

FinTech Innovation Roadmap for Mongolia

ADB TA 6991 - Developing FinTech Legal
and Regulatory Frameworks for Mongolia

March 2025



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1. Setting the context

In response to the emerging challenges and opportunities posed by FinTech technologies in Mongolia, the Asian Development Bank (“ADB”) has designed a Technical Assistance (“TA”) project - TA 6991 - Developing FinTech Legal and Regulatory Frameworks. The TA seeks to (i) support the development of Mongolia’s FinTech innovation system, and (ii) enable the adoption of SupTech¹ technologies within Mongolia’s financial sector supervisory processes to strengthen the capacity of its regulators. Access Partnership,² supported by Ulaanbaatar-based law firm Fidelitas Partners, has been engaged as part of the TA team for this project. One of the outputs of the TA is a FinTech Innovation Roadmap for Mongolia intended to provide a clear set of action areas and specific steps for Mongolia to undertake in strengthening its FinTech innovation ecosystem.

1.1 Roadmap development process

The FinTech Innovation Roadmap was developed over a period of 18 months between October 2023 and March 2025, based on structured consultations with key stakeholders in Mongolia’s public and private sectors as well as desktop research covering global best practices in FinTech ecosystem building. The stakeholders include Mongolia’s authorities responsible for financial sector policy and regulation, comprising i) Bank of Mongolia (“BOM”); ii) Financial Regulatory Commission (“FRC”); iii) the Ministry of Finance (“MOF”); (iv) industry players in Mongolia’s financial services and FinTech industry; as well as (v) research and development stakeholders.

Specific activities undertaken include:

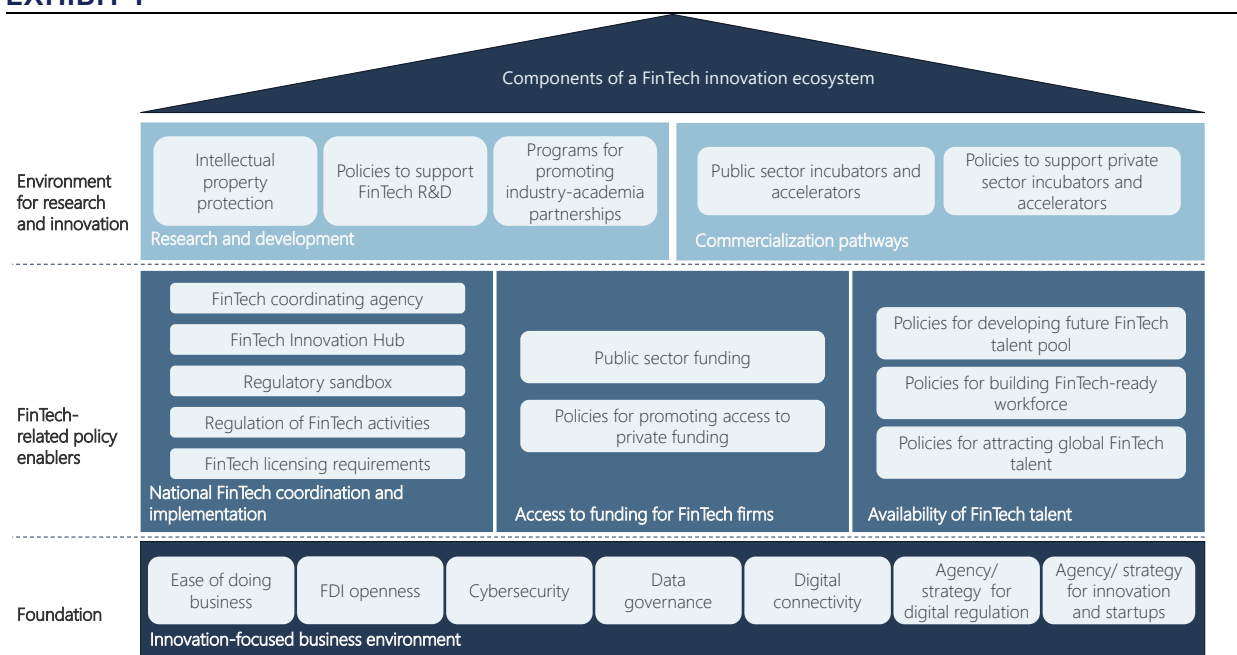
A. Landscape scan to understand current state of FinTech Innovation System

A landscape scan was conducted to understand the current state of Mongolia’s FinTech innovation ecosystem. Based on an initial literature review of existing frameworks for building innovation, six key components of an innovation ecosystem were identified, and the scan focused on the current state of the policy landscape in Mongolia across these six components. These six components can be divided into (i) **foundational components** that are critical to creating a conducive environment for innovation and entrepreneurship in the financial services sector; (ii) **FinTech-focused policy enablers components** that are important for Mongolia to create a robust FinTech innovation ecosystem; and (iii) components that create an **environment for research and innovation**. Exhibit 1 provides an overview of the various policy features under each component.

¹ SupTech or supervisory technology refers to technologies used to improve how supervisory agencies conduct supervision. This is in contrast to RegTech or regulatory technology which refers to technologies used to enhance risk management and regulatory compliance in regulated entities (e.g., financial institutions).

² Access Partnership makes innovation work for the world, guiding businesses and governments through complex regulatory challenges. It shapes regulations and policies that are fair and which enable market access for innovative companies, drive growth, and attract investment into national markets. The firm’s roster of world-leading clients includes the largest tech and innovation companies, major government bodies, and multilateral development organisations. Find out more at [accesspartnership.com](https://www.accesspartnership.com)

EXHIBIT 1



Source: Access Partnership analysis

The assessment was focused on areas under the scope of financial sector authorities – specifically the Ministry of Finance, Bank of Mongolia, and Financial Regulatory Commission – to ensure that policy recommendations are targeted and actionable by the engaged stakeholders. Components such as (i) national FinTech coordination and implementation; (ii) research and development; and (iii) creating robust commercialization pathways were prioritized in the assessment and consultation process.

B. Development of “target state” of Mongolia’s FinTech innovation ecosystem

The target state represents a vision of what a successful and dynamic FinTech innovation ecosystem could look like based on external factors that affect the supply and demand of FinTech products and services. The development of the “target state” was undertaken in two parts:

- (i) **Developing a scenario of FinTech industry growth:** Understanding the future trajectory of FinTech industry growth will highlight emerging technologies or areas of FinTech innovation that Mongolia may wish to prioritize. This can also help Mongolia focus its allocation of resources in support of specific areas for FinTech innovation. The scenario will be developed based on a scan of global and domestic trends to conduct an analysis of how supply- and demand-side drivers of FinTech industry growth in Mongolia could potentially shape growth, and finetuning this analysis based on the growth trajectory and experience of more mature FinTech markets that had similar starting points as Mongolia.
- (ii) **Understanding global best practices:** A list of global FinTech hubs for further analysis will be shortlisted based factors such as similarity to Mongolia’s operating context and culture; and strengths in areas in which Mongolia is currently seen to be underperforming in. The specific strengths of the shortlisted hub will be analyzed based on the six key components highlighted in (A) to understand how best practices from these successful ecosystems could potentially be applied in Mongolia. The analysis will consider

Mongolia's unique operating context and focus on practical recommendations that take into account Mongolia's unique circumstances.

C. Gap analysis and roadmap development

A gap analysis was conducted to compare the "current state" and "target state" and identify gaps in Mongolia's FinTech innovation ecosystem. The analysis focused on the six key components highlighted in activity (A). Based on the gap analysis, a Roadmap was developed to outline the steps with which to bridge the gap between the current and target states of Mongolia's FinTech innovation ecosystem. The Roadmap includes the following key features:

- (i) **Tailored recommendations.** Recommendations will be tailored to Mongolia's specific circumstances and targeted at achieving the growth priorities of Mongolia.
- (i) **Logical sequencing for recommendations.** The Roadmap provides a sequence for the reforms that would need to be undertaken and, where relevant, outline potential stakeholders or bodies to take on these activities, including those outside the financial services regulation sphere.
- (ii) **Outlining responsibilities for government stakeholders.** For some recommendations, the accountable stakeholders may be outside of the financial services industry. The Roadmap clearly sets out the proposed lead for each recommendation as well as the departments/agencies that should be involved.

2. FinTech Innovation Roadmap

2.1 Vision and objectives

The vision of the Mongolia FinTech Innovation Roadmap is a robust and dynamic FinTech innovation ecosystem that facilitates competition, while maintaining financial stability and ensuring consumer protection. Such an ecosystem will support the continued development of FinTech services in Mongolia, improving service offerings and consumer benefits, to ensure growth that is sustainable and beneficial for Mongolian citizens.

To achieve the above, the Roadmap sets out specific action items in eight priority areas identified as critical to strengthen Mongolia's FinTech innovation ecosystem. The sequence in which these actions should be taken, specific activities or steps under each action item, as well as the lead and participating parties to each action item, are proposed within the Roadmap. The Roadmap also provides references to international best practices specific to each activity.

Overall, the Roadmap is intended to serve as a guide for Mongolia's financial regulators to undertake the series of reforms to achieve their objectives for the FinTech ecosystem. It focuses on what is immediately achievable and practical for FRC and BOM based on an understanding of the local context and limitations built through a comprehensive stakeholder consultation process, and also sets out what could potentially be the longer-term vision for building a future-ready environment for innovation.

2.2 Priority areas for FinTech growth

Through the stakeholder engagement, eight priority areas in which action is needed to support FinTech innovation and growth were identified.

Table 1

Key areas	Description	Recommendations
1. Creating a coordinated approach towards FinTech regulation	Supporting a coordinated approach towards creating a FinTech-conducive regulatory environment	<ul style="list-style-type: none">• Create a Mongolia inter-agency working group for coordination on FinTech policy and industry development• Develop channel for knowledge sharing at the whole-of-government level
2. Strengthening industry engagement	Improving the engagement between regulators and FinTech firms	<ul style="list-style-type: none">• Establish a FinTech Concierge (FC) service
3. Establishing an innovation-conducive environment	Encouraging innovation by establishing a level playing field and addressing emerging risks	<ul style="list-style-type: none">• Amend regulation on payments system to encourage innovation• Review regulations to support direct access to ACH systems

Key areas	Description	Recommendations
		<p>for FinTech payment service providers</p> <ul style="list-style-type: none"> • Review pending updates to the Law on NBFAs • Implement a tiered licensing framework for payment services firms • Support development of open banking through the establishment of guidelines
4. Strengthening protection for consumers	Increasing confidence in FinTech services by strengthening consumer safeguards	<ul style="list-style-type: none"> • Pass pending Law on Financial Consumer Protection • Establish a shorter reporting timeline for reporting loan information • Establish a financial ombudsman service • Establish a debt clinic
5. Promoting the use of digital and electronic signatures	Clarifying and strengthening guidelines on use of digital and electronic signatures to enable FinTech use cases	<ul style="list-style-type: none"> • Clarify the legal effect of digital and electronic signatures • Clarify criteria for electronic signatures to be legally valid • Facilitate the practical implementation of digital signatures across the financial sector
6. Facilitating more widespread usage of eKYC	Clarifying and strengthening guidelines on use of eKYC to enable FinTech use cases	<ul style="list-style-type: none"> • Provide clear guidelines on eKYC requirements • Introduce framework for simplified due diligence and clarify usage of physical KYC processes in the AML/CFT law
7. Strengthening implementation of regulation sandbox	Improving the effectiveness of the Sandbox as a testing ground for new business models and strengthening the feedback mechanism for regulatory reform	<ul style="list-style-type: none"> • Strengthen process to integrate policy lessons from sandbox • Provide framework for discretionary entry of Sandbox applications • Clarify exit paths for Sandbox graduates

Key areas	Description	Recommendations
8. Capacity building for government stakeholders	Strengthening the capabilities of authorities to identify and address competition issues	<ul style="list-style-type: none"> Capacity building for government stakeholders

2.3 Overview of approach and prioritization criteria

To support the development of a conducive environment for FinTech innovation whilst ensuring that risks are managed and consumers are protected against new risks, this roadmap prioritizes recommendations on the basis of the following criteria: (1) criticality of key risk area addressed; (2) logical sequencing; (3) alignment with present capabilities.

- (i) **Criticality of key risk areas addressed:** Prioritizing recommendations based on the criticality of the key risk areas ensures that the most pressing vulnerabilities in the FinTech ecosystem are addressed first.
- (ii) **Logical order:** A logical sequence is about ensuring that each step builds upon any necessary pre-requisite steps.
- (iii) **Alignment with present capabilities:** Ensuring that recommendations align with existing capabilities seeks to account practical considerations, such as resources and capability.

Relatedly, in drafting the Roadmap, various global best practices were considered – including the option of developing a separate and consolidated FinTech Act. However, that was eventually not pursued, and the proposed approach focuses on updates or amendments to relevant law and guidelines instead of a new overarching framework.

For Mongolia, the proposed approach offers greater flexibility by enabling tailored adjustments that reflect local market conditions and supports a more gradual shift that will provide time for regulators to build their capacity and understanding to implement FinTech-conducive laws. It also promotes legal coherence by integrating innovative provisions into familiar legislative structures, reducing uncertainty for market participants. Other countries have adopted similar strategies to foster innovation while managing risk; Singapore has refined its [Payment Services Act](#) and [Securities and Futures Act](#) through amendments that capture emerging digital finance trends. Hong Kong’s approach to virtual banking offers another example, where a [tiered licensing framework](#) has been implemented. These case studies illustrate that incremental amendments can stimulate innovation while still ensuring appropriate risk management and regulatory oversight.

In the future, should the fintech ecosystem reach a stage of significant growth and complexity—where incremental amendments no longer suffice to bridge emerging regulatory gaps—a dedicated FinTech Act might become necessary to provide a unified and comprehensive framework.

Figure 1

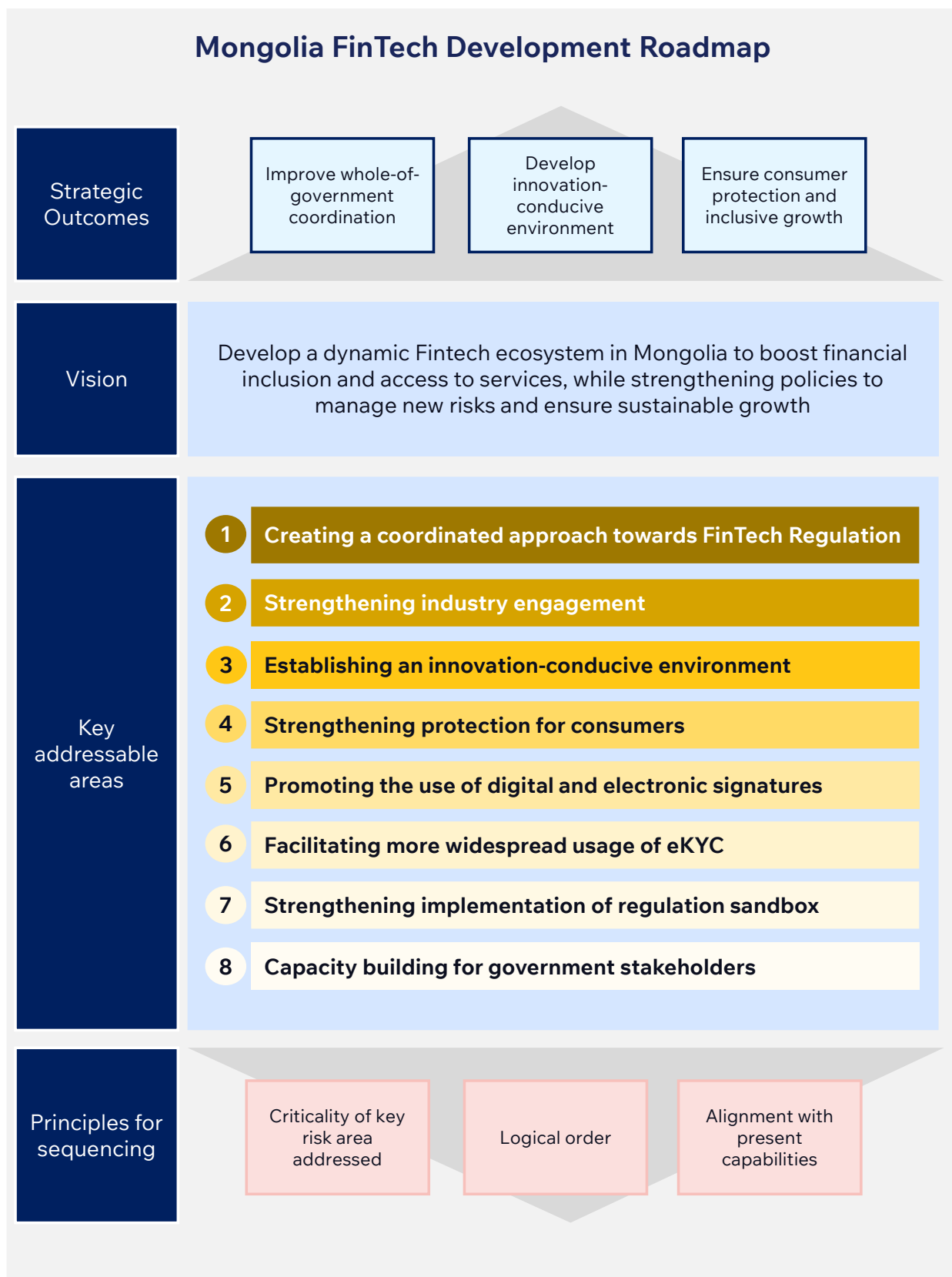


Figure 2

Sequencing of recommendations across the FinTech Roadmap

Key Area	Immediate	Short-term	Medium-term	Long-term
1) Creating a coordinated approach towards FinTech regulation	Action item 1.1 Create a Mongolia inter-agency working group for coordination on FinTech policy and industry development	Action item 1.2 Develop channel for knowledge sharing at the whole-of-government level		
2) Strengthening industry engagement		Action item 2.1 Establish a FinTech concierge service		
3) Establishing an innovation-conducive environment	Action item 3.1 Amend regulation on payments system to encourage innovation Action item 3.2 Review regulations to support direct access to ACH systems for FinTech payment service providers	Action item 3.3 Review pending updates to the Law on NBFAs		Action item 3.4 Implement a tiered licensing framework for payment services firms Action item 3.5 Support development of open banking through the establishment of guidelines
4) Strengthening protections for consumers	Action item 4.1 Pass pending Law on Financial Consumer Protection	Action item 4.2 Establish a shorter reporting timeline for reporting loan information	Action item 4.3 Establish a financial ombudsman service	Action item 4.4 Establish a debt clinic
5) Promoting the use of digital and electronic signatures		Action item 5.1 Clarify the legal effect of digital and electronic signatures Action item 5.2 Clarify criteria for electronic signatures to be legally valid	Action item 5.3 Facilitate the practical implementation of digital signatures across the financial sector	
6) Facilitating more widespread usage of eKYC		Action item 6.1 Provide clear guidelines on eKYC requirements	Action item 6.2 Introduce framework for simplified due diligence and clarify usage of physical KYC processes in the AML/CFT law	
7) Strengthening implementation of Regulatory Sandbox		Action item 7.1 Strengthen process to integrate policy lessons from sandbox	Action item 7.2 Provide framework for discretionary entry of Sandbox applications Action item 7.3 Clarify exit paths for Sandbox graduates	
8) Capacity building for government stakeholders	Action item 8.1 Capacity building for government stakeholders			

3. Creating a coordinated approach towards FinTech regulation

Alignment in FinTech regulation is crucial to ensure a consistent framework that fosters innovation, reduces regulatory fragmentation, and strengthens oversight. Key action steps to enable the above includes creating a Mongolia inter-agency working group for FinTech policy coordination and developing a channel for whole-of-government knowledge sharing.

3.1 Current state and issues faced

FinTech industry development in Mongolia is currently pursued through the coordinated efforts of the MOF, the BOM, and the FRC via various inter-agency coordination bodies. These include the National Payment System Council (NPSC) as well as the Financial Stability Council (FSC). However, there is no formal mandate to drive FinTech development at a national level. There is also limited whole-of-government coordination beyond financial sector agencies, and new developments in FinTech as well as new regulations issued by financial regulators may not be well-understood by other Government agencies. The key issues identified are:

- **Fragmented efforts across the whole-of-government in driving FinTech development.** Coordination on FinTech development takes place currently on an ad-hoc basis via existing bodies to coordinate on financial sector policy. The National Payment System Council and the Financial Stability Council (FSC), which involve the MOF, FRC and BOM discuss issues related to FinTech innovation as necessary. However, these bodies have specific mandates focused on regulation and oversight of the national payment system and safeguarding the financial stability of the markets respectively, and FinTech development is not formally part of their mandate. There is no existing body with a formal mandate and accountability for FinTech development in Mongolia. Furthermore, there is no existing body that allows for institutionalized coordination with non-financial sector regulators such as the Ministry of Digital Development and Communications and Ministry of Justice and Internal Affairs for FinTech policies and regulations.
- **Inadequate knowledge of FinTech policies at the whole-of-government level.** Non-financial sector government agencies may not be familiar with emerging business models in FinTech nor with new laws and regulations addressing the needs of FinTech firms due to the rapidly evolving nature of FinTech. For example, during consultations, stakeholders noted that tax officials may be uncertain of tax treatment of financial flows under certain FinTech business models. This has resulted in laws being applied to FinTech firms in a manner that is inconsistent with how their business models operate; so that a significant amount of time spent clarifying and explaining their business models; hindering the growth of innovation.

