

Approved by the Governor of Bank of Mongolia on 01 Dec 2022, Decree No. A-335

REGULATION OF OFFSITE SUPERVISION OF THE BANKS
ON ANTI-MONEY LAUNDERING AND COMBATING FINANCING OF TERRORISM AND
PROLIFERATION

ONE. GENERAL PROVISION

1.1 This regulation shall be applied for conducting offsite supervision to ensure the bank's effective implementation of the Law on Anti-Money Laundering and Combating Financing of Terrorism, the Law on Countering Proliferation of Weapons of Mass Destruction and Terrorism, as well as the rules, regulations, guidelines, and recommendations approved by the decree of the Governor of Bank of Mongolia in accordance with them, should be alignment with the bank's internal organizational structure, products, and services, the form to deliver them to customers as well as its operating activities.

1.2 The purpose of offsite supervision is to assess the bank's risk related to anti-money laundering and terrorism financing, as well as countering the proliferation financing of weapons of mass destruction (hereinafter referred to as ML/FT) activities by analyzing the reports and data provided by the bank, moreover to develop and implement supervisory strategy, to formulate a supervision plan based on it, to determine the direction, scope, and frequency of onsite supervision, and to take measures to prevent violations and potential risks.

1.3 The following tasks will be carried out as part of the offsite supervision framework:

1.3.1 To gather information from the bank regarding the compatibility of its risk management, AML/CFT policies, and procedures with the scope, geographical location, characteristics, structure, and organization of its products, services, and operations and obtain information on its implementation.

1.3.2 To assess the risk associated with the bank's AML/CFT activities and to prepare a risk assessment report.

1.3.3 To establish and execute the bank's supervisory strategy, considering the risk assessment results for each bank and other relevant factors.

1.3.4 To compile reports and progress reports on the implementation of the bank's Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT)

activities, as well as the fulfillment of assigned tasks, and to conclude and ensure their successful completion.

1.3.5 To prepare offsite supervision reports and develop risk-based onsite supervision plans based on the findings and outcomes of those reports.

1.3.6 To provide instructions and recommendations for implementing awareness-raising activities against ML/TF within the bank.

TWO. REPORTS AND INFORMATION FOR OFFSITE SUPERVISION

2.1 The following reports and information shall be used for offsite supervision and risk assessment of bank's AML/CFT operations:

2.1.1 "Risk assessment matrix" of the bank's AML/CFT activities /Appendix 1 of this regulation/.

2.1.2 "Quantitative Data Collection Sheet" to be used in the risk assessment matrix /Appendix 2 of this regulation/.

2.1.3 "Internal Control and Compliance Assessment Questionnaire" to be used in the risk assessment matrix /Appendix 3 of this regulation/.

2.1.4 The report on the fulfillment of assigned tasks, is provided within the scope of the overall supervision.

2.1.5 A copy of the report on AML/CFT activities presented to the bank's Board of Directors.

2.1.6 An external audit report certified by an organization authorized to conduct audit activities in accordance with Mongolian laws and regulations, the bank's internal audit report, and a report on the implementation of their recommendations.

2.1.7 The self-assessment report evaluating the bank's ML/FT risk.

2.1.8 Measures implemented by the bank to assess and manage the ML/FT risks that may arise from new products and services, as well as the various forms and channels through which they are delivered to customers.

2.1.9 Report on the implementation of resolutions issued by the United Nations Security Council.

2.1.10 Information provided by the bank from the Financial Information Unit (hereinafter referred to as the FIU) regarding the cash transaction report, foreign settlement transaction report, and the number of suspicious transaction reports, as well as the quality of the report /whether it is reported within the period stipulated by the law, whether the information contained in the report was completed/. Additionally, account statements of persons involved in suspicious transactions, copies of documents used to open accounts, documents assessing the bank's customer risk, and information

about the timely suspension of transactions deemed to have the purpose of money laundering and terrorist financing.

2.1.11 Other documents, data, and information as required by the supervisors of the Bank of Mongolia to fulfill their respective functions as stipulated by law.

