

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

ONE. GENERAL PROVISION

1.1 This regulation shall be used to the conduct risk-based on-site supervision, evaluation, and conclusion related to compliance of the banks against the Law on Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT), related Government decrees, regulations and guidelines approved by the decree of the Governor of Bank of Mongolia (BoM).

1.2 This regulation will determine the direction of the on-site examination of the bank based on the results of the offsite conclusion, and this will not limit the examination of additional areas.

1.3 The Governor of the Bank of Mongolia shall approve the examination directive for the on-site examination to be conducted in the bank in the field of combating AML/CFT. If necessary, on-site examination directive may be assigned by management of the Bank of Mongolia.

1.4 Withing the Onsite examination following process shall be conduct:

1.4.1 Prepare of onsite examination.

1.4.2 Conduct onsite examination

1.4.3 Produce examination report and present it to management of the Bank of Mongolia

1.4.4 Other necessary and additional processes.

TWO.PREPERATION OF SUPERVISION

2.1 Supervisors need to review the following documents and information before conducting onsite examination:

2.1.1 Banks' AML/CFT risk assessment report;

2.1.2 Previous examination report, implementation of task based on examination findings;

2.1.3 Internal and external audit report of the bank;

2.1.4 Off-site supervision conclusion and risk assessment of the bank;

2.1.5 Other necessary information.

2.2 Supervisors shall follow the "AML/CFT onsite examination manual" when preparing for on-site examination,

2.3 The list of pre-prepared documents and materials necessary for on-site examination shall be determined in accordance with the first Appendix 1 of this regulation.

THREE. TYPES EXAMINATION AND ONSITE EXAMINATION AREA

3.1 Risk based onsite examination has following types;

3.1.1 Full score onsite examination. All areas of this regulations' article 3.3 shall be examined;

3.1.2 Partial examination: Some areas of this regulations' article 3.3 shall be examined;

3.1.3 Performance examination: Examination to verify the fulfillment of the tasks assigned by the Bank of Mongolia;

3.1.4 Thematic review: Examination of a given specific topic or areas.

3.2 AML/CFT examination shall be conducted based on criteria of the main area and additional areas.

3.3 The main areas of on-site AML/CFT examination include the following criteria:

3.3.1 Governance and Policies and Procedures

3.3.2 Compliance unit, their function and employee;

3.3.3 Risk Assessment (customer, product, service and its delivery channel, geographic area, scope of operation and its assessment methodology, effectiveness)

3.3.4 Customer Due Diligence

3.3.5 Simplified Customer Due Diligence;

3.3.6 Enhanced Customer Due Diligence;

3.3.7 Beneficial Ownership;

3.3.8 Arrangements relating to the relaying on third-party for CDD

3.3.9 Politically Exposed Persons;

3.3.10 Targeted Financial Sanctions Related to Proliferation (PF) and, Counter-Measures for Higher-Risk Countries;

3.3.11 EDD monitoring activities of reporting entities described in Article 4.1 of the Law on Anti-Money Laundering and Combating the Financing

3.3.12 Account and Transaction Monitoring;

3.3.13 Suspicious Transaction Reporting;

3.3.14 Threshold and Foreign Settlement Transaction Reporting;

3.3.15 Cross Border Correspondent Banking;

3.3.16 Internal audits and controls;

3.3.17 Wire Transfers;

3.3.18 New products and services;

3.3.19 Record Keeping;

3.3.20 Staff training;

3.4 Depending on the bank's AML/CFT risk, additional areas shall be examined and an assessment will be given for each criteria.

3.5 Based on the results of the on-site examination, the implementation of previous examination duties assigned by the Bank of Mongolia, and the statistical data submitted by the bank, the second appendix of this regulation or the on-site examination procedure may be updated.

3.6 National risk assessment and the risks identified by the Bank of Mongolia, additions and changes may be made to the directions and criteria specified in article 3.3 of this regulation.

3.7 Supervisors shall use the second appendix, "The handbook of AML/CFT on-site examination manual" when conducting main areas and additional specific topic onsite examination.

FOUR. CONDUCTING ONSITE EXAMINATION

4.1 The onsite examination conducted by following steps:

4.1.1 Organize a meeting to initiate the examination and present the bank's management with the supervisory directive, objectives, and collection information related to the examination;

4.1.2 Obtaining the required information for the examination as specified in the first appendix;

4.1.3 Conducting onsite examination;

4.1.4 Prepare and conclude onsite examination report;

4.1.5 Present onsite examination report to banking management and receive comments;

4.1.6 The third appendix of this regulation shall be used for preparing a full scope onsite examination report and reporting examination results.