3.2 Proposed action items

Based on the feedback of stakeholders across the FRC and BOM as well as industry, two action items are proposed to strengthen inter-agency coordination on FinTech in Mongolia to support the development of a whole-of-government approach towards FinTech policy and industry development. These are (in proposed order for implementation):

- (i) Create a working group for coordination on FinTech policy and industry development; and
- (ii) Develop a channel for knowledge sharing at the whole-of-government level.

3.2.1 Action item 1.1: Create a Mongolia inter-agency working group for coordination on FinTech policy and industry development

Table 2: Summary of action item 1.1

Objective	Establish an interagency working group with a formal mandate to drive FinTech development - comprising financial regulators and other government stakeholders - to enhance coordination in shaping whole-of-government policies and programs.
Description	<p>A Mongolia FinTech Working Group (MFWG) jointly led by the Bank of Mongolia (BOM) and Financial Regulatory Commission (FRC) could be established and members could include other agencies relevant to FinTech policy and development.</p> <p>The mandate of the MFWG would be to coordinate FinTech-related policies and regulations across government agencies in Mongolia and promote the development of a conducive environment for FinTech innovation while ensuring consumer protection and market integrity as well as systemic stability.</p> <p>To ensure robust oversight of the MFWG and its alignment with national financial stability objectives as well as innovation-focused initiatives, structured reporting mechanisms or channels should be established between the MFWG and existing coordination bodies such as the Financial Stability Council (FSC) and the Standing Committee on Innovation and E-Policy of the Mongolian Government.</p>
Implementation lead	Bank of Mongolia (BOM) and Financial Regulatory Commission (FRC)
Participating stakeholders	Ministry of Digital Development, Innovation and Communications, Ministry of Finance, Deposit Insurance Corporation of Mongolia, Ministry of Economy and Development, Ministry of Justice and Internal Affairs, State Tax Authority, General Office of State Registration, and Communications Regulatory Commission; and/or other agencies as relevant.

Steps

The following steps would be taken to establish the Mongolian FinTech Working Group:

1. **Create a coordinating project group.** A project group reporting directly to the management of BOM and FRC could be established to prepare for the establishment of the MFWG. It should take the lead in drafting the Terms of Reference (TOR) for the MFWG; including consulting with other agencies on their potential involvement and scope as well as drive the process of making the legal amendments required for the creation of the new body. In its role as an interim coordination body, the project group should also kick-start the various actions set out in this Roadmap.
2. **Amend existing laws and regulations.** The creation of a new formal body would require legal amendments. The scope of the list of activities requiring collaboration between the FRC and BOM should be expanded to account for FinTech activities. Specifically, under Article 10 in the Law on the Legal Status of the Financial Regulatory Commission, Article 10.1 which articulates the working relationship of the FRC with the BOM and the government, and the scope of the trilateral memorandum of understanding between the parties should be expanded to include “FinTech policy and industry development” as a point of collaborative activity.
3. **Develop Terms of Reference (“TOR”).** To ensure that the MFWG is provided with a clear mandate to support FinTech innovation in Mongolia and the roles and responsibilities of different stakeholders involved in the working group are set out clearly, a clear set of TORs would be critical. The TOR should set out (i) the mandate and objectives of the MFWG; (ii) the governance structure and membership (i.e., the need for senior-level participation from agencies); (iii) responsibilities of the MFWG and the role(s) played by each member; (iv) as well as modes of collaboration (e.g., frequency of meetings and reporting processes). If relevant, the TORs should also set out relevant financing requirements to ensure that the MFWG has the resources to conduct its operations.

Specifically, some key functions of the MFWG would include managing workstreams under the scope of its responsibilities that support policy coordination and development, industry development and innovation promotion, consumer protection and education, and international cooperation. A more detailed description can be found in the proposed TORs in **Box A of Appendix A**.

4. **Establish a structured reporting mechanism for accountability and regulatory oversight.** Structured reporting processes should be established. Specifically, the MFWG should have its own section in the FRC annual report

summarizing its activities and progress made in advancing FinTech development. The update should be submitted to the Parliament and the BOM, as per Clause 9.1 in the Law of the Legal Status of the Financial Regulatory Commission “The Commission shall report to the State Great Khural on the implementation of this law, including the financial and organizational activities.”, and Clause 10.5 “The Commission shall submit its annual activity report to the Cabinet and the Bank of Mongolia respectively.” Details on the scope of the MFWG and its reporting structure should be included in the TOR.

Table 3: Best practices relevant to action item 1.1

Location	Description	Key takeaways for Mongolia
Asia	<p>Asia Securities Industry and Financial Markets Association³</p> <p>Under the Asia Securities Industry and Financial Markets Association ‘Best Practices for Effective Development of FinTech’, one of the ten key best practices includes ‘Best Practice 5: Ensure inter-agency cooperation to promote consistency nationally across different sectors impacted by Fintech such as banking, securities, insurance and telecommunications.’</p>	<p>Establishing an interagency coordination group is widely recognized as a key component required in ensuring alignment and consistency across FinTech regulations.</p>
Hong Kong	<p>Coordination Group on Implementation of Fintech Initiatives (CGFin).⁴</p> <p>The CGFin is an inter-agency collaboration group which is chaired by the secretary for Financial Services and Treasury. The coordination group also includes representatives from the Hong Kong Monetary Authority, the Securities and Futures Commissions, the Insurance Authority the Mandatory Provident Fund Schemes Authority, Invest Hong Kong, Cyberport and the Hong Kong Science and Technology Parks Corporation.</p>	<p>Having all relevant stakeholders aligned on the approach towards FinTech regulation is crucial for creating a conducive environment for</p>

³ Asia Securities Industry and Financial Markets Association. Best Practices for Effective Development of FinTech. Available at: <https://www.asifma.org/wp-content/uploads/2018/05/asifma-best-practices-for-effective-development-of-fintech-june-2017.pdf>

⁴ CGFin (n.d.). Implementation of Fintech Initiatives convenes second meeting. Available at: <http://www.government-world.com/coordination-group-on-implementation-of-fintech-initiatives-convenes-second-meeting/?print=pdf>

Location	Description	Key takeaways for Mongolia
	<p>CGFin has the primary role of supporting the holistic development and implementation of Fintech-related policies in the country while maintaining a balance between development and regulation.</p> <p>CGFin also oversees policies related to FinTech development such as promoting cooperation with overseas markets, enhancing financial infrastructures, supporting FinTech talent development, and other cross-sectional FinTech coordination.</p>	<p>FinTech development.</p>
<p>Ireland</p>	<p>Ireland Department of Finance FinTech Steering Group⁵</p> <p>The Fintech steering group brings together officials from government departments that are crucial for the development of the fintech ecosystem. This includes officials from the Central Bank of Ireland, Department of Further and Higher Education, Research, Innovation and science, as well as from other enterprise agencies. The primary role of this steering group is to make an active and significant contribution to the development of FinTech policies and propose legislation as set out in the EU Digital Finance Package.</p> <p>With specific tasks including the following items: (i) coordinating measures on consumer education and digital inclusion across agencies, (ii) conducting outreach program with key stakeholders (increasing communication with industry stakeholders), as well as (iii) keeping tabs on international FinTech policy developments.</p> <p>Additionally, as part of its annual reporting, the Ministry of Finance is required to provide an update on the key actions taken by the FinTech Steering Group and its progress. Specifically, the report identifies the lead responsible for each initiative and indicates whether the action is completed, on track, delayed, or cancelled. This ensures accountability and provides transparency into the work of the FinTech Steering Group.</p>	<p>Eventual scope of the MFWG can expand to include conducting industry-engagement programs and taking on a more active role in contributing to the Mongolia's FinTech strategy.</p>

⁵ Government of Ireland (n.d.). The strategy for the development of Ireland's financial services sector, extended to 2026. Available at: <https://assets.gov.ie/238832/e6d8cd40-7d4a-48f3-863b-1726ab3eeaa6.pdf>

3.2.2 Action item 1.2: Develop channel for knowledge sharing at the whole-of-government level

Table 4: Summary of action item 1.2

Objective	A channel to disseminate FinTech-related policy updates or regulatory changes could be established to address the lack of an aligned understanding of FinTech-related policies and regulations across government agencies.
Description	The channel could take the form of an internal website (i.e., on the government intra-web) that all public servants would be able to refer to. It should provide information and updates on policy changes that impact the FinTech industry and the regulation of FinTech companies. Unlike current portals (e.g. legalinfo.mn) that focus on providing the full text of legislation, the channel should focus on highlighting the implications that new policies have on existing government processes, and the applications of these new policies.
Implementation lead	MFWG
Participating stakeholders	Ministries in charge of managing the existing inter-government agency knowledge base, and representatives across all government agencies.
Steps	<p>The following steps could be taken to establish a channel for knowledge-sharing at the whole-of-government level:</p> <ol style="list-style-type: none"> 1. Establish an IT project for the development of the knowledge sharing channel. The MFWG established in Action Item 1.1 could set up an IT project team to develop the knowledge sharing channel. The project team could be led by representatives from the FRC and BOM and should consider current knowledge sharing mechanisms across government agencies (i.e., if a public sector internal portal is currently available), review user requirements for the knowledge sharing channel (i.e., potential users, type of information to be shared, frequency of updates) and develop a suitable format for information sharing. 2. Assess if there are internal knowledge sharing platforms that can be tapped on, or if a third-party solution might be required. If an existing platform is available, the project team should assess if the platform sufficiently addresses needs of agencies or if improvements or a new platform is required. If no such platform is available, the project team should assess the features required in establishing such a platform and provide a suitable recommendation to the MFWG. 3. Establish a standard protocol for government agencies to submit information to the knowledge sharing channel. This could involve designating coordinators and standardizing

submission templates and timeline. Each agency should appoint a point person for submitting amendments or new laws. In addition, clear, standardized templates should be developed for submissions and specific deadlines (i.e. within X working days of the law being passed or amended) should be set.

- 4. Develop plans to ensure that officials across agencies are aware of the channel and know how to use it.** It is necessary to educate users on the full-range of functionalities of the knowledge-sharing platform, increase uptake, and consequently achieve aims of better information harmony across all agencies in Mongolia. Subsequently, the role of maintenance and awareness building could be undertaken by the “policy coordination and development” workstream of the MFWG.

4. Strengthening industry engagement

To develop an enabling environment for FinTech growth, regular feedback and coordination between industry stakeholders and regulators on policy direction and support initiatives is critical. A key action item is to establish a FinTech Concierge (FC) Service as a single point of contact for FinTech firms.

4.1 Current state and issues faced

Since 2021, BOM has operated an “Innovation Office” which offers support to payment service providers and provides an avenue for payment services firms to engage with the BOM, under the mandate of the Law on the National Payment System. In September 2024, this initiative was deepened and expanded to take the shape of a dedicated “Innovation Hub” intended to (i) provide support for BOM-regulated FinTech firms to obtain information on relevant policies or regulation; (ii) engage FinTech firms in-person on their needs, including policy challenges faced; and (iii) ensure that FinTech policy in Mongolia is up-to-date with emerging trends and technologies in the Mongolia’s FinTech industry. This is a positive development that will address challenges faced by FinTech firms in engaging regulators to understand policy changes and provide their input on FinTech-related policy. However, given the role that the FRC plays as the key regulatory body for Non-Bank Financial Institutions (NBFIs) – a category under which many FinTech firms fall under, it would be important to ensure strong coordination between the FRC and BOM in FinTech industry engagement. Specific issues to address include:

- **FRC’s limited mandate to address industry concerns.** As the regulator for NBFIs and the agency tasked with managing the Sandbox Unit, the FRC receives regular inquiries on licensing and regulatory requirements, as well as requests to assist with issues related to tax and law enforcement, typically through the FinTech Sandbox. However, the Sandbox Unit lacks dedicated resources to field such inquiries, as this lies outside of their formal responsibilities. At the broader level, the FRC also does not currently have a mandate to dedicate resources to address these inquiries and requests. It would therefore be critical to provide the FRC with a clear industry engagement mandate.
- **Uncertainty regarding regulations and the absence of a clear platform for clarification poses a challenge.** Although the BOM operates the “Innovation Hub”, support is limited to payment services firms, leaving other FinTech businesses without adequate guidance. Consequently, significant regulatory uncertainty persists among FinTech companies. This environment may dissuade new entrants and hinder the development of an innovative FinTech ecosystem in Mongolia.

4.2 Proposed action items in Roadmap

Based on the feedback from stakeholders across the FRC and BOM as well as industry, a FinTech concierge is proposed to provide comprehensive support through the coordinated engagement of both the FRC and BOM. This service will serve as a single point of contact, addressing all FinTech-related issues, enhance responsiveness to industry, and therefore reduce regulatory uncertainty.

4.2.1 Action item 2.1: Establish a FinTech Concierge (FC) service

Table 5: Summary of action item 2.1

Objective	Develop a FinTech Concierge Service (FCS) jointly operated by BOM’s Innovation Hub and the FRC’s Sandbox Unit
Description	The FCS acts as a single point of contact for industry participants to raise any FinTech-related issues and channel it to the appropriate agency (i.e., FRC or BOM). The FinTech concierge should serve as a platform for the BOM and FRC to cascade any changes in policies or regulations to the industry as well as for the industry to approach regulators if they face any issues or have feedback on government policies.
Implementation lead	Sandbox Unit of the FRC and BOM Innovation Hub
Steps	<p>Specific steps to be undertaken include:</p> <ol style="list-style-type: none"> 1. Strengthen FRC’s industry engagement mandate through amending the Law on the Legal Status of the Financial Regulatory Commission. This would involve making changes to all articles concerning the scope of authority, and collaboration with other regulators. Specific articles to be updated include: <ul style="list-style-type: none"> • <u>Article 6: Powers of the Commission</u> <p>Amendments to Article 6, which defines the powers of the FRC, should be made, to include text along the lines of “<i>The Financial Regulatory Commission shall be responsible for promoting and regulating financial innovation, including the development and management of a FinTech Concierge Service (FCS). The FCS shall serve as a single-point-of-contact for FinTech industry participants, providing regulatory guidance, facilitating access to regulatory sandboxes, and fostering collaboration between regulators, industry, and other stakeholders.</i>”</p> <ul style="list-style-type: none"> • <u>Article 10: Relations of the Commission with the Mongolbank and the Government</u> <p>Amendments should be made to require the FRC to collaborate with the BOM and other relevant entities on FinTech issues. This could be incorporated in Article 10, for instance, along the lines of “<i>The Financial Regulatory Commission shall collaborate with</i></p>

the Bank of Mongolia and other relevant entities to ensure a coordinated approach to FinTech regulation and innovation. The FRC shall collaborate with the Bank of Mongolia to oversee the FinTech Concierge Service and resolve cross-regulatory issues.”

2. **Develop Terms of Reference (TOR) for the newly established FinTech Concierge Service.** The BOM Innovation Office and FRC Sandbox Unit could jointly oversee the establishment of the FCS. To ensure that the FCS is provided with a clear mandate to support industry engagement, and the governance structure is set out clearly, a clear set of TORs should be developed. The TOR should set out (i) the mandate and objectives of the FCS; (ii) its governance and reporting structures; as well as (iii) operating principles. **Box B in Appendix A** provides a proposed TOR.
3. **Raise awareness.** Once the FCS is established, raising awareness amongst industry stakeholders would be critical to ensure that they are able to leverage the FCS as an engagement channel. This could entail the development and implementation of marketing plans to ensure that firms in the financial services sector understand the functions and mandate of the FCS.

Table 6: Best practices relevant to action item 2.1

Location	Description	Key takeaways for Mongolia
<p>United Kingdom</p>	<p>Project Innovate at the UK Financial Conduct Authority.⁶</p> <p>The UK Financial Conduct Authority (FCA) launched the world’s first operational Innovation Hub in 2014. Initially, the hub operated as a small unit with staff seconded from other areas of the organization. Given its limited resources, the FCA established clear eligibility criteria for businesses seeking support. These criteria include:</p> <ul style="list-style-type: none"> • The innovation must be genuine. • It must provide a clear consumer benefit, either directly or indirectly. • The business must have invested time and resources in understanding the regulatory framework. • The business must demonstrate a genuine need for direct support. 	<p>It is essential for the FCS to establish clear criteria for the types of businesses eligible for support to ensure efficient resource allocation and prevent the service from operating as a general consultancy. This is particularly important if the FCS is designed</p>

^{6,5,6} International Monetary Fund (2023). Institutional Arrangements for FinTech Regulation: Supervisory Monitoring. Available at: <https://www.imf.org/-/media/Files/Publications/FTN063/2023/English/FTNEA2023004.ashx>

Location	Description	Key takeaways for Mongolia
	<p>These guidelines help ensure that assistance is directed where it is most needed and will have the greatest impact—an essential approach for a newly established, resource-constrained entity.</p>	<p>to function with limited personnel.</p>
<p>United Kingdom</p>	<p>Project Innovate at the UK Financial Conduct Authority.⁵</p> <p>A variety of tools are used by the UK FCA to facilitate effective support by the Innovation Hub, such as:</p> <ul style="list-style-type: none"> • Individual guidance through email, consultancy services • Informal steers (tailed supported in relation to the FCA’s rules and regulations) • Signposting to relevant areas of regulation • Support in preparation for licensing and permit • Support for licensed and with permit 	<p>Implementing a variety of tools would enable Mongolia to efficiently manage business inquiries and allocate manpower to more complicated queries.</p>
<p>Australia</p>	<p>Australian Securities and Investments Commission’s (“ASIC”) Innovation Hub.⁷</p> <p>ASIC’s innovation hub established in 2015 serves as a single point of contact for all FinTech and RegTech related regulatory issues faced by Australian FinTech firms. Support is provided in the form of assistance to innovative businesses on their potential regulatory obligations, including the broader Australian regulatory framework that might have implications on a FinTech business, as well as through the provisions of regulatory relief through initiatives such as the Commonwealth Government’s Enhanced regulatory sandbox. Additionally, the ASIC Innovation hub serves as a platform for domestic and international conversations and partnerships in FinTech-related areas.</p>	<p>The scope of FCS can eventually be expanded to serve as platform for international conversations and partnerships on FinTech related areas.</p>
<p>Hong Kong</p>	<p>Securities and Futures Commission (SFC) Fintech Contact Point⁸</p> <p>The FinTech Contact Point was established by the Hong Kong Securities and Futures Commission (SFC) as a dedicated channel to enhance communication with businesses involved in the development and application</p>	<p>Establishing a single-point contact for firms involved in the FinTech space can help</p>

⁷ ASIC (n..d.). Innovation Hub. Available at: <https://asic.gov.au/for-business/innovation-hub/>

⁸ Securities and Futures Commission (SFC) (2024). Fintech Contact Point. Available at: <https://www.sfc.hk/en/Welcome-to-the-Fintech-Contact-Point>

Location	Description	Key takeaways for Mongolia
	<p>of FinTech in Hong Kong. The platform provides a single contact channel for FinTech firms, facilitating dialogue on regulatory matters and offering guidance on applicable financial regulations. By streamlining communication, the SFC aims to encourage businesses in the FinTech space through helping them to navigate the compliance requirements more efficiently.</p>	<p>streamline regulatory communications, ensuring that businesses receive timely guidance and support on compliance requirements.</p>

5. Establishing an innovation-conducive environment

To develop an enabling environment for FinTech growth, policies and regulations need to be conducive to innovation and support emerging business models and technologies to grow. Specific action items include (a) amending the Regulation on Payment Systems to encourage innovation; (b) review regulations to support direct access to RTGS and ACH systems for FinTech payment service providers; (c) amend the Law Non-Bank Financial Activities (NBFAs) to enhance regulatory oversight of unconventional business models; (d) implement a tiered licensing framework for payment services firms; (e) implementing a tiered-licensing approach for banks; and (f) supporting the development of open banking through an industry-led approach.

5.1 Current state and issues faced

To foster a more agile and innovative FinTech market, Mongolia could consider taking steps towards a regulatory framework focused on risk-based supervision that reduces the level of regulation in areas assessed to be of lower-risk while putting in place appropriate safeguards. This would encourage market competition and support innovative practices while ensuring financial stability. Specifically, the following issues could be addressed:

- **Regulations that could disincentivize market entry and negatively impact competition.** The Regulation on Payment Systems places restrictions on the merchant service fees that can be charged and the minimum interchange fees that acquiring banks need to pay. This creates a cap on the profits that card acquirers can make, potentially reducing incentives for market entry and innovation. Other areas that may pose a barrier to increased competition include regulation mandating that non-bank PSPs are only able to gain access to the central payment infrastructure through a sponsor bank, and that all PSPs are subjected to the same license and permit conditions regardless of size and risk imposed on the system. These practices put smaller, entry-level firms at a disadvantage, potentially stifling the development of a vibrant PSP and FinTech ecosystem.
- **Licensing frameworks that restrict regulatory agility and leave emerging risks inadequately managed.** Current licensing frameworks result in certain FinTech business models—such as BNPL and money market exchanges—operating outside regulatory oversight, leading to regulatory uncertainty and potential gaps in consumer protection.