2.2 In addition to the reports and information specified in Sections 2.1.1, 2.1.2, 2.1.3, and 2.1.6 of this regulation, the bank shall also furnish reports and information on supervision and measures undertaken by foreign regulatory authorities regarding activities carried out in foreign jurisdictions. The bank is required to prepare the information by December 31st of each year and submit it to the Bank of Mongolia by January 20th of the following year.

2.3 The bank shall prepare the reports specified in Sections 2.1.4, 2.1.5, 2.1.7, 2.1.8, and 2.1.9 of this regulation quarterly and submit them to the Bank of Mongolia by the 5th day of the first month of the following quarter.

2.4 The Bank of Mongolia shall obtain the report from the FIU by the 20th day of the first month of the following quarter, as specified in Section 2.1.10 of this regulation.

2.5 The supervisor shall monitor and ensure the timely implementation of reports and relevant information, duly verified by the bank's management, and submitted in accordance with the approved forms and instructions.

2.6 The supervisor shall register the reports, documents, and information submitted by the bank in the registry following the relevant procedures, attach the materials to the bank's profile, and ensure the confidentiality and security of the information.

2.7 The supervisor shall evaluate the ratio and percentages utilized in the calculation of the first appendix of this regulation, known as the "Risk Assessment Matrix," the second appendix, referred to as the "Quantity data collection form," and the third appendix, known as the "Internal Control and Compliance Assessment Questionnaire " and assess their effectiveness.

2.8 Continuous offsite supervision will be conducted, and any significant changes in the bank's operations will be reflected in the risk assessment, prompting necessary adjustments to be made.

THREE. RISK ASSESSMENT AND TO PREPARE ASSESSMENT REPORT

- 3.1. The risk associated with ML/FT by the bank shall be assessed once a year.
- 3.2. When assessing the bank's risk, the data and information specified in Chapter 2 of this regulation will be used, and national risk assessment, industry risk assessment, and other related information may be incorporated if necessary.
- 3.3. By utilizing the collected reports and information, the supervisor assesses the bank's AML/CFT risk assessment for each bank based on the risk assessment matrix specified in section 2.1.1. This assessment is to be completed by March 1st, and an evaluation report will be prepared following the fourth appendix titled "Bank's ML/FT Risk Assessment Report Form."
- 3.4. The risk assessment report, as stipulated in Section 3.3 of the Regulations, shall be submitted to the management during the first quarter.
- 3.5. Subsequent risk assessments will incorporate information on control measures, emerging trends, and notable risk situations.
- 3.6. The supervisor will conduct an annual review of the risk assessment methodology and may take necessary actions to update and enhance it.
- 3.7. The supervisor will maintain an individual risk profile for each bank.

FOUR. FOLLOW-UP ACTIONS AFTER OFFSITE SUPERVISION

- 4.1. Based on the results of the offsite supervision, onsite supervision will be conducted using a risk-based approach.
- 4.2. The determination of the frequency and scope of onsite supervision, the supervision period, and other relevant factors shall be based on the risk assessment report.
- 4.3. The supervisor shall be responsible for preparing the supervisory strategy for each bank in the field of AML/CFT, following the format outlined in the fifth appendix. Subsequently, the strategy shall be presented to the Governor of the Bank of Mongolia for approval.
- 4.4. Based on the risk assessment results and the monitoring strategy, onsite supervision can be conducted as specified in the following table. It includes:

Matrix	Very high	High	Medium	Less	Very little
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assessment/ Supervision	(4-5)	(3-4)	(2-3)	(1-2)	(0-1)
Frequency	Once a year	1 time in 2 years	1 time in 3 years	Thematic examination	Thematic examination
Monitoring meeting to AML/CFT	Every year	Every year	1 time in 2 years	Thematic examination	Thematic examination
Quality control of information on AML/CFT	Once every six months	Once every six months	Every year	Every year	Every year
Supervise the compliance officer	Regular	Regular	Once a year	1 time in 2 years	1 time in 2 years

4.5. The bank's supervisory strategy will utilize the following supervisory tools, and additional measures prescribed by law will be implemented if deemed necessary. Depending on the bank's risk rating, supervisory tools may be used either individually or in combination.

