persons working in those border points, deficiency in equipment adequacy and supplement, transportation and logistics, and different transportation loads in different areas are counted as risk increasing factors.

Customs institutions are entitled to implement Article 15 of the Law on Money laundering and Terrorism Financing, and Article 11.29.4 of Law on Offense, however there is no special policy or rule regarding Financing Terrorism and Weapon proliferation. Customs institutions exercise day-to-day control on cash, precious metals and jewelries.

UN resolution regarding “prohibited goods control” is not being regulated, only prohibited goods listed by Government and Parliament are under control. Dual purpose goods are being monitored within methods provided by Customs law, rather within special methods highlighting “dual purpose”. List of dual purpose goods shall be available as well. It also increased risk of financing terrorism and weapons proliferation because database of export, import and transition does not contain any information regarding Dual Purpose goods. On the other side, preparedness and internal management and planning, information exchange rules are unavailable once the problem is faced which counts as risk increasing factor.

In the current system of customs institutions, there is no specialized monitoring unit and legal environment is not pleasant enough. For these reasons, combatting money laundering and financing terrorism functions must be incorporate to the policies, programs and legal regulations, also training the officials and financial and structural change must be made.

#### **E. Risk assessment on usage of Mongolian economic in a direct and an indirect way to prevent a financial sanction from the Security Council of United Nations**

##### **Issues of Financial Prohibitional Step**

There are no individuals or legal entities listed on the sanction lists of resolution number 1267 and 1373, from Security Council of UN. However, this is in line with the country's risk forecasts.

The DPRK is working to ensure an implementation of the workforce of the country, and the workforce has been reduced in 2017, and the work permit is extended to June 2, 2018, based on an agreement made between the Government of Mongolia and the Government of the DPRK on 20 July, 2007, about the exchange of workforce, memorandum of understanding on cooperation made on April 28, 2017, between the Ministry of Labor and Social Welfare of Mongolia and the Ministry of Foreign Trade of DPRK, the quota agreements negotiated between both countries in every year about working in economic sectors, and the sanctions issued by the UN Security Council to DPRK, on August 5, 2017 and December 10, 2017.

There is a need to improve the legal framework for UN Security Council resolution 1267 and 1373. In particular, it is appropriate to impose penalties that prevents repeated actions from those who have violated the requirements about freezing assets, preventing to use funds, and reporting about NBFIs and LSISs sealed assets and actions taken. Following the visit of the Mutual Evaluation, Mongolia has ratified legislation to address these deficiencies.

In case of terrorist financing can not be imposed a sentence, there were no criminal, administrative or other legal measures to stop terrorism financing.

There appears to be a moderate deficiency in Mongolia's legislation relating to sanctions in financial targets. There is no clause of imposing punishment to those who violates the requirements of freezing assets, preventing to use funds, and reporting about NBFIs and LSISs sealed assets and actions taken, in the Law on Combating Terrorism, and the policy on "Including terrorist into the list or to suspend the movement of assets of terrorist who is in the list".

Our organization is unable to exchange information due to lack of any cooperation agreement with law competent authorities, as well as those in the blacklisted Islamic State and the Financial action force tasks /FATFs/ countries, have been working without any information in the UN Security Council list of countries to issue employment permits, A unified policy and action directed towards working in Mongolia.

Implementation of financial targets is different in the financial sector, but NFBPSP's doesn't implement it at all. Influential banks automate all accounts and transactions with the UN Security Council terrorist list. Small banks are controlled manually by non-bank financial institutions. Other MUEs do not have any control over it.

It is important to decide if a regime of financial sanctions is required under the Anti-Terrorism Law under the revision of the financial targets of sanctions in Mongolia and the financing of the spread of weapons measures. The advantages and disadvantages of the two options (ambiguous and integrated structure) are discussed in Section IV of this Working Group. During a workshop with relevant organizations, a number of proposals were discussed, to simplify and streamline the process of financial targets in Mongolia. For instance, financial institutions and NFBPSPs have been proposing to simplify the reporting of names of persons to facilitate the fulfillment of the FATF's requirement to suspend or freeze assets "immediately" (or within a few hours). These are agreed upon during the amendment of the Regulations.

The amendment to the Anti-Terrorism Law is an easy way to integrate the issue of combating the weapon in the financial target sanctions. However, it is a question of doubt whether the technical requirements by the recommendation of the FMMD and the overlap between the Law on Anti-Terrorism and the AML/CFT are duplicating. Additionally, the amendment failed to address the gaps in effective oversight of financial targets.

Measures to take in the event of a breach of the financial sanctions need to be introduced. Mongolia does not report criminal offenses related to financial targets, which creates serious risks for Mongolia to meet FATF requirements. It is unclear whether the amendments to the Non-compliance Law are meant to address all the issues required for financial targets. Penalty amount is low and it also make it difficult to meet the FATF requirements.

#### **F. Recommendations on proposed works under the risk assessment to be implemented**

It is required to take the following measures in regard to eliminate and mitigate the risks in accordance with the risk assessment:

**One.** The Risk assessment and report on Financing of terrorism and weapon of mass destruction proliferation shall be presented to National Security Council, Cabinet Secretariat, National Council counter money laundering and financing of terrorism, develop recommendations to eliminate and mitigate risk rated as high risk sectors and reflect them in conducting activities.

**Two.** It is required to make comprehensive risk assessment on financing of terrorism and weapon of mass destruction proliferation. In regard to it, need to ambiguously establish and develop standardized risk assessment methodology, and request appropriate data and information to be included in the risk assessment under the developed standard from relevant organizations; hence, developing detailed assessment by risky sector, organization and in line of activity will likely to have more realistic results.

**Three.** Make proposals, recommendations and develop guideline on measures to be taken in order to eliminate and mitigate the risks directed to organizations relevant to national strategy on counter terrorism in accordance with the risk assessment on Financing of terrorism and weapon of mass destruction proliferation

**Four.** Not only within all level of state organizations but also within the sphere of non-government organizations and civil society, the need to conduct continuous training to give knowledge and information on the subject preventing from and combating money laundering, financing of terrorism, weapon of mass destruction proliferation financing, and its risks originated from these activities.

**Five.** Strengthening and improving activities of preventing from financing terrorism crime through correlation of state regulating bodies counterfeiting financing terrorism and weapon of mass destruction proliferation, cooperation between supervising authorities and private sector entities, provide promptness of information exchange, improve legal norms of regulations

**Six.** It is required to improve the regulations and legal environment related to financing terrorism and weapon of mass destruction proliferation or targeted financial sanctions, eliminating the overlap of the functions, mitigate the legal gap and regime.

**Seven.** It is required to undertake step by step measures as specializing and preparing professional cadre of competent authorities in charge of financial inspection in regard to counter financing terrorism and weapon of mass destruction proliferation coherent with international standards.

FINANCIAL INFORMATION UNIT OF THE BANK OF MONGOLIA  
GENERAL INTELLIGENCE AGENCY,  
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