5.2 Proposed action items

Based on the feedback of stakeholders across the FRC and BOM as well as industry, the following recommendations have been developed to build an innovation conducive environment by supporting market entry and promoting competition in the FinTech space. These are (in proposed order for implementation):

- (i) Amend regulation on payment systems to encourage innovation
- (ii) Review regulations to support direct access to ACH systems for FinTech payment service providers
- (iii) Review pending updates to the Law on Non-Bank Financial Activities (NBFAs)
- (iv) Amend the Law on Permits to enhance regulatory oversight of unconventional FinTech business models
- (v) Implement a tiered-licensing framework for payment services firms
- (vi) Support development of open banking through the establishment of guidelines

Note: Action items 3.1 and 3.2 should be undertaken together as there are interconnected factors that shape market access and competition. Undertaking one recommendation without the other would not achieve the overall intended outcome of a more conducive competition landscape for payment service providers.

5.2.1 Action item 3.1: Amend Regulation on Payment Systems to Encourage Innovation

Table 7: Summary of action item 3.1

Objective	Amend the Regulation on Payment Systems to reduce restrictions on fees that card acquirers can charge and have to pay to card issuers.
Description	<p>The Regulation on Payment Systems sets out various restrictions on fees that card acquirers can charge and have to pay to card issuers. This places a cap on profit margins, potentially disincentivizing market entry and innovation. Specifically, the regulation:</p> <ul style="list-style-type: none"> (i) Restricts acquiring banks from charging a merchant service fee to certain public services. Under Clause 5.32 of the Regulation on Payment System, card acquirers are not allowed to charge a merchant service fee for government service payments and residential utility bills. However, they can charge consumers up to MNT 300 per transaction;⁹

⁹ The cap was created in 2019 and will be increased by Q42024 to be more in line with current market conditions. The amendment to the Regulation will be circulated to industry players for comments before finalization.

	<ul style="list-style-type: none"> (ii) Imposes an upper limit of 3% of the transaction value on merchant service fees charged by card acquirers to merchants; and (iii) Imposes a lower limit of 0.3% of the transaction value on the interchange fee that card acquirers pay to card issuers. <p>In particular, a restriction such as (1) could cause acquirers to incur losses if they choose not to pass this fee on to consumers. This would be especially significant for smaller FinTech firms specializing in payment services as they often lack the diversified revenue streams of larger banks. Consequently, smaller firms would be compelled to charge the fee to end consumers, reducing their ability to compete with larger players and negatively affecting innovation in the sector. On the whole, removing fee restrictions that impact competition dynamics could support the proliferation of FinTech payment services to benefit merchants and consumers.</p>
Implementation lead	Payment Systems Department (PSD) of the BOM
Steps	<p>The following steps should be taken:</p> <ol style="list-style-type: none"> 1. Remove restriction on charging merchant service fees to government transactions. Currently restrictions on charging merchant service fees on government agencies cause a distortive pricing structure and a negative impact on competition. This occurs as card acquirers are forced to cross-subsidize incurred costs by charging higher rates to private customers. To ensure equitable market conditions the BOM should remove Clause 5.32 in the Regulation on Payment System which specifies that payment service providers must include their contracts with merchants, that the merchant must not charge cardholders fees related to the use of card for payment of government service fees and residential utility bills. A removal of Clauses 5.32 and 5.33 would suggest that all institutions regardless of type of institutions would be treated as equals, and would all be similarly subjected to Clauses 5.29 – 5.34 in the Regulations on the Payment System.¹⁰ This is aligned with the approach adopted by the US as seen in Table 8. 2. Remove restriction on the merchant service fees that can be charged by card acquirer to merchant. Currently, Clause 5.29 under the Regulation on Payment Systems specifies an upper limit of 3% of the transaction value, for the merchant service fee charged by the card acquirer for the receipt of payments

¹⁰ Clauses 5.32-5.33 stipulate the range of restrictions and conditions that the acquiring bank and cardholder is subjected to. Details of this can be found in the Regulations on the Payment System Document at: [ТӨЛБӨРИЙН СИСТЕМИЙН ЖУРАМ](#)

for all goods and services. While this does not appear to be a constraint at this point (as the consultations suggest that the market rate hovers at around 1%), it could in the long-term have a potentially distortive effect to market entry, competition and hence innovation. Therefore, to minimize barriers to innovation, this clause should be removed.

3. **Periodically review the market landscape to assess whether the price floor on the minimum interchange fee should be removed.** To do so, the PSD should establish a set of metrics for an annual evaluation of the industry landscape to determine whether the fee floor should remain in place. Currently, the interchange fee floor supports participation by smaller firms, as it prevents larger firms that are able to cross-subsidize their payments product through additional revenue streams from offering fees so low that smaller firms might not be able to fairly compete with. By reviewing metrics such as the number of new entrants, changes in the volume of money processed, and innovation in the card issuer market, the PSD can gauge market maturity. As these indicators show maturity, it may suggest that the fee floor could be removed to avoid unnecessary market distortions that could ultimately lead to poorer consumer welfare.

Overall, the proposed amendments—namely, (1) removing restriction on charging merchant service fees for government transactions, (2) removing 3% MSF cap, and (3) providing a mechanism to review the interchange fee floor—could collectively create a more dynamic payments market, higher potential for returns, and, consequently, a greater incentive for acquirers to innovate and enhance their service offerings, ultimately benefiting merchants and consumers in the long term.

Table 8: Best practices relevant to action item 3.1

Location	Description	Key takeaways for Mongolia
European Union	<p>European Union’s Interchange Fee Regulation ¹¹</p> <p>EU introduced the Interchange Fee Regulation in 2015 which sets fixed caps on interchange fees for card transactions. For instance, Article 3 of the Regulation stipulates that payment service providers</p>	<p>Implementing upper fee caps has helped reduce excessive costs for merchants as the need to compensate issuers for providing consumer incentives diminishes with</p>

¹¹ EUR-Lex. Regulation (EU) 2015/751 of the European Parliament and of the Council on Interchange Fees for Card-Based Payment Transactions. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32015R0751#:~:text=Payment%20service%20providers%20shall%20not,for%20any%20debit%20card%20transaction.>

	<p>shall not request an interchange fee of more than 0.2% for a consumer debit card transaction and Article 4 stipulates that payment service providers shall not request an interchange fee of more than 0.3% for a consumer credit card transaction.</p> <p>The objective of such a cap on the interchange fee is to prevent excessively high costs on payments for merchants and consumers. This regulation has since led to lower processing costs for merchants and has increased competitive pressures on both issuing and acquiring banks to offer better value-added services.</p>	<p>payment services becoming more essential.</p>
<p>United States</p>	<p>The Durbin Amendment (Dodd–Frank Wall Street Reform and Consumer Protection Act)¹²</p> <p>The Durbin Amendment was introduced as part of the Dodd–Frank Act to regulate interchange fees on debit card transactions. Its intent was to ensure that fees are calculated on a cost basis in a way that applies uniformly to all merchants. Although the amendment primarily addresses debit card interchange fees rather than merchant service fees overall, its framework means that fee calculations do not provide any special exemptions for government entities.</p> <p>The provisions of the Durbin Amendment apply equally to all institutions that issue debit cards, regardless of the type of merchant accepting the payment. In effect, this means that fee structures are not designed to favor or exclude government entities.</p>	<p>Government entities are to be treated like private firms to promote fair competition.</p>

¹² Federal Register. Debit Card Interchange Fees and Routing. Available at: <https://www.federalregister.gov/documents/2023/11/14/2023-24034/debit-card-interchange-fees-and-routing#:~:text=A%20section%20of%20the%20Dodd,issuer%20with%20respect%20to%20the>

5.2.2 Action item 3.2: Review regulations to support direct access to ACH systems for FinTech payment service providers

Table 9: Summary of action item 3.2

Objective	Provide non-bank payment service providers (PSPs) with access to connect directly to the automated clearing house (ACH) by establishing minimum standards for non-bank PSP direct participation, so as to encourage competition.
Description	<p>Under Section 5 of the Automated Clearing House (ACH) system rules, non-bank financial institutions (NBFIs) providing payment services can only connect to the ACH system as indirect participants. This requires a settlement agreement with a direct participant, typically a bank, to access the network. This arrangement adds to the costs of NBFIs and limits their ability to fairly compete in the payments market.</p> <p>The Sponsoring Bank (SB) – the intermediary that provides NBFIs with the necessary infrastructure to process electronic transactions on the ACH typically charges fees to new PSPs seeking access to the system. This adds to costs as well as creates a risk of conflict of interest. Such an arrangement means that SBs, often incumbent banks, could leverage their gatekeeping role to maintain a competitive advantage over PSPs, who would be their direct competitors in the payment services market.</p>
Implementation lead	BOM
Participating stakeholders	Industry players, Mongolian Anti-Monopoly Agency (AMA)
Steps	<p>To facilitate fair competition across the payment services market, the following actions and amendments to the Automated Clearing House System Rules should be made.</p> <ol style="list-style-type: none"> 1. Amend rules on the Automated Clearing House to permit non-bank PSPs that meet the required standards to directly access the ACH, in addition to retaining the option to access the ACH through a sponsor bank. Similar to models in Singapore and Canada (as shown in Table 10), the BOM should provide non-bank PSPs with an alternative mode of accessing the ACH other than solely through a sponsor bank. Currently, Clause 5.3 of the Automated Clearing House System Rules states that “The participants specified in 5.1.8 and 5.1.9¹³ of these Rules shall be connected only as indirect participants”. This clause should be amended to permit the participants specified in Clauses 5.1.8

¹³ Clauses 5.1.8 refers to an entity licensed to conduct activities specified in Article 10.1 of the Law on the National Payments Systems, while Clause 5.1.9 refers to a legal entity whose purpose is to send and receive its own payments.

and 5.1.9 to connect as direct participants if they meet the minimum direct participant requirements outlined in an extended Clause 5.4,¹⁴ or as indirect participants if they do not meet those requirements. In this context, Clause 5.4 should also be revised to establish a minimum set of requirements that entities identified in Clauses 5.1.8 and 5.1.9 must satisfy to gain direct access to the ACH.

2. **Collaborate with industry stakeholders and relevant agencies to define the requirements for non-bank PSPs seeking direct participation.** This process should begin with a stakeholder consultation led by BOM, involving relevant agencies and industry representatives, to review Clause 3.1.2 of the Regulation on Payment Systems. This clause outlines the specific requirements that banks must meet to access the ACH, such as ensuring timely and reliable payment and complying with mandatory reserve requirements. Based on the outcomes of this review, it should then be assessed whether a similar but tailored set of requirements should be developed for non-banks PSPs (participants specified in Section 5.1.8 and Section 5.1.9 in the Automated Clearing House System Rules) seeking direct participation). Importantly, the recalibration of requirements for non-bank PSPs is not meant to provide an advantage for non-bank PSPs, but rather to ensure equal opportunity to participate in the central payment system directly. Mongolia may consider adopting Canada’s approach to direct participation requirements, as outlined in **Table 10**.

Table 10: Best practices relevant to action item 3.2

Location	Description	Key takeaways for Mongolia
Singapore	<p>Singapore’s direct access model</p> <p>Under Singapore’s Payment Services Act, selected payment service providers are granted regulated direct access to the MAS Electronic Payment System Plus (MEPs) RTGS system. Under this model, the PSPs are to meet stringent operational, technical and security requirements established by the central bank or regulatory authority. Once approved, these providers can connect directly to the central payment</p>	<p>Mongolia could consider a controlled direct access regime for PSPs that meet robust regulatory standards. This approach could streamline payments and encourage greater competition by reducing the cost for PSPs to provide payment services.</p>

¹⁴ Clause 5.4 in the Automated Clearing House System Rules details the list of requirements that Participants of the ACH would need to meet to have direct access to the nation’s central payment infrastructure. This includes requirements for settlement of payment to be performed through the Banknet system, having accurate classification and channeling of transactions sent to the ACH system in accordance with Appendix 3 of the Automated Clearing House System rules, and other operation specifications.

	infrastructure, bypassing intermediary banks.	
Canada	<p>Canada – Access via Payments Canada¹⁵</p> <p>Canada's model for accessing its automated clearing house, managed by Payments Canada, offers non-bank payment service providers two distinct modes of participation. On one hand, non-bank PSPs can apply for direct membership by meeting the stringent credit, risk, and settlement requirements established by Payments Canada.¹⁶ This direct access provides enhanced control over payment operations and potentially lower transaction costs. On the other hand, non-bank PSPs that may not meet the full membership criteria, or that prefer a less resource-intensive approach, can participate indirectly by partnering with sponsor banks or approved third-party access providers.</p> <p>Examples of stringent financial and cybersecurity requirements that have been imposed include requiring the credit rating of applicants to be generally equivalent to investment-grade (BBB-or better), and requiring ACSS and Lynx¹⁷ settlement account holders access account services through a secure bank-developed application called the High Availability Banking System (HABS)^{18, 19}</p>	<p>Providing a few methods to access the ACH network maintains network security and integrity while expanding participation to more non-bank PSPs encouraging market innovation.</p>

¹⁵ Payments Canada. Available at: <https://www.payments.ca/>

¹⁶ Bank of Canada. The Bank of Canada's Settlement and Account Policies for Payments. Available at: <https://www.bankofcanada.ca/core-functions/financial-system/bank-canadas-settlement-account-policies-for-payments-canada-payment-systems/>

¹⁷ **Lynx** is Canada's modern high-value payment system that enables real-time gross settlement of large-value transactions, replacing the legacy LVTS. **Automated Clearing Settlement System (ACSS)** is the Canadian equivalent of an ACH, which is Canada's principal retail payment system that clears and settles low-value, high-volume transactions on a deferred net basis.

¹⁸ **High Availability Banking System (HABS)** refers to a robust, secure platform used by Canadian banks to ensure uninterrupted access to critical banking services and operational resilience.

¹⁹ Bank of Canada. Bank of Canada settlement account access policy for Lynx and the Automated Clearing Settlement System. Available at: <https://www.bankofcanada.ca/core-functions/financial-system/bank-canadas-settlement-account-policies-for-payments-canada-payment-systems/bank-canada-settlement-account-access-policy-lynx-automated-clearing-settlement-system/>

	<p>This indirect access leverages the existing compliance frameworks and technical infrastructure of established banks, simplifying the integration process. Overall, by offering both direct and indirect participation modes, Canada's approach increases the accessibility of its clearing system for non-bank PSPs, thereby promoting innovation and broadening market participation.</p>	
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5.2.3 Action item 3.3: Review pending updates to the Law on Non-Bank Financial Activities (NBFAs)

Table 11: Summary of action item 3.3

Objective	Revise Law on Non-Bank Financial Activities (NBFAs) to allow the FRC to issue no-objection letter (NOL) for the operation of financial services or activities not currently listed under the recognized list of NBFA activities. ²⁰
Description	<p>The current Law on NBFAs specifies 11 types of activities that FRC can regulate, leaving out some FinTech innovations such as BNPL products and money market exchanges. A revised law, pending in Parliament, seeks to provide greater licensing flexibility by allowing, under Clause 6.3.7, the FRC to classify any activity not already listed as an NBFA, thereby regulating it as an additional NBFI activity. However, this approach remains restrictive because Clause 6.7 mandates that firms engaging in additional activities must first hold an NBFI license for a primary activity, which could hinder new FinTech companies with innovative business models that do not entirely fit within the existing NBFI framework.</p> <p>To provide the FRC with more flexibility in supervising emerging FinTech technologies and business models, it is proposed that if an activity does not fall under the established NBFA categories, the FRC could grant it a NOL, conduct periodic review, while the NBFA department or relevant department determines whether progress towards full-fledged licensing is required.</p>
Implementation lead	FRC

²⁰ A No-Objection Letter (NOL) is a formal document issued by a regulatory authority stating that it has no objections to a company or individual engaging in a specific activity that does not currently require a license under existing regulations. In the FinTech sector, an NOL may be issued to a company providing innovative financial services that do not fall under existing licensing categories, allowing them to operate with regulatory acknowledgment while ensuring compliance with baseline consumer protection and financial integrity requirements.

Participating stakeholders	MFWG
Steps	<p>Specific steps to be taken:</p> <ol style="list-style-type: none"> 1. Amend Clause 6.7 under the Law on NBFA to enable the FRC to issue a NOL for financial services that do not fall under the 11 categories of licensed NBFAs activities. Given that it is difficult for regulations to keep up with innovation at the same pace, a NOL may be a useful interim tool for regulators to maintain oversight while providing some flexibility for businesses to explore new financial services. Specifically, the amendment to Clause 6.7 under the Law on NBFA should state that Legal entities engaged in non-banking financial activities shall not engage in additional activities on their own, <i>except in cases where the FRC grants a NOL.</i> 2. Develop guidelines and provisions for issuing a NOL. To guide the decision-making process of issuing a NOL, the FRC should develop guidelines to do so. The guidelines should include steps to verify that the financial service does not fall under the current regulatory framework and to assess whether the business poses manageable consumer and systemic risks under clearly defined operational safeguards. Provisions to guide the operations and governance of firms operating under the NOL should also be developed. For instance, provisions such as mandating a periodic review of the NOL businesses imposed-market risk, and ensuring sufficient liquidity could be required to ensure that the business is able to meet its financial obligations and customer funds are protected. Mongolia could refer to Kenya’s model in Table 12 to develop the specific NOL provisions. 3. Establish a process for referral or transfer among government departments and agencies to ensure clear, non-overlapping regulatory roles. Given that the amendment to Clause 6.3.7 in the Law on NBFA allows the FRC to regulate any activity not included in the current list of 11 NBFA activities as an additional NBF activity, there is a risk of duplicative oversight within the FRC. For instance, money market funds—which are not currently regulated under any specific permit or license—could under this definition, be classified as an additional NBFA activity and fall under the NBF department’s purview. However, since money market funds involve debt securities, they may be more appropriately regulated by the securities department, which has specialized expertise in managing complex securities-related risks. To prevent duplicative oversight, inconsistent regulatory standards, inefficient use of

resources, and potential regulatory gaps, a proper framework should be established by the FRC for transferring or referring businesses to the appropriate department or regulator. This can be achieved by institutionalizing structured referral protocols and for enhanced clarity and operational efficiency. Mongolia could leverage some learning points from the model adopted by the Reserve Bank of India to develop a referral process (see **Table 12**). This will also be incorporated as part of the key functions to be undertaken by the MFWG as seen in the Sample TOR document in **Box A** of **Appendix A**.

4. **Develop guidelines and processes on handling businesses nearing expiry of NOL.** Given that the NOL is transitional in nature, it is crucial that the NOL has a defined timeline (e.g., two years) for the business to transition into a proper licensing regime. This could be complying with a newly mandated license, or with existing regulatory standards. Should the business continue to operate beyond the licensing framework without meeting full licensing requirements, the FRC could revoke the NOL, forcing the business to cease operations. The FRC could also have the option of extending the NOL with a fixed number of possible renewals. To enhance clarity for businesses, the FRC should encompass information relating to NOL expiry processes in guidelines for easy reference.
5. **Issue guidelines on how to develop adaptive FinTech laws.** Given that FinTech development often outpaces the development of regulations, new licenses and permits ought to be developed by the MFWG using adaptive, technology-neutral language that allows emerging business models to qualify under the new framework without requiring additional regulatory changes. This approach enhances the long-term sustainability of FinTech regulations for Mongolia, providing greater certainty for businesses and investors. See **Table 12** for examples of how Singapore has developed similar laws.

