

## **MEDIUM TERM BANKING SUPERVISION STRATEGY**

### **A. Recommendations Summary:**

The Central Bank of Mongolia (Mongolbank) undertakes banking supervision as its main activity in accordance with the Law on Central Bank. Formulating an effective and appropriate supervision methodology is conducive to maintaining stability in the banking sector and further supporting sustainable macroeconomic growth.

Countries worldwide are now assigning greater significance to adopting appropriate and effective supervision methodologies, in particular, regulatory approaches which are *counter-cyclical and risk-based*. Real life experiences have proven that changes in the real economy and the financial sector caused by the recent global financial crises are positively correlated and pro-cyclical, thus an upheaval in any given sector causes sizeable damages to the rest of the economy.

Therefore, redirecting the future supervisory activities toward a counter-cyclical and risk-based approach will provide opportunities to prevent future problems and mitigate the scope of potential negative impacts in cases where such crises do take place.

The International Monetary Fund (IMF), World Bank, Asian Development Bank (ADB) and a number of international credit rating agencies have been consistently advising the Mongolbank to formulate and enforce a medium term strategy with a concrete action plan to improve its banking sector supervisory activities. The most recent (2011) Financial Sector Assessment has recommended to incorporate the following items in this medium term strategy:

1. Strengthen enforcement of the current legislation
2. Formulate an implementation policy and methodology for supervisory activities
3. Update and revise as necessary relevant laws, regulations, procedures and guidelines
4. Enhance inspectors' capabilities
5. Collaborate with internal and external inspectors
6. Improve communications with financial market players and stakeholders
7. Enhance the efficiency of technical assistance activities.

Thus, this 2014-2019 strategy document has been formulated with a purpose to introduce internationally accepted best practices and methodologies in banking supervision taking into consideration specificities

of the Mongolian banking sector and current practicalities in the regulatory environment in which the Mongolbank operates.

**B. 2014-2019 Medium term strategy policy brief**

The following policies have been planned for implementation by the Mongolbank within the framework of the medium term supervision strategy:

- 1) Maintain a mixed cycle policy;**
- 2) Commence and proceed with speedy adoption of a risk-based and forward-looking supervision methodology;**
- 3) Consider implications on national economic stability when issuing licenses to foreign financial institutions applying to open branches or affiliate companies in Mongolia;**
- 4) Develop and foster close communication and collaboration with financial sector participants and stakeholders. Ensure equal access to banking and financial services for consumers, enhance their financial education;**
- 5) Adopt an appropriate risk-based supervision methodology based on specific Terms of Reference and actions plans within a framework of a technical assistance project by international financial institutions;**
- 6) Formulate and implement a human resource action plan for the Supervision department;**
- 7) Establish collaboration frameworks with foreign and local supervision bodies, expand existing working arrangements in specific areas;**
- 8) Incorporate and enforce Pillars II and III of the Basel Accords and the relevant sections of the new Basel III standard in existing supervision laws, regulations, procedures and guidelines;**
- 9) Strengthen the banks' capacity for self-valuation and effective asset management;**
- 10) Expand collaboration with audit organizations in the areas of Mongolbank supervision and banking risk management,**

- 11) Develop an econometrics forecasting model for CAMELS and other assessment systems to adopt in off-site monitoring for future regular use in decision-making;**
- 12) Take initiative and collaborate with Mongolia's registration bodies to set up an information exchange database;**
- 13) Restructure and expand the credit information bureau;**
- 14) Commence with supervision and regulation of local rating agency activities, enhance the scope of the existing regulatory framework;**
- 15) Develop an appropriate collateral valuation system for use by banks; explore opportunities to establish a dedicated asset management company**
- 16) Forecast potential risks associated with introduction of new products from the international financial markets into banking activities; assess possible impacts from such introduction;**
- 17) Ensure interlinkages between micro and macro level prudential policies implemented by the Mongolbank and other macro level policies;**
- 18) Develop and implement appropriate solutions to resolve conflicts between international accounting standards and banking bookkeeping procedures;**
- 19) Utilize financial sustainability reports as a policy tool for signaling investors;**
- 20) Collaborate with the Deposit Insurance Corporation to adopt the Limited Deposit Insurance System.**