4.2 In accordance with following table, shall take appropriate actions for every deficient examination area and rate examination areas from 1 to 5 based on the performance of management of AML/CFT.

Results	Explanation
1 or "compliant"	There are no defficiencies in the supervisor's assessment and answers to analysis questions, the bank has policies and internal procedures that meet the legal requirements, and the internal control system and operations are good.
2 or "largely compliant"	The bank has internal policies and procedures that largely compliant with legal requirements, the operation, management system and control are effective, and the identified deficiencies can be resolved during the on-site examination.
3 or "partially compliant "	The policies and procedures do not fully cover the bank's operations, do not meet the legal requirements, the operations are somewhat deficient, and the management control system needs to be improved in some ways.
4 or "largely non- compliant"	The bank's policies and procedures are not in accordance with the law, and there is a lack of control and participation of the board of directors and executive management in the do not pay attention to AML/CFT
5 or "non-compliant"	The policies and procedures are not in line with the law, the board of directors and executive management do not pay attention the activities to AML/CFT, there is no internal monitoring and reporting mechanism, there is no independent

	compliance structure, and there are shortcomings such as training.
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4.3 The following measures will be taken to improve the deficiency if it is resulted to be 3 or worse in the examination result, and there are no signs of violation.

4.3.1 Provide recommendations and warnings for the purpose of correcting and preventing deficiencies;

4.3.2 Assign time-bound tasks related to elimination of deficiencies;

4.4 In the case of non-compliance of , if no measures have been taken to correct or improve the previously identified deficiencies, measures will be taken as indicated in the following table.

	Fisrt time	Second time	Three times or more
Measurement	Provide advice and reminders	Assign timely minner tasks	Take actions unfer “Infregment law”

FIVE. AFTER EXAMINATION MEASURES

5.1 The examination team shall present discuss and present the examination report, the corrective actions taken to the bank, and the proposals for further actions at ‘The banking AMLCFT supervisory council” meeting.

5.2 The Governor of the Bank of Mongolia shall make decision based on the proposal and conclusions from meeting of ‘The banking AMLCFT supervisory council”.

5.3 The decision of the Governor of the Bank of Mongolia shall be delivered to the examined bank, and the implementation will be regularly monitored.

SIX. RESPONSIBILITIES OF SUPERVISION TEAM

6.1 Examiner in charge and other supervisors shall implement responsibilities and powers specified in Central banking law of Mongolia and follow the principles of Charter of State Inspector of the Bank of Mongolia.

6.2 Comment, complaint and explanation related with onsite supervision regulated by Charter of State Inspector.

6.3 Examiner in charge shall have following responsibilities:

6.3.1 To introduce and inform about the supervisory directive and a list of documents and materials to be prepared to the bank’s management and its relevant employees;

6.3.2 To develop plans for supervisors and oversee the examination process while rendering assistance and guidance to the supervisors and ensuring the timely completion of the examination;

6.3.3 To make a request for the extension of the examination period from the management if additional time is needed;

6.3.4 To produce examination report within the time specified in the supervisory directive after the examination is completed;

6.3.5 To prepare to present to ‘The banking AMLCFT supervisory council’ final supervision report and proposed corrective measures after the end of examination in the bank, to present proposals for measures to be taken following the examination to the Governor of the Bank of Mongolia and make a decision.

6.3.6 Examiner in charge shall sent decision of the Governor of the Bank of Mongolia to the management to the bank. After that the supervision conclusion shall be attached to the profile of the bank and copy of the report should be delivered to the Off-site supervision.

6.4 During the examination, the necessary information will be obtained by paper and via electronic channels, and safety will be ensured in accordance with the relevant laws and regulations.

SEVEN. RESPONSIBILITIES

7.1 In case of violation of this regulation, the responsibility specified in the relevant legislation shall be imposed.

7.2 If the breaches of the relevant law and regulation as well as regulations approved by The Governor of the Bank of Mongolia in relation thereto cannot be held as criminal offence, the supervisor of the Bank of Mongolia shall impose administrative and punitive measures in accordance with related law.

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