Table 12: Best practices relevant to action item 3.3

Location	Description	Key takeaways for Mongolia
<p>Kenya</p>	<p>Test-and-learn approach using the NOL²¹</p> <p>In 2007, Safaricom approached the Central Bank of Kenya (CBK) with a proposal to launch M-Pesa, a mobile phone-based money transfer service. This presented a regulatory dilemma, as the model was unprecedented, and the CBK was uncertain about how a financial service provided by a telecommunications operator could fit within the existing banking system.</p> <p>At the time, the Banking Act did not provide a legal basis for regulating payment products offered by non-banks, and the CBK had no clear authority over non-bank fund transfers. However, recognizing the wide reach and potential of this new service, the CBK convened a team of legal experts to develop Trust Account requirements (which later evolved into the Trust Law). Additionally, the CBK issued a No-Objection Letter (NOL), allowing M-Pesa to operate under specific conditions.</p> <p>The conditions included:</p> <ul style="list-style-type: none"> • Safeguarding system integrity to protect customers against fraud, loss of money, breaches of privacy, and service quality issues. • Implementing adequate measures to prevent money laundering. • Maintaining proper records and making them available to regulatory authorities as required. • Ensuring compliance with existing laws governing relationships with agents and customers. <p>The issuance of this No-Objection Letter enabled Safaricom to launch M-Pesa, which</p>	<p>Issuing NOLs with clear safeguards allows innovative FinTech businesses to operate while regulatory frameworks evolve, ensuring both market growth and consumer protection.</p>

²¹ World Bank Group (2020). How Regulators Respond to FinTech. Available at: <https://documents1.worldbank.org/curated/en/579101587660589857/pdf/How-Regulators-Respond-To-FinTech-Evaluating-the-Different-Approaches-Sandboxes-and-Beyond.pdf#page=27>

	<p>quickly gained one million users in its first nine months and four million users within 18 months. Today, over 50% of Kenya's GDP is processed through M-Pesa, making it one of the most successful mobile money platforms globally.</p>	
India	<p>India's referral or transfer mechanism</p> <p>In India, the Reserve Bank of India (RBI) collaborates closely with other regulators such as the Securities and Exchange Board of India (SEBI) and the Insurance Regulatory and Development Authority (IRDAI). India's framework has evolved to include referral mechanisms that allow regulators to identify activities spanning multiple financial sectors. For example, when non-traditional lending or fintech innovations emerge, the RBI and SEBI can coordinate, with one body referring matters to the other for specialized oversight. This multi-agency cooperation helps to ensure that innovative financial services are not left unregulated while also protecting consumer interests.</p>	<p>Mongolia can benefit from a structured cross-department and agency referral mechanism that leverages the distinct expertise of multiple regulators, ensuring that new financial products and services are adequately supervised without stifling innovation.</p>
Singapore	<p>Singapore's Securities and Futures Act (SFA) and Payment Services Act (PSA)</p> <p><u>Singapore's Securities and Futures Act²²</u></p> <p>The SFA similarly uses broad definitions for "financial instruments" and related terms, meaning that emerging instruments (for instance, certain tokenized assets) can be reviewed and brought under regulatory oversight even if they do not fit traditional categories. Specifically, the law uses the language "Financial instrument' shall include any contract or arrangement that facilitates participation in the financial market, regardless of its form or structure." This language has allowed MAS to incorporate fintech innovations within its regulatory perimeter without waiting for legislative overhaul.</p>	<p>Mongolia's Law on Permits should adopt more adaptive language to allow for innovative businesses to automatically fall under permit and licensing requirements, supporting regulatory oversight even without periodic legislative overhaul.</p>

²² Singapore Statutes Online. Securities and Futures Act 2001. Available at: <https://sso.agc.gov.sg/Act/SFA2001>

	<p>The SFA also includes mechanisms—sometimes in the form of guidance notes and regulatory sandbox provisions—that enable fintech companies to test innovative products under controlled conditions. This sandbox environment is backed by statutory authority to adjust regulatory requirements as needed.</p> <p><u>Singapore’s Payment Service Act</u>²³</p> <p>The PSA is designed to be inclusive, and hence uses broad, technology – neutral definitions. For example, its definitions section (typically found in early chapters such as Section 2) adopts broad, technology-neutral language when defining “payment services”.</p> <p>For instance, “Payment service’ includes any service provided in relation to the execution, clearing, or settlement of a payment transaction, regardless of the technology used.” This kind of language means that if a new fintech model (like a blockchain-based remittance service) emerges, it can be captured under the same regulatory umbrella without needing an amendment.</p>	
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5.2.4 Action item 3.4: Implement a tiered licensing framework for payment services firms

Table 13: Summary of action item 3.4

Objective	Introduce a tiered licensing framework for payment service providers (PSPs) in Mongolia to lower the barriers to entry for small innovative firms, encouraging greater competition and innovation. This approach provides for the regulatory requirements imposed on payment service firms to be proportional to their market size and the risk they pose to the financial sector.
Description	Modernizing and developing Mongolia’s payment services remains a priority due to their critical role in financial inclusion. ²⁴ However, stakeholders have indicated that current regulatory requirements may be overly stringent for smaller firms, that is, it does not account for the

²³ Singapore Statutes Online. Payment Services Act 2019. Available at: <https://sso.agc.gov.sg/Act/PSA2019>

²⁴ ADB Completion Report (2024). Mongolia Payment System Modernization Project. Available at <https://www.adb.org/sites/default/files/project-documents/46312/46312-001-pcr-en.pdf#page10>

	<p>varying levels of risk. Overly stringent regulations may hinder innovation, particularly when the requirements are not proportionate to the actual risk posed.</p> <p>To address the above, Mongolia could work towards implementing a tiered-licensing framework for PSPs in the medium to long term to lower regulatory barriers of entry for smaller firms.</p>
Implementation lead	BOM
Participating stakeholders	AMA and industry stakeholders
Steps	<p>The following steps should be taken:</p> <ol style="list-style-type: none"> 1. Monitor market indicators to track market maturity and determine the need for a tiered licensing framework. Given the relatively small size of Mongolia's current FinTech PSP market, BOM regulators should also monitor key metrics—such as transaction volume, growth trends, and market structure—to evaluate the market's maturity and periodically assess the need for a tiered licensing framework. 2. Convene a project team to develop the tiered licensing framework for payment service providers. In developing the framework, the BOM could consider a two-tier regulatory model that differentiates the obligations and oversight for PSPs based on market size or risk exposure. For instance, the tiers could be determined by potential risk exposures or transaction volumes, where PSPs exceeding a defined threshold are subjected to more stringent regulatory requirements—a concept similar to the dual-track framework outlined in Singapore's Payments Service Bill in Table 14.

Table 14: Best practices relevant to action item 3.4

Location	Description	Key takeaways for Mongolia
Singapore	<p>Singapore Payments Service Bill²⁵</p> <p>Singapore's Payments Service Bill establishes a dual-track regulatory framework that categorizes payment service providers by transaction volume and risk. Providers with monthly transactions below S\$3 million qualify for a Standard Payment Institution (SPI) license,</p>	<p>Mongolia can adopt a risk-based tiered licensing framework that distinguishes between low-risk and high-risk payment service providers, allowing smaller firms to enter the market, bringing additional</p>

²⁵FinTechNewsSG (2019). What does the New Payment Services Act Mean for Singapore?. Available at: <https://fintechnews.sg/26334/mobilepayments/payment-services-act-singapore/>

	<p>while those exceeding this threshold are subject to a Major Payment Institution (MPI) license with additional regulatory safeguards. This tiered approach allows smaller firms to grow under lighter regulation while ensuring that higher-risk activities are subject to stricter oversight.</p> <p>The Act's flexible, risk-based model enables regulators to tailor requirements according to each business's scale and risk profile, fostering innovation and consumer protection. As noted, "The Monetary Authority may grant a Standard Payment Institution License for entities whose operations are considered lower risk, while imposing enhanced requirements for higher-risk activities.</p>	<p>competition and innovation, while ensuring robust oversight and consumer protection for higher-risk activities.</p>
<p>Hong Kong</p>	<p>Hong Kong's Guideline on Authorization of Digital Banks²⁶</p> <p>In pushes to move towards a Smart Banking Era,²⁷ Hong Kong announced in 2017 a few initiatives to support this movement. Of which, one of the seven key initiatives is 'Facilitating the introduction of digital banking in Hong Kong'. This was seen as a key pillar due to its ability to promote fintech innovation and offer a new kind of customer experience.</p> <p>More importantly, digital/virtual banks can help promote financial inclusion as they normally target the retail segment, including small and medium-sized enterprises (SMEs).²⁸</p> <p>To facilitate the introduction of digital banks, HKMA introduced the Guideline on Authorization of Digital Banks as a strategy to lower barriers of entry for new entrants</p>	<p>Mongolia can adopt a risk-based tiered licensing framework that distinguishes between low-risk and high-risk financial services activities.</p>

²⁶ Banking Ordinance. Authorization of Virtual Banks: A guideline issued by the Monetary Authority under Section 16(10). Available at: https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/guideline/guideline_eng_virtual_bank_20180608.pdf

²⁷ Hong Kong Monetary Authority. Smart Banking. Available at: <https://www.hkma.gov.hk/eng/key-functions/banking/smart-banking/>

²⁸ Hong Kong Monetary Authority. Digital Banks. Available at: <https://www.hkma.gov.hk/eng/key-functions/banking/banking-regulatory-and-supervisory-regime/digital-banks/>

	<p>and simulate greater competition and innovation.</p> <p>This was done by clearly outlining minimum requirements (as seen in the Seventh Schedule to the Banking Ordinance) and offering a provisional period during which digital banks can fine-tune their operations under less stringent conditions.</p>	
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5.2.5 Action item 3.5: Support development of open banking through the establishment of guidelines

Table 15: Summary of action item 3.5

Objective	BOM to provide guidance to the industry to develop open banking
Description	<p>At present, public and private stakeholders in Mongolia did not indicate an immediate need for open banking but noted that it could be an area of focus as Mongolia moves towards a more developed FinTech ecosystem.</p> <p>With a long-term perspective in mind, some steps could be taken to support the development of open banking in Mongolia. Mongolia could take reference from other jurisdictions in developing enabling infrastructure and supporting initiatives to encourage open banking. This could include policies setting out voluntary data sharing requirements and obligations to adhere to specific technical standards to enhance interoperability, as well as the development of accompanying frameworks and guidelines to provide guidance for the development and use of open Application Programming Interfaces (APIs) between banks and third-party providers (TPPs).</p>
Implementation lead	BOM
Steps	<p>To support open banking development, the following steps could be taken.</p> <ol style="list-style-type: none"> 1. Establish a platform (e.g., working group) for open banking coordination in the medium to long term. To support Mongolia’s emerging open banking sector, the MFWG should consider forming a working group to coordinate efforts between industry and government once the market is deemed sufficiently mature. This platform would facilitate collaboration and the co-development of guidelines or frameworks specific to open banking development in Mongolia, potentially functioning as a separate workstream under the MFWG. Taking reference from the UK’s Strategic Working Group (SWG) – convened by the Financial Conduct Authority (FCA) and the Payments System Regulator (PSR) – gathers input from industry and

broader stakeholders into the vision and strategic roadmap for further development of open banking (see **Table 16** for more details).²⁹

2. **Establish an open banking framework and industry guidelines.** Upon more advanced progress into the completion of action items in the FinTech Roadmap, this open banking working group under the MFWG could start working together with commercial banks, fintech firms, and industry associations to co-develop a comprehensive open banking framework to guide industry development. This framework would include detailed guidelines for preferred communication protocols (such as Representation State Transfer (REST)), data formats (such as JavaScript Object Notation (JSON)), and API specifications, drawing on best practices from models such as those in Hong Kong and Singapore (see **Table 16** for more details). The approach would ensure that the framework is both practical and forward-thinking, laying the foundation for secure and efficient data sharing across the financial services sector.

Table 16: Best practices relevant to action item 3.5

Location	Description	Key takeaways for Mongolia
<p>United Kingdom</p>	<p>UK’s Strategic Working Group (SWG)³⁰</p> <p>In a bid to shape the future of open banking, the UK’s Financial Conduct Authority (FCA) and the Payments System Regulator (PSR)—as co-chairs of the Joint Regulatory Oversight Committee—established a Strategic Working Group (SWG).</p> <p>The SWG was formed to consolidate industry and stakeholder input into a clear vision and strategic roadmap for open banking. Specifically, the SWG was tasked with the following key objectives:</p> <ul style="list-style-type: none"> • Gather Stakeholder Insights: Collate views from industry partners and broader stakeholders to inform the vision and strategic direction for open banking. 	<p>A structured, stakeholder-driven regulatory framework can effectively drive open banking innovation while maintaining market integrity.</p>

²⁹ Open Banking Limited. The Future Of Open Banking – Strategic Working Group. <https://www.openbanking.org.uk/swg/>

³⁰ Open Banking Limited. The Future Of Open Banking – Strategic Working Group. <https://www.openbanking.org.uk/swg/>

	<ul style="list-style-type: none"> • Shape the Future Entity: Provide guidance on long-term governance, funding options, and priorities for the Future Entity—the proposed successor to the Open Banking Implementation Entity. • Advice on Activity Allocation: Recommend which activities should be managed by the Future Entity and whether any responsibilities should be shared with other organizations. • Support Evidence-Based Decision Making: Address additional requests from the Committee through detailed, data-driven submissions. <p>The SWG’s structured engagement united diverse stakeholders to craft a strategic roadmap for UK open banking, driving innovation and exemplifying effective regulatory collaboration.</p>	
<p>Hong Kong</p>	<p>Hong Kong open banking guidelines³¹</p> <p>Hong Kong has established initiatives to encourage banks to embrace potential opportunities from open banking and improve the quality of banking products and services for customers. For example, in 2018, the Hong Kong Monetary Authority (HKMA) in collaboration with industry stakeholders developed and published the Open API Framework for the Hong Kong Banking Sector to provide guidance for the development and use of open APIs between banks and TPPs.</p> <p>In particular, this Open API Framework recommends prevailing international technical and security standards to ensure compatibility with industry best practices such as recommending Representational State Transfer (REST) as the preferred communication protocol and Javascript Object Notation (JSON) as the preferred</p>	<p>Institutionalizing and issuing guidelines and recommendations on communication protocols and data formats is useful in helping a nation’s open banking sector progress toward greater interoperability at its own pace.</p>

³¹ DSG Pay. The Powerful Rise of Open Banking in Hong Kong. Available at: <https://www.dsgpay.com/blog/open-banking-in-hong-kong/>

	<p>data format due to their practicality and wide acceptance by the industry (Annex B of the Hong Kong Open API framework).³²</p> <p>Point 28 of in the Hong Kong Open API framework has also pointed out that whilst banks may decide on their own data specifications, ³³ they are obligated to publish such definitions (often called the “data dictionary”) using industry practices normally in use, such as OpenAPI specifications. This supports participation by non-bank TSPs into the payment system as they develop applications that are compatible with bank OpenAPI specifications.</p>	
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³² Hong Kong Monetary Authority (2018). Open API Framework for the Hong Kong Banking Sector. Available at: <https://www.hkma.gov.hk/media/eng/doc/key-information/press-release/2018/20180718e5a2.pdf>

³³ In Open API, data specifications refer to the detailed definitions that describe the structure, types, constraints, and formats of the data used in an API. This is useful in promoting transparency, standardization and interoperability within the financial ecosystem. Furthermore, by making data models publicly available, banks enable third-party developers to integrate more easily and securely with their systems which fosters innovation.

6. Strengthening protections for consumers

Strengthening financial consumer protection is critical to support the sustainable development of the FinTech innovation ecosystem. The rapid increase in the number of NBFIs, the introduction of a wide range of new-to-market business models, and the sudden increase in access to credit has created new risks. In particular, the FRC and BOM stakeholders have raised concerns about the increase in consumer debt created by easy access to FinTech-based NBFI loans, and the rise in virtual scams and fraud.³⁴

6.1 Current state and issues faced

Strengthening financial consumer protection is critical to support the sustainable development of the FinTech innovation ecosystems. The rapid increase in the number of NBFIs, introduction of a wide range of new-to-market business models, and the sudden increase in access to credit has created risks for consumers in Mongolia, particularly those with limited financial literacy. FRC and BOM stakeholders have also raised concerns about the increase in consumer debt created by easy access to FinTech-based NBFI loans, and the rise in virtual scams and fraud.³⁵ Key issues include:

- **Limited technical and regulatory capacity to enforce consumer credit limits.** A debt service to income (DSTI) ratio has been implemented to prevent over-lending by consumers, but there are various challenges in enforcing the ratio. First, reporting and collection of credit loan information by BOM's Credit Information Unit faces time lags due to technical constraints (i.e., limited server capacity to receive daily credit information from lenders that are submitting information to the BOM) and the lack of legal requirements for lenders to update credit information on a timely basis. Second, Credit Information Service Providers have a 72-hour timeframe to update the information available to financial institutions under Article 9.9 of the Regulation on Storing and Protecting Credit Information by Credit Information Service Providers. Third, despite being responsible for the supervision of NBFIs and Saving and Credit Cooperatives (SCCs), the FRC does not have a legal mandate to enforce the submission of credit information by financial institutions (i.e., banks, NBFIs and SCCs). Taken together, this means that the credit information available to lenders to abide by the DSTI ratio could be out-of-data and borrowers could potentially borrow beyond the DSTI ratio.
- **Need for fit-for-purpose framework for financial consumer protection (FCP).** There are potential gaps in promoting FCP based on the existing consumer protection framework in Mongolia (i.e., the broad Law on Consumer Right Protection) and statutory powers by BOM and FRC, which may be inadequate or not fit-for-purpose in responding to new and emerging risks to financial consumers from FinTech

³⁵ BOM (2022). Financial Fraud Typology Report 2022. Available at: <https://fiu.mongolbank.mn/en/r/543>

innovation. Following a technical assistance project supported by the ADB in 2019 to review financial consumer protection laws in Mongolia and promote a coordinated consumer protection framework, an updated financial consumer protection law in line with international best practices was developed and submitted to Parliament in 2022 but remains pending.

- **Limited avenues for dispute resolution with financial institutions.**³⁶ In resolving disputes, financial consumers in Mongolia must seek modest intervention from the BOM (i.e. able to receive and review customer complaints to banks if they remain unresolved proceeding the banks’ decisions); the FRC (i.e. able to adjudicate disputes between regulated entities or between regulated entities and consumers under its authority); or go through the legal system—which can be time-consuming and costly.³⁷ If consumers go through legal channels, final decisions for financial disputes are made by either the administrative, criminal, or civil court depending on their nature.
- **Low financial literacy of consumers.** The digital and financial literacy of consumers in Mongolia have not kept pace with financial sector development and stakeholders raised concerns around poor digital and financial literacy amongst consumers, particularly older age groups. While the FRC and BOM have conducted short-term training programs, more sustained intervention is required to build financial literacy and address the issue of rising consumer debt.

6.2 Proposed action items in Roadmap

Based on the feedback of stakeholders across the FRC and BOM as well as industry, four action items are proposed to strengthen consumer protection within the financial sector, while enhancing consumer digital financial literacy. These are (in proposed order for implementation):

- (i) Pass pending Law on Financial Consumer Protection;
- (ii) Establish a shorter reporting timeline for reporting loan information;
- (iii) Establish a financial ombudsman service; and
- (iv) Establish a debt clinic.

6.2.1 Action item 4.1: Pass pending Law on Financial Consumer Protection

Table 17: Summary of action item 4.1

Objective	The passing of the draft Financial Consumer Protection (FCP) Law should be a key priority to ensure that emerging financial risks are adequately addressed. The draft FCP law has been submitted to Parliament in 2022 and remains pending since.
Description	The ADB had provided technical assistance in 2019 to review financial consumer protection laws in Mongolia and promote a coordinated

³⁶ ADB (2019). Strengthening the Protection of Financial Consumers in Mongolia’s Banking Sector. <https://www.adb.org/publications/protection-consumers-mongolia-banking-sector>

³⁷ This analysis is based on Article 6.1.6 of the Law on Legal Status of Financial Regulatory Commission; Law on Infringement; the Law on Infringement Procedure; and the Law on Central Bank.

	consumer protection framework. The technical assistance had resulted in the development of an updated FCP law in line with international best practices. The draft FCP law establishes that the legal status of a financial ombudsman service will be defined by separate legislation; addresses the need for information transparency and responsible lending practices; and stipulates measures to combat unfair lending practices, including the creation of a dedicated agency for financial consumer protection.
Implementation lead	Government of Mongolia
Steps	The Government of Mongolia should strive to pass the FCP law as soon as possible.

6.2.2 Action item 4.2: Establish a shorter reporting timeline for reporting loan information

Table 18: Summary of action item 4.2

Objective	Establishing a shorter reporting timeline can benefit both borrowers and financial institutions by reducing the lag time between lenders making loans and the updating of BOM's credit database. This can help to address the risk of over-indebtedness while improving lenders' access to credit.
Description	Stakeholder consultations suggest that BOM is already moving towards a real-time credit information reporting system, and the next steps should be to support the implementation of this system by (i) ensuring that stakeholders (i.e., reporters) have the capacity to provide the information in real-time; and (ii) the relevant laws are in place to enforce shorter collection timelines; including real-time collection.
Implementation lead	BOM Credit Information Unit
Participating stakeholders	FRC (in particular the NBF department)
Steps	<p>Specific actions to be undertaken include:</p> <ol style="list-style-type: none"> 1. Conduct stakeholder consultations to assess the level of support needed by industry. Establishing a shorter credit reporting timeframe or moving to real-time reporting would need to consider the capacity of reporters, particularly for lenders that operate on a smaller scale and may thus face operational constraints. Stakeholder consultations led by the BOM Credit Information Unit should evaluate the extent of intervention and/or support needed to assist lenders in complying with a shorter reporting timeframe and in moving towards a real-time credit information reporting system.

2. **Issue technical guidelines on the transition to real-time credit information reporting system.** To facilitate the technical transition of reporting systems to BOM's real-time credit information reporting system, technical guidelines detailing data submission standards, API integration, data security protocols, and system testing should be issued to lenders by BOM Credit Information Unit. These aspects should provide lenders with a clear framework to update existing systems and processes for integration into BOM's real-time credit reporting system.
3. **Amend the Law on Credit Information.** The Law on Credit Information currently requires information suppliers to provide amendments to credit information service providers within three working days.³⁸ To establish shorter reporting timelines, BOM should make revisions to the Law on Credit Information specifying a shorter reporting timeline. Accompanying enforcement clauses could also be introduced to ensure compliance, should the BOM opt for a rules-based approach. Singapore's Moneylenders Act in **Table 19** details a rules-based approach taken within the legislation, while South Africa's National Credit Act demonstrates a principles-based approach.
4. **Issue guidelines to support a phased transition.** A phased implementation approach can then be rolled out with varying timelines for banks, NBFIs, and SSCs based on the initial consultations, allowing firms with lower technical capabilities to have an extended timeframe for transition. Firms with established technical capabilities could take on the role of early adopters, and work with the BOM Credit Information Unit to refine implementation strategies before wider roll-out.
5. **Amend the Law on Non-Bank Financial Activities (NBFA) on the legal powers of the FRC.** In the long-term, it would be critical to provide the FRC with greater oversight over credit information reporting as more NBFIs play a key role in providing credit to Mongolian consumers. Specifically, a sub-clause should be added to Chapter 3 of the Law on NBFA, to mandate NBFIs to give information to the credit information database upon FRC's request as outlined in the Law on Credit Information.
6. **Amend the Law on Credit Information to grant oversight powers to the FRC.** Under the Law on Credit Information,

³⁸ The Law on Credit Information defines "information suppliers" to refer to particular lenders and state organizations that supply borrower's information about credit and payment obligation to credit information database according to contract made with credit information provider legal entity. Source: Legalinfo Mongolia (n.d.). Law on Credit Information – Unofficial Translations. Available at: <https://legalinfo.mn/mn/detail/15744>

Chapter Six, Article 28 stipulates that the BOM shall possess credit information obtained from banks, NBFIs, and other financial institutions to retain the stability of the financial sector. Chapter Seven, Article 29 also lays out the enforcement powers of BOM supervisors against violations of the Credit Information Law.