4.6. The following tools will be used for understanding and profiling risks:

4.6.1. AML/CFT returns.

4.6.2. Engagements with Board and Senior Management.

4.6.3. Ongoing surveillance of emerging risks and trends.

4.7. The following tools will be used for assessing AML/CFT systems and controls:

4.7.1. Questionnaires on AML/CFT risk management controls.

4.7.2. Review adequacy of board and management reporting and oversight.

4.7.3. Review adequacy of policies and procedures.

4.7.4. Review of internal and external audit reports.

4.7.5. Interviews with staff of various functions and seniority including Boards and senior management.

4.7.6. Entity-specific inspections/reviews.

4.7.7. Thematic inspections/reviews.

4.7.8. Tracking of rectification of lapses identified in past inspections.

4.7.9. Outreach to industry.

4.8. The annual onsite supervision plan will be developed within the first quarter of every year based on the supervisory strategy and risk assessment report. It will then be presented to the Governor of the Bank of Mongolia for approval.

4.9. The Supervision Department is responsible for monitoring the implementation of the onsite supervision plan.

4.10. The decision to change the supervisory strategy and supervision plan lies with the Governor of the Bank of Mongolia.

FIVE. PREPARATION AND REPORTING OF OFFSITE SUPERVISION CONCLUSIONS

5.1. The supervisor will issue an offsite supervision report for each bank once a year.

5.2. The offsite supervision report shall include the following:

5.2.1. The results of the risk assessment matrix assessed the risk of ML/FT of each bank using the quantitative data and questionnaire specified in Sections 2.1.2 and 2.1.3 of this regulation;

5.2.2. The changes in the bank's ML/FT risk assessment, its causes, and the main factors that increase the risk;

5.2.3. The inadequacies of the bank's policies and procedures for AML/CFT and the issues that need to be addressed;

5.2.4. Tasks given to improve the Bank's AML/CFT operations and mitigate risks, their implementation, and measures taken;

5.2.5. The supervisory strategy for working with banks on ensuring compliance and mitigating ML/FT risk;

5.2.6. Proposals for implementing measures to enhance the Bank's AML/CFT activities and mitigate risks;

5.2.7. Reasonable conclusions regarding the measures to be taken in the event of a proposal to hold the bank and its management accountable.

5.3. The offsite supervision report will be presented to the Bank's Money Laundering and Terrorist Financing Prevention Council within the first quarter of next year.

SIX. PROVIDING SUPPORT, ENGAGEMENT, TRAINING, AND DEVELOPING COLLABORATION

6.1. The supervisor supports and collaborates with the bank in promoting the AML/CFT inspection standards to be followed by the Bank of Mongolia, improving the understanding of emerging risks at the industry level, working with feedback, training, and enlightenment, and developing a positive attitude towards the implementation of policies AML/CFT.

6.2. The following measures will be implemented within the framework of training and enlightenment activities:

6.2.1. To determine the need for training and enlightenment activities;

6.2.2. To develop training and enlightenment activities plan;

6.2.3. To report the results of training and enlightenment activities;

6.2.4. The supervisor may issue a manual and give instructions and recommendations, considering the common AML/CFT violations and shortcomings of the bank, and risks of AML/CFT.

6.3. If deemed necessary, the supervisor can collaborate with the banks by organizing meetings, conducting surveys, attentively listening to suggestions, establishing feedback mechanisms, implementing countermeasures, providing explanations, and promoting policies and procedures.

6.4. The plan outlining the implementation of measures specified in Section 6.2 of this regulation will be issued biennially, and the execution will be presented to the management.

SEVEN. RESPONSIBILITY

7.1. In the case of a violation of this regulation, the responsibility prescribed by the relevant legislation shall be enforced.

7.2. The supervision of the bank's AML/CFT activities is not restricted solely to the activities specified in this regulation.

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