Related clauses should be added to the Law on Credit Information for the FRC, granting oversight and enforcement powers to the FRC to request updates of credit information from NBFIs and SCCs who are under their direct supervision. In alignment with World Bank’s recommended best practices on effective oversight in **Table 19**, this dual oversight structure would establish clearer chains of communication between the FRC and the BOM, allowing for more comprehensive supervision between both entities.

Table 19: Best practices relevant to action item 4.2

Location	Description	Key takeaways for Mongolia
Singapore	<p>Singapore Moneylenders Act 2008³⁹</p> <p>According to the Moneylenders Act 2008, licensed moneylenders must, within the day on which a loan application is received and before granting any loan to the applicant, submit information about the principal of the loan, to maintain the integrity of data. In practice, licensed moneylenders usually update their loan records in the Moneylenders Credit Bureau’s (MLCB) system on a real-time or “live” basis and loan repayments by the following business day.⁴⁰</p> <ul style="list-style-type: none"> • <i>Section 76(2)</i>: “... the designated credit bureau must update its information technology system or any of its books containing any data, at least once a day or at any other frequency that the Minister may prescribe.” • <i>Section 76(4)</i>: “If the designated credit bureau without reasonable excuse contravenes subsection (1) or (2), the designated credit bureau shall be guilty of an offence and shall be liable on conviction...” 	<p>The following clauses outline the obligatory duties and enforcement of licensed moneylenders, demonstrating a rules-based approach for BOM’s consideration in the amendment of the Law on Credit Information.</p>

³⁹ Attorney-General’s Chambers (2008). Moneylenders act 2008. Available at: <https://sso.agc.gov.sg/Act/MA2008>

⁴⁰ MLCB. General. Available at: <https://www.mlcg.com.sg/faq.html#:~:text=How%20often%20is%20the%20Loan,updated%20the%20following%20business%20day.>

Location	Description	Key takeaways for Mongolia
South Africa	<p>South Africa’s National Credit Act⁴¹</p> <p>The Act stipulates that providers are prohibited from “reckless credit granting” and from entering into a credit agreement without first taking reasonable steps to assess a consumer’s financial circumstances.</p> <ul style="list-style-type: none"> • <i>Article 80:</i> “A credit agreement is considered reckless if the provider did not conduct an assessment of the prospective consumer’s (i) general understanding and appreciation of the risks and costs of the proposed credit, and of the rights and obligations of a consumer under a credit agreement; (ii) debt re-payment history as a consumer under credit agreements; (iii) existing financial means, prospects and obligations.” 	<p>South Africa’s National Credit Act outlines the obligatory duties of providers, but does not enforce them within the legislation. Guidelines are instead issued for providers, as best practices for adoption. This principles-based approach introduces greater flexibility for credit providers.</p>
World Bank	<p>Recommendations for Effective Oversight⁴²</p> <p>To ensure effective oversight of credit reporting systems, credit reporting systems should be subjected to appropriate regulations by a central bank, financial supervisory authority, or other relevant authorities. In cases where the relevant regulations in a jurisdiction relate to more than one authority, one of these authorities should undertake the primary role in the oversight function.</p> <p>The central banks, financial supervisory authority, and other relevant authorities, however, should have the necessary powers and resources to carry out their responsibilities to credit reporting systems effectively.</p>	<p>The BOM should continue to undertake the primary role in oversight for credit information reporting but it would be important to ensure that the FRC has the right mandate and therefore, resources, to support this.</p>

⁴¹ South African Government (2005). National Credit Act 35 of 2005. Available at: <https://www.gov.za/documents/national-credit-act>

⁴² World Bank (2022). Key Principles for Effective Regulation and Supervision of Credit Reporting Service Providers. Available at: <https://documents1.worldbank.org/curated/en/0999151010282240277/pdf/P166475009f6f302e083e503257ba9fcd72.pdf>

Location	Description	Key takeaways for Mongolia
South Korea	<p>South Korea’s Real-Time Credit Data System⁴³</p> <p>South Korea’s Financial Supervisory Service (FSS) implemented a real-time loan tracking system to prevent borrowers from exceeding DSTI limits across multiple institutions. The FSS provided technical resources, including detailed system blueprints and APIs, to aid institutions in upgrading their infrastructure.</p>	<p>The FSS provided technical resources to aid institutions in providing real-time credit information.</p>

6.2.3 Action item 4.3: Establish a financial ombudsman service

Table 20: Summary of action item 4.3

Objective	Establishing a financial ombudsman service would provide both consumers and financial service providers with an avenue to seek recourse without having to undergo expensive legal processes. The pending financial consumer protection law establishes that the legal status of the financial ombudsman service will be defined by separate legislation. The separate legislation should set out the legal mandate, duties, and governance model in order to clarify the roles and responsibilities of the financial ombudsman service. ⁴⁴
Description	<p>The primary role of the proposed financial ombudsman service would be to offer an affordable, independent, and impartial dispute resolution mechanism. The ombudsman would assist in resolving disputes between consumers and financial institutions amicably and fairly through mediation and adjudication.</p> <p>The financial ombudsman service should comprise of members with expertise in consumer advocacy, financial industry, and law. The financial ombudsman service would function independently of financial regulators and report to an independent board made up of independent directors and consumer representatives to ensure balanced oversight.</p>
Implementation lead	BOM
Participating stakeholders	FRC, Anti-Monopoly Agency (AMA)

⁴³ Credit Information use and Protection Act. Available at: https://elaw.klri.re.kr/eng_service/lawView.do?hseq=63719&lang=ENG

⁴⁴ ADB (2023). Technical Assistance Completion Report. Mongolia: Promoting a Coordinated Framework for Financial Consumer Protection. Available at: <https://www.adb.org/sites/default/files/project-documents/53004/53004-001-tcr-en.pdf>

Steps

Specific steps to be undertaken include:

1. **Establish separate legislation to define the legal status of the financial ombudsman service.** The legislation should outline the legal mandate, powers, and duties of the financial ombudsman service. In particular, the financial ombudsman service should be assigned adjudicative and enforcement powers in order for the financial ombudsman service to have binding decision-making power to ensure the credibility of the financial ombudsman service, and effective dispute resolution. The legislation should also mandate that the financial ombudsman service to be the sole alternative dispute resolution scheme in Mongolia. Armenia's Law on Financial System Mediator outlined in **Table 21** includes sample articles that can be considered.

Concurrently, to reduce conflicting oversight of disputes among financial service providers and consumers, the Law on the Legal Status of the FRC would need to be amended to relinquish FRC oversight over disputes to the financial ombudsman service. Specifically, clauses 6.1.6 and clauses 33.2 within the Law on the Legal Status of the FRC should be revoked.

2. **Detail the duties and legal obligations of financial service providers under the scheme.** Clauses should be added to related legislation to stipulate that (i) all registered financial service providers should participate in the financial dispute resolution scheme; (ii) all registered financial service providers should cooperate with the financial ombudsman service at its request, and (iii) all adjudications on financial service providers will be legally binding. Relevant legislation to be amended includes the Law on Banking, the Law on National Payment Systems, the Law on Insurance Intermediaries, Law on Saving and Credit Cooperatives, Law on Securities Market, and the Law on Non-Bank Financial Activities.
3. **Establish board participation and funding models for the independent financial ombudsman service.** Funding models should avoid reliance on any single entity to minimize any conflict of interest. The FRC should draw funding from industry players across the financial sector, based on relative caseload ratios and relative market shares.⁴⁵ For example, annual tiered fees could be collected from financial service players based on their total transaction volumes. Funding could then be further supplemented by case fees levied on individual financial service players with existing cases. The United Kingdom Financial

⁴⁵ ADB (2019). Strengthening the Protection of Financial Consumers in Mongolia's Banking Sector. Available at: <https://www.adb.org/sites/default/files/publication/545366/eawp-020-protection-consumers-mongolia-banking.pdf>

Ombudsman Service expanded in **Table 21** demonstrates this mixed funding model.

Board members should also comprise a balance of experts across consumer protection agencies (AMA) and the financial industry (E.g., BOM, FRC, and/or financial service providers etc.) to ensure impartiality, taking care to avoid overrepresentation of financial industry players or industry associations. Mongolia could adopt a model similar to Singapore’s Financial Industry Disputes Resolution Centre (FIDReC) set out in **Table 21**.

Table 21: Best practices relevant to action item 4.3

Location	Description	Key takeaways for Mongolia
Armenia	<p>Law on Financial System Mediator⁴⁶</p> <p>The Law on Financial System Mediator (2008) grants the financial system mediator the authority to issue binding decisions on financial disputes, with enforcement mechanisms to ensure compliance. Excerpts from the legislation include:</p> <ul style="list-style-type: none"> • Article 11, <i>Examination of Claim</i>: <ul style="list-style-type: none"> ○ (2) Within fourteen working days after receiving the copy of claim from Financial System Mediator, Organization shall submit in writing to Financial System Mediator explanations, clarifications and/or objections thereof, as well as other documents and information requested by Financial System Mediator... ○ (5) At the request of Parties, or any of them, or at his own discretion, Financial System Mediator may summon Parties with the view to hearing explanations and clarifications. • Article 14, <i>Decision of Claim</i>: <ul style="list-style-type: none"> ○ (2) In case the Financial System Mediator decides to satisfy fully or partially the claim, it shall establish procedure and deadline for implementation of the decision by Organization. 	<p>The FRC can draw reference to Armenia’s legal text in setting out the adjudicative and enforcement powers in its Financial Ombudsman Service legislation.</p>

⁴⁶ The Republic of Armenia (2008). Law on Financial System Mediator. Available at: https://www.cba.am/EN/lalaws/Law_on_financial_system_mediator.pdf

Location	Description	Key takeaways for Mongolia
	<ul style="list-style-type: none"> • Article 15, <i>Enforcement of Financial System Mediator’s Decision</i>: <ul style="list-style-type: none"> ○ (1) In case if Customer agrees with the decision in a manner established by this law, but Organization fails to fulfill Financial System Mediator’s decision in conformity with the established procedure and deadline, Customer shall be entitled to apply to a competent court for obtaining an enforcement order. 	
United Kingdom	<p>UK Financial Ombudsman Service (FOS)⁴⁷</p> <p>The UK’s Financial Ombudsman Service was established under the Financial Services and Markets Act (2000) and operates independently of the government and financial regulators.</p> <p>The FOS is governed by a board appointed by the Financial Conduct Authority (FCA) and is funded by annual levies paid by all financial service providers regulated by the Financial Conduct Authority in the UK, in addition to additional case fees charged whenever a complaint is lodged against them. The FOS’ decisions are legally binding on financial institutions for disputes under its jurisdiction, and it maintains transparency through comprehensive annual reports.</p>	<p>The FRC can draw reference to UK’s approach in ensuring the independence of the FOS, by taking into consideration its funding model and regular release of annual reports.</p>
Singapore	<p>Singapore Financial Industry Disputes Resolution Centre (FIDReC)⁴⁸</p> <p>FIDReC was established by the MAS under the MAS Dispute Resolution Scheme Regulations of 2007. FIDReC was stipulated to be the approved dispute resolution scheme for the financial industry in Singapore.</p> <p>Operations of the FIDReC are governed by a board with representation from the financial industry, consumers, law sector, and accounting sector. Directors with financial industry experience are appointed to provide</p>	<p>The FRC can draw reference to Singapore’s FIDReC approach in ensuring the impartiality of the FOS, by ensuring a balanced oversight from both industry and consumer representatives.</p>

⁴⁷ Financial Ombudsman Service (n.d.). Financial dispute resolution that is fair and impartial. Available at: <https://www.financial-ombudsman.org.uk/>

⁴⁸ FIDReC. FIDReC Annual Report 2024 – Summary Version. Available at: <https://www.fidrec.com.sg/entity/annotation/a783d7cf-96a7-ef11-b8e9-6045bd22652a>

Location	Description	Key takeaways for Mongolia
	in-house expertise and input on the financial ecosystem. ⁴⁹	

6.2.4 Action item 4.4: Establish a debt clinic

Table 22: Summary of action item 4.4

Objective	A debt clinic should be established to address rising risks of consumer debt in Mongolia. It would provide debt management and advisory support to consumers currently grappling with indebtedness issues, allowing consumers to better manage their debts.
Description	<p>A debt clinic should be established under the purview of the FRC and BOM to support citizens, as the FRC oversees non-bank financial institutions and FinTech players, which are significant contributors to consumer lending and household debt and the BOM oversees lending by banks.⁵⁰</p> <p>Functions of the clinic could include (i) provision of advisory services to individuals facing debt; (ii) development of personal financial literacy training programs for citizens; (iii) community outreach to raise awareness on responsible borrowing; and (iv) research on the extent, impact and distribution of debt issues in the Mongolian population.</p>
Implementation lead	FRC Financial Education and Training Unit
Participating stakeholders	BOM Public Financial Information Center, and relevant agencies such as the Anti-Monopoly Agency (AMA); Ministry of Education and Science; Ministry of Family, Labour, and Social Protection
Steps	<p>Specific steps to be undertaken include:</p> <ol style="list-style-type: none"> 1. Amend the Law on the Legal Status of the FRC to include powers over debt advisory services. The powers of the FRC currently includes organizing financial literacy activities for Mongolian citizens. However, for the debt clinic to function effectively under the FRC’s purview, additional sub-clauses should be added to Article 6.1. In particular, FRC’s powers should be expanded to also (i) provide and offer debt advisory

⁴⁹ ADB (2023). Establishing a financial services ombudsman in Mongolia: Experiences and lessons form Armenia, Australia, and Singapore. Available at: <https://www.adb.org/sites/default/files/publication/892051/eawp-064-establishing-financial-services-ombudsman-mongolia.pdf>

⁵⁰ ADB (2022). Mongolia: Developing Financial Technology Legal and Regulatory Frameworks for Mongolia. Available at: https://www.adb.org/sites/default/files/project-documents/55234/55234-001-tar-en.pdf?utm_source=chatgpt.com#page=7

services to indebted individuals; and (ii) approve, implement, and monitor rules for the debt clinic.

2. **Extend scope of activities within the existing Memorandum of Understanding (MOU) between the FRC and the BOM.** To ensure that the functions of the debt advisory services are relevant across consumers of banks, NBFIs, and SCCs, the FRC and the BOM can expand the scope of its activities under the MOU to include debt clinic functions. Amendments to the MOU should set out to establish:
 - Information sharing mechanisms between the FRC Financial Education and Training Unit and the BOM Public Financial Information Center;
 - Joint decision-making processes on debt restructuring and advisory services offered by the debt clinic;
 - Cooperation mechanisms on the financial literacy training and outreach programs organized by the debt clinic; and
 - Joint research programs between the FRC and the BOM on debt issues across the Mongolian population.
3. **Draft Terms of Reference (“TOR”) for the debt clinic.** To define the purpose and structure of the debt clinic, a TOR should be drafted to outline the roles and responsibilities of stakeholders. The TOR should set out (i) the mandate and objectives of the debt clinic; (ii) the organizational structure; (iii) roles and responsibilities played by each party; and (iv) funding sources and projected expenses. A proposed TOR can be found in **Box C of Appendix A**.
4. **Establish board composition and funding models for the debt clinic.** A critical part of establishing the debt clinic is funding. The FRC and BOM could consider drawing funding from financial industry stakeholders if internal funding is limited.⁵¹ Australia’s National Debt Helpline in **Table 23** is an example of a joint funding model drawing on both public and private sector support. It is critical that funding models should avoid reliance on any single financial entity to minimize conflicts of interest in debt restructuring processes. Similarly, the debt clinic should be overseen by the BOM and FRC or an independent body with adequate representation from the financial counselling sector.
5. **Develop outreach plans and collaborate with key public stakeholders to ensure effective dissemination of information to local communities.** Once established, media campaigns and

⁵¹ ADB (2019). Strengthening the Protection of Financial Consumers in Mongolia’s Banking Sector. Available at: <https://www.adb.org/sites/default/files/publication/545366/eawp-020-protection-consumers-mongolia-banking.pdf>

public press releases should be organized to announce the launch of the debt clinic; while collaboration with community organizations and key ministries would further aid in increasing awareness of the debt clinic. Hong Kong’s Investor and Financial Education Council set out in **Table 23** demonstrates how financial education platforms can be successfully socialized across the public through mass media campaigns. The FRC should also employ a range of strategies to extend its reach to local communities, including tapping on local organizations with an established understanding of local needs and resources as part of its service delivery. Information on financial literacy and management could also be tailored and delivered based on the needs of relevant subgroups, such as for small and medium enterprises (SMEs). Malaysia’s Credit Counseling and Debt Management Agency in **Table 23** offers financial literacy programs that are tailored to specific target groups.

Table 23: Best practices relevant to action item 4.4

Location	Description	Key takeaways for Mongolia
<p>Australia</p>	<p>National Debt Helpline⁵²</p> <p>The National Debt Helpline provides free financial counselling services to individuals struggling with indebtedness. It is currently overseen by Financial Counselling Australia, a non-profit organization that offers resources and support for financial counselling in Australia. The helpline is operated by different organizations in each state or territory, allowing the helpline to offer tailored assistance based on local knowledge and resources.</p> <p>The National Debt Helpline is funded by several sources: (i) state and territory funding; (ii) national Commonwealth funding; and (iii) the Industry Funding Model for Financial Counselling, a partnership between the financial counselling sector and financial industry stakeholders committing funds to support financial counselling services.</p>	<p>The FRC can draw reference to Australia’s joint co-funding model as an alternative to relying solely on internal FRC funds to support the debt clinic.</p>
<p>Malaysia</p>	<p>Malaysian Credit Counseling and Debt Management Agency (AKPK)⁵³</p>	<p>The FRC can draw reference to the AKPK’s tailored</p>

⁵² Ministers for the Department of Social Services (2024). Industry Funding Model helping more Australians get access to financial counselling. Available at: <https://ministers.dss.gov.au/media-releases/14381>

⁵³ United Nations Research Institute for Social Development (2024). Debt Management Programme or Plan (DMP) and Financial or Credit Counselling in Malaysia, Thailand and Indonesia. Available at: <https://cdn.unrisd.org/assets/library/papers/pdf-files/2024/wp-2024-2-debt-management-plan-financial-counselling-malaysia-thailand-indonesia.pdf>

Location	Description	Key takeaways for Mongolia
	<p>The AKPK was established in 2006 to assist indebted individuals on loan repayment schemes, while providing counseling on financial and debt management for affected individuals.⁵⁴</p> <p>Financial literacy programs are also delivered through the AKPK, equipping consumers with knowledge of various financial products. AKPK adopts both a general and targeted approach catering to a range of target groups. For one, AKPK has developed financial education curriculum for students across colleges and polytechnics; and has also instituted specialized debt and financial management programs specifically for SMEs.</p>	<p>approach to financial literacy and education across relevant target groups within Malaysia.</p>
<p>Hong Kong</p>	<p>Investor and Financial Education Council (IFEC)⁵⁵ The IFEC is a public organization dedicated to improving investor and financial education in Hong Kong.</p> <p>The IFEC promotes and delivers free and impartial investor and financial education resources and programs through its financial education platform - The Chin Family. The platform provides free information, resources, and programs. It develops engaging mass media campaigns to raise awareness of and deliver investor and financial education messages on television, outdoor advertising, and social media platforms. Featuring unique personas within the Chin Family, each character has been tailored to represent different demographics and financial challenges, encouraging relatability across diverse audiences.</p> <p>The Chin Family also collaborates with partners to extend the reach of investor and financial education.</p>	<p>The FRC can take into consideration mass media strategies employed by the IFEC in promoting the debt clinic and general financial literacy across the public.</p>

⁵⁴ World Bank (2017). Financial Inclusion in Malaysia: Distilling Lessons for Other Countries. Available at: <https://documents1.worldbank.org/curated/zh/703901495196244578/pdf/115155-WP-PUBLIC-GFM08-68p-Flpaperwebversion.pdf>

⁵⁵ Investor and Financial Education Council, Hong Kong (n.d.). The Chin Family. Available at: <https://www.ifec.org.hk/web/en/about-the-chin-family/index.page>

7. Promoting the use of digital signatures

To encourage greater adoption of digital and electronic signatures within the financial sector, regulatory and technical barriers must be addressed to create an enabling environment for adoption. Proposed action items include (a) clarifying the legal effect of digital and electronic signatures; and (b) clarifying the technical and licensing requirements for digital signatures.

7.1 Current state and issues faced

The digitalization of agreements and transactions form a critical part of FinTech adoption and development, and Mongolia has made active steps towards the adoption of electronic signatures and agreements. However, the actual use of electronic signatures and digital signatures in the financial services sector continues to face a number of technical and legal barriers. Key issues include:

- **Lack of clarity on the legality of electronic and digital signatures.** While some legislation in Mongolia allows contracts to be electronically signed in certain instances,⁵⁶ the Law on Electronic Signatures is unclear on the legal status of electronic signatures. For instance, industry participants expressed concerns that the courts do not fully recognize the legal validity of electronic signatures. This provides limited assurance to parties using electronic signatures. Furthermore, the Law on Electronic Signature does not explain the difference in legal effect between electronic and digital signatures, or the specific documents under which either signature type can or cannot be used.
- **Lack of clarity on the criteria for electronic signatures.** Industry participants indicated the need for greater guidance on the criteria for electronic signatures. The current Law on Electronic Signature does not set out clear criteria for electronic signatures to be considered legally valid, including specific reliability criteria and technological neutrality clauses.
- **Lack of clarity around technical requirements of digital signature.** While the Law on Electronic Signatures presents the technical requirements for a signature to be qualified as “digital”, there remained uncertainty around its practical implementation amongst industry stakeholders. Specifically, during consultations, stakeholders had expressed uncertainties over what constituted a digital signature. The MDDC has also yet to publish a publicly available list of digital signature devices that meet the

⁵⁶ The Law on Deposits, Loans and Banking Transactions of Bank and Authorized Legal Entity allows contracts to be signed electronically.

required standards for digital signature use, which could otherwise promote digital signature use.⁵⁷

7.2 Proposed action items in Roadmap

Based on the feedback of stakeholders across the FRC and BOM as well as industry, three action items are proposed to enhance the clarity around the usage and legal recognition of electronic and digital signatures, and improve financial service providers' access to digital signatures. These are (in proposed order for implementation):

- (i) Clarify the legal effect of digital and electronic signatures;
- (ii) Clarify criteria for digital and electronic signatures to be legally valid; and
- (iii) Facilitate the practical implementation of digital signatures across the financial sector.

7.2.1 Action item 5.1: Clarify the legal effect of digital and electronic signatures

Table 24: Summary of action item 5.1

Objective	Amend the Law on Electronic Signatures to set out the legal effect of each type of signature clearly, building greater confidence in the usage of digital and electronic signatures.
Description	Amendments to the Law on Electronic Signature are proposed to clarify the existing points of uncertainties associated with the use and application of digital and electronic signatures. Specific proposed amendments include: <ul style="list-style-type: none"> (iv) Adding sub-articles that provide recognition of electronic signatures in most instances in which signatures are required; (v) Adding articles that clarify specific difference(s) in the recognition of electronic and digital signatures; and (vi) Adding additional sections/clauses that provide clear guidance on documents/circumstances in which electronic and/or digital signatures are excluded (vii) Adding additional sections/clauses that facilitate cross-border recognition of digital signatures
Implementation lead	Ministry of Digital Development and Communications (MDDC)
Participating stakeholders	General Authority for State Registration (GASR), and other agencies potentially relevant to exclusions from the use of digital/electronic signatures, including the FRC and BOM.

⁵⁷ Asia Development Bank (ADB) (2023). Mongolia: Enabling a Conducive Environment for E-Commerce. Available at: https://lpr.adb.org/sites/default/files/event/1768/FINAL-Report-on-Ecommerce-Law-of-Mongolia-March-10-EN_0_1.pdf

Steps

The following amendments are proposed:

1. **Clarify the legal recognition of electronic signatures.** The amendment of the Law on Electronic Signatures should provide recognition of electronic signatures in instances in which signatures are required, thereby supporting widespread adoption of electronic signatures. Specifically, the Law on Electronic Signatures should explicitly acknowledge the legal recognition of electronic records (including electronic signatures) and state the conditions under which electronic signatures could be used to make legal commitments and fulfil legal requirements. Examples of legal recognition of electronic signatures are set out in Chapter 1 of Thailand's Electronic Transactions Act (ETA) in **Table 25**.
2. **Clarify difference(s) between the application of electronic and digital signatures.** The Mongolian government should add sub-clauses within the Law on Electronic Signatures that clarify the differences in application and legal recognition between digital and electronic signatures. Specifically, legal presumptions relating to electronic and digital signatures should be specified either in additional articles or within a separate chapter. Part 3, Article 19 of Singapore's Electronic Transactions Act (ETA) in **Table 25** highlights the legal presumptions of electronic records upon meeting the criteria of security procedures, thereby distinguishing between electronic signatures and secure electronic signatures.
3. **Clarify documents/circumstances in which electronic and/or digital signatures are excluded.** The Mongolian government should add a section to the Law on Electronic Signatures setting out the type of documents or circumstances in which electronic and/or digital signatures are excluded. For example, in Thailand, exclusions include documents related to family and succession planning; while in China, Singapore, and India, property transfers signed with electronic and/or digital signatures are not legally recognized.⁵⁸ Singapore's ETA in **Table 25** provides examples of exclusion clauses.

In amending the laws, the MDDC should consult relevant ministries to identify documents in which wet ink signatures are mandatory to be considered legally recognized.

In addition, the government should add a section to the Law on Electronic Signatures to clarify the legal effect of foreign electronic and/or digital signatures. Specifically, the section

⁵⁸ Acclime (n.d.). Regional guide to e-signatures for businesses in Asia. Available at: <https://www.acclime.com/downloads/regional-esignature-guide/>

should set out that an electronic and/or digital signature should not be denied legal effect, validity, or enforceability solely on the ground that it was issued or used outside Mongolia.

Table 25: Best practices relevant to action item 5.1

Location	Description	Key takeaways for Mongolia
<p>Thailand</p>	<p>Thailand Electronic Transactions Act 1997 (ETA-T)⁵⁹</p> <p>Thailand’s ETA provides a legal foundation for electronic transactions in Thailand. The ETA provides legal recognition of electronic signatures in the following sections:</p> <ul style="list-style-type: none"> Chapter 1, Section 7: “Information shall not be denied legal effect and enforceability solely on the ground that it is in the form of a data message.” Chapter 1, Section 9: “In the case where a person is to enter a signature in a writing, it shall be deemed that such data message bears a signature if: (1) the method used is capable of identifying the signatory and indicating that the signatory has approved the information contained in such data message as being his own; and (2) such method is a reliable one and appropriate for the purpose for which the data message is generated or sent, having regard to the surrounding circumstances or an agreement between the parties.” 	<p>It is essential for the MDDC to include the legal recognition of electronic signatures; alongside the legal validity of electronic signatures upon meeting conditions of reliability.</p>
<p>Singapore</p>	<p>Singapore Electronic Transactions Act (2010)⁶⁰</p> <p>The Electronic Transactions Act (ETA) provides a legal foundation for electronic transactions in Singapore. The ETA sets out legal presumptions relating to secure electronic records and signatures:</p> <ul style="list-style-type: none"> <i>Part 3, Article 19 (1):</i> “In any proceedings involving a secure electronic record, it is presumed, unless evidence to the contrary is adduced, that the secure electronic record has not been altered since the specific point in time to which the secure status relates.” 	<p>The MDDC should include the legal presumptions of electronic and/or digital signatures in order to clarify the designation of burden of proof following any proceedings.</p>

⁵⁹ Government of Thailand (1997). Electronic Transactions Act. Available at: <https://www.etda.or.th/getattachment/8faa736b-3235-49c8-8b01-d37ff53a9a45/ENG-Version.aspx>

⁶⁰ Singapore Statutes Online (n.d.). Electronic Transactions Act 2010. Available at: <https://sso.agc.gov.sg/Act/ETA2010?ProvIds=P12->

Location	Description	Key takeaways for Mongolia
	<ul style="list-style-type: none"> <i>Part 3, Article 19(2):</i> “In any proceedings involving a secure electronic signature, it is presumed, unless evidence to the contrary is adduced, that — (a) the secure electronic signature is the signature of the person to whom it correlates; and (b) the secure electronic signature was affixed by that person with the intention of signing or approving the electronic record.” 	
Singapore	<p>Singapore Electronic Transactions Act (2010)⁶¹</p> <p>The ETA sets out exclusions by specifying that the provisions specified in Part 2 of the ETA do not apply to the following matters:</p> <ul style="list-style-type: none"> <i>First Schedule (1):</i> “The creation of execution of a will” <i>First Schedule (2):</i> “The creation, performance or enforcement of an indenture, declaration of trust or power of attorney, with the exception of implied, constructive and resulting trusts and a lasting power of attorney defined under section 2(1) of the Mental Capacity Act 2008” <i>First Schedule (3):</i> “Any contract for the sale or other disposition of immovable property, or any interest in such property” <i>First Schedule (4):</i> “The conveyance of immovable property or the transfer of any interest in immovable property.” 	<p>The MDDC should include the legal exclusions to the Law of Electronic Signatures to clarify circumstances in which electronic and/or digital signatures will not be considered legally valid.</p>

7.2.2 Action item 5.2: Clarify criteria for electronic signatures to be legally valid

Table 26: Summary of action item 5.2

Objective	To instill greater confidence in the validity of digital and electronic signatures, the Law on Electronic Signature should be amended to include specific reliability criteria and technological neutrality clauses.
Description	Amendments to the Law on Electronic Signature should include:

⁶¹ Singapore Statutes Online (n.d.). Electronic Transactions Act 2010. Available at: <https://sso.agc.gov.sg/act/eta2010>

	<ul style="list-style-type: none"> (i) The addition of articles and/or chapters specifying reliability criteria for electronic and/or digital signatures to be considered legally valid; and (ii) The addition of articles and/or chapters specifying legal validity irrespective of technology used.
Implementation lead	Ministry of Digital Development and Communications (MDDC)
Participating stakeholders	General Authority for State Registration (GASR)
Steps	<p>The following steps are proposed:</p> <ol style="list-style-type: none"> 1. Develop reliability criteria necessary for electronic/digital signatures to be considered valid. In the current Law on Electronic Signature, reliability criteria have only been specified for digital signatures and not for electronic signatures. To increase confidence in adopting electronic signatures, the Law on Electronic Signature should be amended to include specific reliability criteria to ensure that the signature is authentic, tamper-proof, and attributable to the signatory. Specifically, as set out in the UNCITRAL Model Law on Electronic Signatures in Table 27, the Law on Electronic Signature should include clauses stating that (i) the signature creation data must be linked to the signatory and no other person; (ii) the signature creation data must be under the control of the signatory at the time of signing; and (iii) any alteration to the electronic signature after signing needs to be detectable. <p>In developing the reliability criteria, the MDDC should seek input from the GASR in determining the ensuring that the reliability of digital signatures can be traced and thereby enforced.</p> 2. Develop technology neutrality clauses to ensure legal validity irrespective of technology used. The current Law on Electronic Signature does not adopt a technology-neutral framework, which may result in inconsistent treatment of electronic signatures. In line with best practices underlined by the United Nations Convention on the Use of Electronic Communications in International Contracts (ECC),⁶² the Law on Electronic Signature should be amended to include an article specifying that “<i>legal effect shall not be deprived, restricted, or excluded any method of creating an electronic signature that specifies the requirements of reliability</i>”.

⁶² United Nations (2005). United Nations Convention on the Use of Electronic Communications in International Contracts (ECC). Available at: https://wipolex-res.wipo.int/edocs/lexdocs/treaties/en/uncitral-uecic/trt_uncitral_uecic.pdf

Table 27: Best Practices relevant to action item 5.2

Location	Description	Key takeaways for Mongolia
UN	<p>UNCITRAL Model Law on Electronic Signatures (2001)⁶³</p> <p>The UNCITRAL Model Law on Electronic Signatures adopts a flexible standard in determining the legal validity of electronic signatures. In particular, the Model Law considers distinct levels of reliability, traceability, and unalterability. An electronic signature is considered to be reliable if:</p> <ul style="list-style-type: none"> • <i>Article 6(3a)</i>: “The signature creation data are, within the context they are used, linked to the signatory and to no other person.” • <i>Article 6(3b)</i>: “The signature creation data were, at the time of signing, under the control of the signatory and of no other person.” • <i>Article 6(3c)</i>: “Any alteration to the electronic signature, made after the time of signing, is detectable.” • <i>Article 6(3d)</i>: “Where a purpose of the legal requirement for a signature is to provide assurance as to the integrity of the information to which it relates, any alteration made to that information after the time of signing is detectable.” 	<p>The MDDC can take into consideration the proposed reliability criteria to guide the development of relevant reliability chapters relating to electronic signatures.</p>

7.2.3 Action item 5.3: Facilitate the practical implementation of digital signatures across the financial services sector

Table 28: Summary of action item 5.3

Objective	There remains uncertainty around the practical implementation of digital signatures. There is a lack of clarity regarding the technical requirements for digital signatures and how they would apply to signatures used by FinTech providers. Clear guidelines on the technical requirements for digital signatures could guide the use of digital
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⁶³ United Nations (2002). UNCITRAL Model Law on Electronic Signatures with Guide to Enactment. Available at: <https://uncitral.un.org/sites/uncitral.un.org/files/media-documents/uncitral/en/ml-elecsig-e.pdf>

	signatures within the financial sector, while extending financial sector access to digital signature providers can encourage further adoption.
Description	Proposed actions to facilitate the application and use of digital signatures should: <ul style="list-style-type: none"> (i) Clarify the accreditation criteria underlying digital signature service providers so that the process and requirements for digital signatures are transparent; and (ii) Identify relevant digital signature service providers available for digital signature use.
Implementation lead	Ministry of Digital Development and Communications (MDDC)
Participating stakeholders	General Authority for State Registration (GASR)
Steps	<p>The following steps are proposed:</p> <ol style="list-style-type: none"> 1. Provide guidelines on the technical and licensing requirements underlying digital signatures. In the Law on Electronic Signatures, Chapter 2, Article 8, sets out requirements for digital signatures. However, stakeholders from the financial sector have expressed an inability to issue or accept digital signatures in many instances; or expressed misconceptions of what digital signatures entailed. Guidelines detailing general and sector-specific qualification requirements for digital signatures should be developed. These guidelines would help to illustrate the requirements digital signature service providers should be bound to for digital signatures to be deemed valid. Malaysia’s Digital Signature Licensing Guidebook in Table 29 outlines examples of such criteria. 2. Publish an exhaustive list of accredited certification bodies. Digital signatures issued by trusted third parties, or state-approved certification bodies, are automatically considered to be trustworthy and recognized by law.⁶⁴ A pre-approved list of certification bodies, with input by GASR, would help streamline the implementation of digital signatures and promoting adoption.

⁶⁴ Infocomm Media Development Authority, Singapore (2024). Key concepts. Available at: <https://www.imda.gov.sg/regulations-and-licensing-listing/electronic-transactions-act-and-regulations/controller-of-certification-authorities/key-concepts>

Table 29: Best Practices relevant to action item 5.3

Location	Description	Key takeaways for Mongolia
<p>Malaysia</p>	<p>Digital Signature Licensing Guidebook⁶⁵</p> <p>The Digital Signature Licensing Guidebook provides information on the process involved in all license and recognition applications concerning digital signatures in Malaysia. This includes:</p> <ul style="list-style-type: none"> • Criteria applied in evaluating applications, including general and specific requirements for various licenses; • Application procedures; • Audit and payment processes etc. 	<p>The MDDC can take into consideration the following elements to constitute the guidelines on the accreditation process of digital signature certification bodies, with specific requirements developed for the financial sector.</p>
<p>Indonesia</p>	<p>Electronic Certification Provider (PSrE) Repository and PDFSign</p> <p>The Ministry of Communications and Digital Affairs (Komdigi) has collated a list of PSrEs that have registered with Komdigi in an online repository for easy reference.⁶⁶</p> <p>Other than publishing PSrE requirements and guidelines for compliance, Komdigi has also developed an application, PDFSign, that helps the public in verifying certified electronic signatures.⁶⁷</p>	<p>The MDDC can consider the following actions to instill greater trust in the use of digital signatures and facilitate adoption.</p>

⁶⁵ Malaysia Communications and Multimedia Commission (2024). Licensing Guidebook: Digital Signature. Available at: <https://mcmc.gov.my/skmmgovmy/media/General/pdf/DSA-Licensing-Guidebook.pdf>

⁶⁶ Komdigi (n.d.). Penyelenggara Sertifikasi Elektronik. Available at: <https://www.rootca.id/>

⁶⁷ Komdigi (n.d.). PDFSign: Verify documents and PDFS. Available at: <https://tte.kominfo.go.id/verifyPDF>

8. Facilitating more widespread usage of eKYC

To support the increased adoption of digital processes across the financial sector, regulations and technical guidelines should be aligned to build market confidence in adopting electronic Know-Your-Customer (eKYC) solutions. To that end, a key action item is to clarify that physical document verification is required only for in-person KYC under the Law on Combating Money Laundering and the Financing of Terrorism. Additionally, introducing a simplified due diligence framework and developing eKYC guidelines can further accelerate eKYC adoption across the financial sector.

8.1 Current state and issues faced

At present, the lack of guidance on conducting eKYC combined with a lack of clarity on the validity of eKYC has resulted in low confidence in adopting eKYC processes, hindering FinTech development. Specific gaps and areas of improvement include:

- **Lack of clear technical requirements to guide adoption of eKYC across the financial sector.** The lack of standardized guidelines creates uncertainty and slows implementation. Defining minimum requirements—such as identity verification procedures, data security measures, and technical infrastructure standards—would provide financial institutions with the clarity and confidence needed to adopt eKYC more effectively.
- **Perceived contradiction between laws governing KYC.** During consultations, stakeholders highlighted ambiguity regarding the use of eKYC in the financial sector, stemming from perceived contradictions between different laws. For example, Article 7.1 of the Law on Deposits, Loans, and Banking Transactions for Banks and Authorized Legal Entities permits banks and authorized legal entities to offer “deposit, transfer, and credit services related to that account in electronic form to customers who have opened an account by signing a contract, either in writing or electronically.” This provision implies that customers should be able to open new accounts and conduct transactions electronically unless they are classified as “high-risk.” In contrast, Article 5.2.1 under the Law on Combating Money Laundering and the Financing of Terrorism, states that for the purpose of identifying and verifying a customer, financial institutions must obtain the customer’s surname, given name, date of birth, and a copy of identification card or foreign passport. However, this requirement applies only to in-person KYC processes. Furthermore, the Law on Support for Information Technology Production, which was approved on June 5, 2024, specifically allows customer identification using the “public information infrastructure”. Of which, “public information infrastructure” includes electronic identification systems like eKYC. This contradiction may deter financial institutions from adopting eKYC processes, as they fear that doing so could be interpreted as

non-compliant with the Law on Combating Money Laundering and the Financing of Terrorism.

8.2 Proposed action items in Roadmap

Based on feedback from stakeholders across the FRC and BOM as well as industry, two action items are proposed to instill confidence, and accelerate the adoption of eKYC processes. These are (in proposed order for implementation):

- (i) Provide clear guidelines on eKYC requirements; and
- (ii) Introduce framework for simplified due diligence and clarify usage of physical KYC processes in the AML/CFT law

8.2.1 Action item 6.1: Provide clear guidelines on eKYC requirements.

Table 30: Summary of action item 6.1

Objective	Develop a clear set of guidelines that establish eKYC requirements by specifying the minimum criteria and standards for validity, thereby providing institutions with the certainty needed to increase adoption of eKYC solutions.
Description	Introduce specific guidelines that would set out the minimum requirements and standards that a financial institution must observe in implementing eKYC for the on-boarding of individuals and legal people, including the eKYC safeguards to be adopted by financial institutions offering higher risk products and reporting requirements. Such guidelines would include ensuring a three-factor verification process, and additional specifications on the technologies that can be used for eKYC processes.
Implementation lead	MFWG
Participating stakeholders	Financial Intelligence Unit (FIU) of BOM, Personal Data Protection Authority under MDDC
Steps	<p>The following steps are proposed:</p> <ol style="list-style-type: none"> 1. The MFWG to collaborate with the Financial Intelligence Unit (FIU) of BOM and the Personal Data Protection Unit under MDDC to develop specific guidelines for financial service providers on implementing eKYC processes. Establishing clear eKYC guidelines would enhance clarity for financial service providers and encourage a shift towards digital transactions in Mongolia. Mongolia could reference Bank Negara Malaysia (BNM)'s eKYC policy document referenced in Table 31, which outlines the minimum requirements and standards financial service providers must meet when implementing eKYC for onboarding individuals and legal entities. The minimum requirements include (a) document verification, such as personal ID authentication, (b) biometric matching for identity

confirmation, and (c) liveness detection to prevent fraud. Additionally, financial service providers must ensure that their eKYC technologies have been assessed by a credible, independent external assessor. eKYC regulations should also align with existing financial laws, particularly those on AML/CFT (FIU of BOM) and Personal Data Protection (PDPA of MDDC) to ensure compliance and security.

Table 31: Best practices relevant to action item 5.1

Location	Description	Key takeaways for Mongolia
Malaysia	<p>Malaysia’s Electronic Know-Your-Customer (eKYC) policy document⁶⁸</p> <p>Malaysia’s Electronic Know-Your-Customer (eKYC) policy document sets out the minimum requirements and standards that a financial institution must observe in implementing eKYC for the on-boarding of individuals and legal persons. Relevant sections include:</p> <ul style="list-style-type: none"> • Section 8.10 provides guidance for how financial institutions can carry out eKYC for individuals, stating that the identification and verification of an <u>individual</u> is necessary for eKYC and may be undertaken through the following measures, including but not limited to: <ul style="list-style-type: none"> ○ Document verification – ensuring that the government ID is authentic by utilizing appropriate fraud detection mechanisms ○ Biometric matching – verifying the customer against a government issued ID by utilizing biometric technology and/or ○ Liveness detection – ensuring the customer is a live subject and not an impersonator. • Section 8.22 provides requirements for eKYC solutions, stating that where e-KYC solutions are used, they are to conduct the following: <ul style="list-style-type: none"> ○ eKYC solution should encompass the three eKYC modules namely: document verification, biometric matching and liveness detection has been assessed by a credible external independent assessor as provided by the scope Appendix 3 in the eKYC policy document. 	<p>MDDC to take reference from Malaysia’s eKYC policy document on how to specify a detailed minimum requirement process that constitutes a legitimate and valid eKYC.</p>

⁶⁸ Bank Negara Malaysia (2024). Electronic Know-Your-Customer Policy Document. Available at: <https://www.bnm.gov.my/documents/20124/938039/pd-e-KYC-apr2024.pdf?pr>

Location	Description	Key takeaways for Mongolia
	<ul style="list-style-type: none"> ○ Ensure that relevant certifications are obtained for the following e-KYC modules where certifications are available. ● Section 8.19 permits the use of technology such as artificial intelligence, and machine learning to ensure accurate identification and verification. However, ● Section 8.21 stipulates that firms are to ensure accuracy of their eKYC solution by monitoring False Acceptance Rates (FAR), defined by the formula $\text{false positive} / (\text{false positive} + \text{true negative}) \times 100$. 	

8.2.2 Action item: 6.2 Introduce framework for simplified due diligence and clarify usage of physical KYC processes in the AML/CFT law

Table 32: Summary of action item 6.2

Objective	Amend laws to align and clarify stance on the requirement of physical KYC and introduce framework for simplified due diligence to increase efficiency and adoption of eKYC processes.
Description	<p>To increase alignment and reduce ambiguity around the use of physical and electronic KYC, Mongolia could amend the Law on Combating Money Laundering and the Financing of Terrorism to clarify that physical KYC in the form of verifying documents against originals is only necessary for in-person KYC.</p> <p>In addition to the above, developing a framework for simplified due diligence to support eKYC for lower-risk transactions could spur FinTech innovation. Such a framework would promote the broader adoption of eKYC processes and benefit not only banks, but also new entrants and app-based services by enabling them to offer low-cost, low-risk online financial solutions easily.</p>
Implementation lead	BOM (Financial Information Unit)
Steps	<p>The following steps should be undertaken:</p> <ol style="list-style-type: none"> 1. Amend Article 5.2.1 of the Law on Combating Money Laundering and the Financing of Terrorism to clarify that the need for physical document verification is only applicable for in-person KYC. Currently, Article 5.2 requires financial institutions (specifically Persons specified in Paragraph 4.1 of the law) to perform physical document verification to verify the identity of a customer. More specifically, Article 5.2.1 states that for the purpose of identifying and verifying a customer, financial

institutions (specifically Persons specified in Paragraph 4.1 of the law) must obtain the customer's surname, given name, date of birth, and a copy of identification card or foreign passport. A competent officer must then verify the documents against the originals and record their authenticity. If the documents were delivered by post, the notarized copies of the documents are required. This requirement could cause businesses to get the impression that physical KYC is absolutely necessary, however this is not the case, as the Law on Support for Information Technology Production, which was approved on June 5, 2024,⁶⁹ specifically allows customer identification using the "public information infrastructure".⁷⁰ Of which, "public information infrastructure" includes electronic identification systems like eKYC. Therefore, to reduce confusion, Article 5.2.1 should be amended to explicitly clarify that the copy of identification card or foreign passport is only necessary for "physical arrivals" or in other words for in-person KYC.

2. **Conduct stakeholder consultations with relevant institutions to determine a list of low-risk transactions that would qualify for 'simplified due-diligence'.** The BOM should engage with relevant stakeholders such as industry partners, FIU department supervisors, and FRC supervisors to develop a table of low-risk activities that would qualify for 'simplified due diligence'. Examples of situations in which reduced Customer Due Diligence (CDD) measures could be implemented include (i) when reliable information on the customer is publicly available to the bank, (ii) the bank is dealing with another bank whose AML/CFT controls it is well familiar with by virtue of a previous course of dealings. Additionally, it should also be made clear the circumstances when simplified CDD measures are not permitted, namely, in the case where customers come from countries or jurisdictions known to have inadequate AML/CFT measures, is where the bank suspects that money laundering or terrorist financing is involved, is a politically exposed party (PEP), present in other high risk categories (refer to **Table 33** for how Singapore defines 'other high risk categories').
3. **Define minimum requirements for non-face-to-face and CDD measures in the Law on Combating Money Laundering and the Financing of Terrorism.** As a guide, one or more of the following

⁶⁹ Legal Info MN (2023). Law on amendments to the Law on Combating Money Laundering and the Financing of Terrorism. Available at: <https://legalinfo.mn/mn/detail?lawId=17141128575401&showType=1>

⁷⁰ According to the Law on Transparency of Public Information, Article 18, "public information infrastructure" includes information systems, information networks, and electronic identification systems widely used by financial service providers in Mongolia, such as KHUR, DAN, and E-Mongolia. Available at: <https://legalinfo.mn/en/edtl/16532477712281>

measures should be taken to mitigate the risk associated with not being able to have face-to-face contact when establishing business relations. This would include: (a) telephone contact with the customer at a residential or business number that can be verified independently; (b) confirmation of the customer's address through an exchange of correspondence or other appropriate method; (c) telephone confirmation of the customer's employment status with the customer's employer's personnel department at a listed business number of the employer; (d) confirmation of the customer's salary details by requiring the presentation of recent bank statements from another bank; (e) certification of identification documents by lawyers or notary publics presented by the customer, and (g) any other reliable verification checks adopted by the bank for non-face-to-face banking business. Mongolia may reference practices implemented by other jurisdictions such as Singapore (for more details see **Table 33**).⁷¹

4. **Amend law to permit simplified due diligence for lower-risk threshold transactions.** Under the *Law on Combating Money Laundering and the Financing of Terrorism*, a section can be added on simplified CDD, where banks are allowed to apply simplified CDD (which includes non-face-to-face, and eKYC) measures in cases where the bank is satisfied that the risk of money laundering or terrorist financing is low. The risk of this should be thoroughly assessed before applying the reduced CDD measures.

Table 33: Best practices relevant to action item 6.2

Location	Description	Key takeaways for Mongolia
Singapore	<p>Singapore MAS Guidelines to Notice 626 on the Prevention of Money Laundering and Countering the Financing of Terrorism⁷²</p> <p>Paragraphs 4.25 to 4.27 of the MAS Notice 626 discuss Non-Face-to-Face Verification, stating that banks should take appropriate measures when establishing business relations or providing financial services without in-person contact. The notice provides a list of acceptable electronic verification methods, including:</p>	<p>Include clauses to ensure alignment of AML/CFT laws with broader digitization trends.</p>

⁷¹ Monetary Authority of Singapore (2022). Non-Face-to-Face Customer Due Diligence Measures. Available at: <https://www.mas.gov.sg/-/media/mas-media-library/regulation/circulars/amld/circular--non-face-to-face-customer-due-diligence-measures-1.pdf>

⁷² Monetary Authority of Singapore (n.d.). Guidelines to MAS Notice 626 on Prevention of Money Laundering and Countering the Financing of Terrorism. Available at: https://www.mas.gov.sg/-/media/mas/resource/legislation_guidelines/aml/626-banks_gco-vetted.pdf?sc_lang=en&hash=9A20F729EFA686BF60FC4DA0EAD3059E

Location	Description	Key takeaways for Mongolia
	<ul style="list-style-type: none"> • Telephone contact at a verifiable business or residential number • Confirmation of the customer's address through correspondence • Electronic document certification by professionals (e.g., lawyers, notaries) • Making an initial deposit from an existing bank account 	
Singapore	<p>Singapore MAS Guidelines to Notice 626 – Other High-Risk Categories⁷³</p> <p>Paragraph 6.3 of the Notice requires enhanced CDD measures to be applied to other categories of customers apart from PEPs, which a bank may consider to present a greater risk of money laundering or terrorist financing. This may be based on the bank's independent assessment of the transaction's risk of money laundering or terrorist financing. This could include taking into account factors such as the type of customer, the type of product or service that the customer purchases, and the geographical area of operation of the customer's business.</p> <p>Banks are also required to give particular attention to business relations and transactions with persons from or in countries that have inadequate AML/CFT measures – which may come from the authority or the bank's independent assessment.</p>	<p>Reference Singapore MAS Guidelines to Notice 626 on how to define 'high-risk' areas that should not be subjected to simplified due diligence processes like eKYC.</p>

⁷³ Monetary Authority of Singapore (n.d.). Guidelines to MAS Notice 626 on Prevention of Money Laundering and Countering the Financing of Terrorism. Available at: https://www.mas.gov.sg/-/media/mas/resource/legislation_guidelines/aml/626-banks_gco-vetted.pdf?sc_lang=en&hash=9A20F729EFA686BF60FC4DA0EAD3059E

9. Strengthening implementation of the Regulatory Sandbox

To create an enabling environment for experimentation and innovation, regulators in the Sandbox Unit should be empowered with the necessary resources to provide a space for experimentation for new entrants, and guiding participants into entering the sector. To achieve the above, some action items have been proposed, which includes providing Sandbox Unit with guidelines to support discretionary entry of Sandbox applicants, strengthening processes to integrate policy lessons from the Sandbox, and clarifying exit paths for Sandbox graduates

9.1 Current state and issues faced

The Regulation on Sandbox Environment currently does not assign regulators the powers to adapt technical and administrative requirements to the needs of various Sandbox applicants. This may reduce the incentive for FinTech firms in enrolling into the Sandbox, undermine the effectiveness of the Sandbox in providing a space for firms to experiment and authorities to learn about new products and business models, while compromising the development of suitable regulatory frameworks. In this regard, key issues include:

- **Lack of clarity around the adaptability of Sandbox entry requirements.** Industry participants have indicated that entry requirements into the Sandbox can seem complicated, making it difficult for Sandbox applicants to meet the requirements. Although regulators have indicated that certain requirements could be waived under specific circumstances, the requirements laid out in the legislation may still discourage participation. For example, Sandbox applicants were previously required to meet technical requirements set out in the Regulation on Sandbox Environment⁷⁴ - such as the requirement to place systems in Tier 2 standard data centers and implement encryption for consumer data.
- **Sandbox lessons and findings do not have a clear pathway to be reflected in policy.** The main functions of the Sandbox Council include providing recommendations on the necessary regulations and guidelines that are required to support the market entry of Sandbox participants, as well as summarizing key learnings from the Sandbox program. However, there is currently no institutionalized process or accountability framework in place to ensure that the findings from the Sandbox are integrated into policy and regulation. This gap reduces the effectiveness of the

⁷⁴ FRC (2021). Regulation on SandBox Environment. Available at: <http://www.frc.mn/resource/frc/Document/2023/01/10/c0zszjpdskfvfyn3/Regulation%20on%20Sandbox%20Environment.pdf>

Sandbox as a feedback collection mechanism and limits its potential to improve FinTech-related regulations.

- **Unclear exit options for Sandbox graduands.** Upon graduation from and/or the expiry of the sandbox, firms have addressed uncertainties over their potential exit pathways. Particularly for firms with new business models under which current licenses do not cover, it is unclear how they may pursue market integration post-Sandbox.

9.2 Proposed action items in Roadmap

Based on feedback from stakeholders across the FRC and BOM as well as industry, three action items are proposed to enhance the clarity of Sandbox regulations and processes. These are (in order of proposed implementation):

- Strengthen processes to integrate policy lessons from Sandbox;
- Provide framework for discretionary entry of Sandbox applications; and
- Clarify exit paths for Sandbox graduands.

9.2.1 Action item 7.1: Strengthen processes to integrate policy lessons from Sandbox

Table 34: Summary of action item 7.1

Objective	To improve the Regulatory Sandbox’s ability in supporting the development of Mongolia’s financial sector policies and regulations, by developing an institutionalized process to incorporating findings and learnings from the Sandbox into policy.
Description	To address this, the Sandbox Unit should be tasked to develop policy recommendations, which could then be reported to the Government and used to inform policy making. To increase accountability, the Sandbox Council should publish a formal annual report as part of the FRC’s annual reporting. Proposed recommendations made to the Government should also be made public. This will help to track and reinforce the Council’s ability in strengthening the effectiveness of the Sandbox.
Implementation lead	Sandbox Council
Participating stakeholders	FRC Sandbox Unit, members of the State Great Khural
Steps	The following steps should be undertaken: <ol style="list-style-type: none"> 1. Task Sandbox Unit to develop policy recommendations based on Sandbox findings. The Sandbox Unit could be tasked to develop these recommendations based on input collected from FinTech firms throughout the course of the Sandbox, alongside research on international best practices on how other jurisdictions have regulated similar business models. These

recommendations can range from new areas where regulatory action is needed or areas in which changes in policy could benefit FinTech growth. These findings and draft policy recommendations would be consolidated and sent across to the initiators – or otherwise, members of the State Great Khural, and the Government, or parties as stipulated in Article 26.1 of the Constitution of Mongolia.

2. **Strengthen the resourcing and capacity of the Sandbox Unit.** To ensure that the FRC Sandbox Unit has the resources needed to engage Sandbox participants fully and conduct research on global best practices, a review of current capacities of the Sandbox Unit and projected future workload could be conducted to assess a need for team expansion. If needed, the upskilling of team members could also be conducted.
3. **Publish annual reports as part of FRC’s annual reporting to summarize Sandbox Unit activities.** The annual report should cover the number of admissions, graduations, and special licenses granted by the FRC, and highlight regulatory reform initiatives that have been successfully supported by the Sandbox Council.

Table 35: Best practices relevant to action item 7.1

Location	Description	Key takeaways for Mongolia
Kenya	<p>Kenya’s Capital Market Authority (CMA)⁷⁵</p> <p>In Kenya’s regulatory sandbox testing process, the CMA allowed participants to either be granted with a license to operate under existing regulations, or function at limited capacity till regulations have been amended.</p> <p>The CMA works closely with Sandbox applicants to inform regulations, particularly in relation to new business models. One example includes Pezesha, that tested a crowdfunding platform catered to small and medium enterprises (SMEs). The CMA incorporated learnings from Pezesha’s tests to develop crowdfunding guidelines in Kenya, actively updating relevant regulations to</p>	<p>The FRC can take into consideration how Kenya’s CMA has actively worked with participating firms to inform and keep regulations updated.</p>

⁷⁵ World Bank (2020). Global Experiences from Regulatory Sandboxes. Available at: <https://documents1.worldbank.org/curated/en/912001605241080935/pdf/Global-Experiences-from-Regulatory-Sandboxes.pdf>

	include considerations relating to new business models and corresponding allowances.	
Saudi Arabia	<p>Saudi Arabia Financial Sector Development Program Annual Report⁷⁶</p> <p>A key initiative under Saudi Arabia’s Vision 2030, the Financial Sector Development Program (FSDP) aims to create a diversified and effective financial sector that supports economic growth. Other than highlighting fintech advancements and capital market development, the annual report also publishes data on its Regulatory Sandbox initiative. Statistics include the number of companies admitted into the sandbox each year, and key fintech innovations and highlights that have been supported through the Regulatory Sandbox.</p>	<p>The FRC can take into consideration the organization of the financial sector annual report in its own development of the FRC annual report to enhance accountability of the Sandbox.</p>

9.2.2 Action item 7.2 Provide framework for discretionary entry of Sandbox applications

Table 36: Summary of action item 7.2

Objective	Empower and bolster the Sandbox unit’s ability to support smaller firms or early-stage startups that might not have the ability to meet technical requirements laid out in the Regulation on Sandbox Environment, while maintaining necessary safeguards.
Description	There are currently no frameworks outlining how sandbox entry requirements may be tailored to the capabilities, size, or risk profiles of potential Sandbox applicants within the Regulation on Sandbox Environment or the Regulatory Sandbox Guidelines. The Sandbox Council should develop frameworks complementary to the existing Regulation on Sandbox Environment to guide the waiver of certain technical standards that are otherwise applied uniformly across the Regulation on Sandbox Environment.
Implementation lead	Sandbox Council
Participating stakeholders	FRC Sandbox Unit

⁷⁶ Ministry of Finance, Saudi Arabia (n.d.). Financial Sector Development Program. Available at: https://www.mof.gov.sa/en/about/Pages/Development_Program.aspx

Steps	<p>The following steps should be undertaken:</p> <ol style="list-style-type: none"> 1. Conduct a review of Sandbox entry requirements. Currently, Articles 2.2 and 4.4 of the Regulation on Sandbox Environment mandate that all sandbox participants are required to meet the technical requirements and business plan requirements set out in the legislation. These include risk management plans, proof of financial and solvency capacities, alongside specific data standard and network security requirements firms need to abide by. A thorough review should be conducted with past, present, and prospective Sandbox participants to assess which requirements are overly stringent and could potentially be exempted for lower-risk Fintech firms looking to participate in the regulatory Sandbox. 2. Based on review results, the Sandbox unit to develop guidelines or frameworks to support flexibility in Sandbox entry requirements. To facilitate the case-by-case assessment of Sandbox applicants, a risk-based framework should be established to clearly delineate the requirements that could and could not be waived. Requirements addressing risk management and consumer protection should remain non-waivable. Conversely, requirements that may be exempted include: minimum management experience, asset maintenance requirements, and technology risk management and outsourcing requirements. Mongolia may refer to Singapore’s Guidelines on Regulatory Sandbox in Table 37 as an example of how a similar framework can be developed.
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Table 37: Best practices relevant to action item 7.2

Location	Description	Key takeaways for Mongolia
Bank of Thailand	<p>Bank of Thailand (BOT) Regulatory Sandbox Guidelines⁷⁷</p> <p>The BOT’s regulatory sandbox guidelines have varying eligibility criteria depending on if the entity is a:</p> <ul style="list-style-type: none"> • Fintech company • Financial institution • Non-financial institution • Technology provider • Relevant entity <p>This classification would then determine the types of sandboxes proposed financial innovations would fall into. For example,</p>	<p>The FRC can consider the BOT’s flexible risk-based approach in the Guidelines and Framework for Sandbox entry requirements.</p>

⁷⁷ Bank of Thailand (2024). The Bank of Thailand’s Regulatory Sandbox Guidelines. Available at: https://www.bot.or.th/content/dam/bot/financial-innovation/digital-finance/fintech/sandbox/UnofficialTranslation_RegulatorySandboxGuidelines.pdf

	<p>for banks and regulated firms, applications fall within the ‘Regulatory Sandbox’,⁷⁸ with eligibility requirements being (i) IT-related standards adopted; (ii) description of business and operational flows; and (iii) risk management plan, comprising of technology risk, operational risk, and (iv) consumer protection measures.</p> <p>On the other hand, for digital asset providers or fintech providers that do not fall under the ‘Regulatory Sandbox’ and are seeking to test new technologies, they must work closely with regulators to define and test features of new technologies within the ‘Own Sandbox’,⁷⁹ including risk managements relating to information technology and propose suitable consumer protection measures. The requirement for risk management is not uniformly applied.</p>	
<p>Singapore</p>	<p>Singapore’s FinTech Regulatory Sandbox Guidelines⁸⁰</p> <p>The Monetary Authority of Singapore (MAS) adopts a principle-based approach in its Regulatory Sandbox Guidelines. The guidelines provide a list of legal and regulatory requirements in its FinTech Regulatory Sandbox Guidelines that the MAS is prepared to relax for the duration of the sandbox. They include fund solvency and capital adequacy, financial</p>	<p>The FRC can consider Singapore’s flexible risk-based approach in the regulation of Sandbox entry requirements.</p>

⁷⁸ Regulatory Sandbox refers to the testing framework under the BOT that supports the application of technology to enhance financial services or further innovations within the scope of services authorized under the supervision of the BOT. This framework aims to foster advancements that may evolve into core infrastructure or central standard for the Thai financial sector. Additionally, certain laws or regulations may require testing to be conducted within the BOT’s Regulatory Sandbox. For more information, see:

https://www.bot.or.th/content/dam/bot/financial-innovation/digital-finance/fintech/sandbox/UnofficialTranslation_RegulatorySandboxGuidelines.pdf#page=4

⁷⁹ ‘Own Sandbox’ refers to the testing framework where FinTech businesses test under the supervision of the financial service provider itself (Own Sandbox). This tests the application of technology to support financial services or further development to create financial innovation within the scope of financial services under the supervision of the BOT, which is not eligible to test in the Regulatory Sandbox. For more information, see:

https://www.bot.or.th/content/dam/bot/financial-innovation/digital-finance/fintech/sandbox/UnofficialTranslation_RegulatorySandboxGuidelines.pdf#page=4

⁸⁰ Monetary Authority of Singapore (2022). FinTech Regulatory Sandbox Guidelines. Available at:

<https://www.mas.gov.sg/-/media/mas-media-library/development/regulatory-sandbox/sandbox/fintech-regulatory-sandbox-guidelines-jan-2022.pdf>

	<p>soundness, technology risk management guidelines and outsourcing guidelines.</p> <p>The MAS also clarifies that the list of requirements that has room for flexibility is not exhaustive and will be subjected to case-by-case approval, depending on the proposed financial service, applicant involved, and application made.</p>	
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9.2.3 Action item 7.3: Clarify exit paths for Sandbox graduates

Table 38: Summary of action item 7.3

Objective	Sandbox exit paths should be clarified in order to improve the Regulatory Sandbox's ability in supporting successful Sandbox graduands in subsequent market integration and regulatory compliance.
Description	The clarification of exit options for successful Sandbox graduands would also provide guidance to successful sandbox participants on their subsequent course of actions, providing them with ongoing support and clarity until they attain a financial service license.
Implementation lead	Sandbox Council
Participating stakeholders	FRC Sandbox Unit
Steps	<p>The following steps should be undertaken:</p> <ol style="list-style-type: none"> 1. Clarify exit guidelines upon the termination of special licenses. In the Regulation on Sandbox Environment, the Sandbox Council should outline potential pathways that can be undertaken by Sandbox participants whose business models were unregulated at their points of entry. Specifically, the guidelines would specify that upon or nearing expiry of the validity period, the FinTech participant could: <ol style="list-style-type: none"> i. Extend the validity of the Sandbox license at the Regulator's discretion on a case-by-case basis; ii. Be eligible to migrate to full supervisory regime upon achieving its test outcomes; iii. Be required to raise a request for NOL (as per Action Item 3.3)⁸¹; or

⁸¹ Upon exit, certain Sandbox participants could be offered a No-Objection Letter (NOL) if regulators determine that the participant does not clearly fall under any existing regulation and therefore requires additional time to transition to an existing license or permission to operate temporarily until new legislation is developed for that type of business. The restrictions associated with this NOL will apply equally to these Sandbox graduates, as specified in Action Item 3.3 of this Roadmap.

- iv. Employ an exit strategy.
- Abu Dhabi's Global Market Regulatory Laboratory in **Table 39** details potential exit options for Sandbox participants, for the FRC's reference.
2. **Establish a process for FRC to issue new financial service licenses and raise draft policy recommendation for new permits.** Based on testing outcomes in the Regulatory Sandbox, in the case where the FRC decides that a new permit is required, the FRC ought to be able to raise new permits to regulate this new business model. According to Article 6.1 in the Law on the Legal Status of the Financial Regulatory Council, the FRC shall be granted the powers to “grant licenses for carrying out financial services, suspend, revoke, terminate, and monitor the implementation of license requirements”, only for activities that fall under Article 3.1 of the Law.⁸² These activities include all NBFIs activities and activities relating to the securities markets, and insurance. In the case where the Sandbox graduands' activity falls outside the scope of Article 3.1, the FRC would need to raise a formal draft recommendation to members of the State Great Khural, or parties as stipulated in Article 26.1 of the Constitution of Mongolia to be considered for incorporation into the law.

Table 39: Best practices relevant to action item 7.3

Location	Description	Key takeaways for Mongolia
Abu Dhabi	<p>Abu Dhabi Global Market Regulatory Laboratory (RegLab)⁸³</p> <p>Abu Dhabi's RegLab is a regulatory sandbox designed to support fintech firms in developing financial solutions. Particularly designed for firms experimenting with financial innovations that are yet to be subject to local regulatory requirements, Sandbox applicants can apply for a Financial Services Permission (FSP) under the Abu Dhabi Financial Services Regulatory Authority, that permits the firm to proceed with the 'Regulated Activity of</p>	<p>The FRC can take into consideration how Abu Dhabi has laid out exit pathways for Sandbox applicants following graduation.</p>

⁸² Article 3.1 of the Law on the Legal Status of the Financial Regulatory Council establishes the scope of the law as applicable to the activities of non-bank financial organizations; professionals participating in the securities markets; insurers, insurance intermediaries, and insurance brokers; deposit and loan cooperatives; entities involved in asset-based securities; dealers in precious metals and stones; and real estate agents. For more information, see: <https://legalinfo.mn/en/edtl/15778>

⁸³ Abu Dhabi Global Market (2015). FinTech Regulatory Laboratory Guidance. Available at: <https://assets.adgm.com/download/assets/fintech-reglab-guidance.pdf/800da29e606c11ef9c36e210a144be73>

	<p>Developing Financial Technology Services within the RegLab' for two years.</p> <p>Upon expiry of the validity period, the Fintech Participant could:</p> <ol style="list-style-type: none">1. Extend the validity of the FSP at the Regulator's discretion on a case-by-case basis;2. Be eligible to migrate to full authorization and supervisory regime upon achieving its test outcomes and deploy its FinTech solution on a broader scale; or3. Employ an exit strategy. <p>Exit strategies include the cessation of business operations at the end of the validity period or transferring FinTech products to other authorized financial institutions.</p>	
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10. Capacity building for government stakeholders

In light of recent FinTech developments that could change competition dynamics within the financial sector, the competition authorities should be provided with the skills and resources to address emerging competition concerns in the financial sector. A proposed action item includes the development of capacity-building initiatives for regulators in the Anti-Monopoly Agency (AMA).

10.1 Current state and issues faced

During the consultations, stakeholders highlighted that there are barriers which may prevent smaller players from competing on a level playing field. Some examples highlighted in various sections across the Roadmap includes mandating that payment service providers can only access the central payment infrastructure through a sponsor bank (Action Item 3.2), and in other cases restricting banks from charging a merchant service fees to certain public services (Action Item 3.1). Such practices can pose barriers to entry, particularly for smaller firms, and in the long run may affect the development of a more vibrant FinTech ecosystem. The Anti-Monopoly Agency (formerly the Authority for Fair Competition and Consumer Protection) and the FRC should play an active role in identifying, and addressing financial sector competition issues and support is required to strengthen their capacity to do so.

10.2 Proposed action items in Roadmap

Based on feedback from stakeholders across the FRC and BOM as well as industry, capacity building for the Anti-Monopoly Agency (AMA) as well as for FRC regulators is proposed to adequately address financial sector competition issues.

10.2.1 Action item 8.1: Capacity building for government stakeholders

Table 40: Summary of action item 8.1

Objective	To strengthen regulators' capacity in identifying and addressing competition issues across the financial sector.
Description	Capacity building initiatives could inculcate regulators with financial sector knowledge through internal training programs. The scope of training programs could range from the use of analytical software to providing targeted training on specific financial sector competition issues. Interagency secondments could also be an effective means to improve cross-sharing of knowledge.
Implementation lead	MFWG
Participating stakeholders	FRC, BOM, Anti-Monopoly Agency (AMA)

AMA

3. **AMA to hold regular check-in sessions with BOM and FRC regulators to identify existing knowledge gaps in areas related to financial services and fintech competition.** Ongoing training and structured discussions among these bodies are essential for building capacity, as the rapidly evolving financial landscape demands continuous learning and adaptation. By conducting assessments across various seniority levels of AMA regulators and covering different dimensions of competition issues in the financial sector, training materials and curricula can be better tailored to the specific needs of participants. These assessments should range from evaluating a regulator's basic awareness of recent developments to ensuring a deeper understanding of policy implications and potential regulatory approaches.
4. **Develop targeted training material for AMA regulators.** Training material curriculum should prioritize hands-on material and real-life competition-related examples. Training sessions could be conducted to refine competition regulators' case-handling skills; alongside global case studies of existing and emerging competition issues – such as non-bank lending risks and platform competition issues.
5. **Provide opportunities for interagency secondment.** Internal rotations of AMA regulators to other financial agencies (e.g., FRC and BOM) for durations of 6 months – 1 year would provide opportunities for cross-sectoral information exchanges and knowledge sharing. This secondment would allow AMA regulators to be kept up to date with financial sector developments. Likewise, FRC and BOM regulators should be seconded to ensure that financial policies remain responsive to competition issues.

FRC

6. **FRC supervisors to collaborate with domestic and international research and tertiary institutions to enhance their industry knowledge through academic engagement.** As part of ongoing knowledge building and training program development, the FRC should work closely with institutions such as the National University of Mongolia (NUM) and the University of Finance and Economics (UFE) to continuously update FRC supervisors on industry developments and insights. The collaboration between academia and industry would allow regulators to access advanced research on emerging Fintech trends and leverage academic expertise to stay ahead of industry disruption. Singapore's MAS-NUS partnership, detailed in **Table 41**, provides an example of a successful collaborative model.

Table 41: Best practices relevant to action item 8.1

Location	Description	Key takeaways for Mongolia
<p>United Kingdom</p>	<p>Competition and Markets Authority (CMA) secondment opportunities with other regulatory bodies</p> <p>The CMA has engaged in secondment initiatives with other regulatory bodies such as the Financial Conduct Authority (FCA). These secondments help integrate competition policy with sector-specific expertise and support a coordinated regulatory approach.</p> <p>To increase the likelihood of secondments achieving its intended goals, the United Kingdom Competition Network (UKCN)⁸⁴ issued a document on Secondment Principles,⁸⁵ outlining the intended purpose of the secondment as “an important means of sharing and transferring skills”, and that UKCN members ought to “give due consideration to another UKCN member’s request for one or more secondees” while taking into account other forms of assistance such as if advice or training might be more appropriate than a secondment.</p>	<p>A well-structured and transparent secondment programs—supported by clear principles—facilitate effective cross-agency knowledge exchange and capacity building. This enables regulators to gain deeper insights into sector-specific challenges, align regulatory practices, and ultimately develop more robust and adaptive oversight frameworks.</p>
<p>Singapore</p>	<p>Monetary-Authority of Singapore and National University of Singapore (MAS-NUS) partnership⁸⁶</p> <p>The MAS-NUS partnership comprises of a MAS Term Professorship in faculties across NUS, where distinguished MAS staff are appointed as Visiting Professors at NUS. This partnership enables senior</p>	<p>The FRC can consider similar forms of collaboration with tertiary institutions to enable the exchange of knowledge between industry and academia.</p>

⁸⁴ The UK Competition Network (UKCN) is an alliance of the Competition and Markets Authority (CMA) with all the UK regulators that have a specific role to support and enable competition within their sectors. The network aims to encourage stronger competition across the economy for the benefit of consumers and to prevent anti-competitive behaviour in the regulated industries. For more information, see: <https://www.gov.uk/government/groups/uk-competition-network>

⁸⁵ United Kingdom Competition Network (2017). Secondment Principles. Available at: <https://assets.publishing.service.gov.uk/media/5a81e19a40f0b62302699aab/ukcn-secondment-principles-march-2017.pdf>

⁸⁶ Monetary Authority of Singapore (2024). MAS Renews its Successful Partnership with NUS on Term Professorship Program. Available at: <https://www.mas.gov.sg/news/media-releases/2024/mas-renews-its-successful-partnership-with-nus-on-term-professorship-programme>

	<p>MAS regulators to engage in research and knowledge exchange with academics relating to developments in the economics and finance field, alongside public policy and governance.</p> <p>In return, MAS regulators' industry experience and expertise has provided the NUS faculty and students with critical insights, particularly in applying theoretical concepts to real-life scenarios.</p>	
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11. Appendix

11.2.1 Appendix A: Terms of Reference Documents

Box A: Sample Terms of Reference for Inter-agency FinTech Working Group

Overview

The Mongolian FinTech Working Group (MFWG) is established to drive coordinated government-wide efforts towards developing Mongolia's FinTech sector. The MFWG aims to promote the development of a conducive environment for FinTech innovation while ensuring consumer protection and market integrity as well as systemic stability.

Scope

The MFWG will be tasked with the following responsibilities:

1. **Policy Coordination:** To coordinate and align FinTech-related policies and regulations across government agencies, including agencies that are not part of the MFWG.
2. **Knowledge Sharing:** To facilitate the exchange of information and best practices among government agencies on FinTech developments, trends, and challenges.
3. **Capacity Building:** To strengthen financial regulators' capacity to oversee and manage financial sector developments, including emerging competition issues.
4. **Public-Private Partnerships:** To foster partnerships between government agencies and the FinTech industry to drive innovation and growth.
5. **Cross-Border Collaboration:** To promote international cooperation and collaboration on FinTech matters, including serving as the contact point for international engagements related to FinTech.
6. **Consumer Protection:** To drive consumer protection efforts related to the emergence of new FinTech-based financial services products.

Structure and membership

The MFWG will be co-chaired by the Chairman of the Financial Regulatory Commission ("FRC") and Governor of the Bank of Mongolia ("BOM").

It will also consist of representatives from the following government agencies (or their designated departments):

1. Ministry of Digital Development, Innovation, and Communications
2. Ministry of Economy and Development
3. Deposit Insurance Corporation of Mongolia
4. Ministry of Finance
5. Ministry of Justice and Internal Affairs
6. State Tax Authority

7. General Office of State Registration
8. Communications Regulatory Commission

Each agency will appoint a senior-level official to serve on the group. The group may also invite subject matter experts and representatives from the private sector to participate in specific meetings, projects or workstreams as needed. For such invitations, approvals will need to be obtained from the chairs of the respective meetings or workstreams.

Functions

The MFWG will set up and oversee the following workstreams under the scope of its responsibilities.

1. **Policy coordination and development**

Tasked with conducting a review of existing FinTech-related policies and regulations across government agencies to identify areas for policy harmonization and alignment as well as develop a mechanism for the ongoing review of FinTech policies and regulations, through incorporating feedback from stakeholders. Additionally, the workstream will co-manage the referral process of “no-objection letter” FinTech businesses, review the licensing process and facilitate the process of updating regulations as required. It will also oversee the development of a knowledge sharing channel to disseminate FinTech-related policy updates or regulatory changes.

2. **Capacity building**

Tasked with developing capacity-building initiatives across government agencies, including targeted training programs on specific financial sector issues, to technical training programs if needed.

3. **Industry development and innovation promotion**

Tasked with overseeing initiatives to support FinTech startups and companies, including through the development of a FinTech innovation office, and regular engagement with the Regulatory Sandbox Unit.

4. **Consumer protection and education**

Tasked with developing guidelines and standards for financial consumer protection and overseeing the establishment of a dedicated financial ombudsman. Promote financial literacy and education and oversee establishment of debt clinic.

5. **International Cooperation**

Tasked with leading FinTech-related engagements with foreign counterparts and identifying opportunities for cross-border collaboration and knowledge sharing.

Each workstream will be co-led by a senior representative from the FRC and BOM. The FRC representative will be nominated by the Chairman of the FRC while the BOM representative will be nominated by the Governor of the BOM. Any change in the representative will require the approval of the same parties.

Members of each workstream can include representatives from agencies that form the MFWG; agencies outside of the MFWG; private sector companies; and academia where

relevant. Memberships in each workstream will be nominated and approved jointly by the co-leads.

As the MFWG makes progress in the scope of its work, the specific tasks and scope under the workstream could evolve. Such changes are permissible under the scope of these terms of reference, based on the discretion of the FRC and BOM co-leads for each workstream, and subject to the approval of the co-chairs of the MFWG.

Meetings and Reporting

Each workstream should convene on a quarterly basis to report on the work completed and progress made towards specific tasks. The minutes of the meetings should be collated by the MFWG Secretariat and circulated to MFWG members.

The MFWG will meet a minimum of twice a year to monitor progress and provide broad direction on next steps. The minutes of the meetings should be collated by the MFWG Secretariat and circulated to MFWG members.

The MFWG Secretariat should prepare annual reports to be submitted as part of the FRC's annual report. The reports should summarise the activities of the MFWG workstreams and the progress made in completing each task.

Establishment of Secretariat

An MFWG Secretariat will be established to support the activities of the MFWG. The Secretariat will be resourced by the MFWG. The scope and responsibilities of the Secretariat include:

1. Logistical arrangements for MFWG meeting (i.e., booking of dates and meeting venue, collation and circulation of meeting materials)
2. Drafting of notes for meetings
3. Collation of inputs from workstreams and drafting of annual reports summarising the activities of the MFWG workstreams and the progress made in completing each task.

The Secretariat may also be called upon to take on other tasks related to the smooth running of the MFWG, subject to the discretion of the co-chairs.

Review and Renewal

The Terms of Reference for the MFWG will be reviewed and updated at the discretion of the co-chairs to ensure its continued relevance and effectiveness.

Box B: Sample Terms of Reference for FinTech Concierge Service

Overview

The FinTech Concierge (FC) Service is established to be the single point of contact between the Government of Mongolia and the FinTech sector. It is intended to help create a more collaborative environment that encourages innovation in the financial services sector in a manner that benefits financial institutions, businesses and consumers.

Scope

The FinTech Concierge Service will be tasked with the following responsibilities:

1. **Facilitate Communication:** Establish effective channels for dialogue between the Bank of Mongolia and the Financial Regulatory Commission and companies in the financial services sector to promote understanding and collaboration.
2. **Support Policy Development:** Provide insights from the FinTech sector to inform the development of FinTech policies and regulatory frameworks that balance innovation with consumer protection.
3. **Provide support to FinTech firms:** Establish effective one-stop platform for FinTech firms to clarify and get support on FinTech legislation related issues.

Governance and Reporting

The FinTech Concierge Service will be jointly administered by the FRC Sandbox Unit and BOM Innovation Office. It is expected to compile quarterly updates summarizing its activities and the number as well as types of companies supported or engaged and submit these updates to the MFWG.

Budget

Resources, including budgetary resources and staff, will be allocated by both parties to support the operations of the FinTech Concierge Service. Operational decisions, including hiring and staffing decisions, will be overseen and agreed upon by both parties.

Functions

To fulfill the responsibilities under its scope, the FinTech Concierge Service is expected to take on the following functions.

1. **Industry Engagement:** Organize regular industry engagement sessions between regulators (e.g., Bank of Mongolia, Financial Regulatory Commission) and FinTech industry representatives to discuss regulatory updates, industry challenges, and collaboration opportunities.
2. **Feedback Mechanism:** Develop a public-facing platform for FinTech companies to provide feedback on existing regulations and for regulators to seek feedback on upcoming laws and regulations.

Operating principles:

The following principles should shape the day-to-day operations of the FinTech Concierge Service:

1. **Transparency.** All operations must be conducted transparently, with regular public reporting on activities and outcomes.
2. **Accessibility.** Ensure that services are accessible to all potential users, including those with disabilities or limited financial literacy.
3. **Data Protection.** Implement strict data protection measures to safeguard consumer or commercial information collected during interactions with the FinTech Concierge Service.
4. **Feedback Mechanism.** Establish channels for users to provide feedback on performance and areas for improvement.

Box C: Sample Terms of Reference for Debt Clinic

Overview

The Debt Clinic aims to provide a structured environment where individuals can receive targeted debt counselling and advisory services to address their debt issues. The Debt Clinic also aims to develop general financial literacy education and training programs for the wider population. These programs are intended to empower consumers with the knowledge and tools necessary to achieve financial stability and improve their overall well-being.

Scope

The responsibilities of the Debt Clinic are to:

1. **Provide debt counselling services:** Provide support to individuals facing financial difficulties and debt, through financial counselling, debt management and/or debt restructuring programs
2. **Develop financial literacy and management programs for citizens:** Provide tailored support for individuals and/or looking to enhance financial education
3. **Educate the general public on personal finance:** Conduct outreach programs for the general public on personal finance issues, including budgeting, and effective debt management strategies, including through collaboration with financial institutions, government agencies, and community organizations.
4. **Research on debt issues:** Conduct research on the extent, impact, and distribution of debt issues in the Mongolian population, and identify and propose targeted methods of intervention.

Governance Structure

The BOM Public Financial Information Center and the FRC Financial Education and Training Unit will be jointly responsible for providing strategic oversight to the Debt Clinic and approving budget allocations for the clinic's operations and activities.

A Program Head nominated and approved by the Chairman of the Financial Regulatory Commission ("FRC") and Governor of the Bank of Mongolia ("BOM") will be tasked with overseeing day-to-day operations, supported by a team of administrative staff. Hiring and staffing decisions will be overseen by the Program Head.

Functions

To fulfill the responsibilities under its scope, the Program is expected to take on the following functions.

1. **Debt management.** Provide consultation services to individuals facing debt to assess financial situation and facilitate the development of personalized debt management plans, as well as support in negotiating with creditors and developing feasible repayment plans.
2. **Personal financial literacy.** Work with social organizations and NGOs to conduct educational sessions covering topics such as budgeting, credit management, debt reduction strategies, and financial literacy.

3. **Community outreach.** Work with social organizations and NGOs to support outreach activities aimed at raising awareness about responsible borrowing and financial management.
4. **Research and Reporting.** Conduct research on the extent, impact and distribution of debt issues in the Mongolian population to inform the development of training programs and outreach.

Operating principles:

The following principles should shape the regular operations of the Debt Clinic:

1. **Transparency.** All operations must be conducted transparently, with regular public reporting on activities and outcomes.
2. **Accessibility.** Ensure that services are accessible to all consumers, including those with disabilities or limited financial literacy.
3. **Data Protection.** Implement strict data protection measures to safeguard consumer information collected during interactions with the Program.
4. **Collaboration.** Work collaboratively with other government bodies, NGOs, and international organizations to enhance financial literacy in Mongolia.
5. **Feedback Mechanism.** Establish channels for consumers to provide feedback on the Program's performance and areas for improvement

Monitoring and Evaluation

The Program will implement key performance indicators (KPIs) to assess its effectiveness, including but not limited to:

1. Number of individuals served annually.
2. Percentage of clients who successfully adhere to their debt management plans.
3. Improvement in clients' financial literacy as measured through pre- and post-intervention assessments.
4. Reduction in overall client debt levels over time.

Regular evaluations will be conducted to ensure that services remain relevant and effective in addressing the needs of the community.

Reporting

The Program is expected to provide quarterly updates to the Chairman of the Financial Regulatory Commission ("FRC") and Governor of the Bank of Mongolia ("BOM") on its activities. It is also expected to submit annual reports to the Agency summarising its activities and progress made in the year, including budget allocations and spending.

Budget

Funding for the Program will be sourced from government allocations, disbursed through the FRC and the BOM, and adequate resources will be allocated to support its operations effectively.

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